



**MORNEAU SHEPELL INC.  
ANNUAL INFORMATION FORM  
FOR THE YEAR ENDED DECEMBER 31, 2014  
MARCH 3, 2015**

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## EXPLANATORY NOTES

The information in this Annual Information Form ("AIF") in respect of Morneau Shepell Inc. ("Morneau Shepell" or the "Company") is stated as at December 31, 2014, unless otherwise indicated and covers the operating period from January 1, 2014 to December 31, 2014. All dollar amounts are expressed in Canadian dollars and references to "\$" are to Canadian dollars.

This AIF 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", "plan" 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 under the heading "Risks and Uncertainties". Those risks and uncertainties include 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 economic conditions. Many of these risks and uncertainties can affect the organization's actual results and could cause Morneau Shepell's actual results to differ materially from those expressed or implied in any forward-looking statement made by Morneau Shepell or on the organization's 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 AIF are qualified by these cautionary statements. These statements are made as of the date of this AIF and, except as required by applicable law, Morneau Shepell undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Additionally, Morneau Shepell undertakes no obligation to comment on analyses, expectations or statements made by third parties in respect of Morneau Shepell, its financial or operating results or its securities.

## DEFINITIONS

**Definitions:** In this AIF, the following expressions have these meanings:

“AIF” means this Annual Information Form;

“AMS” means Absence Management Solutions;

“Board” means the board of directors of the Company;

“Committee” means the Audit Committee of the Company;

“Common Shares” means common shares in the capital of Morneau Shepell;

“Conversion” means the conversion of the Fund from an income fund structure to a corporate structure as Morneau Shepell;

“Convertible Debentures” means the \$75,000 principal amount of 5.75% Convertible Unsecured Subordinated Debentures (net proceeds of \$71,432) issued by Morneau Shepell on March 27, 2012;

“Credit Facilities” means the \$250 million senior secured revolving facility, which includes a swing line of \$7 million under the Credit Facility Agreement;

“Credit Facility Agreement” means the second amended and restated credit agreement dated November 29, 2013, entered into by Morneau Shepell and a number of bank lenders;

“EFAP” means Employee and Family Assistance Programs;

“ESS” means Employee Support Solutions;

“Fund” means Morneau Sobeco Income Fund;

“HRCO” means HRCO Inc., now MSL;

“MD&A” means Morneau Shepell’s Management’s Discussion and Analysis, respecting the year ended December 31, 2014;

“Morneau Shepell” or the “Company” means Morneau Shepell Inc.;

“MSGLP” means Morneau Sobeco Group Limited Partnership;

“MSL” means Morneau Shepell Ltd.;

“MSLP” means Morneau Sobeco Limited Partnership;

“Shares” means common shares of the Company;

“Shareholders” means holders of Shares;

“Trust” means Morneau Sobeco Trust;

“TSX” means Toronto Stock Exchange;

“Units” means units of the Fund.

## CORPORATE STRUCTURE

### Morneau Shepell

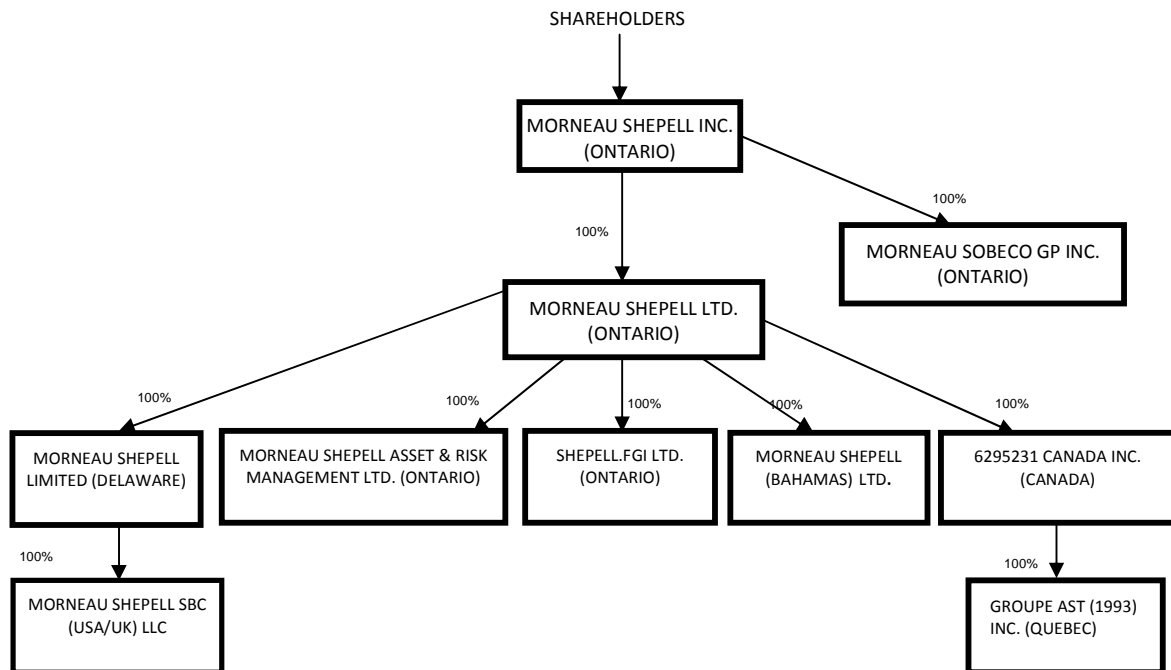
Morneau Shepell carries on business through its operating subsidiary, Morneau Shepell Ltd. (“MSL”), and its subsidiaries. Morneau Shepell was incorporated on October 19, 2010 pursuant to the provisions of the *Business Corporations Act* (Ontario). Its predecessor is Morneau Sobeco Income Fund (the “Fund”), which converted from an income fund structure to Morneau Shepell pursuant to a plan of arrangement (the “Conversion”), effective January 1, 2011 (see “Formation of the Fund and Morneau Shepell” below).

Morneau Shepell is a reporting issuer in all Canadian provinces and territories and, accordingly, is subject to the informational reporting requirements under the securities laws of each such jurisdiction. The principal and head office of Morneau Shepell is located at 895 Don Mills Road, Suite 700, Toronto, Ontario M3C 1W3.

As at March 2, 2015 there were 47,999,712 Common Shares outstanding and Convertible Debentures with a face value of \$74,929,000 million.

### Intercorporate Relationships – Morneau Shepell

The following chart illustrates the legal structure of Morneau Shepell, including jurisdictions:



## DEVELOPMENT OF THE BUSINESS

### Formation of Morneau Shepell

On September 30, 2005, the Fund, Morneau Shepell's predecessor, completed an initial public offering of 19,979,284 units ("Units") at a price of \$10.00 per unit, for total net proceeds of \$184.5 million. The proceeds were used to indirectly acquire a 72.7% interest in Morneau Sobeco Group Limited Partnership ("MSGLP"), with certain management security holders retaining the balance through Class B Units of MSGLP. On October 18, 2005, the over-allotment option from the Fund's initial public offering was exercised resulting in the issuance of an additional 1,997,928 Units. The Fund subsequently issued 12,750,000 Units on June 2, 2008 and an additional 6,666,700 Units on March 24, 2009, in connection with its acquisition of the assets of Shepell FGI LP, which is discussed in further detail below.

Pursuant to the Conversion, effective January 1, 2011, all Units of the Fund were exchanged on a one for one basis for common shares in the capital of Morneau Shepell (the "Common Shares"). On December 31, 2010, all Class B Units of MSGLP were exchanged on a one for one basis for Common Shares. Immediately following the Conversion, an internal reorganization occurred resulting in Morneau Shepell owning all of the shares in the capital of MSL, and the dissolution of the Fund, and other associated entities, including Morneau Sobeco Trust (the "Trust"), MSGLP and Morneau Sobeco Limited Partnership ("MSLP").

As of January 1, 2011, following the completion of the Conversion and related transactions, the former holders of Units and Class B Units became the sole shareholders of Morneau Shepell. The business of Morneau Shepell is carried on through its wholly owned subsidiary, MSL (formerly HRCO Inc. ("HRCO")) and its subsidiaries.

### History of Morneau Shepell

Morneau Shepell has a long-standing history as a leading provider of human resources consulting and outsourcing services in Canada, with an emphasis on pension and benefits, employee and family assistance programs ("EFAP") and enhanced health and absence management services. Throughout its history, Morneau Shepell has developed and expanded solutions to meet the evolving needs of its clients in managing costs associated with the health and productivity of employees and delivering employee benefits.

Morneau Shepell was formed in 1997 by the merger of W.F. Morneau & Associates and the Sobeco organization (at that time owned by Ernst & Young). W.F. Morneau & Associates, established in 1966, had expertise in benefits consulting and administration. In 1987, operations expanded into the United States with the establishment of the first U.S. office, providing administrative services to U.S. employers with regard to employee benefits plans. Sobeco was founded in 1962. One of its first mandates was to help design and set up the Québec Pension Plan. In 2008, the organization doubled its size with the acquisition of Shepell.fgi. Shepell.fgi was Canada's largest provider of employee health and productivity services, including EFAP, employee health management services, and workplace learning and education services. The acquisition provided Morneau Shepell with enhanced growth opportunities, enabling it to offer clients a more comprehensive range of solutions to meet their emerging human resources needs.

With the exception of the above acquisitions, growth has been mostly organic during Morneau Shepell's development; supplemented by the following small acquisitions that have added to the organization's client base and service offering:

Date	Vendor/Business Acquired	Nature of Business
1992	Coopers & Lybrand, Canada	Canadian Pension and Benefits Group
1998	Deloitte & Touche, Canada	Canadian Pension and Benefits Group
2001	Deloitte & Touche, Canada	A portion of the Canadian Disability Management Practice
2002	Arthur Anderson	Canadian Disability Management Practice
2006	Heath Benefits Consulting Inc.	Benefits Consulting
2007	Cowan Benefits Consulting Inc.	Defined Benefits Pension Consulting and Administration
2008	Leong & Associates Actuaries and Consultants Inc.	Pension Consulting and Actuarial
2010	Deloitte & Touche, Canada	Workers Compensation Consulting Practice
2011	Jacques Lamarre et Associés Inc. and Parcours d'enfants	Quebec based EAP provider
2012	SBC Systems Company, Inc.	U.S. based Pension and Benefits Administration Systems
2012	Mercer (Canada) Limited	Canadian Pension and Benefits Administration Business
2013	Dion, Durrell + Associates Inc.	Workers' Compensation Consulting Practice
2013	Collage Pediatric Therapy Centre Inc.	Children's Support Solutions
2014	Groupe AST (1993) Inc.	Workers' Compensation Consulting Practice
2014	Blue Balloon Health Services	Pediatric Health Centred Care

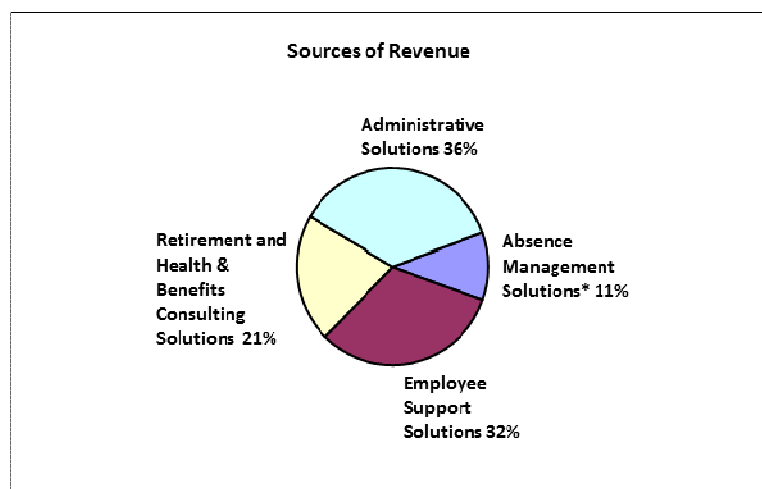
## DESCRIPTION OF THE BUSINESS

### SERVICES

#### General

Morneau Shepell is the largest Canadian organization providing health and productivity, administrative, and retirement solutions. It delivers solutions to assist employers in managing the financial security, health and productivity of their employees. With approximately 3,600 employees in offices across North America, the Company offers services to approximately 20,000 organizations in Canada, the United States and around the globe directly and through distribution channel partners.

