MORNEAU SHEPELL MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2019

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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 year ended December 31, 2019 and should be read in conjunction with the Consolidated Financial Statements of Morneau Shepell and notes thereto for the years ended December 31, 2019 and 2018. Unless otherwise noted, all financial information presented has been rounded to the nearest thousand.

All financial information is presented in Canadian dollars and 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, integration of an acquired business and related operations and general economic conditions. Many of these risks and uncertainties can affect our actual results and could cause our actual results to differ materially from those expressed or implied in any forward-looking statement made by us or on our behalf. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. All forward-looking statements in this MD&A are qualified by these cautionary statements. These statements are made as of the date of this MD&A and, except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Additionally, we undertake no obligation to comment on analyses, expectations or statements made by third parties in respect of us, our financial or operating results or our securities.

To assist investors in assessing our financial performance, this discussion also makes reference to certain non-IFRS measures such as EBITDA, adjusted EBITDA, 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 intangible and tangible capital assets, which vary according to their vintage, technological currency, and management's estimate of their useful life. Accordingly, EBITDA comprises profit before finance costs, income tax expenses, depreciation and amortization, while Adjusted EBITDA represents EBITDA before taking into account certain unusual expenditures. 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. 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. These ratios, however, are non-IFRS measures and therefore, should not be seen as a substitute for profit or cash flow from operating activities.

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 March 10, 2020, Morneau Shepell had 68,103,599 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 2,500,000.

BUSINESS OVERVIEW

Morneau Shepell is the 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.

In 2019, the Company realigned some responsibilities and people across its core lines of business following the LifeWorks Corporation Ltd. ("LifeWorks") acquisition and towards the goal of being more responsive to changing client needs. Today 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 employee benefit plans and 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. The Company also helps its clients communicate the value of their employee benefit plans and disability programs and policies to its employees.

2019 SUMMARY AND OUTLOOK

In thousands of dollars, except per share amounts	**Three months ended December 31, 2019**	**Three months ended December 31, 2018 (1)**	**Year ended December 31, 2019**	**Year ended December 31, 2018 (1)**
Revenue	$247,549	$200,761	888,889	$722,284
Adjusted EBITDA	48,041	35,652	182,453	136,960
Adjusted EBITDA margin	19.4%	17.8%	20.5%	19.0%
Adjusted EBITDA per share (basic)	0.72	0.54	2.76	2.28
Normalized Free Cash Flow	17,636	18,284	93,483	75,112
Profit	2,648	3,450	18,968	21,797
Earnings per share (basic)	0.04	0.05	0.29	0.36

(1) The Company has adopted IFRS 16, Leases ("IFRS 16") at January 1, 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognized in retained earnings at the date of initial application. Please refer to note 3 of the Company's Consolidated Financial Statements for the year ended December 31, 2019 for details.

Fourth quarter:

We had a solid fourth quarter of 2019 and continued to deliver revenue and adjusted EBITDA growth versus the comparative quarter in 2018. Highlights of the fourth quarter include:

- Revenue growth of 23.3%, or $46.8 million to $247.5 million versus the comparative period mainly due to revenue from the Mercer acquisition and organic growth from Administrative Solutions, Well-Being Solutions and Health and Productivity Solutions.

- Adjusted EBITDA increased by $12.4 million, or 34.7% to $48.0 million compared to $35.7 million for the same period in 2018. The increase is primarily due to contributions from the Mercer acquisition, organic growth and adoption of IFRS 16.

- Adjusted EBITDA per share (basic) was $0.72, a 33.3% increase compared to $0.54 per share in Q4 2018, due to a higher adjusted EBITDA.

- Profit for the period was $2.6 million compared to $3.5 million in the same period last year. The decline is due to higher amortization charges related to acquired intangibles from acquisitions and higher finance costs.

Highlights of 2019:

- Revenue grew by 23.1%, or $166.6 million to $888.9 million versus last year due to revenue from the Mercer acquisition, a full year of revenue from LifeWorks and organic growth from Administrative Solutions, Well-Being Solutions and Health and Productivity Solutions.

- Adjusted EBITDA increased by $45.5 million to $182.5 million, or 33.2% versus the prior year with Adjusted EBITDA margin increasing to 20.5% from 19.0%. The increase in Adjusted EBITDA is due to the Mercer and LifeWorks acquisitions, organic growth, as well as the impact of adopting IFRS 16.

- Adjusted EBITDA per share (basic) was $2.76, a 21.1% increase compared to $2.28 per share in 2018, due to a higher adjusted EBITDA.

- Profit for the year was $19.0 million compared to a profit of $21.8 million last year. The decline is due to higher amortization charges related to acquired intangibles from acquisitions and higher finance costs.

- The Company completed its acquisition of the stand-alone, large market, health and defined benefit pension plan administration business of Mercer in the United States. The transaction closed on August 7, 2019 for a purchase price of US$57.9 million ($76.7 million). The acquisition accelerates the Company's growth strategy, notably in the U.S. corporate market, and increases the Company's global base of DB pension plan participants under administration by approximately two million.

- In Q4 2019, the Company increased its existing revolving Credit Facility ("Credit Facility") by $100 million with the same terms and conditions.

- On December 11, 2019, the Company issued a redemption notice in respect of the outstanding $80.7 million of convertible debentures. Of the principal amount, $79.2 million was converted into a total of 3,156,248 common shares at a conversion price of $25.10 per common share. The remaining $1.5 million was redeemed through cash payout.

- On March 1, 2020, the Company sold its benefits consulting business to HUB International Limited for a purchase price of $70,000 subject to working capital adjustments. $67,535 was received on closing, with the remainder to be received over the next 24 months once all the working capital adjustments and holdback conditions have been satisfied. The divestiture aligns with the Company's growth strategy, which includes being a clear market leader in the businesses in which we operate, owning the total well-being space, accelerating growth through geographic expansion and leveraging technology to deliver a seamless experience for our clients and their employees. Please refer to note 31 of the Company's Consolidated Financial Statements for the year ended December 31, 2019 for further details on the transaction.

