MORNEAU SHEPELL MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED MARCH 31, 2020

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

This Management's Discussion and Analysis ("MD&A") covers the three months ended March 31, 2020 and should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements ("interim financial statements") of Morneau Shepell and notes thereto for the three months ended March 31, 2020, and the MD&A and the audited consolidated financial statements and notes thereto for the year ended December 31, 2019. Unless otherwise noted, all financial information presented has been rounded to the nearest thousand and is presented in Canadian dollars in accordance with International Financial Reporting Standards ("IFRS"), unless otherwise noted. Certain totals, subtotals and percentages may not reconcile due to rounding.

This MD&A contains "forward-looking statements" within the meaning of applicable securities laws, such as statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. They are based on certain factors and assumptions, including expected growth, results of operations, business prospects and opportunities. Use of words such as "may", "will", "expect", "believe", or other words of similar effect may indicate a "forward-looking" statement. These statements are not guarantees of future performance and are subject to numerous risks and uncertainties, including those described in our publicly filed documents (available on SEDAR at sedar.com) and in this MD&A under the heading "Risks and Uncertainties". Those risks and uncertainties include the ability to maintain profitability and manage growth, ability to pay dividends, reliance on information systems and technology, reputational risk, dependence on key clients, reliance on key professionals, the ability to successfully integrate acquisitions, general economic conditions and pandemics, natural disasters or other unanticipated events (including the novel coronavirus ("COVID-19") pandemic). Many of these risks and uncertainties can affect our actual results and could cause our actual results to differ materially from those expressed or implied in any forward-looking statement made by us or on our behalf. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. All forward-looking statements in this MD&A are qualified by these cautionary statements. These statements are made as of the date of this MD&A and, except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Additionally, we undertake no obligation to comment on analyses, expectations or statements made by third parties in respect of us, our financial or operating results or our securities.

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

Non-IFRS measures do not have any standard meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. Non-IFRS measures are reconciled to IFRS measures elsewhere in this MD&A.

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares and 10 million preferred shares. Each common share entitles the holder to one vote at all meetings of shareholders and represents an interest in dividends declared by the Company and an undivided interest in the net assets of the Company. As at May 7, 2020, Morneau Shepell had 68,208,986 common shares and nil preferred shares outstanding. The number of long-term incentive plan ("LTIP") units, including those that remain unvested, that are outstanding and may be converted to common shares is approximately 2,400,000.

BUSINESS OVERVIEW

Morneau Shepell is a leading provider of technology-enabled HR services that deliver an integrated approach to employee well-being through our cloud-based platform. Our focus is providing world class solutions to our clients to support the mental, physical, social and financial well-being of their people. By improving lives, we improve business. Our approach spans services in employee and family assistance, health and wellness, recognition, pension and benefits administration, retirement consulting, actuarial and investment services. Morneau Shepell employs approximately 6,000 employees who work with some 24,000 client organizations that use our services in Canada, the United States and around the globe.

The company has four operating segments, consistent with our four core lines of business, named as follows: Well-Being Solutions, Administrative Solutions, Retirement Solutions, and Health and Productivity Solutions.

The Well-Being Solutions business integrates what was formerly Employee Support Solutions ("ESS") with the people, assets and capabilities of the LifeWorks organization, including its cloud-based user platform for deploying technology-enabled HR services. The business is focused on delivering an integrated employee experience for solutions that encompass the full continuum of care for achieving mental, physical, social and financial well-being. These solutions include a broad range of clinical services offered within employee and family assistance plans, along with corporate reward, recognition and perks programs focusing on driving engagement and productivity in workplace culture.

In the Administrative Solutions business, the Company provides a full range of user-friendly solutions from software to full outsourcing for the administration of employee pension and benefits plans, leveraging its Ariel software platform. The Company provides employees and organizations with self-serve portals, mobile applications and contact centre support to ensure they have the tools and resources to manage their benefits, save for retirement and ultimately ensure their financial long-term well-being.