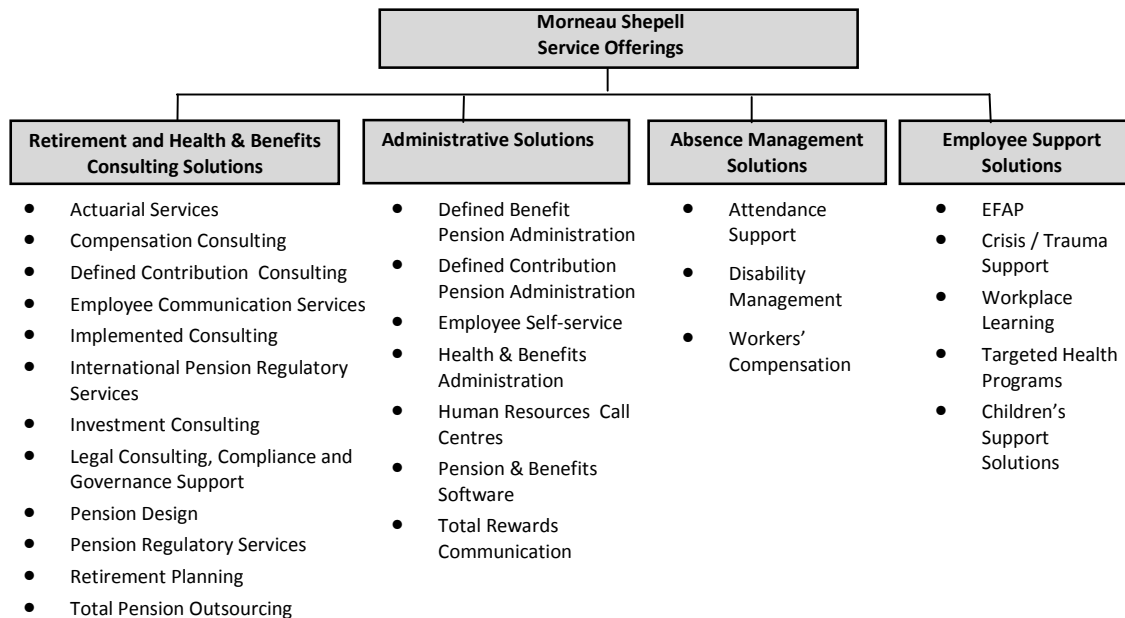
In 2014 Morneau Shepell's four interdependent core businesses contributed to the Company's revenues as follows:



\*Adjusted for the 2014 disposition of the clinic based occupational health business

Morneau Shepell is Canada’s only consulting and outsourcing company that takes an integrative approach in the design and delivery of health, benefits, retirement, and EFAP programs to meet client needs. The Company’s services support the health, productivity, and financial security of employees and help reduce workplace absenteeism and promote well-being. Retirement and Health & Benefits Consulting Solutions consist of assisting organizations with the design, determination of funding requirements, management and financial control of pension and benefits plans. Absence Management Solutions advise organizations on how to reduce the incidence, duration and cost of absenteeism and disability claims and includes support for managing workers compensation. Administrative Solutions include managing all aspects of the administration of clients' pension and benefits plans, including record-keeping and managing employee information, processing transactions, hosting client benefit-related websites and responding to employee inquiries through call centres. Employee Support Solutions offer counseling and educational services, including EFAP, trauma support, and workplace learning for employees’ work, financial, personal and family needs. With approximately 20,000 clients and 5.4 million plan participants, we help increase engagement, productivity, and financial outcomes, while reducing risk, to enhance competitiveness and business success.

These practice areas can be further broken down as shown in the following chart:



Revenue is primarily derived from fees charged to clients for service offering engagements, services and solutions provided.

Fees from consulting engagements are charged based on billable hours or 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 that involve the purchase of an insurance policy underwritten by an insurance company, Morneau Shepell 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 Morneau Shepell’s policy is to disclose these commissions to its clients. No underwriting risk is assumed by Morneau Shepell, as the insurance policy is underwritten by the insurance company. In addition, interest income is earned on cash balances.



Morneau Shepell's Administrative Solutions business is characterized by fixed contracts, which typically have three- to five-year terms. Most Administrative Solutions contracts contain a one-time implementation fee and an ongoing monthly service fee. A small number of contracts contain a large up front customization and implementation fee, with lower ongoing maintenance fees. Implementations typically take three to 12 months and involve transferring the administration of a client's pension and/or benefits plans onto Morneau Shepell's systems, tailoring its systems and training its employees. Additional services provided that are outside the scope of the outsourcing contract are usually paid on a fee-for-service basis.

On 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 is billed based on an actual usage, fee for service, or fixed fees. Most ESS agreements may be terminated by the client upon 30 to 60 days' notice. It is typical, however, for ESS agreements to continue for multiple years and many automatically renew on an annual basis.

Fees from Absence Management Solutions ("AMS") 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. It is typical, however, for these agreements to continue for multiple years and many automatically renew on an annual basis.

Morneau Shepell's 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 occupancy costs, technology costs (equipment leases, telecommunications and software), non-recoverable client service costs (such as printing and travel), training, marketing, office costs, professional services and insurance.

#### **Retirement and Health & Benefits Consulting Solutions**

In the Retirement and Health & Benefits Consulting Solutions practice areas, Morneau Shepell assists organizations with the design, determination of funding requirements, management, communication, and financial control of pension and benefits plans. Revenue from these practice areas typically recurs as services such as actuarial valuations or financial reviews of benefits plans are required on an ongoing basis.

To serve clients of the consulting practices, Morneau Shepell has a diverse team of professionals and practitioners. The organization's consultants have backgrounds in the actuarial, legal, financial, human resource, administration, systems, healthcare, communication and business management fields. Morneau Shepell's "national practices" approach allows it to maintain a team of experienced consultants, which readily enables the organization to bring its knowledge to bear for any given assignment, no matter where that expertise resides.

For each client assignment, a consulting team representing the client's needs is selected. A partner or principal of the organization is identified to serve as a central contact concerning any services that the client may require, working closely with other Morneau Shepell specialists (local or national) to deliver reliable solutions.

#### ***Retirement Solutions***

Retirement consultants design and develop retirement programs, provide detailed actuarial and financial analyses to support clients in the management of their pension plans, and consult on asset allocation, investment policies and investment manager evaluations.

One important consulting offering relates to retirement program redesign as organizations look to simplify plans, better manage overall program costs and risks, and align their program design with their business objectives. Morneau Shepell delivers clear pension and retirement solutions with a proactive, custom-tailored approach.

The organization’s pension actuaries and consultants work with clients to understand their business and workforce strategies, to define their strategy regarding retirement programs and to design programs that reinforce the key messages to their workforce, while also helping to ensure that the programs comply with applicable government regulations.

Another significant offering in the Retirement Solutions area is the dedicated insolvency and regulatory practice, which assists clients with pension plan windups. The group is fully staffed with pension consultants, actuaries, lawyers, investment specialists, and administrators. Morneau Shepell is a major provider of actuarial and administration services to pension plans of distressed companies through appointments by the various Canadian regulators and has been appointed to administer approximately 180 pension plans of insolvent companies, including the Nortel Networks pension plans. As a leader in this field, Morneau Shepell has developed extensive expertise in winding up or terminating multi-jurisdictional plans and both single- and multi-employer plans across the country.

The Retirement Solutions practice incorporates a wide array of services, from purely compliance-related consulting services, to highly specialized strategic solutions, as follows:

<b>RETIREMENT SOLUTIONS</b>	
<p><b>Compliance-Related Consulting Services</b></p> <ul style="list-style-type: none"> <li>• Funding and solvency actuarial valuations</li> <li>• Governance reviews</li> <li>• Documentation</li> <li>• Legislative changes</li> <li>• Accounting valuations</li> </ul>	<p><b>Strategic Solutions</b></p> <ul style="list-style-type: none"> <li>• Plan design and benchmarking</li> <li>• Mergers and acquisitions due diligence</li> <li>• Funding and accounting policy</li> <li>• Plan conversions</li> <li>• Plan communication</li> <li>• Retirement planning</li> <li>• Investment management consulting</li> <li>• Executive arrangements</li> <li>• Plan windups</li> </ul>

***Asset and Risk Management***

Morneau Shepell provides a full range of investment management consulting services to provide clients with insight and assistance in structuring, monitoring and measuring their fund assets. Services include asset-liability studies, fund governance reviews, investment policy reviews, fund structure analyses, investment manager searches, and ongoing performance evaluation. Morneau Shepell also has a licensed investment fund manager and exempt market dealer subsidiary through which investment strategy advice and portfolio management are offered. Services are provided to a wide range of institutional investors, including pension plans, workers’ compensation programs, endowments, foundations and trusts.

***Health & Benefits Consulting***

Health & Benefits consultants help clients make informed decisions related to the design, management and funding of their employee and other group benefit plans. This includes evaluating funding and cost models, plan design, insurer rates and services, as well as the value of participating in a volume-purchasing arrangement. Morneau Shepell provides knowledgeable, innovative advice that assists clients in meeting their current and long-term benefits needs. Consultants work with clients to help them manage their benefits offering and select the best financial arrangements, and to facilitate their long-term efforts to manage costs and enhance employee engagement.

In combining Health & Benefits Consulting with other health and productivity solutions, including EFAP, attendance and disability management as well as workplace learning, clients can experience even more effective results through, for example, aligning efforts with business objectives, enhancing employee health and engagement, identifying and evaluating risks and opportunities, and eliminating inefficiencies.

Health & Benefits Consulting Solutions include:

#### HEALTH AND BENEFITS CONSULTING SOLUTIONS

##### **Compliance-Related Consulting Services**

- Renewal Analysis and Negotiation
- Accounting and Actuarial Valuations
- Financial Reporting Analysis
- Policy Documentation
- Plan Governance Reviews
- Legislative Changes

##### **Strategic Solutions**

- Traditional and Flexible Program Design
- Strategic Plan Design Review
- Plan Communication
- Risk and Funding Analysis
- Benefits Benchmarking
- Claims Audit
- Participant Surveys and Focus Groups
- Provider Search and Selection
- Provider Performance Management
- Financial and Cost Management
- In-depth Drug Claims Analysis

Morneau Shepell has established a number of volume-purchasing group insurance programs for a diverse client base, which includes trade, professional and charitable organizations. By working together, smaller employers can often implement benefits plans at reduced costs for their employees, while accessing the insight that Morneau Shepell has acquired through working with some of the largest employers in North America.

##### ***Communication Consulting***

As a support to the organization's Retirement and Health & Benefits Consulting Solutions practice areas, Morneau Shepell has a team that specializes in communication consulting. In an environment of employee self-service, Morneau Shepell assists clients to communicate and explain to employees their options and choices so that they can make informed decisions with confidence. Consultants help clients clearly deliver the information that their employees need to understand in order to fully appreciate their benefits, pension and other human resources programs. The communication consulting service offerings include change management strategies, plan launches and plan mergers, focus groups and human resources/employee training, program branding, and website customization.

##### **Administrative Solutions**

Morneau Shepell's systems are used to administer benefits, pensions and savings plans, and maintain records for approximately 5.4 million plan participants. The organization maintains approximately 500 administration websites branded individually to each client, hosting the site and providing all support and transaction services on behalf of the client.

In addition, Morneau Shepell provides hosted solutions or customized software installation to clients, if desired. Morneau Shepell operates four technology and outsourcing centres located in Toronto (Ontario), Montréal (Quebec), Pittsburgh (Pennsylvania), and Atlanta (Georgia). The Company can manage all aspects of clients' pension and benefits plans on an outsourced basis, as well as provide administration support through software as a service (SaaS), or on a software and maintenance only basis. Services include record-keeping and managing employee information, processing transactions that are required to administer employee pension and benefits plans, hosting client benefits websites, and responding to employee inquiries through call centres. The resource-intensive processes required to administer clients' pension and benefits plans are automated. Morneau Shepell also provides technology-based, self-management tools that support decision-making and self-service transactions by clients' employees. Systems are parameterized for both the Canadian and U.S. markets. This business utilizes proprietary software developed and maintained in-house by the Company's team of approximately 270 technology employees.

Administrative Solutions clients typically sign three- to five-year contracts with Morneau Shepell. Most clients continue to renew their contracts upon expiration of the initial term. Management believes that the high renewal rates are a result of high levels of customer satisfaction, competitive pricing, strong service offering and the highly data-intensive nature of the services. It typically takes three to 12 months to fully install client data on Morneau Shepell's systems.

#### ***Pension Administration - Defined Benefit Plans***

Many mid-sized and large organizations sponsor defined benefit pension plans. Pension plans are subject to numerous laws and regulations, and their administration has historically been extremely complex and paper-intensive, resulting in administrative challenges for employers. Many organizations seek third-party providers to assist in the administration of these plans.

Morneau Shepell's defined benefit plan administrative services are a natural extension of the pension consulting services that the organization has provided since its inception. Through the organization's *Ariel*® system, the traditional processing related to a plan member's retirement is reengineered, streamlined and shortened. This approach relies on a high degree of automation for both calculations and execution of transactions for each participant.

#### ***Pension Administration - Savings Plans***

Most organizations outsource the administration of their savings plans, such as defined contribution plans and group RRSPs. Savings plan administration requires management of significant volumes of participants, payroll and investment fund data and transactions, daily transaction data transmissions between organizations and their savings plan trustees and asset managers, as well as daily posting of investment results to plan members' individual savings accounts.

In many situations, clients offer defined contribution plans in combination with other plans such as employee share ownership plans, group registered retirement plans, tax-free savings accounts or deferred profit sharing plans. Morneau Shepell provides administration services for these plans, including receiving participant information from the organization and the plan member, processing transactions and coordinating activity with the organization, trustees and investment managers.

#### ***Benefits Administration***

Many organizations sponsor traditional or flexible group insurance benefits plans for their employees and/or organization members. Morneau Shepell offers organizations administration services for these group insurance plans. Administering health and welfare benefits plans is an important and complex task for plan sponsors who must manage both the rising cost of providing health insurance and employees' demands for increased choice of benefits options. As plans incorporate member contributions, determining the appropriate member deductions has become crucial. For plan sponsors with flexible plans involving member choice, each organization has a period of time (typically three to four weeks) every year during which members are required to make decisions regarding their benefits options and enroll in programs for the following year. Each plan sponsor must communicate its benefits offerings by providing members with information explaining the available options and answering members' questions regarding the various alternatives.

Once members have submitted their choices, the plan sponsor must then accurately communicate these choices to provider organizations. For organizations managing benefits administration internally, staffing a human resources department with adequate support to effectively and efficiently handle this annual surge of activity can be extremely challenging. Furthermore, ongoing administration requires managing payroll/bank account deduction and status data that determines each participant's health plan eligibility and transmitting eligibility data to insurance companies and other providers.

