MORNEAU SHEPELL MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019

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Morneau Shepell Inc. was incorporated pursuant to the laws of the Province of Ontario on October 19, 2010. The Company's principal and head office is located at One Morneau Shepell Centre, 895 Don Mills Road, Suite 700, Toronto, Ontario, M3C 1W3.

This Management's Discussion and Analysis ("MD&A") covers the three and six months ended June 30, 2019 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 and six months ended June 30, 2019, and the MD&A and the audited consolidated financial statements and notes thereto for the year ended December 31, 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 www.sedar.com) and in this MD&A under the heading "Risks and Uncertainties". Those risks and uncertainties include the ability to maintain profitability and manage growth, ability to pay dividends, reliance on information systems and technology, reputational risk, dependence on key clients, reliance on key professionals, the ability to successfully integrate acquisitions and general economic conditions. Many of these risks and uncertainties can affect our actual results and could cause our actual results to differ materially from those expressed or implied in any forward-looking statement made by us or on our behalf. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. All forward-looking statements in this MD&A are qualified by these cautionary statements. These statements are made as of the date of this MD&A and, except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Additionally, we undertake no obligation to comment on analyses, expectations or statements made by third parties in respect of us, our financial or operating results or our securities.

To assist investors in assessing our financial performance, this discussion also makes reference to certain non-IFRS measures such as EBITDA, adjusted EBITDA, EBITDA margin, adjusted EBITDA margin, Free Cash Flow, Normalized Free Cash Flow, 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 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. 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 August 8, 2019, Morneau Shepell had 64,581,979 common shares, nil preferred shares and $86.0 million aggregate principal amount of 4.75% convertible debentures outstanding. In the event all of the outstanding 4.75% convertible debentures are converted into common shares of the Company by the holders prior to their maturity date, the total number of common shares to be issued would be approximately 3,400,000. 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 provider of technology-enabled human resource services that support an integrated approach to well-being. The Company's focus is providing everything its clients need to support the mental, physical, social and financial well-being of their people. The Company's business spans services in employee and family assistance, health and wellness, recognition, pension and benefits administration, retirement and benefits consulting, actuarial and investment services. Morneau Shepell employs almost 5,000 employees who work with some 24,000 client organizations that use its services in Canada, United States and around the globe, directly and through our distribution channel partners.

In 2019, the Company realigned some responsibilities and people across its core lines of business following the LifeWorks Corporation Ltd. ("LifeWorks") acquisition completed on July 27, 2018 and towards the goal of being more responsive to changing client needs. Today the company has four core lines of business, named as follows: Well-Being, Pension and Benefits Administrative Solutions, Retirement Solutions ("RS"), and Health and Productivity Solutions ("HPS").

The Well-Being 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 Pension and Benefits 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 RS business helps organizations design, build and operate sustainable retirement programs that provide a strong ROI 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 HPS, 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 our 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 SECOND QUARTER SUMMARY AND OUTLOOK

In thousands of dollars, except per share amounts	**Three months ended June 30, 2019**	**Three months ended June 30, 2018 (1)**	**Six months ended June 30, 2019**	**Six months ended June 30, 2018(1)**
Revenue	$ 212,666	$ 171,191	$ 417,361	$ 338,717
Adjusted EBITDA	45,882	33,734	90,601	67,318
Adjusted EBITDA margin	21.6%	19.7%	21.7%	19.9%
Adjusted EBITDA per share	0.69	0.60	1.37	1.21
Normalized Free Cash Flow	27,618	16,922	51,634	33,754
Profit	6,329	13,672	14,988	27,902
Earnings per share	0.10	0.25	0.23	0.50

(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 interim financial statements for the three and six months ended June 30, 2019 for details.

Second quarter:

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

- Revenue growth of 24.2% versus the comparative period primarily due to revenue from the LifeWorks acquisition and significant growth in our Pension and Benefits Administrative Solutions business.

- An increase in adjusted EBITDA of 36.0%, or $12.1 million, to $45.9 million versus the comparative period, while improving the Adjusted EBITDA margin to 21.6%. The increase is primarily due to the LifeWorks acquisition, business growth and the impact of adopting IFRS 16.