2019 OPERATING RESULTS SUMMARY

Results of Operations	**Three months ended December 31,**		**Year ended December 31,**	
Selected Consolidated Financial Information	**2019**	**2018** [1]	**2019**	**2018**[1]
(In thousands of dollars, except per share amounts)				
Revenue	$247,549	$200,761	$888,889	$722,284
Deduct:				
Salaries, benefits and contractor expenses	169,977	136,678	599,467	483,281
Other operating expenses	38,511	36,285	135,602	123,648
Finance costs	9,565	6,020	31,105	17,419
Transaction costs	–	–	719	9,924
Depreciation and amortization	25,525	17,026	94,138	54,138
Share of (income)/loss of joint venture	(209)	24	(608)	220
Income tax expenses	1,532	1,278	9,498	11,857
Profit	**2,648**	**3,450**	**18,968**	**21,797**
Add:				
Finance costs	9,565	6,020	31,105	17,419
Depreciation and amortization	25,525	17,026	94,138	54,138
Depreciation, amortization and income tax expense on share of (income)/loss of joint ventures	163	68	674	685
Income tax expenses	1,532	1,278	9,498	11,857
EBITDA [2]	**39,433**	**27,842**	**154,383**	**105,896**
Adjustments:				
Transformation project costs	4,037	6,245	13,348	18,523
LifeWorks integration	3,017	1,565	10,183	2,617
Mercer integration and transaction costs	1,554	–	4,539	–
LifeWorks transaction costs	–	–	–	9,924
Adjusted EBITDA	**48,041**	**35,652**	**182,453**	**136,960**
EBITDA margin [3]	15.9%	13.9%	17.4%	14.7%
Adjusted EBITDA margin [3]	19.4%	17.8%	20.5%	19.0%
Cash provided by operating activities	34,387	25,919	92,233	64,792
Deduct: Capital expenditures [4]	(22,372)	(12,021)	(53,052)	(36,430)
Free Cash Flow [5]	**12,015**	**13,898**	**39,181**	**28,362**
Add (deduct):				
Changes in non-cash operating working capital	(2,659)	(6,468)	37,389	11,371
Current income taxes, net of income taxes paid	(328)	3,044	(11,157)	4,315
Adjustments to EBITDA	8,608	7,810	28,070	31,064
Normalized Free Cash Flow [6]	**17,636**	**18,284**	**93,483**	**75,112**
Earnings per Share (basic)	0.04	0.05	0.29	0.36
Earnings per Share (diluted)	0.04	0.05	0.28	0.36
EBITDA per share (basic)	0.59	0.42	2.33	1.76
Adjusted EBITDA per Share (basic)	0.72	0.54	2.76	2.28
Dividends declared	12,739	12,493	50,454	46,000
Twelve-month rolling Normalized Payout Ratio [7]	54.0%	61.2%	54.0%	61.2%
Twelve-month rolling Normalized Payout Ratio, including changes in adjusted non-cash operating working capital [8]	89.9%	71.0%	89.9%	71.0%

Footnotes:

(1) The Company has adopted IFRS 16, Leases ("IFRS 16") at January 1, 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognized in retained earnings at the date of initial application. Please refer to note 3 of the Company's Consolidated Financial Statements for the year ended December 31, 2019 for details.

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

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

(4) "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.

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

(6) "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.

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

(8) "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 FOURTH QUARTER 2019 OPERATING RESULTS

Revenue

Revenue for the three months ended December 31, 2019 increased by $46.8 million, or 23.3%, to $247.5 million compared to $200.8 million for the same period in 2018. The increase is primarily due to the Mercer acquisition, representing 18.2%. The organic revenue growth for the period was 5.1% primarily due to growth in Administrative Solutions, Health and Productivity Solutions and Well-Being Solutions businesses.

Salaries, Benefits and Contractor Expenses

Salaries, benefits and contractor expenses for the three months ended December 31, 2019 increased by $33.3 million or 24.4%, to $170.0 million compared to $136.7 million for the same period in 2018. The increase in compensation expense is mainly due to the Mercer acquisition and business growth.

Other Operating Expenses

Other operating expenses for the three months ended December 31, 2019 increased by $2.2 million, or 6.1%, to $38.5 million compared to $36.3 million for the same period in 2018. The increase is mainly due to the Mercer acquisition, partially offset by lower Transformation project costs compared to the same quarter last year and the adoption of IFRS 16.

Finance Costs

Finance costs for the three months ended December 31, 2019 increased by $3.6 million, or 58.9%, to $9.6 million compared to $6.0 million for the same period in 2018. The increase is due to increased borrowings under the Company's Credit Facility agreement to finance the Mercer acquisition, accelerated amortization of deferred debt issuance cost as a result of the redemption of convertible debentures, as well as finance costs recognized due to the adoption of IFRS 16 on January 1, 2019.

Depreciation and Amortization

Depreciation and amortization for the three months ended December 31, 2019 increased by $8.5 million, or 49.9%, to $25.5 million compared to $17.0 million for the same period in 2018. The increase is primarily due to depreciation of right-of-use ("ROU") assets on the adoption of IFRS 16 and increased amortization charges related to acquired intangibles from the Mercer acquisition and internally developed software.

Income Tax Expense

Income tax expenses for the three months ended December 31, 2019 was $1.5 million compared to $1.3 million for the same period in 2018. The higher income tax expense was due to higher non-deductible items than the same period of last year.

Profit for the period

As a result of the changes noted above, the profit for the three months ended December 31, 2019 decreased by $0.9 million to $2.6 million compared to $3.5 million for the same period in 2018.

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

Adjusted EBITDA and EBITDA

Adjusted EBITDA increased by $12.4 million, or 34.7%, to $48.0 million compared to $35.7 million for the same period in 2018. The increase is primarily due to the Mercer acquisition, a decrease in other operating expenses as a result of the adoption of IFRS 16 and organic growth. Adjusted EBITDA excludes adjusted items, which do not constitute a part of the Company's on-going operating expenses. Adjusted items include transformation project costs and acquisition related transaction and integration costs, which are described in the analysis of the year ended December 31, 2019 operating results section below.

EBITDA increased by $11.6 million to $39.4 million compared to $27.8 million for the same period in 2018. The increase is primarily due to the same factors as noted above, partially offset by higher adjusted items compared to same quarter last year.

Free Cash Flow

Free Cash Flow for the three months ended December 31, 2019 decreased by $1.9 million to $12.0 million compared to $13.9 million for the same period in 2018. The decrease is mainly due to higher capital expenditures of $10.4 million (see Capital Expenditures section below) and partially offset by higher cash provided by operating activities of $8.5 million.

Normalized Free Cash Flow

Normalized Free Cash Flow for the three months ended December 31, 2019 decreased by $0.6 million to $17.6 million compared to $18.3 million for the same period in 2018. The decrease is mainly due to higher capital expenditures of $10.4 million, finance costs paid of $2.3 million and current income tax expense of $0.9 million, partially offset by higher cash generated from operating activities before changes in non-cash operating working capital and EBITDA adjustments of $12.9 million.

ANALYSIS OF YEAR ENDED DECEMBER 31, 2019 OPERATING RESULTS

Revenue

Revenue for the year ended December 31, 2019 increased by $166.6 million, or 23.1%, to $888.9 million compared to $722.3 million in 2018. The increase is primarily due to Mercer and LifeWorks acquisition related revenue, representing 17.3%. The organic revenue growth for the year was 5.7% primarily due to growth in the Administrative Solutions, Health and Productivity Solutions and Well-Being Solutions businesses.

Salaries, Benefits and Contractor Expenses

Salaries, benefits and contractor expenses for the year ended December 31, 2019 increased by $116.2 million, or 24.0%, to $599.5 million compared to $483.3 million in 2018. The increase in compensation expense is mainly due to the Mercer and LifeWorks acquisitions, and business growth.