Morneau Shepell’s technology-based delivery model offers employers and plan sponsor organizations a cost-effective and efficient solution to meet these benefits administration needs. The organization is able to manage the annual enrolment process in a seamless manner for the plan sponsor, clearly communicate to members their available choices, and transfer these choices to various service providers. Significant value is delivered to clients during the annual enrolment process and in the context of ongoing benefits administration.

### Employee Support Solutions

Morneau Shepell’s Employee Support Solutions focus on improving the health and wellbeing of client organizations and their people through EFAP, workplace learning and targeted health programs. These services assist employers in improving their productivity and reducing costs associated with employee absences, illnesses or other personal situations that impact employees’ ability to be healthy and productive at work. Through thoughtful integration of these programs with other health and productivity solutions offered by Morneau Shepell, including absence and disability management and the design and implementation of employee benefits plans, the organization helps employers identify and manage risks in the workplace, promote behaviour change and uncover and address the root causes of poor productivity, ill health or absence.

EMPLOYEE SUPPORT SOLUTIONS		
<p><b>Employee and Family Assistance Programs</b></p> <ul style="list-style-type: none"> <li>• Domestic EFAP</li> <li>• Global EFAP</li> <li>• Expat EFAP</li> <li>• Traumatic Event Support</li> </ul>	<p><b>Workplace Learning</b></p> <ul style="list-style-type: none"> <li>• Mental Health Training</li> <li>• Workplace Learning</li> <li>• Cross-Cultural Training</li> <li>• Workplace Development                             <ul style="list-style-type: none"> <li>- Mediation</li> <li>- Coaching</li> <li>- HR Investigations</li> </ul> </li> </ul>	<p><b>Targeted Health Programs</b></p> <ul style="list-style-type: none"> <li>• Echo</li> <li>• Workplace Support Program                             <ul style="list-style-type: none"> <li>- Workplace Referral Program</li> <li>- WorkAssist™</li> <li>- Depression Care™</li> <li>- Substance Abuse Program</li> <li>- Structured Relapsed Prevention Program</li> </ul> </li> </ul>

#### **Employee and Family Assistance Programs**

Morneau Shepell also offers EFAP services under the brand name Shepell. EFAPs are dedicated to prevention and early intervention at any stage of an employee’s need. This service is paid for by employers, and is made available directly to employees and their families, providing awareness, education and access to multiple modes of short-term clinical or professional consultation for a variety of issues including: relationships, child and senior care, addictions, illness prevention and illness management, nutrition, mental and emotional concerns, and legal and financial questions, as well as resources, referrals and consultation for other personal and family needs. EFAP typically focuses on issues which, if left unresolved, can lead to increased prescription drug costs, absenteeism, short-term or long-term disability and other workplace productivity challenges. Canadian insurance companies now include EFAP as a standard component of an employee group benefits offering. In management’s view, EFAP is a foundational component of a successful health and productivity strategy - other group benefit programs are most effective when they leverage EFAP preventatively.

Morneau Shepell manages more than 500,000 EFAP calls per year, including 8,000 trauma interventions, from an employee base of over 3.6 million. Delivery of EFAP services is initiated through a call to one of four care access centres, visiting Morneau Shepell’s workhealthlife.com website or using the MyEAP mobile application. The individual in need is then directed to the most appropriate specialist to support and resolve the presenting issue. In addition to salaried clinical specialists, Morneau Shepell maintains an extensive network of approximately 10,000 counselors worldwide, as well as other contracted service providers engaged to deliver EFAP services on an as needed basis.

EFAP services are also available to employers who operate globally. Employees on international assignment as well as local employees, receive support in a way that is culturally appropriate to their work location.

Morneau Shepell also offers trauma services, which are often closely linked with EFAP services. Trauma services focus on swift response and appropriate care and support during and after events such as accidents, acts of public terror, natural disasters and other sudden traumatic events in a workplace or community.

### ***Workplace Learning***

Workplace Learning services support an organization's health and productivity by taking an advanced approach to workplace interventions and skills development. Morneau Shepell's experts work closely with organizations to help them understand their unique workplace challenges and the causes of those issues. Morneau Shepell offers a range of services to provide organizations and their leaders with the tools, resources, information and perspective needed to generate positive change and maintain high-functioning workgroups and workplaces even during crises or times of significant change. Workplace learning and development services include:

- Seminars and workshops addressing topics such as stress management, mental health issues in the workplace, and conflict management.
- Services to support organizations which operate globally including relocation and repatriation services, as well as cultural training for employees and families who are moving or doing business in other countries (or who work in multi-cultural environments).
- Services such as mediation, executive coaching and workplace assessments and investigations designed to address specific issues that can have a negative effect on the workplace and that require specialized action plans and targeted group interventions.
- Support and consultation on long-range initiatives (e.g. trauma peer support training, pandemic planning) to help build or strengthen an organization's ability to remain resilient.

### ***Targeted Health Programs***

Morneau Shepell offers focused solutions that provide organizations the ability to address specific employee needs and issues that can affect the workplace. Targeted health programs assist with issues such as mental health, life stages, stress, change, addictions, and return to work.

### **Absence Management Solutions**

Absence Management Solutions supports employers in the area of workplace health and productivity. The services focus on absence prevention, proactive absence management and effective return-to-work in support of a variety of employee health risks or conditions, whether related to physical, mental, social or workplace health.

Services can be delivered on either a fully integrated or stand-alone basis and consist of the following:

- ***Absence and Disability Management Services*** for self-insured short term disability (STD) programs provide comprehensive management of non-occupational disability claims including timely claim adjudication and enhanced return to work support to reduce the duration of the claim and improve the employee experience. Specialized assessment and management is available for complex claims and claims related to mental health issues. Attendance support services are also available to help employers manage casual and incidental absences, which are typically costly yet often overlooked or poorly managed. These services are delivered to provide a streamlined and consistent administrative framework for reporting and managing scheduled absences, and, most importantly, offer support to employees to address the root cause of the absence before it results in further absence or disability.

- **Workers' Compensation Management Services** provide timely and expert knowledge and support to employees and employers around work-related illness and/or injury, including workplace safety requirements, strategic claims management, employee coverage and benefit entitlements, return to work, and various other services. Comprehensive occupational claims management services include proactive liaison with the Workers' Compensation Boards, identification of cost savings opportunities (e.g. cost relief and appeals) and a modified return to work program that helps the injured worker return to work safely and expediently. Health & Safety services include program development, management and governance to help employers manage the prevention of workplace injuries. Financial advisory services, including actuarial modeling, are also available for employers looking to better manage their financial risk and exposure.

The greatest benefit for employers is typically seen when Absence Management Solutions services work in tandem with EFAP and other health and productivity solutions for a strategic and integrated approach to managing employee health and productivity issues.

## **COMPETITIVE CONDITIONS**

The human resources consulting and outsourcing business is highly competitive. Management believes that there are several barriers to entry including Morneau Shepell's intellectual capital, deep understanding of its clients' businesses, proprietary systems, long-standing client relationships, and extensive network of EFAP counselors and service providers.

Competitors are varied depending upon the nature of the services provided and include large international pension and benefits consulting organizations such as Mercer, Towers Watson, Aon Hewitt; smaller and local market consulting firms; information technology, consulting and business process outsourcing firms such as Hewlett Packard, Fidelity, and Convergys; employer-service organizations such as Homewood, Ceridian, Acclaim and OSI; and insurers such as Manulife Financial and Sun Life. Key competitive factors include range of service offering, technology, service quality and pricing.

Management believes that the following factors are competitive strengths of Morneau Shepell within the human resources consulting and outsourcing industry:

### **Market leader in human resources consulting and outsourcing**

Morneau Shepell is the largest Canadian human resources consulting and outsourcing organization that focuses on retirement, administrative and health and productivity solutions. It serves a wide range of organizations across Canada and the U.S., as well as internationally. Clients represent a cross-section of industries varying in size, from small businesses to some of Canada's largest corporations and government organizations.

### **"Blue chip" client base**

The client base of Morneau Shepell is well-established, with approximately 20,000 Canadian, U.S., and international organizations served directly or indirectly, including many "blue chip" companies, as well as numerous institutions and government organizations. Approximately two thirds of the organizations listed on the TSX60 are clients of Morneau Shepell. The business is well diversified by geography and by industry. Morneau Shepell has established integrated and long-term relationships with many clients. As a result, a large proportion of revenue typically recurs each year. Client satisfaction and end-user surveys are conducted periodically and Morneau Shepell has consistently achieved high client satisfaction levels.

### **Stable and predictable cash flows from contracts and long-term client relationships**

Morneau Shepell's Administrative Solutions business is typically based on contracts that have an initial term of three to five years and are often renewed or extended. Due to the nature of these services, as well as the implementation time and the complexity involved in migrating essential and sensitive employee data to Morneau Shepell's Administrative Solutions systems, client retention is high. In addition, the Retirement and Health & Benefits Consulting, Employee Support Solutions and Absence Management Solutions businesses are based on long-term relationships and consist of many services that are typically required on an ongoing or annual basis. Client movement from one service provider to another is infrequent, especially if service levels are high and cost of service is reasonable. For example, the average relationship with each of the Company's top 25 clients is approximately 13 years. As a result, revenue and cash flows are stable and predictable.

### **Depth and scalability of operations and technology platform**

The size of Morneau Shepell's business enables the organization to continually develop state-of-the-art, web-enabled systems to meet clients' needs. Through an integrated suite of technologies that includes infrastructure, data warehousing, security, service centres, portals, workflow, image processing, mobile applications and content management, Morneau Shepell provides automated solutions for health and productivity, administrative and retirement related processes that are flexible to adapt to any program complexity and to accommodate the needs of clients ranging in size from less than 1,000 to more than 1,000,000 plan members. Robust security and back-up systems are in place for the protection of clients' confidential information. Management believes that the organization's proprietary technology has been a key factor in winning a number of contracts (see "Description of the Business – Technology").

Further, many of the Employee Support Solutions and other health and productivity solutions are delivered using a network of approximately 10,000 counselors and other service providers, which offers flexibility in managing fluctuations in needs.

### **Focused business model**

Relative to its larger competitors, Morneau Shepell has focused its resources on business segments where revenue is largely recurring or contracted. By maintaining this focus, the infrastructure costs associated with delivering a broad range of human resources services are avoided and Morneau Shepell can therefore compete more economically.

In addition, the organization operates highly centralized administration centres, which allow Morneau Shepell to achieve economies of scale as it grows the business while improving margins. These administrative centres have the capacity to facilitate further growth with minimal incremental capital requirements.

### **Experienced management and professional team**

As a growing independent Canadian organization, Morneau Shepell has been able to attract and retain talented professionals. The average tenure of its senior leadership team is approximately 14 years, all of whom have an economic ownership in the organization. Morneau Shepell has considerable experience acquiring and integrating new practices into the organization, having managed several mergers with very little employee or client turnover.

## **CLIENTS**

Morneau Shepell serves a stable and well-established client base of approximately 20,000 organizations, diversified by industry, geography and size. In 2014, approximately 690 clients each generated more than \$100,000 in revenue (663 in 2013).



The organization's Canadian client base consists of well-recognized corporations, not-for-profit organizations and government organizations and institutions. Clients of Morneau Shepell's U.S. operations include both large and mid-sized organizations and government agencies along with U.S. subsidiaries of Canadian clients. In 2014, revenue from Morneau Shepell's U.S. subsidiaries accounted for approximately 8.7% of total revenue (6.5% in 2013).

In Canada and the U.S., Morneau Shepell also provides both stand-alone and integrated services to smaller organizations with less than 1,000 employees. The Company serves smaller organizations through trade and professional organizations, as well as directly and through other channel partners, such as insurance providers. Services are also provided to governmental and regulatory agencies related to the administration and winding-up of pension plans on behalf of insolvent organizations.

Distribution agreements for EFAP as well as Absence and Disability Management services are in place with a channel partner that, in management's estimation, covers approximately one third of Canadians with group benefits. This distribution is achieved through a partnership with a prominent Canadian insurance company that offers EFAP and absence and disability management services as part of their suite of group benefits. This formal relationship began in 1989. In 2014, approximately 9% of the organization's EFAP and absence and disability management services revenue were generated through this partnership (9.8% through channel partnerships in 2013).

As a result of the nature of Morneau Shepell's services and the stability of its client relationships, an insignificant level of bad debts is generally experienced. For example, in 2014, bad debts amounted to approximately 0.1% of revenue (0.1% in 2013).

## **BUSINESS AND GROWTH STRATEGY**

### **Client retention and growth**

Clients use Morneau Shepell's services on a recurring or contracted basis over a long term. Revenue is generally stable and predictable. To maintain and grow revenue, in addition to attracting new clients, Morneau Shepell focuses its efforts on retaining existing clients and growing revenue with them. This is achieved by providing excellent client service and expanding the variety of services provided to existing clients. This continues to present an opportunity for revenue growth across clients in varying industries, geographies, and sizes.

### **Integrated health & productivity**

Morneau Shepell has experienced increased interest in its health and productivity solutions, driven by organizations' desires to reduce the cost and risk associated with absence, while improving employee health, productivity and engagement. Management believes that its unique combination of Employee Support Solutions, Health & Benefits Consulting and Absence Management Solutions offers a market differentiating value proposition to organizations looking to improve their overall employee health and productivity initiatives.