- Adjusted EBITDA per share was $0.69, a 15.0% increase compared to $0.60 per share in Q2, 2018, due to a higher adjusted EBITDA partially offset by an increase in the number of shares outstanding.

- Profit for the period decreased by $7.3 million to $6.3 million compared to the profit of $13.7 million in the same period in the prior year; the decrease in profit is directly attributable to LifeWorks integration costs and amortization charges.

- The integration of the LifeWorks acquisition with our existing business is progressing well. We are getting encouraging responses to our cloud-based platform from clients. Operationally we expect to realize the synergies and efficiencies over the remainder of 2019 and beyond.

Mercer Acquisition:

During the quarter, the Company announced that it had entered into an agreement to acquire 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$58 million ($77 million) subject to certain post-closing adjustments. The purchase was financed through a draw down from our existing revolving credit facility. The acquisition expands the Company's presence in the United States and strengthens its competitive position in the large market sector. The Company estimates that this acquisition will represent approximately 12% of the Company's consolidated annualized revenue. For details on the purchase consideration and assets acquired please refer to the subsequent events note of the Company's interim financial statements for the three and six months ended June 30, 2019.

Results of Operations	Three Months Ended June 30,		Six Months Ended June 30,	
Selected Unaudited Consolidated Financial Information	2019	2018 [1]	2019	2018 [1]
(In thousands of dollars except per share amounts)				
Revenue	$ 212,666	$ 171,191	$ 417,361	$ 338,717
Deduct:				
Salaries, benefits and contractor expenses	143,419	111,122	276,186	220,428
Other operating expenses	30,582	27,390	61,501	52,331
Finance costs	7,000	3,297	13,962	6,452
Depreciation and amortization	22,538	10,149	44,458	20,368
Share of loss (income) of joint ventures	(197)	44	(474)	25
Income tax expenses	2,995	5,517	6,740	11,211
Profit for the period	**$ 6,329**	**$ 13,672**	**$ 14,988**	**$ 27,902**
Add:				
Finance costs	7,000	3,297	13,962	6,452
Depreciation and amortization	22,538	10,149	44,458	20,368
Depreciation, amortization, and income tax expense on share of income of joint ventures	170	150	343	436
Income tax expenses	2,995	5,517	6,740	11,211
EBITDA[2]	**$ 39,032**	**$ 32,785**	**$ 80,491**	**$ 66,369**
Adjustments:				
Transformation project costs	3,857	–	5,394	–
LifeWorks integration	2,993	–	4,716	–
LifeWorks transaction costs	–	949		949
Adjusted EBITDA	**$ 45,882**	**$ 33,734**	**$ 90,601**	**$ 67,318**
EBITDA margin [3]	18.4%	19.2%	19.3%	19.6%
Adjusted EBITDA margin [3]	21.6%	19.7%	21.7%	19.9%
Cash provided by (used in) operating activities	(6,365)	(2,091)	20,761	14,825
Deduct: Capital expenditures [4]	(9,067)	(7,196)	(19,236)	(14,046)
Free Cash Flow [5]	**$ (15,432)**	**$ (9,287)**	**$ 1,525**	**$ 779**
Add (deduct):				
Changes in non-cash operating working capital	38,332	28,793	42,295	35,839
Current income taxes, net of income taxes paid	(2,132)	(3,533)	(2,296)	(3,813)
Adjustments to EBITDA	6,850	949	10,110	949
Normalized Free Cash Flow [6]	**$ 27,618**	**$ 16,922**	**$ 51,634**	**$ 33,754**
Earnings per Share:				
Basic	$ 0.10	$ 0.25	$ 0.23	$0.50
Diluted	$ 0.10	$ 0.24	$ 0.23	$0.50
EBITDA per Share (basic)	$ 0.59	$ 0.59	$ 1.22	$1.19
Adjusted EBITDA per Share (basic)	$ 0.69	$ 0.60	$ 1.37	$1.21
Dividends declared	12,586	10,504	25,119	21,002
Twelve-month rolling Normalized Payout Ratio [7]	53.9%	60.0%	53.9%	60.0%
Twelve-month rolling Normalized Payout Ratio, including changes in adjusted non-cash operating working capital [8]	66.5%	80.2%	66.5%	80.2%

Footnotes:

(1) The Company has adopted 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 interim financial statements for the three and six months ended June 30, 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. For the twelve-month period ended June 30, 2018, the non-cash operating working capital was adjusted for by $1,165 which represents the working capital impact of a retirement allowance.

