MANAGEMENT'S DISCUSSION AND ANALYSIS

FORWARD LOOKING STATEMENTS AND DEFINITIONS 2

OUTSTANDING SHARE DATA 3

BUSINESS OVERVIEW 3

2013 THIRD QUARTER SUMMARY AND OUTLOOK 4

2013 THIRD QUARTER OPERATING RESULTS 5

ANALYSIS OF 2013 THIRD QUARTER OPERATING RESULTS 6

ANALYSIS OF NINE MONTHS ENDED SEPTEMBER 30, 2013 RESULTS 7

LIQUIDITY AND CAPITAL RESOURCES 9

SELECTED STATEMENT OF FINANCIAL POSITION DATA 12

CRITICAL ACCOUNTING POLICIES AND ESTIMATES 13

RISKS AND UNCERTAINTIES 14

SUPPLEMENTARY SUMMARY OF QUARTERLY RESULTS 14

Morneau Shepell Inc. ("Morneau Shepell" or the "Company") was incorporated pursuant to the laws of the Province of Ontario on October 19, 2010, and as of January 1, 2011, is the successor to Morneau Sobeco Income Fund (the "Fund").

This Management's Discussion and Analysis ("MD&A") covers the three and nine months ended September 30, 2013 and should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements of Morneau Shepell and notes thereto for the three and nine months ended September 30, 2013 as well as the MD&A, and the audited consolidated financial statements and notes thereto for the year ended December 31, 2012.

All financial information is presented in Canadian dollars and in accordance with International Financial Reporting Standards, unless otherwise noted. Certain totals, subtotals and percentages may not reconcile due to rounding.

This MD&A contains "forward-looking statements" within the meaning of applicable securities laws, such as statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. They are based on certain factors and assumptions, including expected growth, results of operations, business prospects and opportunities. Use of words such as "may", "will", "expect", "believe", or other words of similar effect may indicate a "forward-looking" statement. These statements are not guarantees of future performance and are subject to numerous risks and uncertainties, including those described in our publicly filed documents (available on SEDAR at www.sedar.com) and in this MD&A under the heading "Risks and Uncertainties". Those risks and uncertainties include the ability to maintain profitability and manage growth, ability to pay dividends, reliance on information systems and technology, reputational risk, dependence on key clients, reliance on key professionals and general economic conditions. Many of these risks and uncertainties can affect our actual results and could cause our actual results to differ materially from those expressed or implied in any forward-looking statement made by us or on our behalf. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. All forward-looking statements in this MD&A are qualified by these cautionary statements. These statements are made as of the date of this MD&A and, except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Additionally, we undertake no obligation to comment on analyses, expectations or statements made by third parties in respect of us, our financial or operating results or our securities.

To assist investors in assessing our financial performance, this discussion also makes reference to certain non-IFRS measures such as EBITDA, adjusted EBITDA, EBITDA margin, adjusted EBITDA margin, Free Cash Flow, Normalized Free Cash Flow, Normalized Payout Ratio and twelve-month rolling Normalized Payout Ratio. EBITDA and adjusted EBITDA are intended to represent an indication of Morneau Shepell's capacity to generate profit from operations before taking into account management's financing decisions and costs of consuming tangible and intangible capital assets, which vary according to their vintage, technological currency, and management's estimate of their useful life. Accordingly, EBITDA comprises profit before finance costs, income tax expenses, depreciation and amortization, while Adjusted EBITDA represents EBITDA before taking into account certain unusual expenditures. We believe both EBITDA and Adjusted EBITDA are useful measures in evaluating our performance. We utilize them to monitor compliance with debt covenants and to make decisions related to dividends to shareholders rather than profit due to the significant amount of amortization expense related to our intangible assets acquired from acquisitions. We also believe that Free Cash Flow, Normalized Free Cash Flow and Normalized Payout Ratio are useful supplemental measures of Morneau Shepell's ability to generate cash after deducting capital expenditures required to maintain or expand the business. These ratios, however, are non-IFRS measures and therefore, should not be seen as a substitute for cash flow from operating activities. Free Cash Flow is defined as cash provided by operating activities adjusted for capital expenditures. Normalized Free Cash Flow is defined as cash provided by operating activities, adjusted for changes in non-cash operating working capital, capital expenditures, current income taxes (net of income taxes paid) and certain unusual expenditures.

Non-IFRS measures do not have any standard meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers.

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares and 10 million preferred shares. Each common share entitles the holder to one vote at all meetings of shareholders and represents an interest in dividends declared by the Company and an undivided interest in the net assets of the Company. As at November 13, 2013, Morneau Shepell had 47,957,621 common shares and nil preferred shares issued and outstanding.

BUSINESS OVERVIEW

Morneau Shepell is the largest Canadian firm providing health and productivity, administrative and retirement solutions. We deliver solutions to assist employers in managing the financial security, health and productivity of their employees. With approximately 3,300 employees in offices across North America, we offer services to over 8,000 organizations in Canada, the United States and around the globe directly and through our distribution channel partners.