### **Focus on key client issues**

Morneau Shepell strives to maintain a flexible culture that understands and responds to the developing needs of its clients. For example, as an early provider of pension and benefits administrative services, Morneau Shepell has enabled clients to focus on enhancing employee productivity through technology. By adding savings to pension services, Morneau Shepell has helped employers to manage both defined benefit and savings programs. By offering an EFAP and a suite of workplace health and productivity services that integrate with clients' benefit programs, Morneau Shepell is helping clients reduce the incidence and duration of employee absences and thus improve the clients' financial performance.

### **Deliver excellence in execution**

Morneau Shepell strives to deliver the highest-quality service efficiently and effectively. Services that are repeatable, such as many outsourcing functions, are centralized, allowing for close supervision and quality assurance. In order to ensure the goal of providing excellent service, Morneau Shepell regularly reviews its client satisfaction levels.

Survey results on client and end-user satisfaction have been favourable and stable over time. Quality assurance processes are rigorously embedded in the development and back-up of systems and the delivery of services. Morneau Shepell hires qualified professionals and strives to create an environment where talented people enjoy coming to work.

### **Target U.S. growth**

Morneau Shepell continues to focus on the U.S. market for growth in Administrative Solutions, particularly with government-sponsored defined benefit plans, health exchanges and in the mid-market. Morneau Shepell's "near-shore" Canadian technical and administrative centres are efficient and cost-effective at serving U.S. clients of all sizes.

Management believes that Morneau Shepell is well positioned to grow in the U.S. by attracting new clients, and through alliances and acquisitions of complementary businesses. For example, in 2012, Morneau Shepell completed its acquisition of the business of SBC Systems, a U.S. based provider of benefits administration systems, which has been instrumental in the successful awarding of a number of significant new engagements in the U.S., including a number of public health exchanges.

### **Pursue selective acquisitions**

Morneau Shepell continues to selectively review acquisition opportunities that are consistent with or complementary to Morneau Shepell's businesses. The organization's management team has the experience of successfully integrating other practices into the organization. Aside from the large multi-national competitors, there are numerous smaller regional organizations that provide services in the organization's core areas of expertise, as well as organizations that provide related services to similar clients as that of Morneau Shepell. For example, in 2014, Morneau Shepell acquired Groupe AST, a workers' compensation practice in Quebec, to expand its Absence Management Solutions, and Blue Balloon Health Services to expand its ability to provide Children's Support Solutions.

## **TECHNOLOGY**

Through an integrated suite of technologies that includes infrastructure, data warehousing, security, service centres, portals, workflow, image processing, mobile applications and content management, Morneau Shepell provides automated solutions for health and productivity, administrative and retirement related processes that are flexible to adapt to any program complexity and to accommodate the needs of clients ranging in size from fewer than 1,000 to more than 1,000,000 plan members. The Company follows a comprehensive process to develop an understanding of its clients' needs, to learn about their systems and culture, and to jointly define their objectives. Morneau Shepell has considerable experience integrating its clients' human resources information systems, including those systems developed by major providers such as Oracle and SAP. The organization's comprehensive approach provides a secure solution to manage employee data, record and manage transactions directed by employees, managers and human resources professionals, and administer pension and benefits processes. In addition, data is easily transmitted and transferred between clients, their employees and outside parties (such as insurance companies, trustees and investment managers).

Morneau Shepell's Administrative Solutions services enable clients to satisfy their employees' and managers' needs for information by providing decision-making tools and support. Clients' employees communicate with Morneau Shepell and manage their pension and benefits plans through the Internet, mobile devices and the organization's call centres. This approach encourages employees' self-management of their benefits. Morneau Shepell's web-based tools are fully integrated with its pension and benefits administration platforms and provide employees, managers and human resources professionals with personalized content, and fast, accurate and easy-to-use decision support tools that allow "real-time" management of their human resources and benefits decisions and transactions.

Employees are also provided with integrated interfaces to outside providers of services such as investment managers and insurance companies. For employees, managers and human resources professionals who need more assistance with pension or benefits issues, the call centres are staffed with employees who have received extensive training in issues specific to the client's programs.

The organization employs in-house developed technologies to deliver its EFAP services efficiently and effectively. The technologies manage the various components of delivering EFAP services to a client. This includes the initial intake call through a care access centre, the selection of the service provider, scheduling the client appointment, and all the way through to case closure.

Morneau Shepell offers a variety of online self-service capabilities through a number of different channels aimed at providing better and more efficient EFAP services to clients. This includes MyEAP, an award-winning smartphone application that delivers health and wellness information as well as access to e-counseling through a smartphone. As well, Morneau Shepell offers on-line chat and video counseling as two additional ways to allow employees convenient access to EFAP services.

Ability is the next generation AMS platform that incorporates a modern interface and numerous efficiency features to support this growing business in the years to come. In conjunction with this, AMS has completed the development of the industry's first disability management mobile application (My Ability). It will allow an employee to connect directly with a case manager, exchange messages and manage critical documents in a timely manner.

An important aspect of delivering client services using technology is to employ measures to protect the confidentiality, integrity, security and availability of information and technology systems. Morneau Shepell employs a robust technology development and management program that includes multi-layered security defense, business continuity, and disaster recovery components. The Company continuously monitors developments and best practices in order regularly improve its technology development and management program to meet evolving technological and security demands, as well as client and business needs.

Management believes that Morneau Shepell's technological capabilities are an essential component of the organization's strategy to grow its business and create new service offerings. There are approximately 270 employees engaged in technology functions, including research and development, application development, integration and operations. Technology and telecommunication expenses for the Morneau Shepell business, including related employee compensation, were \$39 million in 2014 and in \$29 million in 2013.

## **TRADEMARKS**

Morneau Shepell operates its EFAP services under the trade name and mark "Shepell.fgi" and "Shepell". Management believes the recognition of, and goodwill associated with the Shepell/Shepell.fgi brand is a competitive advantage and thus has significant value to Morneau Shepell.

## **CAPITAL EXPENDITURES**

Morneau Shepell's business is not highly capital intensive. Morneau Shepell's capital expenditures typically include information technology hardware and software (external and internally developed), facility expansion and improvements, and office furniture. Additional capital expenditure requirements may result from significant business expansion. Such amounts are expected to be funded from Morneau Shepell's operating cash flow.

## **CREDIT FACILITY AGREEMENT AND INTEREST-RATE SWAPS**

### **Credit facility agreement**

The Company has entered into a credit facility agreement "(Credit Facility Agreement)" with a term of four years, maturing on November 29, 2017. The following is a summary only of the material terms and conditions contained in the Credit Facility Agreement. This summary is qualified in its entirety by reference to the provisions of the Credit Facility Agreement, which set out a complete statement of those terms and conditions.

Under the Credit Facility Agreement, a \$250 million senior secured revolving facility, which includes a swing line of \$7 million (the "Credit Facilities"), is available.

The interest rates for the Credit Facilities are floating, based on a margin over certain reference rates of interest. The applicable margin may vary up and down depending on the ratio of Morneau Shepell's consolidated debt to Adjusted EBITDA as calculated in the Credit Facility Agreement. EBITDA in the Credit Facility Agreement is defined as profit before finance costs, income taxes, depreciation, amortization, non-controlling interest, and non-recurring gains or losses. Adjusted EBITDA is defined as EBITDA plus the pro-forma EBITDA from permitted acquisitions' entities.

The Credit Facilities are secured by a general assignment of all the assets of the Company and requires the Company to maintain, on a consolidated basis, a Debt to Adjusted EBITDA financial covenant of not more than 3.00:1.00 and an EBITDA to interest expense ratio of not less than 3.00:1.00.

At December 31, 2014, the Company had utilized the following amounts under the Credit Facilities:

- \$216,500,000 of BA loans under the revolving loan. The BA loans are renewed on a monthly basis, bearing interest at the one-month BA rate plus an applicable margin of 1.875%.
- \$5,000,000 of prime loans under the revolving loan. The prime loan bears interest at the prime rate plus an applicable margin of 0.875%.
- \$1,160,000 (U.S. \$1,000,000) of Libor loans under the revolving loan. The Libor loan is renewed on a monthly basis, bearing interest at the one-month Libor rate plus an applicable margin of 1.875%.
- \$580,000 (U.S. \$500,000) of U.S. Base Rate loans under the revolving loan. The U.S. Base Rate loan is renewed on a monthly basis, bearing interest at the one-month U.S. Base Rate plus an applicable margin of 0.875%.
- \$600,000 of the swing line available. The swing line carries interest at prime plus an applicable margin of 0.875%.

As security for the Credit Facilities, the borrowers (being Morneau Shepell and its subsidiaries, excluding certain minor subsidiaries (collectively referred to as the "Excluded Subsidiaries")) granted the lenders a security interest over all of their respective assets and guaranteed each other's indebtedness. Each of the Company's subsidiaries excluding the Excluded Subsidiaries guaranteed the indebtedness of the borrowers under the Credit Facilities and granted security interests over all of their respective assets.

The Credit Facilities are subject to customary terms and conditions for borrowers of this nature, including limits on incurring additional indebtedness, granting liens or selling assets without the consent of the lenders. The Credit Facilities may, in certain circumstances, restrict Morneau Shepell's ability to pay dividends on the Common Shares, including limiting dividends unless sufficient funds are available for the repayments of indebtedness and the payment of interest expenses and taxes.

The failure to comply with the terms of the Credit Facilities will entitle the lenders to accelerate all amounts outstanding under the Credit Facilities, and upon such acceleration, the lenders would be entitled to begin enforcement procedures against the assets of the borrowers and their subsidiaries, including accounts receivable, work in progress and equipment. The lenders would then be repaid from the proceeds of such enforcement proceedings, using all available assets. Only after such repayment and the payment of all other secured and unsecured creditors would the holders of Common Shares receive any proceeds from the liquidation of the assets of Morneau Shepell and its subsidiaries.

#### **Interest-rate swaps**

The Company entered into a forward starting interest-rate swap agreement in February 2014, to hedge against the variable interest rate component of the credit facilities under the Credit Facility Agreement. The notional amount of the swap is \$160,000, for the period from January 5, 2015 up to and ending November 29, 2017. The swap is used to fix the variable component of the interest rate at 1.98%, before the applicable margin.

#### **EMPLOYEES**

Morneau Shepell currently employs approximately 3,600 people. As well, the organization has access to a network of approximately 10,000 counselors worldwide, who are engaged primarily in delivering ESS and AMS.

Management believes that its interactions with its employees are very positive, having developed a culture focused on integrity, flexibility, growth and long-term relationships. Employees have been and will continue to be compensated on growth and profitability targets established by management.

#### **FOREIGN OPERATIONS**

Morneau Shepell's U.S. subsidiaries accounted for 8.7% of revenue in 2014 and 6.5% in 2013. In addition, the Canadian operations billed approximately US \$17.7 million of revenue in 2014 to U.S. clients and approximately US \$16.3 million in 2013.

#### **SEASONALITY**

Morneau Shepell's business is not subject to significant seasonal fluctuations. There is slightly less fee-for-service consulting revenue in the third quarter due to consulting staff and client staff vacations during these months. There is slightly more commission-based consulting revenue in the fourth quarter due to client benefits insurance policy renewals.

#### **ECONOMIC DEPENDENCE**

For the year ended December 31, 2014, Morneau Shepell's largest client accounted for approximately 3.7% of revenue (3.8% in 2013) and its top 10 clients, in the aggregate, accounted for approximately 18% of revenue (19.5% in 2013).

## FACILITIES

As of December 31, 2014, Morneau Shepell operates from 124 locations in North America, including its principal office located at 895 Don Mills Road, Toronto, Ontario and the additional major locations identified below. All properties are leased.

The majority of employees are located in five Canadian cities and two U.S. cities. There are four technology and outsourcing centres located in Toronto (Ontario), Montréal (Québec), Pittsburgh (Pennsylvania) and Atlanta (Georgia) and four care access centres located in Toronto (Ontario), Mississauga (Ontario), Montréal (Québec) and Vancouver (British Columbia).

Location	Square feet	Lease expiry date	Description
Toronto, Ontario	142,927	August 31, 2024	Principal Office, Technology and Outsourcing Centre
Toronto, Ontario	22,988	April 30, 2025	Care Access Centre
Markham, Ontario	17,762	June 30, 2017	Technology Centre
Mississauga, Ontario	33,025	June 30, 2018	Care Access Centre
Montreal, Quebec	87,446	June 30, 2024	Technology and Outsourcing Centre
Montreal, Quebec	122,318	June 30, 2024	Office and Care Access Centre
Vancouver, British Columbia	36,000	May 31, 2024	Office and Care Access Centre
Pittsburgh, Pennsylvania	14,420	June 30, 2016	Technology and Outsourcing Centre and Office Centre
Atlanta, Georgia	39,421	July 31, 2023	Technology and Outsourcing Centre

## RISK FACTORS

A discussion of risk factors relating to Morneau Shepell and its business is presented in Morneau Shepell's Management's Discussion and Analysis ("MD&A") as at December 31, 2014 and is incorporated by reference into this AIF. The MD&A can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## DIVIDENDS

Total cash dividends declared to Shareholders by Morneau Shepell in each of 2013 and 2014 were \$37.4 million or \$0.78 per Share.