ANALYSIS OF SECOND QUARTER 2019 OPERATING RESULTS

Revenue

Revenue for the three months ended June 30, 2019 increased by $41.5 million, or 24.2%, to $212.7 million compared to $171.2 million for the same period in 2018. LifeWorks generated revenue of $30.6 million for the period, representing 17.4% of the revenue growth. The organic revenue growth for the period was 6.8% primarily due to growth in the Pension and Benefits Administrative Solutions business.

Salaries, Benefits and Contractor Expenses

Salaries, benefits and contractor expenses for the three months ended June 30, 2019 increased by $32.3 million, or 29.1%, to $143.4 million compared to $111.1 million for the same period in 2018. The increase in compensation expense is mainly due to LifeWorks (including integration costs), business growth, and the Transformation project (refer to the Adjusted EBITDA and EBITDA discussion in the 'Analysis of Six Months Ended June 30, 2019 Operating Results').

Other Operating Expenses

Other operating expenses for the three months ended June 30, 2019 increased by $3.2 million, or 11.7%, to $30.6 million compared to $27.4 million for the same period in 2018. The increase is mainly due to LifeWorks (including integration costs), business growth, and the Transformation project, partially offset by the adoption of IFRS 16.

Finance Costs

Finance costs for the three months ended June 30, 2019 increased by $3.7 million, or 112.3%, to $7.0 million compared to $3.3 million for the same period in 2018 primarily due to increased borrowings under the Company's credit facility agreement to finance the LifeWorks acquisition in July 2018 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 June 30, 2019 increased by $12.4 million, or 122.1%, to $22.5 million compared to $10.1 million for the same period in 2018. The increase is primarily due to higher amortization of $6.9 million related to intangibles acquired from LifeWorks acquisition, higher internally developed software amortization of $2.5 million, and depreciation on right-of-use assets under IFRS 16 of $3.0 million.

Income Tax Expenses

Income tax expenses for the three months ended June 30, 2019 was $3.0 million compared to income tax expense of $5.5 million for the same period in 2018 mainly due to a higher amortization charge which lowered profit before income taxes in the current period.

Profit for the Period

As a result of the changes noted above, profit for the three months ended June 30, 2019 was $6.3 million compared to a profit of $13.7 million for the same period in 2018.

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

Adjusted EBITDA and EBITDA

Adjusted EBITDA increased by $12.1 million, or 36.0%, to $45.9 million compared to $33.7 million for the same period in 2018. The increase is primarily due to growth in revenue of $41.5 million, partially offset by an increase in salaries and other operating expenses of $29.4 million after EBITDA adjustments. These adjusted EBITDA items do not constitute a part of the Company's on-going operating expenses, and are described in the analysis of the six months ended June 30, 2019 operating results section below.

EBITDA increased by $6.2 million to $39.0 million compared to $32.8 million for the same period in 2018.

Free Cash Flow

Free Cash Flow for the three months ended June 30, 2019 decreased by $6.1 million to $(15.4) million compared to $(9.3) million for the same period in 2018. The decrease is mainly due to a change in non-cash operating working capital as of result of timing of suppliers & compensation related payments, offset by higher cash generated from operations of $2.8 million compared to the same period in 2018, higher capital expenditures of $1.9 million, and higher finance costs paid of $2.5 million partially offset by lower income taxes paid of $1.1 million.

Normalized Free Cash Flow

Normalized Free Cash Flow for the three months ended June 30, 2019 increased by $10.7 million to $27.6 million compared to $16.9 million for the same period 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 $12.6 million, lower current income tax expense of $2.5 million partially offset by higher finance costs paid of $2.5 million and capital expenditures of $1.9 million.