The Retirement Solutions business helps organizations design, build and operate sustainable retirement programs that provide a strong return on investment while ensuring compliance with all governance and regulatory requirements. The Company leverages actuarial, recordkeeping and risk-management technology and data analytics across the entire defined-benefit to defined-contribution spectrum to provide strategic consulting support and innovative solutions to pension and asset management, minimizing risk and supporting the long-term financial security and well-being of employees.

In Health and Productivity Solutions, the Company serves as strategic advisors in helping organizations of all sizes design, develop and manage disability programs and policies with a focus on best-in-class employee experience, health prevention, measurable health outcomes, and helping people return to work using the tools and resources available on the state-of-the-art Abiliti platform. The business supports the complex end of the Company's continuum of care through its AbilitiCBT product and non-occupational absence management solutions.

2020 FIRST QUARTER SUMMARY AND OUTLOOK

In thousands of dollars, except per share amounts	**Three months ended March 31, 2020**	**Three months ended March 31, 2019**
Revenue	$ 243,048	$ 204,695
Adjusted EBITDA	47,318	44,718
Adjusted EBITDA margin	19.5%	21.8%
Adjusted EBITDA per share (basic)	0.68	0.68
Normalized Free Cash Flow	20,868	24,013
Profit	38,905	8,659
Earnings per share	0.56	0.13

FIRST QUARTER:

We had a solid first quarter of 2020 and continued to deliver revenue and adjusted EBITDA growth versus the comparative quarter in 2019. Highlights of the first quarter include:

- Revenue growth of $38.4 million or 18.7% versus the comparative period is primarily due to revenue from the Mercer acquisition, net of the divestiture of our benefits consulting business, and strong organic growth in the U.S.

- An increase in adjusted EBITDA of $2.6 million, or 5.8%, to $47.3 million versus $44.7 million in the comparative period is primarily due to the Mercer acquisition.

- Adjusted EBITDA margin was 19.5% versus 21.8% in the comparative period. This margin percentage is in line with what we have experienced since the Mercer transaction.

- Adjusted EBITDA per share (basic) of $0.68 remains unchanged versus the same period in prior year, as growth in Adjusted EBITDA was offset by an increase in shares outstanding due to the conversion of the convertible debentures.

- Profit for the period was $38.9 million compared to the profit of $8.7 million in the same period in prior year. The increase in profit is predominantly due to the gain on disposition of the Company's benefits consulting business which generated $33.4 million of profit after tax. Earnings per share for the period was $0.56 compared to $0.13 in the comparative period.

- On March 1, 2020, the Company sold its benefits consulting business to HUB International Limited for a purchase price of $70.0 million subject to working capital adjustments and holdback conditions being satisfied; the gain on the sale was $39.8 million before tax. The divestiture aligns with the Company's growth strategy, which includes being a clear market leader in the businesses in which the Company operates, owning the total well-being space, accelerating growth through geographic expansion and leveraging technology to deliver a seamless experience for the Company's clients and their employees.

- Subsequent to the quarter end, the Company entered into an amended and restated Credit Facility Agreement (the "Amended and Restated Credit Facility Agreement"). The Company obtained an incremental $100 million of committed capacity ("Incremental Facility") for one year and improved the debt to Adjusted EBITDA financial covenant to remain at 4:1 until maturity of the credit agreement.