We derive our revenue primarily from fees charged to clients for consulting engagements, outsourcing engagements, employee and family assistance programs and organizational health solution services.

Fees from consulting engagements are charged based on billable hours or on a fee-for-service basis. In some cases, consulting engagements may be billed on a fixed-fee basis, although these engagements are typically much smaller and the services are delivered over a shorter period of time. For some benefits consulting assignments which involve the purchase of an insurance policy underwritten by an insurance company, we may be paid commissions (in lieu of fees) by the client's insurance company, which is a common practice in the industry. These commissions are based on a percentage of the premiums paid by the client to the insurance company and our policy is to disclose them to our client. We assume no underwriting risk as the insurance policy is underwritten by the insurance company. In addition, we earn interest income from our cash balances which is included in other revenue.

Our Administrative Solutions practice is characterized by fixed contracts, which typically have three-year to five-year terms. Most outsourcing contracts contain an upfront implementation fee and an ongoing monthly service fee. Implementations usually take three to twelve months and involve transferring the administration of a client's pension and/or benefits plans onto our systems, tailoring our systems and training our employees. Additional services provided that are outside the scope of the outsourcing contract are usually paid on a fee-for-service basis.

In the billing for Employee Support Solutions ("ESS") services, a portion of the ESS client agreements require payment of a minimum retainer and incremental usage-based fees. The remainder of the ESS agreements are billed based on an actual usage or fixed fees. Most ESS agreements may be terminated by the client upon 30 to 60 days' notice to us, however, it is typical for ESS agreements to continue for multiple years and many automatically renew on an annual basis.

Fees from Organizational Health Solutions ("OHS") services, such as attendance support and disability management are generally based on negotiated fees or a formula tied to the nature of the service being provided. Like most ESS agreements, most workplace health and productivity agreements may be terminated by the client upon 30 to 60 days' notice to us; however, it is typical for these agreements to continue for multiple years and many automatically renew on an annual basis.

Our largest operating expense is compensation and related costs. This includes salaries, annual performance-based bonuses, benefits, payroll taxes, independent service providers and temporary staffing services.

The remaining operating expenses include rent and occupancy costs, technology costs (including equipment leases, telecommunications, and software licenses and maintenance), non-recoverable client service costs (such as printing and travel), training, marketing, office costs, professional services and insurance.

In thousands of dollars	**Three months ended September 30, 2013**	**Three months ended September 30, 2012**	**Nine months ended September 30, 2013**	**Nine months ended September 30, 2012**
Revenue	$118,526	$101,331	$352,584	$312,088
Adjusted EBITDA	$21,909	$19,278	$66,311	$59,292
Adjusted EBITDA margin	18.5%	19.0%	18.8%	19.0%
Normalized Free Cash Flow	$11,056	$11,397	$38,040	$40,253
Profit	$6,937	$6,105	$21,724	$16,800

We had a solid third quarter of 2013 and experienced strong revenue and adjusted EBITDA growth versus the comparative quarter in 2012. Highlights of the third quarter include:

- Strong revenue growth with an increase of 17.0% versus the comparative period.

- An increase in adjusted EBITDA of $2.6 million to $21.9 million versus the comparative period.

- On July 5, 2013, we completed the acquisition of Dion, Durrell + Associates Inc. workers' compensation practice ("Dion Durrell Workers' Compensation"). With this strategic acquisition, we are expanding our national workers' compensation practice and our market presence where we see a growing demand for workers' compensation services. This acquisition represents an estimated $3.5 million in annual revenue to the Company.

- On August 30, 2013, we completed the acquisition of Collage Pediatric Therapy Centre Inc. ("Collage Pediatric Therapy") which specializes in providing multidisciplinary health services to children. This acquisition complements our existing Children's Support Solutions portfolio, and will expand our market presence in Ontario and Quebec. This acquisition represents an estimated $1.2 million in annual revenue to the Company.

- The integration of Mercer Canada's Pension and Benefits Outsourcing ("Mercer Canada Outsourcing") operations with our existing Administrative Solutions practice is going well and continues on schedule.

Going forward, we expect our future growth to be in-line with our longer term historical performance. We expect that our successful client development efforts to date and our solid pipeline of growth opportunities will continue to yield positive results for the Company.