The Board of Directors of the Company has adopted a dividend policy with the intent to pay a monthly dividend of \$0.065 per Common Share. The Board of Directors intends to review Morneau Shepell's dividend policy periodically in the context of the organization's overall profitability, free cash flow, capital requirements and other business needs. The dividend policy is at the discretion of the Board of Directors. Future dividends, if any, will depend on the operations and assets of Morneau Shepell and will be subject to various factors, including Morneau Shepell's financial performance, fluctuations in working capital, the sustainability of its margins, its capital expenditures requirements, obligations under the Credit Facility, applicable laws and regulations, and other factors that the Directors may deem relevant from time to time. There can be no guarantee that Morneau Shepell will maintain its current dividend policy.

## DESCRIPTION OF CAPITAL STRUCTURE

The authorized capital of Morneau Shepell consists of an unlimited number of Common Shares and 10 million Preferred Shares issuable in series. The following is a summary of the rights, privileges, restrictions and conditions attaching to the securities of Morneau Shepell, which comprise the share capital of Morneau Shepell.

### **Common shares**

Holders of Common Shares will be entitled to one vote per Common Share at meetings of Shareholders, to receive dividends if, as and when declared by the Board of Directors and to receive pro rata the remaining property and assets of Morneau Shepell upon its dissolution or winding-up, subject to the rights of shares having priority over the Common Shares. Holders of the Common Shares may make use of the various shareholder remedies available pursuant to the Ontario *Business Corporations Act*.

### **Preferred shares**

Each series of Preferred Shares shall consist of such number of shares and having such rights, privileges, restrictions and conditions as may be determined by the Board of Directors of Morneau Shepell prior to the issuance thereof, provided that the Board of Directors shall not be permitted to issue more than 10 million in aggregate Preferred Shares at any time. Holders of Preferred Shares, except as required by law, will not be entitled to vote at meetings of Shareholders. With respect to the payment of dividends and distribution of assets in the event of liquidation, dissolution or winding-up of Morneau Shepell, whether voluntary or involuntary, the Preferred Shares are entitled to preference over the Common Shares and any other shares ranking junior to the Preferred Shares from time to time and may also be given such other preferences over the Common Shares and any other shares ranking junior to the Preferred Shares as may be determined at the time of creation of such series. The Preferred Shares are not, and may not be, created as an anti-takeover mechanism.

### **Convertible debentures**

On March 27, 2012, Morneau Shepell issued \$75,000,000 principal amount of 5.75% Convertible Unsecured Subordinated Debentures for net proceeds of \$71,432,000 ("Convertible Debentures"). The Convertible 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. They are convertible at the option of the holder to Common Shares at a conversion price of \$15.00 per Common Share.

Morneau Shepell has the option to redeem the Convertible 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 Convertible Debentures will be redeemable at a redemption price equal to 100% of their principal amount plus accrued and unpaid interest. On redemption or maturity Morneau Shepell may elect to repay the principal and satisfy its interest obligations by issuing Common Shares.

### **MARKET FOR SECURITIES**

The Common Shares and the Convertible Debentures are each listed for trading on the Toronto Stock Exchange (the "TSX") under the symbols MSI, and MSI-DB, respectively.

The following table shows the monthly range of high and low prices per Share as at the close of market and total monthly volumes of Common Shares traded on the TSX during the period January 1, 2014 to December 31, 2014.

#### MSI Prices and Volumes

2014	Price per share (\$)Monthly high	Price per share (\$)Monthly low	Total monthly volume
January	15.41	14.22	1,537,617
February	15.34	13.81	1,448,798
March	15.24	14.76	1,531,735
April	16.17	14.86	1,760,651
May	17.23	15.92	2,315,729
June	17.31	16.06	1,644,776
July	17.35	16.58	1,409,732
August	17.40	16.57	950,412
September	17.05	15.60	1,559,836
October	16.89	15.65	1,558,794
November	17.38	16.36	1,576,755
December	17.47	15.93	2,725,710

#### MSI-DB Prices and Volumes

2014	Price per \$100 unit (\$)Monthly high	Price per \$100 unit (\$) Monthly low	Total monthly volume
January	109.53	106.08	1,154,000
February	109.55	105.80	3,725,700
March	109.03	108.00	750,000
April	111.99	108.19	1,532,000
May	115.76	110.60	3,071,000
June	116.69	112.38	4,878,700
July	117.00	114.02	2,630,000
August	117.40	114.50	1,848,000
September	115.15	110.02	2,137,000
October	114.39	110.00	2,589,000
November	117.00	113.52	4,286,000
December	118.00	112.00	1,062,000



## DIRECTORS AND OFFICERS

The following table sets out, for each Director and each senior officer of Morneau Shepell, the person's name, municipality of residence, positions with Morneau Shepell, membership to various Board committees, principal occupation and number of Common Shares beneficially owned as at March 3, 2015. The term of office for each Director will expire at the next annual meeting of Shareholders.

Name and municipality of residence	Position	Principal occupation	Common Shares owned, controlled or directed (includes DSUs)
ROBERT CHISHOLM Toronto, Ontario	Director, Chair of Audit Committee	Corporate Director	202,137
JILL DENHAM Toronto, Ontario	Director, Member of Audit Committee	Corporate Director	18,612
DIANE MACDIARMID Toronto, Ontario	Director, Member of CNGC Committee	Business Executive	23,387
JACK MINTZ Calgary, Alberta	Director, Member of CNGC Committee	Director & Palmer Chair, Public Policy, University of Calgary	30,376
BILL MORNEAU Toronto, Ontario	Director, Executive Chair	Business Executive	2,247,812
W.F. (FRANK) MORNEAU, SR. Toronto, Ontario	Director (Honorary Chair)	Corporate Director	472,673
JOHN ROGERS Toronto, Ontario	Director, Chair of CNGC Committee, Member of Audit Committee	Corporate Director	36,517
ALAN TORRIE Burlington, Ontario	Director, President and Chief Executive Officer	Business Executive	438,702
RENÉ BEAUDOIN Toronto, Ontario	Executive Vice President, U.S. Region and Chief Technology Officer	Business Executive	86,762
PIERRE CHAMBERLAND Mont Royal, Québec	Executive Vice President and Chief Operating Officer, Administrative Solutions	Business Executive	169,047
HAZEL CLAXTON Toronto, Ontario	Executive Vice President and Chief Human Resources Officer	Business Executive	24,567
LYNN KORBAC Toronto, Ontario	General Counsel and Corporate Secretary	Business Executive	30,384
STEPHEN LIPTRAP Oakville, Ontario	Executive Vice President and General Manager, Shepell	Business Executive	98,645
SCOTT MILLIGAN Toronto, Ontario	Executive Vice President and Chief Financial Officer	Business Executive	122,332
KEVIN PENNINGTON ATLANTA, GEORGIA	Director	Business Executive	Nil
RANDAL PHILLIPS Toronto, Ontario	Executive Vice President and Chief Client Officer	Business Executive	487,207
JULIEN PONCE Ste. Therese, Québec	Executive Vice President, Eastern Canada	Business Executive	216,404
ZAHID SALMAN Richmond Hill, Ontario	Executive Vice President, Ontario & Western Canada and General Manager, AMS	Business Executive	115,088
DAVID STURDEE Toronto, Ontario	Executive Vice President, Strategy and Operational Effectiveness	Business Executive	49,503

As of March 3, 2015, the Directors and officers of Morneau Shepell beneficially owned and controlled 4,844,352 Common Shares (including deferred stock unit ("DSU") grants), which represents 10.09% of the total number of Common Shares issued and outstanding as of such date.

The following are brief profiles of the Board of Directors and executive officers of Morneau Shepell:

**Mr. Robert Chisholm** is a corporate director. From 1986 to 2006, he was with the Bank of Nova Scotia. He retired from the Bank in 2006 as Vice Chair, President & CEO, Domestic Banking and Wealth Management. From 1998 to 2003, Mr. Chisholm was Vice Chair, Domestic Banking; from 1995 to 1998 he was Vice Chair, Finance & Administration & CFO, and prior positions included Senior Vice President & Comptroller, Executive Vice President, Finance & CFO. Before joining the Bank, Mr. Chisholm was a senior financial officer in the insurance and trust industry. He graduated with a BA from the University of Toronto in 1968, obtained his CA (CPA) accreditation with Clarkson Gordon (Ernst & Young) in Ontario in 1971, obtained his FCA (FCPA) designation in Ontario in 1981, and was awarded two honorary LLDs in 2000 and 2003.

**Ms. Jill Denham** is a corporate director. From 2001 to 2005 she was Vice Chair, CIBC Retail Markets. Ms. Denham joined Wood Gundy (subsequently acquired by CIBC) in 1983 as an Assistant Vice-President in Corporate Finance and throughout her career at CIBC held progressively more senior roles, including President Merchant Banking, CIBC Wood Gundy Capital (1992), Managing Director and Executive Vice-President, CIBC, Europe (1997), as well as head of Commercial Banking (1999) and CIBC World Markets e-commerce (2000). Ms. Denham is a director of National Bank of Canada, Markit Ltd., and Penn West Petroleum Ltd. and is a past director of the Ontario Teachers' Pension Plan Board, the Foundation Board of the Hospital for Sick Children and the Prostate Cancer Research Foundation. She holds a HBA from the University of Western Ontario School of Business Administration and an MBA from the Harvard Business School.

**Ms. Diane MacDiarmid** is President, MacDiarmid & Company, a human resources and organizational effectiveness consulting firm. Previously Ms. MacDiarmid was Executive Vice President, Corporate Resources with Bentall Kennedy LP, a North American real estate investment and services company. In that position, which she held for seven years, Ms. MacDiarmid led Bentall Kennedy's human resources and strategy functions. Prior to joining Bentall Kennedy, Ms. MacDiarmid was President of Oliver Wyman Delta Canada. In her sixteen year consulting career with Oliver Wyman, Ms. MacDiarmid worked with the senior leadership of companies across North America addressing issues of strategy, organization design and leadership effectiveness. Earlier in her career Ms. MacDiarmid worked in financial services, consulting engineering and the oil industry. Ms. MacDiarmid holds a MBA from the Schulich School, York University, Toronto and a Bachelor of Applied Science from Queen's University, Kingston, Ontario. She is a member of the board of Altus Group Limited.

**Dr. Jack Mintz** holds the Palmer Chair and Director of the School of Public Policy at the University of Calgary. He has published widely in the field of public economics and was named one of the world's most influential tax experts. He presently serves on several boards including Imperial Oil Limited, Literary Review of Canada and Chair of the Social Sciences and Humanities Research Council of Canada. He was also appointed by the Federal Minister of Finance to the Economic Advisory Council to advise on economic planning and had been the research director for the Federal-Provincial Territorial Minister's Working Group on Retirement Income Research. Dr. Mintz held the position of Professor of Business Economics at the Rotman School of Business from 1989-2007 and Department of Economics at Queen's University, Kingston, 1978-89. He was a Visiting Professor, New York University Law School, 2007; President and CEO of the C. D. Howe Institute from 1999-2006; Clifford Clark Visiting Economist at the Department of Finance, Ottawa and Chair of the federal government's Technical Committee on Business Taxation in 1996 and 1997; and Associate Dean (Academic) of the Faculty of Management, University of Toronto, 1993 – 1995.

**Mr. Bill Morneau** is Executive Chair. Since joining the Company in 1987, his executive positions have included appointments to President in 1992, President and Chief Executive Officer in 1998, and Chairman and Chief Executive Officer in 2008. Recognized internationally for his expertise, Mr. Morneau was appointed as Pension Investment Advisor to the Ontario Minister of Finance in 2012, providing counsel aimed at facilitating the pooling of public-sector pension fund assets. In 2014, he was appointed by Ontario's Premier Kathleen Wynne to an expert panel led by former Prime Minister Paul Martin to recommend a made-in-Ontario pension supplement to the CPP. Mr. Morneau co-authored with Fred Vettese *The Real Retirement: Why You Could Be Better Off Than You Think and How to Make That Happen*, a well-received analysis of the context and the factors involved in helping Canadians plan for a successful retirement. Mr. Morneau is actively involved in the community. He is on the Boards of St. Michael's Hospital Foundation, the Canadian Merit Scholarship Foundation, The Learning Partnership, the London School of Economics North American Advisory Committee, the Canadian INSEAD Foundation, and Greenwood College. He is past Chair of St. Michael's Hospital, Covenant House in Toronto, and the C.D. Howe Institute. In 2002, Mr. Morneau was named one of Canada's Top 40 Under 40. He holds a BA from Western University, an MSc (Econ.) from the London School of Economics, and an MBA from INSEAD.

**Mr. W.F. Morneau Sr.** is the Honorary Chair and founder of Morneau Shepell. He has served on a number of corporate and charitable boards. Mr. Morneau is the past Chair of University of St. Michael's College, past Chair of the Providence Healthcare Foundation, past Treasurer and Board Member of the Sunnybrook and Women's Foundation, past Chair and director of the Patrons of the Arts of the Vatican Museums, past Chair of WFI Industries Ltd., and Honorable Chair of the Newman Foundation at the University of Toronto. Mr. Morneau was named as the Catholic Business Person of the Year in 2006. He was presented with the Award of Merit by The St. George's Society of Toronto in April 2005; was appointed, in 1999, as Knight Commander of the Order of St. Gregory the Great by His Holiness Pope John Paul II, and elevated to "With Star" in 2012 by Pope Benedict, the highest honour accorded to a Catholic layperson; and received an Honorary Doctorate from the University of St. Michael's College in 1996.