Other Operating Expenses

Other operating expenses for the year ended December 31, 2019 increased by $12.0 million, or 9.7%, to $135.6 million compared to $123.6 million in 2018. The increase is mainly due to the Mercer and LifeWorks acquisitions, and business growth, partially offset by lower transformation project costs, LifeWorks transaction costs in last year and the adoption of IFRS 16.

Finance Costs

Finance costs for the year ended December 31, 2019 increased by $13.7 million, or 78.6% to $31.1 million compared to $17.4 million in 2018. The increase in finance costs is due to increased borrowings under the Company's credit facility agreement to finance the LifeWorks acquisition in July 2018 and the Mercer acquisition in August 2019, accelerated amortization of deferred debt issuance costs as a result of the redemption of convertible debentures, as well as finance costs recognized due to the adoption of IFRS 16.

Depreciation and Amortization

Depreciation and amortization for the year ended December 31, 2019 increased by $40.0 million, or 73.9%, to $94.1 million compared to $54.1 million in 2018. The increase is primarily due to depreciation of ROU assets on the adoption of IFRS 16 and increased amortization charges related to acquired intangibles from the Mercer and LifeWorks acquisitions as well as internally developed software.

Income Tax Expenses

Income tax expenses for the year ended December 31, 2019 decreased by $2.4 million, or 19.9%, to $9.5 million compared to $11.9 million in 2018 due to lower profit from operations before tax for the year.

Profit for the year

As a result of the changes noted above, the profit for the year ended December 31, 2019 was $19.0 million compared to $21.8 million for 2018.

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

Adjusted EBITDA and EBITDA

Adjusted EBITDA increased by $45.5 million, or 33.2%, to $182.5 million compared to $137.0 million in 2018. The increase is primarily due to the Mercer acquisition, a decrease in other operating expenses as a result of the adoption of IFRS 16, a full year of LifeWorks EBITDA following its acquisition in the previous year and organic growth. 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 years ended December 31, 2019 and December 31, 2018:

- Transformation project costs: To support the Company's growth strategy, we engaged a third-party firm in 2018 to drive long-term value in the form of earnings and cash flow improvement through changes in the way the Company operates. These costs represent fees payable to the third-party firm, severance and other transition costs. The fees payable to the third-party firm are contingent on the Company achieving the activities required to realize the value of the initiatives.

- LifeWorks integration represents costs to integrate the LifeWorks business with our existing Well-Being Solutions business to achieve the target synergies. The integration of LifeWorks' operations with our existing Well-Being Solutions practice remains on schedule and continues to realize the expected synergies.

- Mercer integration and transaction costs represents costs to integrate the clients, employees and operations with our existing Administrative Solutions business. The transaction costs represent external legal and other professional fees incurred with respect to the acquisition.

- LifeWorks transaction costs represent advisory, legal, as well as other professional and regulators fees incurred with respect to the LifeWorks acquisition, which was completed in July 2018.

EBITDA increased by $48.5 million to $154.4 million compared to $105.9 million in 2018. The increase is primarily due to the same factors as noted above and lower adjusted items compared to last year.

Free Cash Flow

Free Cash Flow for the year ended December 31, 2019 increased by $10.8 million to $39.2 million compared to $28.4 million in 2018. The increase is mainly due to higher cash provided by operating activities of $27.4 million offset by higher capital expenditures of $16.6 million (see Capital Expenditures section below) compared to 2018.

Normalized Free Cash Flow

Normalized Free Cash Flow for the year ended December 31, 2019 increased by $18.4 million to $93.5 million compared to $75.1 million in 2018. The increase is mainly due to higher cash generated from operating activities before changes in non-cash operating working capital and EBITDA adjustments of $45.8 million, partially offset by higher capital expenditures of $16.6 million, increased current income tax expense of $1.9 million, and higher finance costs paid of $8.9 million.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

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

Cash Flow Information

Selected Consolidated Financial Information:

(In thousands of dollars) *Cash provided by (used in):*	**Year ended December 31, 2019**	**Year ended December 31, 2018**
Operating activities	$ 92,233	$ 64,792
Financing activities	31,275	369,814
Investing activities	(110,716)	(438,331)
Increase (Decrease) in cash	$ 12,792	$ (3,725)

Cash provided by operating activities for the year ended December 31, 2019 increased by $27.4 million to $92.2 million compared to $64.8 million in 2018. The increase is due to lower income taxes paid of $13.6 million and higher cash generated from operating activities of $22.7 million mainly due to the adoption of IFRS 16 as well as increased EBITDA, partially offset by higher finance costs paid of $8.9 million.

Cash provided by financing activities for the year ended December 31, 2019 decreased by $338.5 million to $31.3 million compared to cash provided by financing activity of $369.8 million in 2018. The decrease is due to lower net proceeds from the issuance of shares of $220.7 million used to fund the LifeWorks acquisition in prior year, a net decrease in cash provided by the revolving facility of $102.2 million, higher dividend payments of $5.0 million as a result of an increase in the number of shares outstanding and principal payment of leases under IFRS 16 of $13.5 million, partially offset by $2.9 million of lower costs incurred to modify credit facilities.

Cash used in investing activities for the year ended December 31, 2019 decreased by $327.6 million to $110.7 million compared to $438.3 million in 2018. This decrease was primarily due to a decline in cash used for business acquisitions of $342.6 million due to the LifeWorks acquisition in prior year, net of the Mercer acquisition, and $1.6 million cash received from principal payment of subleases, partially offset by higher capital expenditures of $16.6 million due to the Mercer integration and business growth.

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 in 2019. The Company continued to declare the same monthly dividend amount in January and February 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 December 31, 2019 was 54.0% compared to 61.2% for the same period in 2018. The decrease in the ratio is mainly due to higher cash generated from operating activities before changes in non-cash operating working capital and EBITDA adjustments. The twelve-month rolling Normalized Payout Ratio, including changes in adjusted non-cash operating working capital at December 31, 2019 was 89.9% compared to 71.0% for the same period in 2018. The increase in the ratio is mainly due to change in non-cash operating working capital primarily as a result of the increase in net working capital post the Mercer acquisition.

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 December 31, 2019 increased by $10.4 million to $22.4 million compared to $12.0 million for the same period in 2018. The increase is mainly due to $12.0 million of Mercer integration related expenditures partially offset by lower expenditures for hardware and purchased software. For the year ended December 31, 2019, our capital expenditures increased by $16.7 million to $53.1 million from $36.4 million in 2018; $13.9 million of the increase is related to Mercer integration and the remaining increase is due to internally developed software, hardware and purchased software. The increase in capital expenditures was required to support ongoing business growth and needs as well as investing in new technologies that will benefit the business in the long term.

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	$ 473,200	$ –	$ –	$ –	$ 473,200	$ –	$ –
Convertible debentures	40,699	40,699	–	–	–	–	–
Guaranteed future consideration related to acquisitions	9,074	9,074	–	–	–	–	–
Leases (net) and software licenses	128,784	22,200	21,663	20,278	16,844	12,584	35,215
Total	**$ 651,757**	**$ 71,973**	**$ 21,663**	**$ 20,278**	**$ 490,044**	**$ 12,584**	**$ 35,215**

Subsequent to December 31, 2019, the Company entered into a lease agreement for office premises with a total commitment of $84.6 million over a fifteen year term commencing in 2021. The minimum payments due in each of the next five years and thereafter are expected to be: $2.7 million in 2021, $5.4 million per year in 2022, 2023, and 2024, and $65.7 million thereafter.