Results of Operations	**Three months Ended March 31,**	
Selected Unaudited Consolidated Financial Information	**2020**	**2019**
(In thousands of dollars except per share amounts)		
Revenue	$ 243,048	$ 204,695
Deduct/(Add):		
Salaries, benefits and contractor expenses	164,325	132,766
Other operating expenses	37,417	30,919
Finance costs	7,436	6,962
Depreciation and amortization	26,239	21,920
Share of income of joint ventures	(10)	(277)
Income taxes	8,579	3,746
Gain on business divestiture	(39,843)	-
Profit for the period	**$ 38,905**	**$ 8,659**
Add:		
Finance costs	7,436	6,962
Depreciation and amortization	26,239	21,920
Depreciation, amortization, and income taxes on share of income of joint ventures	171	173
Income taxes	8,579	3,746
EBITDA[1]	**$ 81,330**	**$ 41,460**
Adjustments:		
LifeWorks integration	1,058	1,721
Mercer Integration	3,749	-
New ERP Implementation costs	1,024	-
Gain on business divestiture	(39,843)	-
Transformation project costs	-	1,537
Adjusted EBITDA	**$ 47,318**	**$ 44,718**
EBITDA margin [2]	33.5%	20.3%
Adjusted EBITDA margin [2]	19.5%	21.8%
Cash provided by operating activities	$ 29,645	$ 27,126
Deduct: Capital expenditures [3]	(16,448)	(10,169)
Free Cash Flow [4]	**$ 13,197**	**$ 16,957**
Add (deduct):		
Changes in non-cash operating working capital	5,172	3,962
Current income taxes, net of income taxes paid	(3,332)	(164)
Adjustments to EBITDA	5,831	3,258
Normalized Free Cash Flow [5]	**$ 20,868**	**$ 24,013**
Earnings per Share:		
Basic	$ 0.56	$ 0.13
Diluted	$ 0.56	$ 0.13
EBITDA per Share (basic)	$ 1.17	$ 0.63
Adjusted EBITDA per Share (basic)	$ 0.68	$ 0.68
Dividends declared	$ 13,287	$ 12,533
Twelve-month rolling Normalized Payout Ratio [6]	56.7%	58.4%
Twelve-month rolling Normalized Payout Ratio, including changes in adjusted non-cash operating working capital [7]	99.0%	64.2%

Footnotes:

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

(2) "EBITDA margin" represents EBITDA as a percentage of revenue, and "Adjusted EBITDA margin" represents Adjusted EBITDA as a percentage of revenue.

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

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

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

(6) "Twelve-month rolling Normalized Payout Ratio" is defined as dividends declared divided by Normalized Free Cash Flow for the rolling twelve month period.

(7) "Twelve-month rolling Normalized Payout Ratio, including changes in adjusted non-cash operating working capital" is defined as dividends declared divided by the Twelve-month rolling Normalized Free Cash Flow, including changes in non-cash operating working capital adjusted for unusual fluctuations.

ANALYSIS OF FIRST QUARTER 2020 OPERATING RESULTS

Revenue

Revenue for the three months ended March 31, 2020 increased by $38.3 million, or 18.7%, to $243.0 million compared to $204.7 million for the same period in 2019. The increase is primarily due to the Mercer acquisition, net of the divestiture of our benefits consulting business, and strong organic growth in the U.S.

Salaries, Benefits and Contractor Expenses

Salaries, benefits and contractor expenses for the three months ended March 31, 2020 increased by $31.5 million, or 23.8%, to $164.3 million compared to $132.8 million for the same period in 2019. The increase in compensation expense is mainly due to the Mercer acquisition, business growth and general merit increases.

Other Operating Expenses

Other operating expenses for the three months ended March 31, 2020 increased by $6.5 million, or 21.0%, to $37.4 million compared to $30.9 million for the same period in 2019. The increase is mainly due to operating and integration costs related to acquired businesses and implementation costs related to a new ERP system.

Finance Costs

Finance costs for the three months ended March 31, 2020 increased by $0.4 million, or 6.8%, to $7.4 million compared to $7.0 million for the same period in 2019 primarily due to increased borrowings under the Company's credit facility agreement to finance the Mercer acquisition, partially offset by a reduction in interest on convertible debentures.

Depreciation and Amortization

Depreciation and amortization for the three months ended March 31, 2020 increased by $4.3 million, or 19.7%, to $26.2 million compared to $21.9 million for the same period in 2019. The increase is primarily due to amortization related to acquired intangibles from the Mercer acquisition and new internally developed software.

Income Taxes

Income tax expense for the three months ended March 31, 2020 was $8.6 million compared to income tax expense of $3.7 million for the same period in 2019. The increase of $4.9 million is mainly due to the gain on disposition of our benefits consulting business.

Gain on Business Divestiture

On March 1, 2020, the Company sold its benefits consulting business to HUB International Limited for a purchase price of $70.0 million subject to working capital adjustments; the gain on the sale was $39.8 million before tax. Refer to note 4 of the Unaudited Condensed Consolidated Interim Financial Statements for further details.