ANALYSIS OF SIX MONTHS ENDED JUNE 30, 2019 OPERATING RESULTS

Revenue

Revenue for the six months ended June 30, 2019 increased by $78.6 million, or 23.2%, to $417.4 million compared to $338.7 million for the same period in 2018. LifeWorks generated revenue of $60.1 million for the period, representing 17.4% of the revenue growth. The organic revenue growth for the period was 5.8% primarily due to growth in the Pension and Benefits Administrative Solutions and Well-Being businesses.

Salaries, Benefits and Contractor Expenses

Salaries, benefits and contractor expenses for the six months ended June 30, 2019 increased by $55.8 million, or 25.3%, to $276.2 million compared to $220.4 million for the same period in 2018. The increase in compensation expense is mainly due to LifeWorks (including integration costs), business growth, and the Transformation project.

Other Operating Expenses

Other operating expenses for the six months ended June 30, 2019 increased by $9.2 million, or 17.5%, to $61.5 million compared to $52.3 million for the same period in 2018. The increase is mainly due to LifeWorks (including integration costs), business growth, and the Transformation project, partially offset by the adoption of IFRS 16.

Finance Costs

Finance costs for the six months ended June 30, 2019 increased by $7.5 million, or 116.4%, to $14.0 million compared to $6.5 million for the same period in 2018, primarily due to increased borrowings under the Company's credit facility agreement to finance the LifeWorks acquisition in July 2018 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 six months ended June 30, 2019 increased by $24.1 million, or 118.3%, to $44.5 million compared to $20.4 million for the same period in 2018. The increase is primarily due to higher amortization of $14.2 million related to intangibles acquired from LifeWorks acquisition, higher internally developed software amortization of $3.5 million, and depreciation on computer hardware of $0.5 million, and right-of-use assets under IFRS 16 of $5.9 million.

Income Tax Expenses

Income tax expenses for the six months ended June 30, 2019 decreased by $4.5 million to $6.7 million compared to $11.2 million for the same period in 2018 mainly due to a higher amortization charge which lowered profit before income taxes in the current period.

Profit for the Period

As a result of the changes noted above, profit for the six months ended June 30, 2019 was $15.0 million compared to a profit of $27.9 million for the same period in 2018.

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

Adjusted EBITDA and EBITDA

Adjusted EBITDA increased by $23.3 million, or 34.6%, to $90.6 million compared to $67.3 million for the same period in 2018. The increase is primarily due to growth in revenue of $78.6 million, partially offset by an increase in salaries and other operating expenses of $55.3 million after EBITDA adjustments. These adjusted EBITDA items do not constitute a part of the Company's on-going operating expenses. Below is a description of the six months ended June 30, 2019 adjustments:

- 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. This project is expected to generate improvements over the next 2 years. The fee payable to the third party firm is contingent on the Company achieving the key activities need to realize the value of the initiatives.

- LifeWorks integration represents costs to integrate the LifeWorks business with our existing Well-Being business to achieve the target synergies. The integration activities will continue until the end of 2019. The integration of LifeWorks' operations with our existing Well-Being practice is going well, remains on schedule and continues to realize the expected synergies.

- LifeWorks transaction costs represent advisory, legal, as well as other professional and regulatory fees incurred with respect to the LifeWorks acquisition in 2018.

EBITDA increased by $14.1 million to $80.5 million compared to $66.4 million for the same period in 2018.

Free Cash Flow

Free Cash Flow for the six months ended June 30, 2019 increased by $0.7 million to $1.5 million compared to $0.8 million for the same period in 2018. The increase is due to higher cash generated from operating activities of $8.4 million, and lower income taxes paid of $2.8 million partially offset by higher capital expenditures of $5.2 million, and higher finance costs paid of $5.3 million.