Results of Operations	**Three Months Ended September 30**		**Nine Months Ended September 30**	
Selected Unaudited Consolidated Financial Information	**2013**	**2012**	**2013**	**2012**
(In thousands of dollars except per share amounts)				
Revenue	$118,526	$101,331	$352,584	$312,088
Deduct:				
Salary, benefits and contractor expenses	79,956	67,418	236,952	210,865
Other operating expenses	18,086	15,644	53,547	46,861
Finance costs	3,647	3,462	10,532	10,562
Depreciation and amortization	6,683	5,908	20,178	18,310
Income tax expenses	3,217	2,794	9,651	8,690
Profit for the period	**6,937**	**6,105**	**21,724**	**16,800**
Add:				
Finance costs	3,647	3,462	10,532	10,562
Depreciation and amortization	6,683	5,908	20,178	18,310
Income tax expenses	3,217	2,794	9,651	8,690
EBITDA(1)	$20,484	$18,269	$62,085	$54,362
Adjustments:				
Reorganization and operational effectiveness initiatives	347	656	1,056	1,834
Provision for E-commerce refundable tax credit	–	–	–	2,155
Enterprise software replacement – expenses	–	353	–	941
Mercer Canada Outsourcing conversion costs	1,078	–	3,170	–
Adjusted EBITDA	**$ 21,909**	**$19,278**	**$66,311**	**$59,292**
EBITDA margin	17.3%	18.0%	17.6%	17.4%
Adjusted EBITDA margin	18.5%	19.0%	18.8%	19.0%
Cash provided by operating activities	$18,604	$18,160	$23,929	$21,913
Deduct: Capital expenditures (2)	(6,478)	(3,373)	(15,818)	(10,091)
Free Cash Flow (3)	**12,126**	**14,787**	**8,111**	**11,822**
Add (deduct):				
Changes in non-cash operating working capital	(991)	(3,394)	24,505	25,298
Enterprise software replacement – capital	–	272	–	1,692
Mercer Canada Outsourcing conversion – capital	1,138	–	2,863	–
Current income taxes, net of income taxes paid	(2,642)	(1,277)	(1,665)	(3,489)
Adjustments to EBITDA, per above	1,425	1,009	4,226	4,930
Normalized Free Cash Flow (4)	**$11,056**	**$11,397**	**$38,040**	**$40,253**
Earnings per Share (basic)	$0.14	$0.13	$0.45	$0.35
Earnings per Share (diluted)	$0.14	$0.12	$0.44	$0.34
EBITDA per Share (basic)	$0.42	$0.38	$1.27	$1.12
Adjusted EBITDA per Share (basic)	$0.45	$0.40	$1.36	$1.22
Normalized Payout Ratio (5)	84.6%	82.0%	73.7%	69.7%
Twelve-month rolling Normalized Payout Ratio	73.2%	77.1%	73.2%	77.1%

Footnotes:

(1) "EBITDA" is defined as profit before finance costs, income tax expenses, depreciation and amortization.

(2) "Capital Expenditures" includes capital assets and intangible assets but excludes additions to intangible assets acquired through business acquisitions, and is presented net of disposals.

(3) "Free Cash Flow" is defined as cash provided by operating activities adjusted for capital expenditures.

(4) "Normalized Free Cash Flow" is defined as cash provided by operating activities, adjusted for changes in non-cash operating working capital, capital expenditures, current income taxes (net of income taxes paid) and certain unusual expenditures.

(5) "Normalized Payout Ratio" is defined as dividends declared divided by Normalized Free Cash Flow.

ANALYSIS OF THIRD QUARTER 2013 AND 2012 RESULTS

Revenue

Revenue for the three months ended September 30, 2013 increased by $17.2 million, or 17.0%, to $118.5 million compared to $101.3 million for the same period in 2012. The Mercer Canada Outsourcing acquisition contributed an increase in revenue of 6.6% over the comparative quarter in 2012. The other incremental revenue of 10.4% represents year over year growth which came from all four lines of business with Administrative Solutions, and Retirement Solutions and Health & Benefits Consulting lines of business contributing the largest percentage of the increase. This growth was a result of the commencement of service for outsourcing contracts secured in prior quarters, increased mandates from existing clients and new business wins.

Salary, Benefits and Contractor Expenses

Salary, benefits and contractor expenses for the three months ended September 30, 2013 increased by $12.5 million, or 18.6%, to $80.0 million compared to $67.4 million for the same period in 2012. This increase is attributable to the Mercer Canada Outsourcing acquisition which resulted in an incremental compensation expense, including conversion costs, of $4.9 million. The residual increase of $7.6 million was primarily attributable to general increases to support the Company's continued growth and variable compensation expense adjustments.

Other Operating Expenses

Other operating expenses for the three months ended September 30, 2013 increased by $2.4 million, or 15.6%, to $18.1 million compared to $15.6 million for the same period in 2012. The increase is primarily due to additional expenses resulting from the Mercer Canada Outsourcing acquisition, including conversion costs, of $1.7 million that were not in the comparative period. The residual increase of $0.7 million reflects general increases required to support business growth.

Finance Costs

Finance costs for the three months ended September 30, 2013 increased by $0.2 million, or 5.3%, to $3.6 million compared to $3.5 million for the same period in 2012. The increase is primarily due to higher interest on the revolving loan due to increased borrowing compared to the same period in 2012.