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 $25.2 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 December 31, 2019.

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 December 31, 2019**	**As at December 31, 2018**
Cash (Bank indebtedness, net of cash)	$ 3,651	$ (9,141)
Long-term debt, net of debt issuance costs	470,456	374,381
Convertible debentures, net of issuance costs	40,699	83,117
Shareholders' equity	618,388	606,404

Long-term debt

The long-term debt, net of debt issuance costs, increased by $96.1 million from $374.4 million as at December 31, 2018 to $470.5 million as at December 31, 2019. This increase is the result of an increase in borrowings under the Company's credit facility agreement to finance business growth and acquisition related payments.

As at December 31, 2019, the Company had a revolving facility of $600 million (including a swing line of $14.0 million) under its existing Credit Facility Agreement ("Agreement") which has a maturity date on July 27, 2023. At December 31, 2019 the Company had $235.0 million borrowed in Canadian dollars, $238.2 million (US$ 183.4 million) borrowed in US dollars and utilized $2.9 million of the swing line available.

The interest rates for the Agreement are floating, based on a margin over certain referenced rates of interest. The applicable margin may vary up or down depending on the ratio of the Company's consolidated debt to Adjusted EBITDA, as defined in the Agreement. The Agreement is 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 3.5:1.0 (or not more than 4.0:1.0 for the twelve-month period immediately following the completion of a permitted acquisition, as defined in the Agreement, with a purchase price of $50 million or more), and an EBITDA to interest expense ratio of not less than 2.0:1.0.

The Company was in compliance with all of the required financial covenants as at December 31, 2019.

The Company entered into interest rate swap agreements to hedge against the variable interest rate component borrowed under the Agreement. The interest rate swaps have been designated as cash flow hedges and their terms are as follows:

- $50 million for the period from November 29, 2017 up to and ending December 20, 2020 at an interest rate of 1.79%, before the applicable margin, for the duration of this period

- $130 million for the period from September 4, 2018 up to and ending July 27, 2023 at an interest rate of 2.59%, before the applicable margin, for the duration of this period

The Company periodically enters into short term cross-currency interest rate swap agreements with one of the syndicated banks under the Credit Facility Agreement to help manage interest costs. Under this agreement, the Company would borrow in US$ and swap the amount for Canadian borrowings for approximately one month enabling the Company to save on interest while protecting the Company from any foreign exchange exposure on settlement. As at December 31, 2019, the Company had US$131.4 million of debt under this arrangement which was settled on January 5, 2020 with no net foreign exchange gain or loss.

Convertible debentures

In June 2016, the Company issued $86.0 million principal amount of 4.75% Convertible Unsecured Subordinated Debentures (the "4.75% Convertible Debentures") for net proceeds of $82.0 million. The 4.75% Convertible Debentures pay interest semi-annually on June 30 and December 31, commencing with the initial interest payment on December 31, 2016 and have a maturity date of June 30, 2021.

These debentures are convertible at the option of the holder to common shares at a conversion price of $25.10 per common share. The Company has the option to redeem the 4.75% Convertible Debentures on and after June 30, 2019 and at any time prior to June 30, 2020 at a redemption price equal to 100% of their principal 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 $25.10. On and after June 30, 2020, but prior to the maturity date, the 4.75% Convertible Debentures are redeemable at a redemption price equal to 100% of their principal amount plus accrued and unpaid interest. On redemption or maturity, the Company may elect to repay the principal and satisfy its interest obligations by issuing common shares.

On December 11, 2019, the Company issued a redemption notice to redeem all the 4.75% Convertible Debentures issued and outstanding on January 10, 2020 in respect of the aggregate outstanding principal amount of $80.7 million of the Debentures as of the notice date. As at December 31, 2019, a total of $45.3 million of the 4.75% Convertible Debentures was converted at the holders' request into 1.8 million Common Shares of the Company at a conversion price of $25.10 per Common Share, of which $40.0 million of the Convertible Debentures was converted to 1.6 million Common Shares of the Company from the effective date of the redemption notice to December 31, 2019.

As at January 9, 2020, an additional $39.2 million of the 4.75% Convertible Debentures was converted at the holder's request into 1.6 million Common Shares of the Company at a conversion price of $25.10 per Common Share. The remaining $1.6 million principal amount was redeemed for cash at a price of one thousand dollar per 4.75% Convertible 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 December 31, 2019**	**As at December 31, 2018**
Current assets	$ 270,633	$ 212,539
Non-current assets	1,259,585	1,135,803
Current liabilities	227,471	142,886
Non-current liabilities	684,359	599,052

Current Assets

Current assets as at December 31, 2019 increased by $58.1 million to $270.6 million from $212.5 million as at December 31, 2018. The increase is primarily attributable to higher trade and other receivables and unbilled fees by $46.9 million due to the Mercer acquisition and growth in the business. The remaining increase relates to increases in the following balances: $6.6 million of cash, $4.7 million of prepaid expenses, and $1.6 million of finance lease receivables on the adoption of IFRS 16. These increases are partially offset by decreases of $1.2 million in cash and investment held in trust and $0.5 million in deferred implementation costs.

Non-current Assets

Non-current assets as at December 31, 2019 increased by $123.8 million to $1,259.6 million from $1,135.8 million as at December 31, 2018. Capital assets increased by $78.1 million due to $72.8 million of ROU assets recognized on the adoption of IFRS 16 and additions during the year, net of depreciation, and the remaining increase is due to higher computer hardware, net of depreciation. Intangible assets increased by $25.4 million due to the Mercer acquisition and additions to internally developed and purchased software, net of amortization. Goodwill increased by $12.8 million due to $23.0 million of additions from the Mercer acquisition, partially offset by a LifeWorks acquisition adjustment and foreign exchange movement. Other increases include $3.4 million of finance lease receivables relating to the adoption of IFRS 16 and the non-current portion of deferred implementation costs of $4.5 million.

Current Liabilities

Current liabilities as at December 31, 2019 increased by $84.6 million to $227.5 million from $142.9 million as at December 31, 2018. The increase is primarily due to convertible debentures of $40.7 million classified as current liabilities following the redemption announcement in December 2019 and an increase in future consideration related to acquisitions of $22.7 million due to the Mercer acquisition. Lease liabilities of $18.6 million were recognized in 2019 due to the adoption of IFRS 16 and new leases during the year. An increase in trade and other payables of $4.7 million is mainly due to the addition of Mercer related expense accruals, an increase in the cross currency and interest rate swap liabilities of $4.2 million and an increase in income taxes payable of $3.9 million. These increases were partially offset by decreases of $2.9 million in deferred revenue, a decrease in bank indebtedness of $6.2 million and a decrease in insurance premium liabilities of $1.2 million.