**Mr. Kevin Pennington** joined Morneau Shepell's Board of Directors in 2015. Throughout his more than 30-year-career, Mr. Pennington has held increasingly senior human resources roles in both the United States and Canada. He served as Executive Vice President, Human Resources and Administration with Agere Systems Inc., an integrated circuit components company, from 2001 to 2005, followed by six years as Executive Vice President, Chief Human Resources Officer with Toronto-based Rogers Communications Inc. Mr. Pennington is presently Chief Human Resources Officer of Fiserv, Inc., a leading global technology provider for the financial services industry. Mr. Pennington holds a BSc degree in Behavioural Science/Management and an MSc degree in Counseling, both from Shippensburg University of Pennsylvania.

**Mr. John Rogers** is a corporate director. He spent 32 years of his professional career with MDS Inc., a NYSE and TSX listed company. Mr. Rogers served as MDS's President and Chief Executive Officer from 1996 to 2005 and was a board member from 1992 to 2005. He also served MDS in the capacity of President and Chief Operating Officer (1991 to 1996), President (1985-1991), Vice President, Finance (1978-1985) and Secretary-Treasurer and Chief Financial Officer (1976-1978). In 2004, he was honoured as Distinguished Businessman of the Year by Rotman School of Business. John attended the Advanced Management Program at Harvard University, is a Fellow of the Chartered Professional Accountants of Ontario and received a BA (Commerce) from the University of Toronto.

**Mr. Alan Torrie** is President and Chief Executive Officer of Morneau Shepell. Mr. Torrie's responsibilities include the development and execution of the Company's overall strategic direction, and leading the organization to achieve both its short-term and long-term business results. Mr. Torrie joined the Company in 2005 as a Trustee of the then Morneau Sobeco Income Fund, and Chair of the Compensation and Corporate Governance Committee. He became President in 2008, Chief Executive Officer in 2009, and has served as a Director on the Board of the Company since the conversion to a corporation in 2011.

When he was named President in 2008, Mr. Torrie brought with him more than 25 years of experience as a senior executive leader in the health and life science industry including President and Chief Executive Officer of MDS Diagnostics and Executive Vice President of MDS Inc., Chief Operating Officer of Retirement Residences REIT (Revera) and Executive in Residence with Clairvest Private Equity. Earlier in his career he was also the Chief Executive Officer of Joseph Brant Hospital. Mr. Torrie has served on numerous community boards including past Chair of AMREF Canada (African Medical Research and Education Foundation) and is currently a director and immediate past Chair of Trillium Health Partners, and is also a Director of Appleby College.

**Mr. René Beaudoin** is Executive Vice President, U.S. Region and Chief Technology Officer. As Executive Vice President, Mr. Beaudoin has overall strategic responsibility for the U.S. region, including business development, account management, product implementation, client service, information technology, and financial reporting. As Chief Technology Officer, Mr. Beaudoin is accountable for the client-delivered elements of Morneau Shepell's technology solution. In this regard, he is focused also on developing new and innovative platforms that enhance the delivery of employee benefits to the Company's clients in North America and around the world. As a strategic business and IT services leader, Mr. Beaudoin has a successful track record in driving growth and delivering business results with a strong focus on the client experience. He brings to his position a wealth of senior management experience that includes expertise in health and welfare, defined benefit and defined contribution pensions, and wellness solutions in Canada, the U.S., and globally. Prior to his current role, Mr. Beaudoin was Chief Information Officer until 2011 and was also responsible for the Health & Welfare outsourcing business. Before joining Morneau Shepell, he held various executive positions in IT and outsourcing at another major consulting and outsourcing firm. Mr. Beaudoin holds a degree in Actuarial Science from Université Laval in Québec City. He is a member of the Society of Actuaries and the Project Management Institute, and currently serves on the Board of the African Medical & Research Foundation (AMREF).

**Mr. Pierre Chamberland** is Chief Operating Officer and Executive Vice-President of Administrative Solutions. Mr. Chamberland is responsible for the overall management of Morneau Shepell's outsourcing practice, and oversees pension and benefits administration services for the Company as a whole. Since joining the Company in 1982, Mr. Chamberland has been involved in both consulting as well as outsourcing on pensions and benefits. In his current role, he brings extensive experience in and understanding of the Canadian and U.S. outsourcing environment, having worked with clients throughout North America, large corporations, and universities, as well as government, public, and para-public organizations. Early in his career, Mr. Chamberland managed many significant benefits and pension administration implementation projects. He was also the primary driver behind the launch of the innovative *Ariel*<sup>®</sup> suite of software for pension and benefits administration. He continues to provide strategic consulting and project management support on new client implementation projects. Based in Montreal, Mr. Chamberland is active in the local community and has been personally involved for several years in the annual United Way campaign, where he acts as a fundraising executive for the Insurance and HR consultants sector. Mr. Chamberland graduated from Université Laval in 1982 with a degree in Actuarial Sciences. He became a Fellow of the Canadian Institute of Actuaries and of the Society of Actuaries in 1986.

**Ms. Hazel Claxton** is Executive Vice-President and Chief Human Resources Officer. Ms. Claxton is responsible for the Human Resources function that enables the Company's people strategy. A passionate people leader who joined the Company in 2013, Ms. Claxton previously spent more than 25 years at PwC where she held a wide variety of leadership roles including Human Capital Leader, lead relationship partner for priority clients, Corporate Advisory and Restructuring Group partner, and Chair of PwC's Women in Leadership initiative. Ms. Claxton has served as Chair of the Finance and Audit Committee and a member of the HR and Executive Committees for the Shaw Festival and she is an advisory board member of the Urban Financial Services Coalition. Ms. Claxton is also a frequent speaker on diversity and inclusion and was recognized as a 2012 Canadian Diversity Champion by Women of Influence. Ms. Claxton graduated from Queen's University with a Bachelor of Commerce (Honours) degree and is a Chartered Accountant. She is also a graduate of Rotman School of Management's Advanced Program in HR Management and its Institute of Corporate Directors Program.

**Ms. Lynn Korbak** is General Counsel, Corporate Secretary and Privacy Officer. As General Counsel and Corporate Secretary, Ms. Lynn Korbak provides legal and risk management counsel to Morneau Shepell on all aspects of its business and operations. As Privacy Officer, Ms. Korbak is responsible for all privacy matters relating to the Company. Ms. Korbak has more than 20 years of experience in corporate, commercial, and securities law, working with public and private companies as both external and internal legal counsel. Prior to joining Morneau Shepell in 2003, Ms. Korbak was Counsel and Corporate Secretary at the international financial services firm Merrill Lynch Canada. She is a regular presenter at events for legal professionals, speaking on issues such as board and corporate governance, and corporate commercial law. In the community, Ms. Korbak sits on the Advisory Board for Humewood House, a resource centre for young pregnant and parenting women and their children. She is a member of Legal Leaders for Diversity and Inclusion, a group of general counsel and organizations dedicated to promoting diversity in Canada. Ms. Korbak was named a 2012 Diversity Champion by Women of Influence, an organization that recognizes leaders who are making a difference across Canada. Ms. Korbak graduated from Osgoode Hall Law School in 1993, after studying economics at Trent University.

**Mr. Stephen Liptrap** is Executive Vice President and General Manager, Shepell. In leading the Company's team, Mr. Liptrap brings more than 25 years of senior executive and HR management experience to the role. He has been with the Company since 2008 and has previously served as Executive Vice-President of Human Resources and Organizational Development. Under his leadership, the Company's EFAP business has won awards, including Innovation of the Year across Europe, and the Company's EFAP experts have presented at numerous conferences, including the prestigious Medical 2.0 conferences at Harvard and in London. In his career, Mr. Liptrap has led global HR teams in large-scale growth initiatives and major transitions. He has also managed functions such as pension and benefits, workplace health and the corporate HR organization as a whole. Previously, he led HR functions at ConAgra Foods, NCR, and Symantec as well as serving on the HR Committee for the 2015 PanAm Games, Canadian Board of Directors for NCR and the Pension Board for a large technology company. He is a frequent speaker and thought leader on HR issues facing organizations today. Mr. Liptrap is a member of the Human Resources Professionals Association (HRPA). He holds an Honours Business Administration degree from the Ivey Business School, University of Western Ontario.

**Mr. Scott Milligan** is Executive Vice-President and Chief Financial Officer. Mr. Milligan is responsible for the corporate functions that manage and determine the financial health of the organization, including financial reporting, processes, control, tax, treasury, real estate, planning, analysis, and investor relations. Mr. Milligan joined the Company in 2009 as Chief Financial Officer. As a member of the senior executive team, Mr. Milligan plays a critical role in the execution of the Company's overall corporate strategy. This strategy focuses on sustaining or exceeding historical organic revenue growth and profit margins, while aligning the Company's capital structure and ongoing investments with stakeholder expectations and delivering consistent performance and returns to investors over time. Mr. Milligan brings to this position many years of senior executive business and finance management experience earned across a number of North American-based organizations. Prior to joining Morneau Shepell, Mr. Milligan held progressively senior assignments at Zarlink Semiconductor, MCI Canada, Pepsi-Cola, Campbell Soup Company, and Price Waterhouse. Mr. Milligan has an Honours Bachelor of Mathematics degree from the University of Waterloo and is a Chartered Professional Accountant.

**Mr. Randal Phillips** is Executive Vice-President and Chief Client Officer. Mr. Phillips is responsible for ensuring the Company maintains its strong focus on the quality of the client experience—and client satisfaction levels—across its broad range of services. In addition, he leads the Company's corporate communications and marketing teams responsible for building brand presence, leveraging the Company's unique value proposition to deliver integrative solutions in the markets we serve. Mr. Phillips joined Morneau Shepell in 1986 and has held progressively senior positions including the management of the Administrative Solutions business. Prior to joining Morneau Shepell, Mr. Phillips held senior technical and management positions within the insurance industry, working with clients in both the public and private sectors.

Mr. Phillips is actively involved with Christian Blind Mission (CBM), an international charitable organization that helps people with disabilities in the poorest countries in the world. He is a member of the Board of Directors of CBM Canada and CBM International. Mr. Phillips is a graduate of the University of Waterloo with a double major in Computer Science and Actuarial Science, and is a Fellow of the Society of Actuaries (FSA) and the Canadian Institute of Actuaries (FCIA).

**Mr. Julien Ponce** is Executive Vice-President for Eastern Canada. Mr. Ponce is responsible for the management of the Company's Eastern Region business, and the full range of services provided to clients in Ottawa, Quebec, and Atlantic Canada, including the design and delivery of programs related to pension, benefits, health, and productivity. Based out of Montreal, he joined the Company in 1987 and is widely recognized today in the industry for his expertise and thought leadership. At Morneau Shepell, Mr. Ponce has worked with a considerable number of organizations of all types, in both the public and private sectors. He is active in several professional organizations and is Vice-Chair of the Board of Jovia. Mr. Ponce has been a guest speaker and contributor to industry forums and conferences. He is a graduate of the Advanced Management Program from the Harvard Business School and holds a Bachelor of Science degree in Mathematics from Université de Montréal. He is also a Fellow of both the Society of Actuaries and the Canadian Institute of Actuaries.

**Mr. Zahid Salman** is Executive Vice President, Ontario and Western Canada Regions; and General Manager, Absence Management Solutions. Based in Toronto, Mr. Salman is responsible for the Ontario and Western Canada regions as well as the Absence Management Solutions line of business. An actuary by profession, he joined Morneau Shepell in 2008 and brings to his role over 20 years of expertise and business experience in HR consulting and outsourcing. Mr. Salman previously held senior executive positions at two other global firms in the industry. Throughout his career, Mr. Salman has continued to actively serve clients and has been a speaker and author on industry issues, while also presenting at plan sponsor education sessions. In addition, he has taught at the Humber College Centre for Employee Benefits. Mr. Salman is currently Vice-Chair of the Board at both Saint Elizabeth Health Care Foundation and the Alzheimer Society of York Region. Mr. Salman has earned Fellow of the Society of Actuaries (FSA) and Fellow of the Canadian Institute of Actuaries (FCIA) designations, and holds an honours degree in Actuarial Science from the University of Western Ontario.

**Mr. David Sturdee** is Executive Vice-President of Strategy and Operational Effectiveness. Mr. Sturdee is responsible for the overall strategy and operational effectiveness of the Company, including merger and acquisition activity. Bringing more than 15 years of senior level business experience in North America and abroad to his current role, Mr. Sturdee is accountable for developing strong client relationships by meeting their unique needs, thereby driving the Company's growth initiatives. Prior to joining Morneau Shepell, he was Managing Director at The Clairvest Group Inc. and a Project Leader at The Boston Consulting Group. Mr. Sturdee is the Chair of Big Brothers Big Sisters of Toronto and is an advisor to the Board of Lyophilization Services of New England. He holds a PhD in Philosophy from the University of Toronto, an MA in Philosophy from Simon Fraser University, and a BA (Honours) in Philosophy from Wilfrid Laurier University.

#### **Involvement of Directors and Officers in certain proceedings**

##### ***John Rogers***

In 2009, staff of the Ontario Securities Commission ("OSC") commenced proceedings against Coventree Inc. ("Coventree") with respect to alleged breaches of Ontario securities laws relating to Coventree's continuous disclosure obligations. In September 2011, the OSC released its decision and concluded that Coventree breached sections 75(1) and 75(2) of the *Securities Act* (Ontario) by (i) failing to file a news release and material change report in respect to the decision of Dominion Bond Rating Service in January of 2007 to change its credit rating methodology, and (ii) failing to file a news release and a material change report with respect to liquidity and liquidity-related events and the risk of a market disruption in the days leading up to the asset backed commercial paper market disruption that occurred on August 13, 2007.

