MORNEAU SHEPELL MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED MARCH 31, 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 months ended March 31, 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 months ended March 31, 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 May 8, 2019, Morneau Shepell had 64,422,917 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 Administration, 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 Administration 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 FIRST QUARTER SUMMARY AND OUTLOOK

In thousands of dollars, except per share amounts	**Three months ended March 31, 2019**	**Three months ended March 31, 2018** [(1)]
Revenue	$ 204,695	$ 167,526
Adjusted EBITDA	44,718	33,584
Adjusted EBITDA margin	21.8%	20.0%
Adjusted EBITDA per share	0.68	0.60
Normalized Free Cash Flow	24,013	16,832
Profit	8,659	14,229
Earnings per share	0.13	0.26

(1) The Company has initially 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 initially 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 months ended March 31, 2019 for details.

First quarter:

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

- Revenue growth of 22.2% versus the comparative period primarily due to revenue from the LifeWorks acquisition and significant growth in our Pension and Benefit Administrative business.

- An increase in adjusted EBITDA of 33.2%, or $11.1 million, to $44.7 million versus the comparative period, while improving the Adjusted EBITDA margin to 21.8%. The increase is primarily due to business growth resulting from the LifeWorks acquisition and the impact of adopting IFRS 16.

- Adjusted EBITDA per share was $0.68, a 13.3 per cent increase compared to $0.60 per share in Q1, 2018.

- Profit for the period decreased by $5.5 million to $8.7 million compared to the profit of $14.2 million in the same period in the prior year; the decrease in profit is related to LifeWorks acquisition related expenses of $9.1 million, before taxes, including amortization from acquired intangibles of $7.4 million for the quarter. As a result, earnings per share for the quarter was $0.13 compared to $0.26 per share in Q1, 2018.

- 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.

- Subsequent to the first quarter, on May 6, 2019, 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 for a purchase price of up to US$57 million (approximately $76 million) subject to certain adjustments. The cash payment consists of US$45 million (approximately $60 million) upon closing and US$12 million (approximately $16 million) within 60 days of the first anniversary of the date of closing. The transaction is expected to close in the third quarter of fiscal 2019 and the Company plans to draw from its existing credit facility to finance the purchase consideration. The acquisition will expand the Company's presence in the United States and strengthen its competitive position in the large market sector.

Results of Operations	**Three Months Ended March 31,**	
Selected Unaudited Consolidated Financial Information	**2019**	**2018** [1]
(In thousands of dollars except per share amounts)		
Revenue	$204,695	$167,526
Deduct:		
Salaries, benefits and contractor expenses	132,766	109,306
Other operating expenses	30,919	24,942
Finance costs	6,962	3,155
Depreciation and amortization	21,920	10,220
Share of income of joint ventures	(277)	(20)
Income tax expenses	3,746	5,694
Profit for the period	**$8,659**	**$14,229**
Add:		
Finance costs	6,962	3,155
Depreciation and amortization	21,920	10,220
Depreciation and amortization, and income tax expenses on share of income of joint ventures	173	286
Income tax expenses	3,746	5,694
EBITDA[2]	**$41,460**	**$33,584**
Adjustments:		
Transformation project costs	1,537	–
LifeWorks integration	1,721	–
Adjusted EBITDA	**$44,718**	**$33,584**
EBITDA margin [3]	20.3%	20.0%
Adjusted EBITDA margin [3]	21.8%	20.0%
Cash provided by operating activities	$27,126	$16,916
Deduct: Capital expenditures [4]	(10,169)	(6,850)
Free Cash Flow [5]	**$16,957**	**$10,066**
Add (deduct):		
Changes in non-cash operating working capital	3,962	7,046
Current income taxes, net of income taxes paid	(164)	(280)
Adjustments to EBITDA	3,258	–
Normalized Free Cash Flow [6]	**$24,013**	**$16,832**
Earnings per Share:		
Basic	$0.13	$0.26
Diluted	$0.13	$0.25
EBITDA per Share (basic)	$0.63	$0.60
Adjusted EBITDA per Share (basic)	$0.68	$0.60
Dividends declared	12,533	10,498
Twelve-month rolling Normalized Payout Ratio [7]	58.4%	61.2%
Twelve-month rolling Normalized Payout Ratio, including changes in adjusted non-cash operating working capital [8]	64.2%	74.0%

Footnotes:

(1) The Company has initially 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 initially 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 months ended March 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. For the twelve-month period ended March 31, 2018, the non-cash operating working capital was adjusted for by $1,135 which represents the working capital impact of the retirement allowance.