Depreciation and Amortization

Depreciation and amortization for the three months ended September 30, 2013 increased by $0.8 million, or 13.1%, to $6.7 million compared to $5.9 million for the same period in 2012. This increase is attributable to increased depreciation and amortization expense from the Mercer Canada Outsourcing acquisition of $0.3 million and increased depreciation and amortization expense of $0.5 million on capital expenditures required to support business growth.

Income Tax Expenses

Income tax expenses increased by $0.4 million, or 15.1%, to $3.2 million, compared to $2.8 million for the same period in 2012. The increase was primarily due to higher profit from operations before income taxes of $1.3 million.

Profit for the Period

As a result of the changes noted above, profit for the three months ended September 30, 2013 was $6.9 million compared to $6.1 million for the same period in 2012.

Key Financial Measures: EBITDA, Adjusted EBITDA, Free Cash Flow and Normalized Free Cash Flow

Adjusted EBITDA and EBITDA

Adjusted EBITDA increased by $2.6 million, or 13.6%, to $21.9 million, compared to $19.3 million for the same period in 2012. The increase is primarily due to growth in revenue of $17.2 million, partially offset by an increase in salaries and other operating expenses of $14.6 million after EBITDA adjustments. These adjusted EBITDA items do not constitute a part of the Company's on-going operating expenses. Below is a description of the third quarter ended September 30, 2013 adjustments:

- Reorganization and operational effectiveness initiatives represent costs incurred as part of a major cost savings project. This project began in 2012 and is expected to be completed by the end of 2013.

- Mercer Canada Outsourcing conversion costs represent systems and service improvements required to support the clients acquired in the acquisition in Q4, 2012. The process commenced immediately after the acquisition was completed and is expected to take approximately three years.

EBITDA increased by $2.2 million, or 12.1%, to $20.5 million compared to $18.3 million for the same period in 2012.

Free Cash Flow

Free Cash Flow for the three months ended September 30, 2013 decreased by $2.7 million to $12.1 million compared to $14.8 million for the same period in 2012. The decrease is primarily due to higher capital expenditures of $3.1 million (see liquidity and capital resources section below), which was partly offset by higher cash provided by operating activities of $0.4 million.

Normalized Free Cash Flow

Normalized Free Cash Flow for the three months ended September 30, 2013 decreased by $0.3 million to $11.1 million compared to $11.4 million for the same period in 2012. The decrease in normalized free cash flow is primarily due to increased capital expenditures of $2.2 million versus the comparative quarter, once adjusted for the Mercer Canada Outsourcing conversion capital and an increase in current income taxes expense of $0.9 million. This was offset by higher cash generated by operating activities before non-cash working capital and EBITDA adjustments of $2.9 million.

ANALYSIS OF NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012 RESULTS

Revenue

Revenue for the nine months ended September 30, 2013 increased by $40.5 million, or 13.0%, to $352.6 million compared to $312.1 million for the same period in 2012. The Mercer Canada Outsourcing acquisition contributed to an increase in revenue of 6.8% over the same period in 2012. The other incremental revenue of 6.2% represents year over year growth which came from all four lines of business, with Administrative Solutions and Retirement Solutions and Health & Benefits Consulting lines of business being the largest contributors. This growth was a result of the commencement of service for outsourcing contracts secured in prior quarters, increased mandates from existing clients and new business wins.

Salary, Benefits and Contractor Expenses

Salary, benefits and contractor expenses for the nine months ended September 30, 2013 increased by $26.1 million, or 12.4%, to $237.0 million compared to $210.9 million for the same period in 2012. In the comparative 2012 period, we made a provision of $2.2 million for the Company's e-commerce refundable tax credit for the years 2010 and 2011, making the adjusted salary, benefits and contractor expense increase $28.3 million versus the comparative period. This increase is primarily attributable to the Mercer Canada Outsourcing acquisition which resulted in an incremental expense, including conversion costs, of $15.7 million. The residual increase of $12.6 million was required to support the Company's continued growth.

Other Operating Expenses

Other operating expenses for the nine months ended September 30, 2013 increased by $6.7 million, or 14.3%, to $53.5 million compared to $46.9 million for the same period in 2012. The increase is primarily due to additional expenses resulting from the Mercer Canada Outsourcing acquisition, including conversion costs, of $5.2 million that were not in the comparative period. The residual increase of $1.5 million reflects general increases required to support business growth.

Finance Costs

Finance costs for the nine months ended September 30, 2013 decreased by $0.1 million, or 0.3%, to $10.5 million compared to $10.6 million for the same period in 2012. The decrease is mainly due to reduced interest on the term loan from a lower applicable margin and a reduction of $0.7 million as a result of the loss on the previous interest-rate swap agreement becoming fully amortized during Q2, 2012. This was offset by incremental borrowing over the comparative period.