Non-current Liabilities

Non-current liabilities as at December 31, 2019 increased by $85.3 million to $684.4 million from $599.1 million as at December 31, 2018. The increase is mainly due to an increase in long-term debt of $96.1 million to fund the Mercer acquisition and business growth and the long-term portion of lease liabilities of $80.6 million recognized on the adoption of IFRS 16 and new leases during the year. Deferred revenue also increased by $12.9 million. These increases were partially offset by a decrease in the convertible debenture payable by $83.1 million due to its re-classification from non-current liabilities to current liabilities and a decrease of $19.7 million in other liabilities due to the adoption of IFRS 16.

As a result of the changes in current assets and current liabilities discussed above, working capital decreased by $26.5 million from $69.7 million as at December 31, 2018 to $43.2 million as at December 31, 2019.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires us to make estimates and assumptions that affect the reported values of assets and liabilities as well as disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.

These estimates are reviewed periodically and, as adjustments become necessary, they are reported in profit or loss in the periods in which they become known. Accordingly, actual results could differ from these estimates. The Company’s significant accounting policies are presented in note 3 of the Consolidated Financial Statements and notes thereto for the years ended December 31, 2019 and 2018. The accounting estimates that are critical to our business relate to the following items:

Revenue recognition

Where an Administrative Solutions contract requires the delivery of multiple components, the Company is required to assess the criteria for the recognition of revenue related to each component. These assessments require judgment by management to determine whether a component is a separate performance obligation, and where applicable, the allocation of the transaction price to the separate performance obligations. Amongst other factors, management considers whether the customer can benefit from the implementation services on their own, and considers budgeted salary costs associated with each phase of the service contract to derive fair value estimates.

Unbilled fees

The Company is required to assess the recoverability of fees on services provided but not yet billed. This assessment requires judgment by management to determine whether fees will be less than fully recoverable through invoicing. Amongst other factors, management considers the solvency of the client, the age of the outstanding unbilled fees balance, the fee arrangement and historic client experience. If future billings differ from estimates, future profits could be materially affected.

Intangible assets

(a) Internally-developed software

The Company is required to estimate the expected period of benefit over which costs should be amortized. Management considers the anticipated rate and timing of technological obsolescence and competitive pressures, historical usage patterns, and internal business plans for the projected use of the software in deriving its useful life. Due to the rapidly changing technological environment and the uncertainty of the development processes themselves, future results could be affected if management's current assessment of future benefits materially differs from actual performance.

(b) Other intangible assets

Other intangible assets consist of those acquired through business acquisitions. Purchase price allocations involve significant estimates and assumptions regarding cash flow projections, growth projections, economic risk, and cost of capital. If future events or results differ adversely from these estimates and assumptions, the Company could incur increased amortization or impairment charges in future periods.

Goodwill

The Company’s annual goodwill impairment review involves significant estimates and assumptions regarding cash flow projections, growth projections, economic risk, and cost of capital. If future events or results differ adversely from these estimates and assumptions, the Company could incur impairment charges in future periods.

Trade receivables (expected credit losses)

The Company is required to assess whether accounts receivables are collectible from customers. Accordingly, management establishes an allowance for expected credit losses for non-payment and delinquent accounts based on historic trends of the probability of default timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. If future collections differ from estimates, future profits could be adversely affected.

Corporate income taxes

In determining the amount of current and deferred taxes, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Deferred income tax assets are recognized for all unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary differences can be utilized. Management interprets the tax legislation for each jurisdiction in which the Company operates and makes assumptions about the expected timing of the reversal of deferred income tax assets and liabilities. If management's interpretations of the legislation differ from those of the tax authorities or if the actual timing of the reversals of the deferred income tax assets and liabilities is not as anticipated, the provision for income taxes could increase or decrease in future periods.

Provisions

In identifying required provisions, the Company has to assess the probability of the future outflows of resources. Estimates must subsequently be made by management to approximate the timing and amount of these liabilities. If future events or results differ adversely from these estimates, future profits could be adversely affected.

Future consideration related to acquisitions

The Company may pay future consideration related to acquisitions based upon performance measures contractually agreed at the time of purchase. Management estimates the future consideration payable based on underlying contract terms, and best estimates of the future performance of the acquiree. Depending on the future performance of the acquiree, management estimates of the amounts payable for future consideration related to acquisitions may materially differ from the consideration ultimately paid.

Changes in Accounting Policies

The Company has adopted the following new and revised standards, along with any consequential amendments. These changes were made in accordance with the applicable provisions.

(a) IFRS 16

The Company adopted IFRS 16 effective January 1, 2019. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Company, as a lessee, has recognized ROU assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Company has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

A. As a lessee

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not assessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after January 1, 2019.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at January 1, 2019. In accordance with IFRS 16, the Company has elected to measure its ROU assets at an amount equal to the lease liability, adjusted by any prepaid or accrued lease payments.

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Apply a single discount rate to a portfolio of leases with similar characteristics;
- Account for leases with a remaining term of less than twelve months as at January 1, 2019 as short-term leases; and
- The use of hindsight in assessing the lease term.

B. As a lessor

The Company reassessed the classification of its sublease contracts previously classified as operating leases under IAS 17 and concluded that its subleases were finance leases under IFRS 16. As a result, the Company recognized a finance lease receivable for each sublease and a lease liability under the head lease on transition to IFRS 16. An adjustment to opening retained earnings reflected the difference between the finance lease receivables and lease liabilities, after considering any amounts previously recognized under IAS 17 or IAS 37.

Please refer to note 3(u)(a) of the Company's Consolidated Financial Statements for the year ended December 31, 2019 for details of the IFRS 16 impacts of the financial statements.

(b) IFRIC Interpretation 23, Uncertainty over Income Tax Treatments ("The Interpretation")

The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Company adopted the interpretation effective January 1, 2019.

The Interpretation requires the Company to: a) contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution; and b) determine if it is probable that the tax authorities will accept the uncertain tax treatment or if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. The adoption of IFRIC 23 did not have a material impact on the Company's Consolidated Financial Statements for the year ended December 31, 2019.

Future Accounting Changes

(a) Definition of a business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 – Business Combinations. The objective of the amendments is to assist entities in determining whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments apply prospectively to acquisitions that occur in annual periods beginning on or after January 1, 2020, with earlier application permitted. The Company does not expect any significant impact from the adoption of these amendments.

(b) Definition of material

In October 2018, the IASB issued amendments to IAS 1 – *Presentation of Financial Statements* and IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of "material" across the standards and to clarify certain aspects of the definition. The objective of this amendment is to improve disclosure effectiveness in the financial statements by improving the understanding of the existing requirements rather than to significantly impact an entity's materiality judgemnts. The amendments apply prospectively to annual periods beginning on or after January 1, 2020, with earlier application permitted. The Company does not expect any significant impact from the adoption of these amendments.