In a decision released on November 9, 2011, the OSC ordered Coventree to pay an administrative penalty of \$1 million and to pay \$250,000 of the costs incurred by OSC staff in connection with the hearing. The OSC also ordered that trading in any securities by Coventree cease and that any Ontario securities law exemptions not apply to Coventree until its winding up is completed, provided that these orders will not prevent the winding up of Coventree or trades in securities reasonably related to that winding up. Mr. Rogers was a director of Coventree in 2007 during the period of time to which the OSC proceedings relate. However, no proceedings were brought against Mr. Rogers in his individual capacity with respect to these matters.

### ***Alan Torrie***

Mr. Torrie was a director of LMI Legacy Holdings II Inc. On August 16, 2013, Landauer-Metropolitan, Inc. ("LMI") (now known as LMI Legacy Holdings II Inc.) filed a petition in the U.S. Bankruptcy Court for the District of Delaware for relief under Chapter 11 of the U.S. Bankruptcy Code, 11 U.S.C. §§ 101 et seq. On that same date, several affiliates of Landauer-Metropolitan, Inc. also filed a similar petition, including Landauer Healthcare Holdings, Inc.; Miller Medical & Respiratory, Inc.; C.O.P.D. Service, Inc.; American Homecare Supply New York, LLC; American Homecare Supply Mid-Atlantic, LLC; Denmark's LLC; and Genox Homecare, LLC (along with LMI, the "Debtors"). The Debtors' bankruptcy proceedings have been consolidated as Case Number 13-12098 in the U.S. Bankruptcy Court for the District of Delaware.

A number of severe financial and operational factors led to the Debtors' filing of their Chapter 11 bankruptcy petitions. Specifically, in 2013, and in particular, the 60 days preceding the Debtors' petition date of August 16, 2013, the Debtors encountered several financial and operational issues. These financial and operational issues caused a rapid and significant deterioration of the Debtors' business operations and financial condition.

In January 2013, LMI learned that it would no longer be eligible to provide equipment and services to Medicare patients after July 1, 2013, when CMS, the agency responsible for administering the Medicare program, issued results for "Round 2" of its competitive bidding process, and LMI learned it had lost all of the competitive bidding areas in which it sought to be selected as a supplier. The overall impact of this outcome on the Debtors' business was substantial, and was expected to result in a decrease of annual revenues of approximately \$26 million.

Without the designation of preferred provided status under Medicaid and facing rapid decline in their business, in the spring of 2013, LMI began to explore a sale transaction. As a result of this exploration, on April 29, 2013, LMI entered into a letter of intent to sell substantially all of its assets to a competitor, Passaic Healthcare Services, LLC, d/b/a Allcare Medical ("Allcare"), but the transaction failed to close. The proposed transaction with Allcare, however, resulted in contentious litigation between the parties, which is currently pending in the state courts of New York, including claims that between June 2013 (when the proposed transaction fell apart) and the petition date of August 16, 2013, Allcare lured away LMI's Chief Executive Officer, Executive Vice President, and more than 75 other employees, in violation of an agreement between LMI and Allcare.

In July 2013, the Debtors' lenders advised the Debtors of their belief that an event of default had occurred under the existing credit facility by reason of a material adverse change in the Debtors' business, specifically related to the departure of numerous senior managers and sales personnel, as discussed in the previous paragraph. As a result, the Debtors' lenders began to significantly restrict the Debtors' ability to access the cash generated by the Debtors' businesses, including for purposes of purchasing supplies and inventory crucial to the ongoing operations.

In face of the severe financial and operational challenges described above, the Debtors made a concerted effort to consider all of their strategic alternatives. After considering all available options, the Debtors determined that the bankruptcy proceeding was in the best interest of the Debtors, as well as those of their creditors and other parties in interest.

The Debtors' bankruptcy proceeding remains pending in the U.S. Bankruptcy Court for the District of Delaware. On January 6, 2014, the Bankruptcy Court entered an order approving a sale of substantially all of the Debtors' assets to LMI DME Holdings LLC, an affiliate of Quadrant Management, Inc. The sale closed on February 7, 2014.

On February 28, 2014, the Debtors filed their Joint Plan of Liquidation of LMI Legacy Holdings Inc. and its Debtor Affiliates Pursuant to Chapter 11 of the Bankruptcy Code (the "Proposed Plan") and accompanying Disclosure Statement. As it currently stands, the voting deadline for the Debtors' impaired creditors to vote on the Proposed Plan is April 15, 2015, and the final hearing on the Proposed Plan is currently scheduled for April 23, 2015.

#### ***Jill Denham***

Since June 2012, Ms. Denham has been a member of the Board of Directors of Penn West Petroleum Ltd., a company that was subject to cease trade orders further to the July 2014 announcement by Penn West Petroleum Ltd. of the review of some of its accounting practices and the decision to restate its financial statements. These orders are no longer in effect.

#### ***Dave Sturdee***

Mr. Sturdee was a director of Integral Orthopedics Inc. ("IOI") when, on July 18, 2008, a receiver was appointed under the Bankruptcy and Insolvency Act (Canada) to sell the assets of IOI.

### **AUDIT COMMITTEE**

#### **Charter of the Audit Committee**

The Audit Committee assists the Board of Directors in fulfilling their responsibilities of oversight of the accounting and financial reporting practices and procedures of Morneau Shepell, the adequacy of internal accounting controls and procedures and the quality and integrity of financial statements of Morneau Shepell. In addition, the Audit Committee is responsible for directing the auditors' examination of specific areas and for the selection of independent auditors of Morneau Shepell. The Charter of the Audit Committee of Morneau Shepell is attached as Schedule A to this AIF.

#### **Composition of the Audit Committee**

The Audit Committee is composed of three members, namely Robert Chisholm (Chair), Jill Denham and John Rogers. Each member of the Audit Committee is independent and financially literate as defined under *Multilateral Instrument 52-110 - Audit Committees*.

In addition to each member's general business experience (as set forth in their respective profiles above under "Directors and Officers"), the education and experience of each Audit Committee member that is relevant to the performance of such member's responsibilities as an Audit Committee member, are as follows:

Mr. Chisholm is a Fellow of the Chartered Professional Accountants of Ontario, with more than 30 years of senior financial management experience with large Canadian financial institutions. Previously, he was an internal auditor and an external auditor. He obtained his CA designation in 1971 and his FCA designation in 1981.

Ms. Denham has more than 22 years' experience in corporate finance, banking and executive management with a large financial institution. She holds an HBA and an MBA.



Mr. Rogers is a Fellow of the Chartered Professional Accountants of Ontario, with more than 32 years of senior executive and financial management experience with MDS Inc., a NYSE and TSX listed company. As well, he has served as the audit committee chair of a TSX listed company.

#### **Audit fees**

KPMG are the auditors of the Company and have confirmed they are independent within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation and regulations.

For the fiscal years ended December 31, 2014, and December 31, 2013, the Company paid or accrued fees for KPMG LLP for services in connection with this fiscal period, as follows:

<b>Type of Fee</b>	<b>2014</b>	<b>2013</b>
Audit and Review Fees	\$615,000	\$639,000
Audit-related Fees (CSAE 3416)	\$22,500	\$21,500
Tax Fees	Nil	\$61,100
All Other Fees	\$490,350	\$640,750

The nature of each category of fees is set out above.

*Audit Fees:* Statutory and regulatory audits, attest services including the audit of the consolidated financial statements and the reviews of quarterly consolidated financial statements, as well as consultation with the auditor regarding accounting and disclosure issues related to these financial statements.

*Audit-Related Fees:* Audits, attest services and related consultations not included above. These services consist of attestation of control procedures over operational systems of outsourcing practices under the Canadian Standard for Assurance Engagements No, 3416 and the Statement on Standards for Attestation Engagements No. 16.

#### **Pre-approval of non-audit services**

As indicated in the Audit Committee Charter, the Audit Committee pre-approves all non-audit services provided by the external auditor. There are specific procedures for the pre-approval of audit and non-audit services provided by the external auditor. A list of pre-approved services has been developed and is reviewed on an annual basis. As additional non-audit services are required, a proposal is made by the external auditor, which includes the nature of the services to be performed, timing of delivery and approximate cost for consideration by the Audit Committee. Work is initiated only upon approval by the Audit Committee.

For services costing up to \$100,000, approval can be granted by the Chair of the Audit Committee so long as the details are presented to the full Audit Committee at the next scheduled meeting. For services costing more than \$100,000, the full Audit Committee must provide pre-approval.

#### **TRANSFER AGENT AND REGISTRAR**

CST Trust Company is transfer agent and registrar of Morneau Shepell for Common Shares at its principal office in Toronto, Ontario. Computershare Trust Company of Canada is the indenture trustee for the Convertible Debentures at its principal office in Toronto, Ontario.

## **MATERIAL CONTRACTS**

The only material contracts entered into by Morneau Shepell that are still in effect, other than in the ordinary course of business, are as follows:

- (i) the Credit Facility Agreement described under "Description of the Business – Credit Facilities";
- (ii) the Asset Purchase Agreement dated June 2, 2008 relating to the acquisition of Shepell.fgi; and
- (iii) the Arrangement Agreement dated as of October 19, 2010 among the Fund, the Trust, MSGLP, HRCO, MSLP and Morneau Shepell for the purposes of the Conversion.

Copies of the foregoing documents may be examined during normal business hours at the office of Morneau Shepell located at 895 Don Mills Road, Tower One, Suite 700, Toronto, Ontario, M3C 1W3, and are also available on the SEDAR website at [sedar.com](http://sedar.com).

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

There are no proposed transactions, nor have there been any transactions within the last three fiscal years, which in either case have materially affected or will materially affect Morneau Shepell, in which any of their officers or Directors had or has any material interest, direct or indirect.

## **LEGAL PROCEEDINGS**

In the ordinary course of business, Morneau Shepell may, from time to time, be subject to various pending and threatened lawsuits in which claims for monetary damages are asserted. To the knowledge of Morneau Shepell, Morneau Shepell is not involved in any legal proceeding that is expected to have a material adverse effect on Morneau Shepell and no legal proceedings of a material nature are pending or to the knowledge of Morneau Shepell threatened against it.

## **INTEREST OF EXPERTS**

Morneau Shepell's auditors are KPMG LLP, chartered accountants, who have prepared an independent auditors' report dated March 2, 2015 in respect of the Company's consolidated financial statements as at December 31, 2014 and 2013 and for the years then ended. To the knowledge of Morneau Shepell, KPMG LLP holds no registered or beneficial interest, directly or indirectly, in any securities or other property of Morneau Shepell. A copy of the consolidated annual financial statements of the Company, as filed by Morneau Shepell, including the auditors' report thereon, is available at SEDAR at [sedar.com](http://sedar.com).

## **ADDITIONAL INFORMATION**

Additional information relating to Morneau Shepell may be found on the SEDAR website at [sedar.com](http://sedar.com). Additional information, including directors' and officers' remuneration and principal holders of Morneau Shepell's securities is contained in Morneau Shepell's Management Information Circular for its most recent Annual Meeting of Shareholders. Additional financial information is provided in the Company's financial statements and Morneau Shepell's MD&A for the year ended December 31, 2014 and on the Morneau Shepell website at [morneaushepell.com](http://morneaushepell.com). The documents are available upon request to Investor Relations, Morneau Shepell, 895 Don Mills Road, Tower One, Suite 700, Toronto, Ontario, M3C 1W3.

## SCHEDULE A – AUDIT COMMITTEE CHARTER

The following audit committee charter was adopted by the Board of Directors of Morneau Shepell (the “Company”).

The Audit Committee (the “**Committee**”) of the Company is established in order to assist the board of directors of the Company (the “**Board**”) in their oversight activities. The purpose of the Committee is to assist the Board in its oversight and evaluation of:

- (a) the quality and integrity of the Company’s accounting and financial reporting practices and procedures,
- (b) the adequacy of the Company’s internal accounting controls and procedures,
- (c) the quality and integrity of the Company’s consolidated financial statements,
- (d) the independence and performance of the Company’s independent auditor, and
- (e) any additional duties set out in this Charter or otherwise delegated to the Committee by the Board.

### **Composition:**

The Board shall elect annually from among its members the Committee to be composed of three directors who are “unrelated” directors (within the meaning of the Toronto Stock Exchange corporate governance guidelines), who qualify as “independent directors” within the meaning of Multilateral Instrument 52-110 – Audit Committees (the “**Audit Committee Rule**”) and each of whom is “financially literate” (or will become so within a reasonable period of time following his or her appointment) within the meaning of the Audit Committee Rule.

A member of the Committee who sits on the board of directors/managers of an affiliated entity is exempt from the requirement that he or she be independent if that member, except for being a director/manager or member of a board committee the Company and the affiliated entity, provided that:

- (a) the member would be independent of the Company but for being an affiliated entity of the Company or any of its subsidiary entities;
- (b) the member is not an executive officer, general partner or managing member of a person or company that is an affiliated entity of the Company and has its securities trading on a marketplace;
- (c) the member is not an immediate family member of an executive officer, general partner or managing member of a person or company that is an affiliated entity of the Company and has its securities trading on a marketplace;
- (d) the member does not act as the chair of the audit committee; and
- (e) the boards have determined that the member is able to exercise the impartial judgement necessary for the member to fulfill his or her responsibilities as an Audit Committee member, the appointment of the member is required by the best interests of the Company and its securityholders; and appointing such member to the Committee will not materially adversely affect the ability of the Committee to act independently.

If a member of the Committee ceases to be independent for reasons outside that member's reasonable control, that member is exempt from the requirement to be independent for a period ending on the later of:

- (a) the next annual meeting of the Company; and
- (b) the date that is six months from the occurrence of the event which caused the member to not be independent,

provided that the Board has determined that appointing such member to the Committee will not materially adversely affect the ability of the Committee to act independently.