Profit for the Period

As a result of the changes noted above, profit for the three months ended March 31, 2020 was $38.9 million compared to a profit of $8.7 million for the same period in 2019.

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

Adjusted EBITDA and EBITDA

Adjusted EBITDA increased $2.6 million, or 5.8%, to $47.3 million compared to $44.7 million for the same period in 2019. The increase is primarily due to the Mercer acquisition. Adjusted EBITDA excludes adjusted items, which do not constitute a part of the Company’s on-going operating expenses.

Below is a description of the adjustments for the three months ended March 31, 2020 and March 31, 2019:

- Mercer and LifeWorks Integration costs represent the costs incurred to integrate the clients, employees and operations acquired with our existing businesses.

- New ERP system implementation costs represent costs incurred by the Company to implement a new comprehensive enterprise resource planning solution. The new solution will help with the Company’s growth, realize efficiencies, streamline integrations of acquisitions and eliminate redundancies.

- Transformation project costs relate to initiatives that increase long term value in the form of earnings and cash flow improvement through operational efficiency. These costs represent fees payable to a third-party firm, severance and other transition costs.

EBITDA increased $39.8 million to $81.3 million compared to $41.5 million for the same period in 2019 mainly as a result of the gain on business divestiture.

Free Cash Flow

Free Cash Flow for the three months ended March 31, 2020 decreased by $3.8 million to $13.2 million compared to $17.0 million for the same period in 2019. The decrease is mainly due to higher capital expenditures of $6.3 million related to Mercer integration and higher finance costs paid of $0.3 million, partially offset by lower income taxes paid of $2.4 million.

Normalized Free Cash Flow

Normalized Free Cash Flow for the three months ended March 31, 2020 decreased by $3.1 million to $20.9 million compared to $24.0 million for the same period in 2019. The decrease is mainly due to higher capital expenditures of $6.3 million (see Capital Expenditures discussion below), higher finance costs paid of $0.3 million, higher current income tax expense of $0.7 million partially offset by higher cash generated from operating activities before changes in non-cash operating working capital and EBITDA adjustments of $4.2 million.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

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

Cash Flow Information

Selected Consolidated Financial Information:

Cash provided by (used in): *(In thousands of dollars)*	**Three months ended March 31, 2020**	**Three months ended March 31, 2019**
Operating activities	$ 29,645	$ 27,126
Financing activities	83,837	(15,889)
Investing activities	43,641	(10,282)
Increase in cash	$ 157,123	$ 955

Cash provided by operating activities for the three months ended March 31, 2020 increased by $2.5 million to $29.6 million compared to $27.1 million for the same period in 2019. The increase is due to higher cash generated from operating activities of $0.4 million and lower taxes paid of $2.4 million, partially offset by higher finance costs paid of $0.3 million.

Cash provided by financing activities for the three months ended March 31, 2020 increased by $99.7 million to $83.8 million compared to cash used for financing activities of $15.9 million for the same period in 2019. The increase is due to a net increase in cash provided by the revolving facility of $102.2 million, partially offset by a $1.5 million payment related to the redemption of convertible debentures, higher dividend payment of $0.7 million and higher principal payments of lease liabilities of $0.3 million.

Cash provided by investing activities for the three months ended March 31, 2020 increased by $53.9 million to $43.6 million compared to cash used in investing activities of $10.3 million for the same period in 2019. The increase was primarily due to $67.5 million received from the sale of the benefits consulting business, partially offset by higher deferred and contingent acquisition payments of $7.4 million and higher capital expenditures of $6.3 million.

Dividends to Shareholders

Monthly dividends were declared for shareholders of record on the last business day of each month and were paid on approximately the 15th day of the following month. Monthly dividends were $0.065 per share each month for the quarter. The Company continued to declare the same monthly dividend amount in April and May 2020.

We consider the amount of cash generated by the business in determining the amount of dividends to pay to shareholders. We do not generally consider profit or loss in setting the level of dividends as this is a non-cash metric and is not reflective of the level of cash flow that we generate.