(c) Conceptual framework for financial reporting

In March 2018, the IASB issued a comprehensive set of concepts for financial reporting: the revised Conceptual Framework for Financial Reporting ("Conceptual Framework"), which replaces its previous version. It assists companies in developing accounting policies when no IFRS standard applies to a particular transaction and it helps stakeholders more broadly to better understand the standards.

The revised Conceptual Framework's effective date is January 1, 2020, with earlier application permitted. The Company does not expect any impact upon its adoption.

(d) Interest rate benchmark reform

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 – *Financial Instruments: Disclosures*. The objective of these amendments is to support the provision of useful financial information during the period of uncertainty arising from the phasing out of interest-rate benchmarks such as interbank offered rates. The amendments enable entities to use hedge accounting despite the uncertainties surrounding the use of interbank offered rates and require entities to provide additional information about their hedging relationships which are directly affected by these uncertainties.

The amendments apply retrospectively to annual periods beginning on or after January 1, 2020, with earlier application permitted. The Company does not expect a significant impact on its Consolidated Financial Statements.

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.

Ability to Maintain Profitability and Manage Growth

There can be no assurance that Morneau Shepell will be able to sustain profitability in future periods. Morneau Shepell's future operating results will depend on a number of factors, including its ability to continue to successfully execute its strategic initiatives.

There can be no assurance that Morneau Shepell will be successful in achieving its strategic plan or that its strategic plan will enable the firm to maintain its historical revenue growth rates or to sustain profitability. Failure to successfully execute any material part of Morneau Shepell's strategic plan could have a material adverse effect on its business, financial condition and operating results.

There can be no assurance that Morneau Shepell will be able to effectively manage its growth, and any failure to do so could have a material adverse effect on the firm's business, financial condition and operating results.

Competition

Morneau Shepell operates in a highly competitive international market. As a result, Morneau Shepell competes with many domestic and international firms. Some of its competitors have achieved substantially more market penetration in certain of the areas in which Morneau Shepell competes. In addition, some of Morneau Shepell's competitors may have more financial resources and/or financial flexibility than Morneau Shepell. Furthermore, Morneau Shepell's business relies, in part, upon its ability to develop and implement technology solutions, in a cost effective manner that anticipates and keeps pace with rapid and continuing changes in technology, industry standards and client preferences.

Morneau Shepell's competitors may offer new technologies more efficiently or cost effectively than Morneau Shepell. Competitive forces could result in reduced market share and thus have a material adverse effect on Morneau Shepell's business, financial condition and operating results.

Reliance on Information Systems and Technology and Confidentiality of Client Information

Information systems are an integral part of Morneau Shepell's business and the products and services offered to its clients. Morneau Shepell relies on these systems to maintain accurate, accessible and secure records.

In the course of delivering its products and services, Morneau Shepell collects and uses sensitive personal and financial information pertaining to its corporate, institutional and government clients as well as individual users. This information includes personal identification such as date of birth, social insurance numbers and driver's license numbers as well as health, benefits and financial information. The collection, use and protection of such information is governed by data privacy laws in multiple jurisdictions, including the Health Insurance Portability and Accountability Act in the US, and the General Data Protection Regulation in the U.K.

Due to the nature of the information involved in its products and services, Morneau Shepell is subject to cybersecurity risks and consequences of disclosure. These risks can range from internal human error to uncoordinated individual attempts to gain unauthorized access to its information technology systems, to sophisticated and targeted measures directed at Morneau Shepell and its systems, clients or service providers. Any such disruptions in Morneau Shepell's systems or the failure of the systems to operate as expected could, depending on the magnitude of the problem, result in the loss of client information (including personal information), a loss of current or future business, reputational harm and/or potential claims against Morneau Shepell, all of which could have a material adverse effect on Morneau Shepell's business, financial condition and operating results.

Morneau Shepell continues to enhance its efforts to mitigate these risks.

It invests in technology security initiatives to better identify and address any vulnerabilities. This includes measures such as annual third party internal and external vulnerability assessments and third party code reviews, systems monitoring, data monitoring and assessments. Morneau Shepell has also improved the security testing capabilities of its internal teams. Morneau Shepell also invests in technology to remain current and effective in terms of security controls. In addition, Morneau Shepell continues to increase the awareness its employees have of security policies and procedures through ongoing communications and privacy and security training. Morneau Shepell ensures that its service providers adopt similar measures through the use of security agreements.

From a systems and infrastructure perspective, Morneau Shepell uses a third party co-location sites and the cloud for data storage to decrease the probability of loss in the event of a business interruption or disaster. Internally, it maintains a complete inventory of all servers and infrastructure components and uses data loss prevention features to reduce the likelihood of improper disclosure of personal and confidential information.

Morneau Shepell's Chief Data and Technology Officer and Senior Director, Security are responsible for establishing, monitoring and maintaining the enterprise technology and security processes and policies with support from third party consultants and the Company's internal information technology, legal and audit departments.

The Company maintains privacy and network liability insurance coverage in the event of a loss arising from a network security failure, privacy event or social engineering fraud commonly referred to a "phishing attack".

The above referenced insurance policy, technology security initiatives and employee awareness measures are assessed on an annual basis as part of Morneau Shepell's comprehensive enterprise risk management process.

While Morneau Shepell has invested and continues to invest in technology security initiatives, information technology risk management and disaster recovery plans, these measures cannot fully insulate it from cybersecurity incidents, technology disruptions or data loss, which could adversely impact its competitiveness and result of operations.

Reputational Risk

Morneau Shepell depends to a large extent upon its relationships with its clients and its reputation for high-quality services. As a result, the impact of client dissatisfaction with Morneau Shepell’s services or products may be more damaging in Morneau Shepell’s business than in other businesses. Moreover, if the firm fails to meet its contractual or regulatory obligations, Morneau Shepell could be subject to legal liability and a loss of client relationships.

Satisfactory Performance of Obligations

In its contracts with clients, Morneau Shepell is sometimes committed to meeting identified service levels and/or timelines. If the service levels/timelines are not met, Morneau Shepell may experience reduced revenue, incur significant additional costs or be held responsible for the costs incurred by the client for failure to meet the service level/timeline. Morneau Shepell's success depends in large part upon whether it fulfills these and other contractual obligations with clients and maintains client satisfaction. If Morneau Shepell fails to satisfactorily perform its contractual obligations, its clients could terminate contracts and/or take legal action against Morneau Shepell. Such occurrences could result in a loss of its professional reputation and in extra costs needed to defend or rectify the situation and thus have a material adverse effect on Morneau Shepell's business, financial condition and operating results.

Economic Conditions

An economic slowdown could cause a decline in demand for Morneau Shepell’s services. Growth in its clients’ businesses may be affected by economic slowdowns and could therefore potentially have an impact on Morneau Shepell’s operating results. During an economic downturn, Morneau Shepell clients and potential clients may reduce their employee populations, delay services or projects, or defer contracts currently underway. This situation could also lead to greater delays and defaults in payments or debt collection, resulting in lower operating results. Because of lower revenue during an economic slowdown, competition may increase and prices may be reduced by certain competitors to maintain or expand their market share. Pricing and profitability could be adversely affected as a result.