Depreciation and Amortization

Depreciation and amortization for the nine months ended September 30, 2013 increased by $1.9 million, or 10.2%, to $20.2 million compared to $18.3 million for the same period in 2012. This increase is primarily attributable to increased depreciation and amortization from the Mercer Canada Outsourcing acquisition of $0.8 million and increased depreciation and amortization of $1.1 million on capital expenditures required to support business growth.

Income Tax Expenses

Income tax expenses increased by $1.0 million, or 11.1%, to $9.7 million, compared to $8.7 million for the same period in 2012. The increase is primarily due to higher profit from operations before income taxes of $5.9 million, which resulted in an increase of $1.6 million. This was partly offset by a decrease due to a $0.7 million revaluation of the deferred tax liability in Q2 2012 as a result of changes in Ontario future income tax rates which were substantially enacted in June 2012.

Profit for the Period

As a result of the changes noted above, profit for the nine months ended September 30, 2013 was $21.7 million compared to $16.8 million for the same period in 2012.

Key Financial Measures: EBITDA, Adjusted EBITDA, Free Cash Flow and Normalized Free Cash Flow

Adjusted EBITDA and EBITDA

Adjusted EBITDA increased by $7.0 million, or 11.8%, to $66.3 million, compared to $59.3 million for the same period in 2012. The increase is primarily due to growth in revenue of $40.5 million partially offset by an increase in salaries and other operating expenses of $33.5 million after EBITDA adjustments. These adjusted EBITDA items do not constitute a part of the Company's on-going operating expenses. Below is a description of the third quarter ended September 30, 2013 adjustments:

- Reorganization and operational effectiveness initiatives represent costs incurred as part of a major cost savings project. This project began in 2012 and is expected to be completed by the end of 2013.

- Mercer Canada Outsourcing conversion costs represent systems and service improvements required to support the clients acquired in the acquisition in Q4, 2012. The process commenced immediately after the acquisition was completed and is expected to take approximately three years.

EBITDA increased by $7.7 million, or 14.2%, to $62.1 million compared to $54.4 million for the same period in 2012.

Free Cash Flow

Free Cash Flow for the nine months ended September 30, 2013 decreased by $3.7 million to $8.1 million compared to $11.8 million for the same period in 2012. This decrease is primarily due to an increase in capital expenditures of $5.7 million offset by an increase in cash provided by operating activities of $2.0 million (see liquidity and capital resources section below).

Normalized Free Cash Flow

Normalized Free Cash Flow for the nine months ended September 30, 2013 decreased by $2.2 million to $38.0 million compared to $40.3 million for the same period in 2012. The decrease in normalized free cash flow is primarily due to increased capital expenditures of $4.6 million versus the comparative period, once adjusted for the Mercer Canada Outsourcing conversion capital, an increase in current income taxes of $3.7 million, and an increase in finance costs paid of $1.5 million. This was offset by higher cash generated from operating activities before non-cash working capital and EBITDA adjustments of $7.6 million.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

The following table provides an overview of the Company's cash flows for the periods indicated:

Cash Flow Information

Selected Consolidated Financial Information:

Cash provided by (used in): *(In thousands of dollars)*	**Nine months ended September 30, 2013**	**Nine months ended September 30, 2012**
Operating activities	**$ 23,929**	$ 21,913
Financing activities	**(7,928)**	(7,165)
Investing activities	**(21,020)**	(14,769)
Decrease in cash	**$ (5,019)**	$ (21)

Cash provided by operating activities for the nine months ended September 30, 2013 increased by $2.0 million to $23.9 million compared to $21.9 million in 2012. The increase is primarily due to higher cash generated from operating activities of $9.1 million. This was offset by an increase in finance costs paid of $1.5 million, primarily due to 12 months of cash interest being paid on the convertible debenture year-to-date compared to less than six months for the comparative period in 2012, and higher income taxes paid of $5.5 million due to lower tax installment payments in 2012 resulting from non- capital loss carry forward from previous years.

Cash used in financing activities for the nine months ended September 30, 2013 increased by $0.8 million to $7.9 million compared to $7.2 million for the same period in 2012. This increase is the result of an increase in borrowing compared to the first nine months of 2012. The net proceeds from the convertible denture offering of $71.4 million in the comparative period were used to repay to the revolving loans outstanding.

Cash used in investing activities for the nine months ended September 30, 2013 increased by $6.3 million to $21.0 million compared to $14.8 million in 2012. This increase is primarily attributable to higher payments related to business acquisitions of $0.5 million, and an increase in additions to intangible and capital assets of $5.7 million.

Dividends to Shareholders

Monthly dividends were declared for shareholders of record on the last business day of each month and were paid approximately on the 15th day of the following month. Monthly dividends were $0.065 per share for the quarter.