The twelve-month rolling Normalized Payout Ratio at March 31, 2020 was 56.7% compared to 58.4% for the same period in 2019. The decrease in the ratio is mainly due to higher cash generated from operating activities before changes in non-cash operating working capital. The twelve-month rolling Normalized Payout Ratio, including changes in adjusted non-cash operating working capital at March 31, 2020 was 99.1% compared to 64.2% for the same period in 2019. The increase in the ratio is mainly due to a change in non-cash operating working capital as a result of Mercer operations.

Capital Expenditures

Our capital expenditures typically include information technology hardware and software (external and internally developed), leasehold improvements, and office furniture. Such amounts are expected to be funded from our operating cash flow. Additional capital expenditure requirements may result from significant business expansion. Capital expenditures for the three months ended March 31, 2020 increased by $6.3 million to $16.4 million compared to $10.2 million for the same period in 2019 mainly due to capital expenditures related to Mercer integration (mainly leasehold improvements) of $6.5 million.

Contractual Obligations

The Company manages and continually monitors its commitments and contractual obligations to ensure that these can be met with funding provided by operations and capital resources available.

Commitments

We lease office space and selected equipment under lease agreements as well as software licenses with terms ranging from one to fifteen years. We also have revolving loans under the Credit Facility and convertible debentures described under the “Capital Resources” section.

We are a party to various subleases to which we would be liable for the rental payment in the case of a default by the subtenants. The minimum payments and the aggregate sublease income related to these premises have been presented on a “net” basis below for the purpose of the Commitments disclosure. A summary of contractual obligations, which outlines the year the payments are due is as follows:

(In thousands of dollars)	**Total**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025 and thereafter**
Long-term debt	$ 588,787	$ –	$ –	$ –	$588,787	$ -	$ –
Guaranteed future consideration related to acquisitions	2,002	2,002	-	–	–	–	–
Leases (net) and software licenses	213,127	16,592	26,605	27,705	23,069	18,039	101,117
Total	**$ 803,916**	**$ 18,594**	**$ 26,605**	**$ 27,705**	**$ 611,856**	**$ 18,039**	**$ 101,117**

Future Consideration Related to Acquisitions

Future consideration related to acquisitions includes a guaranteed portion, which has been included in the Commitments table above, and an amount that is contingent on future business results. The total undiscounted future consideration remaining to be paid is $17.6 million due from 2020 through 2022. These contingent future installments have been recognized as future consideration related to acquisitions on the statement of financial position at their estimated discounted amounts as at March 31, 2020.

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

Capital Resources

The following table provides an overview of our capital resources:

(In thousands of dollars)	**As at March 31, 2020**	**As at December 31, 2019**
Cash, net of bank indebtedness	$ 160,774	$ 3,651
Long- term debt, net of debt issuance costs	586,244	470,456
Convertible debenture, net of issuance costs and equity component of debenture	-	40,699
Shareholders' equity	707,744	618,388

Cash, net of bank indebtedness

The cash increased by $157.1 million from $3.7 million as at December 31, 2019 to $160.8 million as at March 31, 2020 due to drawdowns of the Company's revolving credit facility and proceeds from disposition of the benefits consulting business.

Long-term debt

The long-term debt, net of debt issuance costs, increased $115.7 million from $470.5 million as at December 31, 2019 to $586.2 million as at March 31, 2020. This increase is the result of an increase in borrowings under the Company's credit facility agreement.

As at March 31, 2020, the Company had $301.5 million borrowed in Canadian dollars, $287.3 million (US$ 202.5 million) borrowed in US dollars, and had not utilized the swing line available. Borrowings under the Credit Facility Agreement bear interest at CDOR or Canadian Prime plus a specified margin for borrowings in Canadian dollars. Borrowings in US dollars under the Credit Facility Agreement bear interest at US Base Rate or LIBOR plus a specified margin.

As at March 31, 2020, the Company complied with all the required financial covenants.

On April 17, 2020 the Company entered into an Amended and Restated Credit Facility Agreement. The key changes to the Amended and Restated Credit Facility Agreement include:

- The Company obtained an incremental $100 million of committed capacity which matures 364 days from closing. The Incremental Facility bears interest at CDOR or Canadian Prime plus incremental specified margin for borrowings in Canadian dollars or at US Base Rate or LIBOR plus incremental specified margin for borrowings in US dollars.