Pandemics, Natural Disasters or Other Unanticipated Events

The occurrence of pandemics, natural disasters, or other unanticipated events, in any of the areas in which the Company, its clients or its suppliers operate could cause disruptions in the Company's operations. In addition, pandemics, natural disasters or other unanticipated events could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Potential Risks Associated with Acquisitions

In connection with acquisitions completed by Morneau Shepell, there may be undisclosed or unknown claims against, liabilities of, or issues concerning an acquired business that Morneau Shepell failed to discover or was unable to quantify in its due diligence which it conducted prior to the execution of an acquisition. Morneau Shepell may not be indemnified for some or all of these claims, liabilities or issues. The existence of any material claims, liabilities or issues could have a material adverse effect on Morneau Shepell’s business, financial condition, liquidity and results of operations.

Acquisition transactions involve risks that could materially and adversely affect Morneau Shepell's business plan, including the failure of Morneau Shepell to realize the results expected from an acquisition. In order to achieve the benefits of a completed acquisition, Morneau Shepell will rely upon its ability to successfully retain staff, consolidate functions and integrate operations, procedures and personnel in a timely and efficient manner, as well as the ability to realize growth opportunities and potential synergies from combining an acquired business and related operations with those of Morneau Shepell. There is a risk that some or all of the expected benefits will fail to materialize, or may not occur within the time periods anticipated by management. The integration of an acquired business and related operations require the dedication of management effort, time and resources, which may divert management's focus and resources from other strategic opportunities and from operational matters during the integration process.

Dependence on Key Clients and Key Channel Partners

As clients may terminate engagements with minimum notice, there can be no assurance that Morneau Shepell will be able to retain relationships with its largest clients. Moreover, there can be no assurance that such clients will continue to use Morneau Shepell's services in the future. Any negative change involving any of Morneau Shepell's largest clients, including but not limited to a client's financial condition or desire to continue using Morneau Shepell's services, could result in a significant reduction in revenue which could have a material adverse effect on Morneau Shepell's business, financial condition and operating results. No one Morneau Shepell client makes up more than 10% of Morneau Shepell's total revenue for the years ended December 31, 2019 and 2018.

Morneau Shepell markets its services directly to end-user employers, associations and universities as well as through certain channel partners, primarily insurance companies (many of which compete amongst themselves directly). There can be no assurance that Morneau Shepell will be able to maintain its existing relationships with all these channel partners, which could have a material adverse effect on Morneau Shepell's business, financial condition and operating results.

Reliance on Key Professionals

Morneau Shepell's operations are dependent upon the abilities, experience and efforts of its professionals, many of whom have excellent reputations and a significant number of contacts in the industries in which Morneau Shepell operates. Morneau Shepell's business depends, in part, on its professionals' abilities to develop and maintain client relationships and alliances with businesses such as financial services companies, healthcare organizations, insurance companies, business process outsourcing organizations and other companies, in order to develop, market and deliver its services. Profitability could be negatively impacted if Morneau Shepell's client relationships or business alliances are discontinued due to the loss of professional staff or if the firm has difficulty developing new alliances.

Should any member of its professional staff be unable or unwilling to continue his or her relationship with Morneau Shepell, this change could have a material adverse effect on Morneau Shepell's business, financial condition and operating results.

Risk of Future Legal Proceedings

Morneau Shepell may be threatened with, or may be named as a defendant in, or may become subject to, various legal proceedings in the ordinary course of conducting its business, including lawsuits based upon professional errors and omissions. For example, Pension consulting services involves assumptions and estimates concerning future events, the actual outcome of which cannot be known with certainty in advance. In addition, computational, software programming or data management errors could occur, including security or privacy breaches. The well-being and health and productivity services involve confidential counseling, occupational health activities and disability case management. Each of these activities could potentially put Morneau Shepell in conflict with its customers, their employees, or both.

Possible legal proceedings could also result from matters such as an employee claiming for breach of confidence, failure to provide adequate counsel, or denial of benefits or employment as a result of Morneau Shepell's actions.

Defending lawsuits of this nature could require much management attention, which could divert its focus from operations. Such claims could produce negative publicity that could harm Morneau Shepell's reputation and business. A significant judgment against Morneau Shepell, or the imposition of a significant fine or penalty as a result of a finding that Morneau Shepell failed to comply with laws or regulations, could have a material adverse effect on Morneau Shepell's business, financial condition and operating results.

Protection of Intellectual Property

Morneau Shepell continually develops and improves its proprietary technology solutions for the delivery of its services. No assurance can be given that Morneau Shepell's competitors will not develop substantially similar technology.

Morneau Shepell relies on one or more of the following to protect its proprietary rights: trademarks, copyrights, trade secrets, confidentiality procedures and contractual provisions. Despite Morneau Shepell's efforts to protect its proprietary rights, unauthorized parties may attempt to obtain and use information that Morneau Shepell regards as proprietary. Stopping unauthorized use of Morneau Shepell's intellectual property may be difficult, time-consuming and costly. There can be no assurance that Morneau Shepell will be successful in protecting its proprietary rights and, if it is not, this could have a material adverse effect on Morneau Shepell's business, financial condition and operating results.

Insurance

Morneau Shepell believes that its insurance coverage, including professional errors and omissions insurance, cyber liability insurance, crime insurance, director and officer liability insurance, and commercial general liability insurance coverage address all material insurable risks, provides coverage that is similar to that which would be maintained by a prudent operator of a similar business and is subject to deductibles, limits and exclusions which are customary or reasonable given the cost of procuring insurance and current operating conditions.

However, there can be no assurance that such insurance will continue to be offered on economically feasible terms, that all events that could give rise to a loss or liability are insurable, or that the amounts of insurance will at all times be sufficient to cover each and every loss or claim that may occur involving Morneau Shepell's assets or operations.

Foreign Exchange Risk

The Company realizes a portion of sales and related expenses (net revenue) in foreign currency including U.S. dollars, Australian dollars and British Pounds and is exposed to fluctuations in the value of these currencies relative to the Canadian dollar.

The net revenue exposure denominated in foreign currencies was $97.6 million for the year ended December 31, 2019. An increase in foreign revenue would expose Morneau Shepell to fluctuations in exchange rates which may have a material adverse effect on Morneau Shepell's business, financial condition, and operating results.

Indebtedness and Interest Rates

The ability of Morneau Shepell to pay dividends or make other payments or advances will be subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness of Morneau Shepell.

The degree to which Morneau Shepell is leveraged could have important consequences including: Morneau Shepell's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited; a significant portion of Morneau Shepell's cash flow from operations may be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for future operations; certain borrowings will be at variable rates of interest, which exposes Morneau Shepell to the risk of increased interest rates; and Morneau Shepell may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures.

These factors may increase the sensitivity of free cash flow to interest rate variations. Interest rate swap agreements are used as part of Morneau Shepell's program to manage the floating interest rate of Morneau Shepell's Credit Facility.