We consider the amount of cash generated by the business in determining the amount of dividends to pay to shareholders. In general, we do not take into account quarterly working capital fluctuations as these tend to be temporary in nature. We do not generally consider profit or loss in setting the level of dividends as this is a non-cash metric and is not reflective of the level of cash flow that we generate.

The twelve-month rolling Normalized Payout Ratio for September 30, 2013 was 73.2% compared to 77.1% for the same period in 2012. The improved Normalized Payout Ratio is primarily due to higher adjusted EBITDA during the past twelve months.

Capital Expenditures

Our capital expenditures typically include information technology hardware and software (external and internally developed), leasehold improvements, and office furniture. Such amounts are expected to be funded from our operating cash flow. Additional capital expenditure requirements may result from significant business expansion. Capital expenditures for the three months ended September 30, 2013 increased by $3.1 million to $6.5 million compared to $3.4 million for the same period in 2012 and the increase for the nine months ended September 30, 2013 was $5.7 million to $15.8 million from $10.1 million in the comparative period. The increase in capital expenditures for the three and nine month period ended September 30, 2013 is primarily due to Mercer Canada Outsourcing conversion capital, which represents hardware, software and systems improvements necessary to support the acquired business, additional hardware and software for the Administrative Solution practice, expenditures on leasehold improvements, and a general increase to support business growth and to maintain our leading edge technology. This was partially offset by reduced spending on enterprise software replacement capital.

Contractual Obligations

Commitments

We lease office space and selected equipment under operating lease agreements with terms ranging from one to fifteen years. We also have a term loan, revolving loan and convertible debenture described under the section "Capital Resources".

A summary of contractual obligations, which outlines the year the payments are due is as follows:

(In thousands of dollars)	**Total**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018 and thereafter**
Term loan	$ 130,000	$ -	$ -	$ 130,000	$ -	$ -	$ -
Revolving loans	44,100	-	-	44,100	-	-	-
Convertible debenture	75,000	-	-	-	-	75,000	-
Operating leases, net	79,178	3,203	11,649	9,205	8,234	7,491	39,396
Total	**$328,278**	**$3,203**	**$ 11,649**	**$ 183,305**	**$ 8,234**	**$ 82,491**	**$ 39,396**

We are party to various subleases to which we would be liable for the rental payment in the case of a default by the subtenants. The minimum payments and the aggregate sublease income related to these premises have been netted against the operating leases amounts reported above. We consider the risk of default by the subtenants to be low therefore no accrual has been set up.

Contingent Consideration

The purchase price for Jacques Lamarre & Associates is contingent on business results and is payable in two instalments. The first instalment was $4.8 million, of which of $4.3 million was satisfied with cash on closing and the remaining $0.5 million currently being held for release. The second and final instalment of $2.0 million is subject to certain revenue adjustments, and will be settled in the fourth quarter of 2013. As at September 30, 2013, $2.5 million, representing the discounted value of the $2.5 million remaining to be settled, has been recognized as an acquisition liability in the statement of financial position.

The purchase price for SBC Systems is contingent on future business results and is payable in three instalments. The first instalment of U.S. $5.0 million was satisfied on closing through cash consideration. The second instalment of U.S. $0.5 million was settled in March 2013. The final instalment of U.S. $0.5 million, is subject to revenue adjustments, and will be settled in March 2014. At September 30, 2013, $0.5 million has been recognized as an acquisition liability on the statement of financial position, representing the U.S. $0.5 million future instalment discounted.

The purchase price for Dion Durrell Workers' compensation is contingent on future business results and the contingent payments are payable in three instalments. The three instalments of $0.3 million, $0.6 million, and $0.6 million to be paid within 45 days of June 30, 2014, June 30, 2015 and June 30, 2016, respectively, are subject to revenue adjustments. At September 30, 2013, $1.3 million has been recognized as an acquisition liability on the statement of financial position, representing the total contingent future instalments of $1.6 million discounted.

We have no material contractual obligations other than those described in this MD&A and have no off-balance sheet financing arrangements.

Capital Resources

The following table provides an overview of our capital resources:

(In thousands of dollars)	**As at September 30, 2013**	**As at December 31, 2012**
Bank indebtedness	$ 5,153	$ 134
Long- term debt, net of debt issuance costs	173,533	153,073
Convertible debenture, net of issuance costs	71,791	71,104
Shareholders' equity	344,866	346,618

As at September 30, 2013, our working capital was approximately $67.1 million compared to $45.6 million as at December 31, 2012.

The Company has a credit facility agreement for a term of four years, maturing on January 5, 2015. The credit facility provides for a senior secured term loan of $130,000 and a senior secured revolving term facility of $100,000, which includes a swing line of $7.0 million. As at September 30, 2013, the Company has $50.9 million of available unused revolving term facility.