Where the death, disability or resignation of a member of the Committee has resulted in a vacancy on the Committee that the Board is required to fill, a member appointed to fill such vacancy is exempt from the requirements to be independent and financially literate for a period ending on the later of:

- (a) the next annual meeting of the Company; and
- (b) the date that is six months from the day the vacancy was created,

provided that the Board has determined that appointing such member to the Committee will not materially adversely affect the ability of the Committee to act independently.

**Reports:**

The Committee shall report to the Board on a regular basis and, in any event, before the public disclosure by the Company of its quarterly and annual financial results. The reports of the Committee shall include any issues of which the Committee is aware with respect to the quality or integrity of the Company's consolidated financial statements, the effectiveness of systems of control established by management to safeguard the assets of the Company, its compliance with legal or regulatory requirements, and the independence and performance of the Company's independent auditor.

**Responsibilities:**

Subject to the powers and duties of the Board, the Board hereby delegates to the Committee the following powers and duties to be performed by the Committee on behalf of and for the Board:

**FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION**

The Committee shall:

- a) review the Company's consolidated annual audited financial statements and related documents prior to any public disclosure of such information;
- b) review the Company's unaudited condensed consolidated interim financial statements and related documents prior to any public disclosure of such information;
- c) review with management and/or the independent auditor all critical policies and practices used as well as significant financial reporting issues, management estimates and judgements and any changes in the selection or application of accounting principles, any major issues regarding auditing principles and practices, and the adequacy of internal controls that may affect the Company's consolidated financial statements;

- d) review with management and/or the independent auditor the treatment in the financial statements of any significant non-routine transactions;
- e) review use of “pro forma” or “adjusted non-IFRS” information;
- f) review with management and the independent auditor the alternative treatments of financial information within IFRS, ramifications of the use of such alternative disclosures and treatments and the preferred treatment by management and the independent auditor;
- g) review the effect of regulatory and accounting initiatives, as well as any off balance sheet structures, transactions, arrangements and obligations (contingent or otherwise) on the Company’s financial statements;
- h) review any disclosures concerning any weaknesses or any deficiencies in the design or operation of internal controls of disclosure controls made to the Committee by the Chief Executive Officer and the Chief Financial Officers during their certification process in documents filed with applicable securities regulators;
- i) review with the Company’s legal counsel any legal matters that may have a material impact on the Company’s financial statements, including the status of any material pending or threatened litigation, claims and assessments respecting the Company and its subsidiaries on a quarterly basis;
- j) review the management’s discussion and analysis and earnings press releases of the Company prior to any disclosure to the public; and
- k) following a review with management and the independent auditor of such annual and interim consolidated financial statements and related documents, recommend to the Board the approval of such financial statements and related documents.

#### **FINANCIAL REPORTING CONTROL SYSTEMS**

The Committee shall:

- a) require management to implement and maintain appropriate internal controls, and use reasonable efforts to satisfy itself as to the adequacy of the Company policies for the management of risk and the preservation of assets and the fulfillment of legislative and regulatory requirements;
- b) annually, in consultation with management, the independent auditor and, if applicable, the officer or employee responsible for the internal audit function, review, evaluate and assess the adequacy and integrity of the Company’s consolidated financial reporting processes and internal controls, and discuss significant financial risk, exposures and the steps management has taken to monitor, control and report such exposures;
- c) if applicable, meet separately with the officer or employee responsible for the internal audit function to discuss any matters that the Committee or independent auditor believes should be discussed in private;
- d) submit to the Board and the boards of directors/managers of its subsidiaries any recommendations the Committee may have from time to time with respect to financial reporting, accounting procedures and policies and internal controls;

- e) review reports from senior officers of the Company and its subsidiaries outlining any significant changes in financial risks facing the Company;
- f) review the management letter of the independent auditor and the responses to suggestions made;
- g) review any new appointments to senior positions of the Company and its subsidiaries with financial reporting responsibilities (such review may be carried out by the Chair of the Committee);
- h) satisfy itself that adequate procedures are in place for the review of the Company disclosure of the Company's financial information extracted or derived from the Company's consolidated financial statements (other than the financial statements, management's discussion and analysis and earnings press releases) and periodically assess the adequacy of those procedures;
- i) review procedures for:
  - i. *treatment of complaints received by the Company or its subsidiaries regarding accounting, internal accounting controls or auditing matters; and*
  - ii. *the confidential, anonymous submission by employees of the Company or its subsidiaries of concerns regarding questionable accounting or auditing matters;*
- j) review with the Company's Chief Financial Officer, other members of management and the independent auditor any correspondence with regulators or governmental agencies and any employee complaints or published reports, which raise material issues regarding the Company's financial statements or accounting policies;
- k) review and approve the Company's (and its respective subsidiaries') hiring policies regarding partners, employees and former partners and employees of the present and former independent auditors of the Company;
- l) review and approve the Pre-Approval Policy for the Company's auditors;
- m) obtain comments from the independent auditor regarding the overall control environment; and
- n) review the adequacy of accounting system controls.

### **Independent Auditor**

The Committee shall:

- a) review the audit plan with the independent auditor;
- b) discuss in private with the independent auditor matters affecting the conduct of its audit and other corporate matters;
- c) review the performance and the remuneration of the Company's independent auditor;
- d) recommend to the Board each year the retention or replacement of the independent auditor to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company and the remuneration of the independent auditor;
- e) if there is a plan to change the independent auditor, review all issues related to the change and the steps planned for an orderly transition;

- f) annually review and recommend for approval to the shareholders the terms of engagement and the remuneration of the independent auditor;
- g) oversee the work of the independent auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company, including the resolution of disagreements between management and the independent auditor regarding financial reporting;
- h) discuss with the Company's independent auditor the quality and not just the acceptability of the Company's accounting principles;
- i) relay its expectations to the Company's independent auditor from time to time including its expectation that:
  - i. any disagreements of a material nature with management be brought to the attention of the Committee,*
  - ii. the independent auditor is accountable to the Committee and the Board, each as representatives of the securityholders and must report directly to the Committee,*
  - iii. any irregularities in the financial information be reported to the Committee,*
  - iv. the independent auditor explains the process undertaken by it in auditing or reviewing the Company's financial disclosure,*
  - v. the independent auditor discloses to the Committee any significant changes to accounting policies or treatment of the Company,*
  - vi. the independent auditor discloses to the Committee any reservations it may have about the financial statements or its access to materials and/or persons in reviewing or auditing such statements, and*
  - vii. the independent auditor discloses any conflict of interest that may arise in its engagement;*
- j) review at least annually the non-audit services provided by the Company's independent auditor for the purposes of getting assurance that the performance of such services will not compromise the independence of the independent auditor; and
- k) pre-approve all non-audit services to be provided to the Company or its subsidiary entities by its independent auditor or the independent auditor of its subsidiary entities, provided that the Committee may delegate to one or more independent members the authority to pre-approve non-audit services in satisfaction of this requirement. The pre-approval of non-audit services by any member to whom authority has been delegated must be presented to the full Committee at its first scheduled meeting following such pre-approval.

**Structure:**

- The Committee shall appoint one of its members to act as Chair of the Committee. The Chair will appoint a secretary who will keep minutes of all meetings (the "**Secretary**"). The Secretary does not have to be a member of the Committee or a director and can be changed by simple notice from the Chair.
- The Committee will meet as many times as is necessary to carry out its responsibilities but in no event will the Committee meet less than four times a year. Meetings will be at the call of the Chair. Notwithstanding the foregoing, the independent auditor of the Company or any member of the Committee may call a meeting of the Committee on not less than 48 hours' notice.

- No business may be transacted by the Committee except at a meeting of its members at which a quorum of the Committee is present or by a resolution in writing signed by all the members of the Committee. A majority of the members of the Committee shall constitute a quorum provided that, if the number of members of the Committee is an even number, one half of the number of members plus one shall constitute a quorum.
- Any member of the Committee may be removed or replaced at any time by the Board and shall cease to be a member of the Committee as soon as such member ceases to be a director. Subject to the foregoing, each member of the Committee shall hold such office until the next annual meeting of securityholders after his or her election as a member of the Committee.
- The independent auditor of the Company shall be entitled to receive notice of every meeting of the Committee and, at the expense of the Company, to attend and be heard thereat.
- The time at which and the place where the meetings of the Committee shall be held, the calling of meetings and the procedure in all respects of such meeting shall be determined by the Committee, or otherwise determined by resolution of the Board.
- The members of the Committee shall be entitled to receive such remuneration for acting as members of the Committee as the Board may from time to time determine.

**Responsibilities of Audit Committee Chair:**

The Chair of the Audit Committee is an “outside” and “independent” director who is appointed by the Board to assist the Committee fulfilling its duties effectively and efficiently.

The responsibilities of the Chair include:

- a) acting as a liaison between the Audit Committee and the Board and the President and Chief Executive Officer and other senior management of the Company;
- b) acting as a liaison between the Audit Committee and the Company’s internal and external auditors;
- c) reporting to the Board on the work of the Audit Committee;
- d) recommending procedures to enhance the work of the Audit Committee; and
- e) chairing meetings of the Audit Committee.

**Independent Advice:**

In discharging its mandate the Committee shall have the authority to retain and receive advice from special legal, accounting or other advisors. The costs for this independent advice will be borne by the Company.

**Annual Evaluation:**

At least annually, the Committee shall, in a manner it determines to be appropriate:

- a) Perform a review and evaluation of the performance of the Committee and its members, including the compliance of the Committee with its terms of reference.
- b) Review and assess the adequacy of its terms of reference and recommend to the Board any improvements to its terms of reference that the Committee determines to be appropriate.



**Limitation:**

Nothing in this charter is intended to or shall have the effect of limiting or impairing the independent decision making authority or responsibility of any board of directors/managers of a subsidiary of the Company mandated by applicable law.

**Definitions:**

**“financially literate”** means the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company’s consolidated financial statements.

**“independent director”** means a director who has no direct or indirect material relationship with the Company.<sup>1</sup>

**“material relationship”** means a relationship which could, in the view of the Board, be reasonably expected to interfere with the exercise of a member’s independent judgement. Without limiting the generality of the foregoing, the following individuals are considered to have a material relationship with the Company:<sup>2</sup>

- i. *an individual who is, or has been within the last three years, an employee or executive officer<sup>3</sup> of the Company;*
- ii. *an individual whose immediate family member is, or has been within the last three years, an executive officer of the Company; and*
- iii. *an individual who:*
  - a) *is a partner<sup>4</sup> of a firm that is the Company’s internal or external auditor,*
  - b) *is an employee of that firm, or*
  - c) *was within the last three years a partner or employee of that firm,*
- iv. *an individual whose spouse, minor child or stepchild, or child or stepchild who shares a home with the individual:*
  - a) *is a partner of a firm that is the Company’s internal or external auditor,*
  - b) *is an employee of that firm and participates in its audit, assurance or tax compliance (but not tax planning) practice, or*

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<sup>1</sup> For the purpose of the definitions of “independent director” and “material relationship” in this section, Company includes a subsidiary entity of the Company and a parent of the Company, as applicable.

<sup>2</sup> An individual will not be considered to have a material relationship with the Company solely because he or she had a relationship identified in this definition if that relationship ended before March 30, 2004. An individual will not be considered to have a material relationship with the Company solely because the individual or his or her immediate family member has previously acted as an interim chief executive officer of the Company or acts, or has previously acted, as a chair or vice-chair of the board of trustees/directors or of any board committee of the Company on a part-time basis.

<sup>3</sup> An “executive officer” includes any individual who performs a policy-making function in respect of the entity.

<sup>4</sup> A partner does not include a fixed income partner whose interest in the organization that is the internal or external auditor is limited to the receipt of fixed amounts of compensation (including deferred compensation) for prior service with that organization if the compensation is not contingent in any way on continued service.

- c) *was within the last three years a partner or employee of that firm and personally worked on the Company's audit within that time;*
- v. *an individual who, or whose immediate family member, is or has been within the last three years, an executive officer of an entity if any of the Company's current executive officers serves or served at that same time on the entity's compensation committee; and*
- vi. *an individual who received, or whose immediate family member who is employed as an executive officer of the Company received, more than \$75,000 in direct compensation<sup>5</sup> from the Company during any 12 month period within the last three years.<sup>6</sup>*

**“unrelated director”** means a director who is independent of management and is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the Company, other than interests and relationships arising from holding securities.

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<sup>5</sup> Direct compensation does not include: (a) remuneration for acting as a member of the board of directors, or of any board committee of the Company; and (b) the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Company if the compensation is not contingent in any way on continued service.

<sup>6</sup> An individual who: (a) has a relationship with the Company pursuant to which the individual may accept, directly or indirectly, any consulting, advisory or other compensatory fee from the Company or any subsidiary entity of the Company, other than as remuneration for acting in his or her capacity as a member of the board of directors, or any board committee, or as a part-time chair or vice-chair of the board or any board committee; or (b) is an affiliated entity of the Company or any of its subsidiary entities, is considered to have a material relationship with the Company. The indirect acceptance by an individual of any consulting, advisory or other compensatory fee includes acceptance of a fee by: (a) an individual's spouse, minor child or stepchild, or a child or stepchild who shares the individual's home; or (b) an entity in which such individual is a partner, member, an officer such as a managing director occupying a comparable position or executive officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to the Company or any subsidiary entity of the Company. Compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Company if the compensation is not contingent in any way on continued service.