- The debt to Adjusted EBITDA financial covenant will remain at 4:1 until maturity of the credit agreement.

Convertible debentures

In January 2020, the Company converted all of the remaining convertible debentures being $39.2 million, at the holders' request, into 1.6 million common shares of the Company at a conversion price of $25.10 per common share. The remaining $1.5 million principal amount was redeemed for cash at a price of one thousand dollars per debenture, plus accrued and unpaid interest

SELECTED STATEMENT OF FINANCIAL POSITION DATA

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

(in thousands of dollars)	As at March 31, 2020	As at December 31, 2019
Current assets	$ 438,499	$ 270,633
Non-current assets	1,271,200	1,259,585
Current liabilities	194,001	227,471
Non-current liabilities	807,954	684,359

Current Assets

Current assets as at March 31, 2020 increased by $167.9 million to $438.5 million from $270.6 million as at December 31, 2019. Cash increased by $151.3 million due to $67.5 million received from the sale of the benefits consulting business and a net increase in the revolving facility by $102.2 million. Trade and other receivables and unbilled fees increased by $3.9 million primarily due to movement in foreign exchange rates on balances denominated in foreign currencies. Prepaid and other current assets increased by $3.9 million due to timing of payments to vendors and annual licenses renewals. Interest rate and cross currency swaps increased by $9.2 million due to a change in their fair value.

Non-current Assets

Non-current assets as at March 31, 2020 increased by $11.6 million to $1,271.2 million from $1,259.6 million as at December 31, 2019. Deferred implementation costs increased by $7.7 million due to increased implementation activities and foreign exchange movement, partially offset by amortization. Capital assets increased by $3.5 million mainly due to leasehold improvements related to Mercer integration, net of amortization. The decrease in intangible assets and goodwill due to the sale of the benefits consulting business was offset by internally developed software additions and increases due to foreign exchange.

Current Liabilities

Current liabilities as at March 31, 2020 decreased by $33.5 million to $194.0 million from $227.5 million as at December 31, 2019. $39.2 million of convertible debentures as at December 31, 2019 was converted into common shares and the remaining $1.5 million was redeemed for cash. Bank indebtedness decreased by $5.8 million. Future consideration related to acquisitions decreased by $5.2 million as a result of a $7.8 million deferred payment related to the Mercer acquisition, partially offset by foreign exchange movement and accretion. These decreases were partially offset by an increase of $11.0 million in trade and other payables due to timing of vendor payments, an increase of $4.3 million in deferred revenue, an increase of $3.5 million in income taxes payable and a $1.4 million increase in lease liabilities.

Non-current Liabilities

Non-current liabilities as at March 31, 2020 increased by $123.6 million to $808.0 million from $684.4 million at December 31, 2019. Long-term debt increased by $115.8 million due to an increase in borrowings on the Company’s revolving credit facility. Interest rate and currency swaps increased by $3.3 million due to a change in their fair value. Deferred tax liability increased by $4.6 million mainly due to future tax related to gain on business divestiture and deferred revenue increased by $3.0 million. These increases were partially offset by a decrease in lease liability of $3.4 million.

As a result of the changes in current assets and current liabilities discussed above, working capital increased by $201.3 million ($44.2 million excluding change in cash, net of bank indebtedness) from $43.2 million as at December 31, 2019 to $244.5 million as at March 31, 2020.

CRITICAL ACCOUNTING ESTIMATES

In our year ended December 31, 2019 audited consolidated financial statements and accompanying notes, and in our MD&A for the year ended December 31, 2019, we have identified the accounting estimates that are critical to understanding our business operations and our results from operations. The interim financial statements for the three months ended March 31, 2020 have been prepared using the critical accounting estimates and assumptions consistent with those applied in the audited consolidated financial statements for the year ended December 31, 2019.

The uncertainties around the outbreak of the COVID-19 pandemic required the use of judgments and estimates which resulted in no material impacts for the period ended March 31, 2020. The future impact of COVID-19 uncertainties could generate, in future reporting periods, a significant risk of material adjustment to the reported amounts of assets, liabilities, revenue and expenses in the consolidated financial statements. Examples of accounting estimates and judgments that may be impacted by the pandemic include: revenue recognition, impairment of goodwill and intangible assets, allowance for expected credit losses, corporate income taxes, provisions and contingent consideration related to acquisitions.