The interest rates for the facility are floating, based on a margin over certain referenced rates of interest. The applicable margin may vary up and down depending on the ratio of our consolidated debt to Adjusted EBITDA as calculated in the credit agreement. EBITDA is defined in the credit agreement as profit before finance costs, taxes, depreciation, amortization, non-controlling interest and non-recurring expenditures. Adjusted EBITDA is defined in the credit agreement as EBITDA plus the pro-forma EBITDA from permitted acquisitions' entities.

The credit facility is secured by a general assignment of all our assets. The credit agreement also requires us to maintain the following financial covenants on a consolidated basis:

(i) Ratio of debt to Adjusted EBITDA not greater than 3.0:1.0
(ii) Ratio of EBITDA to interest expense of not less than 3.0:1.0

We are in compliance with all the required financial covenants, and the ratios as at September 30, 2013 were 2.1:1.0 and 6.2:1.0 respectively.

On March 27, 2012, the Company issued $75.0 million principal amount of 5.75% Convertible Unsecured Subordinated Debentures (“Debentures”) for net proceeds of $71.4 million allocated between debt and equity. The Debentures pay interest semi-annually on March 31 and September 30, commencing with the initial interest payment on September 30, 2012 and have a maturity date of March 31, 2017.

The debentures are convertible at the option of the holder to common shares at a conversion price of $15.00 per common share. The Company has the option to redeem the debentures on and after March 31, 2015 and at any time prior to March 31, 2016 at a redemption price equal to 100% of their principal amount plus accrued and unpaid interest provided that the weighted average trading price for the 20 consecutive trading days ending five days preceding the date on which the notice of redemption is given is at least 125% of the conversion price of $15.00. On and after March 31, 2016, but prior to the maturity date, the debentures will be redeemable at a redemption price equal to 100% of their principal amount plus accrued and unpaid interest. On redemption or maturity the Company may elect to repay the principal and satisfy its interest obligations by issuing the Company’s common shares.

SELECTED STATEMENT OF FINANCIAL POSITION DATA

The following table provides an overview of our selected statement of financial position data:

(in thousands of dollars)	**As at September 30, 2013**	**As at December 31, 2012**
Current assets	$138,887	$ 119,762
Non-current assets	569,525	566,595
Current liabilities	71,790	74,198
Non-current liabilities	291,756	265,541

Current Assets

Current assets as at September 30, 2013 increased by $19.1 million to $138.9 million from $119.8 million as at December 31, 2012. The increase is primarily due to an increase in trade receivables and unbilled fees of $18.5 million as a result of growth in revenue and the timing of revenue billing in accordance with contract terms and collections, an increase in deferred implementation costs of $1.0 million, and an increase in prepaid expenses and other of $2.9 million due to the timing of vendor payments. This was partly offset by a decrease in cash and investments held in trust for insurance premiums of $3.3 million.

Non-current Assets

Non-current assets as at September 30, 2013 increased by $2.9 million to $569.5 million from $566.6 million at December 31, 2012. The increase is primarily the result of capital expenditures of $16.4 million to support continued business growth, an increase in acquired intangibles of $6.2 million as a result of the acquisitions of Dion Durrell Workers’ Compensation and Collage Pediatric Therapy, and an increase in long-term deferred implementation costs of $0.5 million. This was partially offset by the amortization of capital and intangible assets of $20.2 million.

Current Liabilities

Current liabilities as at September 30, 2013 decreased by $2.4 million to $71.8 million from $74.2 million as at December 31, 2012. The decrease is the result of a decrease in trade and other payables of $3.9 million primarily from the payment of severance accrued at December 31, 2012 from re-organization and operational effectiveness initiatives and the timing of vendor payments, a decrease in insurance premium liabilities of $3.3 million and a reduction in income taxes payable of $1.4 million due to installments paid in the first half of 2013. This was offset by an increase in bank indebtedness of $5.0 million for short-term cash funding, an increase in deferred revenue of $0.7 million and an increase in the current portion of the future consideration related to acquisitions of $0.4 million.

Non-current Liabilities

Non-current liabilities as at September 30, 2013 increased by $26.2 million to $291.8 million from $265.5 million at December 31, 2012. The increase in non-current liabilities is the result of an increase in long-term debt of $20.5 million required to support overall business growth, an increase in the convertible debenture payable of $0.7 million and an increase in the deferred tax liability of $5.6 million due to tax timing differences. This was offset by a decrease in the fair value of the interest rate swap of $1.0 million.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In our year ended December 31, 2012 audited consolidated financial statements and accompanying notes, as well as in our 2012 fourth quarter MD&A, we have identified the accounting policies and estimates that are critical to the understanding of our business operations and our results from operations. Except as described below, the interim unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2013 have been prepared using the same accounting policies consistent with those applied in the audited consolidated financial statements for the year ended December 31, 2012. Our critical accounting estimates and assumptions remain substantially unchanged.