The Credit Facility contains numerous restrictive covenants that limit the discretion of management with respect to certain business matters. These covenants place significant restrictions on, among other things, the ability of Morneau Shepell to create liens or other encumbrances, to pay dividends or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity.

In addition, the Credit Facility contains financial covenants that require Morneau Shepell to meet certain financial ratios and financial condition tests. A failure to comply with the obligations in the Credit Facility could result in a default which, if not cured or waived, could result in a reduction or termination of dividends by Morneau Shepell and permit acceleration of the relevant indebtedness. If the indebtedness under the Credit Facility was to be accelerated, there can be no assurance that the assets of Morneau Shepell would be sufficient to repay in full that indebtedness. In addition, the Credit Facility matures on July 27, 2023. There can be no assurance that future borrowings or equity financing will be available to Morneau Shepell or available on acceptable terms, in an amount sufficient to fund Morneau Shepell's needs.

Credit Risk

If a counterparty to a financial instrument held by Morneau Shepell fails to discharge their obligation, this could lead to a financial loss for the Company. As at December 31, 2019, the Company's credit risk was limited to the carrying amount of the cash, investments held in trust, unbilled fees (which are contract assets), and accounts receivable as at this date. The Company believes that the credit risk of accounts receivable and unbilled fees is limited for the following reasons:

(a) Risk associated with concentration of credit risk with respect to accounts receivable is limited due to the credit rating of the Company's top 10 clients.

(b) Management regularly reviews and assesses customer accounts and credit risk. Historically, bad debt as a percentage of revenue has been minimal.

The credit risk on cash and investments held in trust is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Cash Dividends are not Guaranteed and will Fluctuate with the Business Performance

As a corporation, Morneau Shepell's dividend policy is at the discretion of its Board of Directors. The ability of Morneau Shepell to make dividend payments, and the actual amount paid is entirely dependent on the operations and assets of its subsidiaries and is subject to various factors applicable to Morneau Shepell and its subsidiaries including financial performance, obligations under credit facilities, fluctuations in working capital, the sustainability of margin and capital expenditure requirements, and applicable laws and regulations.

Market Price and Dilution of Common Shares

The market price of Morneau Shepell's common shares may be subject to wide fluctuations in response to many factors, including variations in operating results of Morneau Shepell, divergence in financial results from expectations, changes in business prospects for Morneau Shepell, general economic conditions, legislative changes, and other events and factors outside Morneau Shepell's control.

Sales of a substantial number of common shares by a significant shareholder in the public market or otherwise could adversely affect the prevailing market prices of the common shares and could impair the Company's ability to raise additional capital through an offering of common shares. The possible perception among the public that these sales will occur could also produce the same effect.

Pursuant to its articles of incorporation, Morneau Shepell is authorized to issue an unlimited number of common shares and 10 million preferred shares for the consideration and on such terms established by the Board of Directors without the approval of any shareholders. Any further issuance of common shares may dilute the interests of existing shareholders. Furthermore, Morneau Shepell may make future acquisitions or enter into financings or other transactions involving the issuance of securities of Morneau Shepell which may be dilutive. In addition, Morneau Shepell may issue shares upon the conversion, redemption or maturity of payment of interest on its convertible debentures. Accordingly, if the debentures are converted this may have a dilutive impact on the Company's earnings per share.

SELECTED ANNUAL INFORMATION

(In thousands of dollars, except per share amounts)	Year ended December 31, 2019[4]	Year ended December 31, 2018[2][3]	Year ended December 31, 2017[1][2][3]
Revenue	$888,889	$722,284	$625,089
Profit for the year	18,968	21,797	33,024
Earnings per share (basic)	0.29	0.36	0.60
Earnings per share (diluted)	0.28	0.36	0.59
Dividends declared per share	0.78	0.78	0.78
Total assets	1,530,218	1,348,342	821,688
Long-term debt[5]	470,456	374,381	179,669

Footnotes:

(1) Certain figures have been restated as a result of the Company's adoption of IFRS 15 on January 1, 2018.

(2) 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.

(3) 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. Profit for the year decreased due to higher amortization on acquired intangibles.

(4) The Company acquired Mercer in Q3 2019 for approximately $76.7 million, which resulted in the increase in total assets. Total long–term debt also increased as the acquisition was financed by a draw down from the Company's Credit Facility. Profit for the year decreased due to higher amortization on acquired intangibles.

(5) Long-term debt excludes convertible debt due to its reclassification to current liabilities as at December 31, 2019.

SUPPLEMENTARY SUMMARY OF QUARTERLY RESULTS

Selected Unaudited Consolidated Financial information:

(in thousands of dollars except per share amounts)

Quarter ended	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018 (4)	September 30, 2018 (4)	June 30, 2018 (4)	March 31, 2018 (4)
Revenue	247,549	223,980	212,666	204,695	200,761	182,805	171,191	167,526
Profit (loss) (3)	2,648	1,332	6,329	8,659	3,450	(9,556)	13,672	14,229
EBITDA(3)	39,433	34,459	39,032	41,460	27,842	11,684	32,785	33,584
Adjusted EBITDA	48,041	43,811	45,882	44,718	35,652	33,989	33,734	33,584
EBITDA margin	15.9%	15.4%	18.4%	20.3%	13.9%	6.4%	19.2%	20.0%
Adjusted EBITDA margin	19.4%	19.6%	21.6%	21.8%	17.8%	18.6%	19.7%	20.0%
Earnings(loss) per share (basic)	0.04	0.02	0.10	0.13	0.05	(0.15)	0.25	0.26
Earnings(loss) per share (diluted)	0.04	0.02	0.10	0.13	0.05	(0.15)	0.24	0.25
Normalized Free Cash Flow	17,636	24,212	27,618	24,013	18,284	23,075	16,922	16,832
Dividends declared	12,739	12,596	12,586	12,533	12,493	12,505	10,504	10,498
Twelve-month rolling normalized payout ratio	54.0%	53.3%	53.9%	58.4%	61.2%	58.0%	60.0%	61.2%
Twelve-month rolling normalized payout ratio, including changes in adjusted non-cash operating working capital	89.9%	82.9%	66.5%	64.2%	71.0%	54.2%	80.2%	74.0%
Total assets (2)	1,530,218	1,483,878	1,397,115	1,409,850	1,348,342	1,331,245	833,815	820,939
Long-term debt (1)(2)	470,456	460,474	408,715	374,752	374,381	384,471	205,538	182,278

Footnotes:

1. Long-term debt excludes convertible debt due to its reclassification as current as at December 31, 2019.
2. 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.
3. 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.
4. 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 and operating effectively as at December 31, 2019.

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 and operating effectively to provide this assurance based on the evaluation of these controls conducted as of December 31, 2019. No changes were made in our internal controls over financial reporting during the fourth quarter or year-ended December 31, 2019, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Additional Information

Morneau Shepell's shares and convertible debentures currently trade on the Toronto Stock Exchange under the symbols MSI and MSI.DB.A, respectively. 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 March 10, 2020.