Normalized Free Cash Flow

Normalized Free Cash Flow for the six months ended June 30, 2019 increased by $17.9 million to $51.6 million compared to $33.8 million the same period in 2018. The increase is due to higher cash generated from operating activities before changes in non-cash operating working capital and EBITDA adjustments of $24.1 million and lower current income tax expense of $4.3 million partially offset by higher capital expenditures of $5.2 million, and higher finance costs paid of $5.3 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)*	**Six months ended June 30, 2019**	**Six months ended June 30, 2018**
Operating activities	$ 20,761	$ 14,825
Financing activities	3,001	4,730
Investing activities	(19,766)	(18,576)
Increase in cash	$ 3,996	$ 979

Cash provided by operating activities for the six months ended June 30, 2019 increased by $6.0 million to $20.8 million compared to $14.8 million for the same period in 2018. The increase is due to higher cash generated from operating activities of $8.5 million and lower taxes paid of $2.8 million, partially offset by higher finance costs paid of $5.3 million.

Cash provided by financing activities for the six months ended June 30, 2019 decreased by $1.7 million to $3.0 million compared to $4.7 million for the same period in 2018. The decrease is due to higher dividend payments of $4.1 million as a result of an increase in the number of shares outstanding as well as payments related to leases (net of receipts) under IFRS 16 of $5.8 million, partially offset by an increase in the draw down from the credit facility of $8.2 million.

Cash used in investing activities for the six months ended June 30, 2019 increased by $1.2 million to $19.8 million compared to $18.6 million for the same period in 2018. This increase was primarily due to higher capital expenditures of $5.2 million, partially offset by a decrease in cash used for business acquisitions of $4.0 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 July 2019.

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 June 30, 2019 was 53.9% compared to 60.0% 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 June 30, 2019 was 66.5% compared to 80.2% for the same period in 2018. The decrease in the ratio is mainly due to higher cash provided by operating activities partially offset by higher capital expenditures during the past twelve months.

Capital Expenditures

Our capital expenditures typically include information technology hardware and software (external and internally developed), leasehold improvements, and office furniture. Such amounts are expected to be funded from our operating cash flow. Additional capital expenditure requirements may result from significant business expansion. Capital expenditures for the three months ended June 30, 2019 increased by $1.8 million to $9.0 million compared to $7.2 million for the same period in 2018, and for the six months ended June 30, 2019 increased by $5.2 million to $19.2 million compared to $14.0 million for the same period in 2018. The increase in capital expenditures for the three months and six months ended June 30, 2019 is primarily due to higher spend on internally developed software to support business growth and continued development of the LifeWorks platform.

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 with terms ranging from one to fifteen years. We also have revolving loans under the credit facility arrangement and convertible debentures described under the section "Capital Resources".

We are party to various subleases to which we would be liable for the rental payment in the case of a default by the subtenants. The minimum payments and the aggregate sublease income related to these premises have been presented on a 'net' basis below for the purpose of the Commitments disclosure. We consider the risk of default by the subtenants to be low and therefore no accrual has been set up. A summary of contractual obligations, which outlines the year the payments are due is as follows:

(In thousands of dollars)	**Total**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024 and thereafter**
Long-term debt	$ 411,859	$ –	$ –	$ –	$ –	$ 411,859	$ –
Convertible debenture	83,000	–	–	83,000	–	–	–
Leases, net	109,750	8,338	16,133	15,394	14,088	11,783	44,014
Total	**$ 604,609**	**$ 8,338**	**$ 16,133**	**$ 98,394**	**$ 14,088**	**$ 423,642**	**$ 44,014**

The above summary of contractual obligations excludes the payment of the purchase price for the Mercer acquisition that closed on August 7, 2019. Refer to note 12 of the Company's interim financial statements for the three and six months ended June 30, 2019 for details.

Capital Resources

The following table provides an overview of our capital resources:

(In thousands of dollars)	**As at June 30, 2019**	**As at December 31, 2018**
Bank indebtedness (net of Cash)	$ 5,145	$ 9,141
Long- term debt, net of debt issuance costs	408,715	374,381
Convertible debenture, net of issuance costs and equity component of debenture	83,653	83,117
Shareholders' equity	579,882	606,404

Long-term debt

The long-term debt, net of debt issuance costs, increased by $34.3 million from $374.4 million as at December 31, 2018 to $408.7 million as at June 30, 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.