RISKS AND UNCERTAINTIES

The results of operations, business prospects and financial considerations of Morneau Shepell remain subject to a number of risks and uncertainties and are affected by a number of factors outside of our control. For more information about our risks and uncertainties, please refer to our MD&A for the year ended December 31, 2019.

The risks and uncertainties remain substantially unchanged from those previously disclosed. The reference to pandemics, natural disasters or other unanticipated events in our MD&A for the year ended December 31, 2019 includes the COVID-19 pandemic. The duration and impact of the COVID-19 pandemic on the Company is unknown at this time.

SUPPLEMENTARY SUMMARY OF QUARTERLY RESULTS

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

Quarter ended	**March 31, 2020**	**December 31, 2019**	**September 30, 2019**	**June 30, 2019**	**March 31, 2019**	**December 31, 2018 (3)**	**September 30, 2018 (3)**	**June 30, 2018 (3)**
Revenue	243,048	247,549	223,980	212,666	204,695	200,761	182,805	171,191
Profit (loss) (2)	38,905	2,648	1,332	6,329	8,659	3,450	(9,556)	13,672
EBITDA(2)	81,330	39,433	34,459	39,032	41,460	27,842	11,684	32,785
Adjusted EBITDA	47,318	48,041	43,811	45,882	44,718	35,652	33,989	33,734
EBITDA margin (2)	33.5%	15.9%	15.4%	18.4%	20.3%	13.9%	6.4%	19.2%
Adjusted EBITDA margin	19.5%	19.4%	19.6%	21.6%	21.8%	17.8%	18.6%	19.7%
Earnings(loss) per share (basic)	0.56	0.04	0.02	0.10	0.13	0.05	(0.15)	0.25
Earnings(loss) per share (diluted)	0.56	0.04	0.02	0.10	0.13	0.05	(0.15)	0.24
Normalized Free Cash Flow	20,868	17,636	24,212	27,618	24,013	18,284	23,075	16,922
Dividends declared	13,287	12,739	12,596	12,586	12,533	12,493	12,505	10,504
Twelve-month rolling normalized payout ratio	56.7%	54.0%	53.3%	53.9%	58.4%	61.2%	58.0%	60.0%
Twelve-month rolling normalized payout ratio, including changes in adjusted non-cash operating working capital	99.0%	89.9%	82.9%	66.5%	64.2%	71.0%	54.2%	80.2%
Total assets (1)	1,709,699	1,530,218	1,483,878	1,397,115	1,409,850	1,348,342	1,331,245	833,815
Long-term debt (1)	586,244	470,456	460,474	408,715	374,752	374,381	384,471	205,538

Footnotes:

1. The Company acquired LifeWorks in Q3 2018 for approximately $434.8 million, which resulted in the increase in total assets. Total long–term debt also increased as the acquisition was partially financed by a draw down from the Company's Credit Facility.
2. Profit and EBITDA for the quarter ended March 31, 2020 included a gain on business divestiture of $39.8 million. The decline in EBITDA for the quarter ended September 30, 2018 is due to transaction costs of $9.0 million incurred to complete the LifeWorks acquisition.
3. The Company has applied IFRS 16 using the modified retrospective approach. The figures presented have not been restated. Please refer to note 3 of the Consolidated Financial Statements for the year ended December 31, 2019 for further details.

Disclosure Controls and Procedures

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

The Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures are appropriately designed as at March 31, 2020.

Internal Control over Financial Reporting

Management is responsible for designing internal controls over financial reporting, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. In designing these controls, Management used the *Internal Control – Integrated Framework* (COSO 2013 Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission.

The Chief Executive Officer and the Chief Financial Officer have concluded that the internal controls over financial reporting are appropriately designed as at March 31, 2020. No changes were made to our internal controls over financial reporting during the first quarter ended March 31, 2020, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Additional Information

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

The content of this MD&A reflects information known as of May 7, 2020.