Changes in accounting policies

IAS 1 Amendment, Presentation of Items of Other Comprehensive Income (“IAS 1”):

The Company has adopted the amendments to IAS 1 effective January 1, 2013. These amendments required the Company to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. The Company has reclassified comprehensive items of the comparative period. These changes did not result in any adjustments to other comprehensive income or comprehensive income.

IFRS 10, Consolidated Financial Statements (“IFRS 10”):

IFRS 10 replaces International Accounting Standard ("IAS") 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation - Special Purpose Entities. This new standard contains a single consolidation model that identifies control as the basis for consolidation for all types of entities, sets forth factors to consider in assessing control, and requires control to be assessed on a continuous basis. The Company has assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.

IAS 19, Employee Benefits (IAS 19”)

IAS 19, Employee Benefits (amended in 2011), amends certain accounting requirements for defined benefit plans.

IAS 19 (revised 2011) requires the net defined benefit liability (asset) to be recognized on the balance sheet without any deferral of actuarial gains and losses and past service costs as previously allowed. Past service costs are recognized in net income when incurred. Expected returns on plan assets are no longer included in post- employment benefits’ expense. Instead, post-employment benefits’ expense includes market yields on high quality bonds on the net defined benefit liability. Actuarial gains and losses and any change in the asset ceiling are recognized in other comprehensive income.

The Company adopted these amendments retrospectively and accordingly adjusted its accumulated other comprehensive income as at January 1, 2012 to recognize previously unrecognized actuarial losses for post-employment plans. Please refer to note 3 of the unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2013 for a summary of the impact of the adoption of this revised standard.

IFRS 13, Fair Value Measurement ("IFRS 13"):

IFRS 13 provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

RISKS AND UNCERTAINTIES

The results of operations, business prospects and financial considerations of Morneau Shepell remains subject to a number of risks and uncertainties and are affected by a number of factors outside of our control. For more information about our risks and uncertainties, please refer to our 2012 annual & fourth quarter MD&A. The risk and uncertainties remain substantially unchanged from those disclosed in our 2012 annual & fourth quarter MD&A.

SUPPLEMENTARY SUMMARY OF QUARTERLY RESULTS

Selected Unaudited Consolidated Financial information (in thousands of dollars except per share amounts)

Quarter ended	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011
Revenue	118,526	118,328	115,730	107,258	101,331	106,791	103,966	97,447
Profit	6,937	7,835	6,951	4,234	6,105	6,274	4,421	5,925
EBITDA	20,484	21,412	20,188	16,242	18,269	19,920	16,173	17,440
Adjusted EBITDA	21,909	22,847	21,554	18,843	19,278	20,763	19,251	17,995
EBITDA margin	17.3%	18.1%	17.4%	15.1%	18.0%	18.7%	15.6%	17.9%
Adjusted EBITDA margin	18.5%	19.3%	18.6%	17.6%	19.0%	19.4%	18.5%	18.5%
Earnings per share (basic)	0.14	0.16	0.14	0.09	0.13	0.13	0.09	0.12
Earnings per share (diluted)	0.14	0.16	0.14	0.09	0.12	0.13	0.09	0.12
Twelve-month rolling normalized payout ratio (2)	73.2%	72.7%	72.4%	70.1%	77.1%	77.5%	86.3%	92.1%
Total assets	708,412	699,259	695,388	686,357	677,864	688,298	682,998	668,089
Total long-term debt (1)	245,324	245,062	233,593	224,177	227,790	233,003	212,858	207,121

(1) Includes convertible debentures issued on March 27, 2012.

(2) The twelve-month rolling normalized payout ratios for the quarters ended June 30, 2013 and March 31, 2013 have been revised as a result of an immaterial correction related to the quarter ended March 31, 2013 between two line items within cash provided by operating activities: finance costs paid and change in non-cash working capital. The ratios as previously reported for the quarters ended June 30, 2013 and March 31, 2013 were 71.2% and 70.9%, respectively.

Disclosure Controls and Procedures

Our disclosure controls and procedures have been designed to provide reasonable assurance that all relevant information is identified to its Disclosure Committee to ensure appropriate and timely decisions are made regarding public disclosure.

The Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures are appropriately designed as at September 30, 2013.

Internal Control Over Financial Reporting

Management is responsible for designing internal controls over financial reporting, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. In designing these controls, Management used the *Internal Control – Integrated Framework* (COSO 1992 Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission.

The Chief Executive Officer and the Chief Financial Officer have concluded that the internal controls over financial reporting are appropriately designed as at September 30, 2013. No changes were made in our internal controls over financial reporting during the third quarter ended September 30, 2013, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Additional Information

Morneau Shepell's shares currently trade on the Toronto Stock Exchange under the symbol MSI. Additional information relating to us, including all public filings, is available on the SEDAR Web site (www.sedar.com) and on our own Web site at www.morneaushepell.com.

The content of this MD&A reflects information known as of November 13, 2013.