The Company has a revolving Credit Facility of $500,000 (including a swing line of $14,000), which matures on July 27, 2023. The interest rates for the Amended and Restated Credit Facility 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 Amended and Restated Credit Facility 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 12-month period immediately following the completion of a permitted acquisition, as defined in the agreement, with a purchase price of $50,000 or more), and an EBITDA to interest expense ratio of not less than 2.0:1.0. As at June 30, 2019, the Company had utilized $415.9 million, including $4.1 million of the swing line available.

We are in compliance with all of the required financial covenants as at June 30, 2019.

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.

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 June 30, 2019	As at December 31, 2018
Current assets	$ 228,152	$ 212,539
Non-current assets	1,168,963	1,135,803
Current liabilities	126,131	142,886
Non-current liabilities	691,102	599,052

Current Assets

Current assets as at June 30, 2019 increased by $15.6 million to $228.2 million from $212.5 million as at December 31, 2018. The increase is primarily attributable to an increase in unbilled fees of $7.2 million due to timing of billings per contract terms, an increase in finance lease receivable of $1.9 million due to the adoption of IFRS 16, an increase in prepaid expenses and other assets of $7.3 million due to timing of payments to vendors and annual licenses renewals, and an increase in cash of $0.7 million, partially offset by a decrease in deferred implementation cost of $1.0 million, and decrease in cash and investments held in trust of $1.0 million.

Non-current Assets

Non-current assets as at June 30, 2019 increased by $33.2 million to $1,169.0 million from $1,135.8 million as at December 31, 2018. The increase is primarily due to higher capital assets of $64.6 million as a result of additions (mainly right-of-use assets due to the adoption of IFRS 16) in excess of depreciation for the period. The remaining increase is due to finance lease receivables of $4.1 million recognized for subleases due to the adoption of IFRS 16 and an increase in deferred implementation costs of $2.7 million. This was partially offset by a decrease in goodwill of $15.8 million due to foreign exchange movement and LifeWorks purchase price allocation adjustment, a decrease in interest rate swaps of $0.4 million and a decrease in intangible assets of $21.9 million due to foreign exchange movement and amortization in excess of additions and LifeWorks purchase price allocation adjustment.

Current Liabilities

Current liabilities as at June 30, 2019 decreased by $16.8 million to $126.1 million from $142.9 million as at December 31, 2018. This decrease is primarily due to a decrease in accounts payable of $34.1 million as a result of annual bonus and other supplier payments, bank indebtedness of $3.2 million, and a decrease in insurance premium liabilities of $1.0 million. This is partially offset by an increase in deferred revenue of $4.1 million due to timing of consideration received from customers, an increase in lease liabilities of $16.5 million due to the adoption of IFRS 16, and increase in income taxes payable of $0.7 million.

Non-current Liabilities

Non-current liabilities as at June 30, 2019 increased by $92.0 million to $691.1 million from $599.1 million at December 31, 2018. The increase is mainly due to an increase in long-term debt of $34.3 million, an increase in deferred revenue of $4.4 million, an increase in interest rate swaps of $2.2 million, an increase in lease liabilities of $74.4 million, net of a decrease in other liabilities of $19.5 million, primarily due to the adoption of IFRS 16, a decrease in provisions of $0.5 million and a decrease in deferred tax liability of $3.1 million.

As a result of the changes in current assets and current liabilities discussed above, working capital increased by $32.3 million from $69.7 million as at December 31, 2018 to $102.0 million as at June 30, 2019.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In our year ended December 31, 2018 audited consolidated financial statements and accompanying notes, and in our 2018 annual MD&A, we have identified the accounting policies and estimates that are critical to the understanding of our business operations and our results from operations. Except as described below, the interim financial statements for the three and six months ended June 30, 2019 have been prepared using the same accounting policies consistent with those applied in the audited consolidated financial statements for the year ended December 31, 2018. Our critical accounting estimates and assumptions remain substantially unchanged.

Changes in Accounting Policies

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 right-of-use 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.

i. Impact on transition

	January 1, 2019
Finance lease receivables	$ 6,612
Right-of-use assets presented in capital assets	70,822
Lease liabilities	97,198
Other liabilities	(20,082)
Provisions	(99)
Retained earnings	417

ii. Impacts for the period

As a result of IFRS 16, the Company has recognized $64,927 of right-of-use assets and $90,946 of lease liabilities as at June 30, 2019. The Company has also recognized $6,019 of finance lease receivables related to its subleases as at June 30, 2019.

The Company, as a lessee, has recognized depreciation and interest costs (instead of operating lease expense) and as a lessor, has recognized interest income (instead of sublease income). During the three months ended June 30, 2019, the Company recognized $3,001 of depreciation charges and $1,050 of net finance costs from these leases. During the six months ended June 30, 2019, the Company recognized $5,919 of depreciation charges and $2,150 of net finance costs from these leases.

Additional details are disclosed in note 3 of the Company's interim financial statements for the period ended June 30, 2019.

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 adoption of IFRIC 23 did not have a material impact on the Company's interim financial statements. For further details, refer to note 3 of the Company's interim financial statements for the period ended June 30, 2019.

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 2018 annual MD&A. The risk and uncertainties remain substantially unchanged from those disclosed in our 2018 annual and fourth quarter MD&A.

SUPPLEMENTARY SUMMARY OF QUARTERLY RESULTS

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

Quarter ended	June 30, 2019	March 31, 2019	December 31, 2018 (4)	September 30, 2018 (4)	June 30, 2018 (4)	March 31, 2018 (4)	December 31, 2017 (1)/(4)	September 30, 2017 (1)/(4)
Revenue	212,666	204,695	200,761	182,805	171,191	167,526	156,787	152,528
Profit (loss) (2)	6,329	8,659	3,450	(9,556)	13,672	14,229	3,452	9,178
EBITDA	39,032	41,460	27,842	11,684	32,785	33,584	17,773	26,325
Adjusted EBITDA	45,882	44,718	35,652	33,989	33,734	33,584	27,487	28,333
EBITDA margin	18.4%	20.3%	13.9%	6.4%	19.2%	20.0%	11.3%	17.3%
Adjusted EBITDA margin	21.6%	21.8%	17.8%	18.6%	19.7%	20.0%	17.5%	18.6%
Earnings (loss) per share (basic)	0.10	0.13	0.05	(0.15)	0.25	0.26	0.06	0.17
Earnings per (loss) share (diluted)	0.10	0.13	0.05	(0.15)	0.24	0.25	0.06	0.16
Normalized Free Cash Flow	27,618	24,013	18,284	23,075	16,922	16,832	18,949	17,227
Dividends declared	12,586	12,533	12,493	12,505	10,504	10,498	10,457	10,525
Twelve-month rolling normalized payout ratio	53.9%	58.4%	61.2%	58.0%	60.0%	61.2%	59.7%	59.0%
Twelve-month rolling normalized payout ratio, including changes in adjusted non-cash operating working capital	66.5%	64.2%	71.0%	54.2%	80.2%	74.0%	73.6%	97.5%
Total assets (3)	1,397,115	1,409,850	1,348,342	1,331,245	833,815	820,939	821,688	797,158
Total long-term debt	408,715	374,752	374,381	384,471	205,538	182,278	179,669	184,254

Footnotes:

(1) Certain figures have been restated as a result of the Company's adoption of IFRS 15 on January 1, 2018. Please refer to note 3 of the audited consolidated financial statements for the year ended December 31, 2018 for further details.

(2) The loss and 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, and $12.3 million related to transformation project.

(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.

(4) The Company has adopted 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 interim financial statements for the three and six months ended June 30, 2019 for 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 June 30, 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 as at June 30, 2019. No changes were made in our internal controls over financial reporting during the second quarter ended June 30, 2019, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting, with the exception of internal controls related to the acquired LifeWorks business.

Morneau Shepell acquired the LifeWorks business on July 27, 2018 and is integrating internal controls over financial reporting for that business. The documentation and evaluation of these controls will be carried out during the remainder of 2019.

The following is a summary of the financial information of LifeWorks:

- Revenue of $30.6 million and $60.1 million for the three and six months ended June 30, 2019, respectively.
- Current and non-current assets as at June 30, 2019 of $22.8 million and $509.2 million respectively.
- Current and non-current liabilities as at June 30, 2019 of $12.0 million and $72.9 million respectively.

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 August 8, 2019.