ANALYSIS OF FIRST QUARTER 2019 OPERATING RESULTS

Revenue

Revenue for the three months ended March 31, 2019 increased by $37.2 million, or 22.2%, to $204.7 million compared to $167.5 million for the same period in 2018. LifeWorks generated revenue of $29.0 million for the period, representing 17.3% of the revenue growth. The organic revenue for the period was 4.9% primarily due to growth in the Pension and Administrative business.

Salaries, Benefits and Contractor Expenses

Salaries, benefits and contractor expenses for the three months ended March 31, 2019 increased by $23.5 million, or 21.5%, to $132.8 million compared to $109.3 million for the same period in 2018. The increase in compensation expense is mainly due to LifeWorks of $22.5 million, as well as the cost to integrate LifeWorks with our existing business of $0.8 million.

Other Operating Expenses

Other operating expenses for the three months ended March 31, 2019 increased by 6.0 million, or 24.0%, to $30.9 million compared to $24.9 million for the same period in 2018. Excluding the net increase in other operating expenses of $4.2 million resulting from LifeWorks, other operating expenses increased by $1.7 million. The increase is mainly attributable to transformation project costs of $1.4 million, and LifeWorks' integration cost of $0.9 million, partially offset by decrease in operating costs of $0.6 million.

Finance Costs

Finance costs for the three months ended March 31, 2019 increased by $3.8 million, or 120.7%, to $7.0 million compared to $3.2 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 March 31, 2019 increased by $11.7 million, or 114.5%, to $21.9 million compared to $10.2 million for the same period in 2018. The increase is primarily due to higher amortization of $7.4 million related to intangibles acquired from LifeWorks acquisition, higher internally developed software amortization of $1.1 million, and depreciation on right-of-use assets under IFRS 16 of $2.9 million.

Income Tax Expenses

Income tax expenses for the three months ended March 31, 2019 was $3.7 million compared to income tax expense of $5.7 million for the same period in 2018 due to lower 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 March 31, 2019 was $8.7 million compared to a profit of $14.2 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 $11.1 million, or 33.2%, to $44.7 million compared to $33.6 million for the same period in 2018. The increase is primarily due to growth in revenue of $37.2 million, partially offset by an increase in salaries and other operating expenses of $26.1 million after EBITDA adjustments.

EBITDA increased by $7.9 million to $41.5 million compared to $33.6 million for the same period in 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. 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.

Free Cash Flow

Free Cash Flow for the three months ended March 31, 2019 increased by $6.9 million to $17.0 million compared to $10.1 million for the same period in 2018. The increase is mainly due to higher cash generated from operating activities of $11.3 million compared the same period in 2018, lower income taxes paid of $1.7 million partially offset by higher capital expenditures of $3.3 million, and higher finance costs paid of $2.8 million.

Normalized Free Cash Flow

Normalized Free Cash Flow for the three months ended March 31, 2019 increased by $7.2 million to $24.0 million compared to $16.8 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 $11.4 million, lower current income tax expense of $1.9 million partially offset by higher finance costs paid of $2.8 million and capital expenditures of $3.3 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)*	**Three months ended March 31, 2019**	**Three months ended March 31, 2018**
Operating activities	$ 27,126	$ 16,916
Financing activities	(15,507)	(7,960)
Investing activities	(10,664)	(8,824)
Increase in cash	$ 955	$ 132

Cash provided by operating activities for the three months ended March 31, 2019 increased by $10.2 million to $27.1 million compared to $16.9 million for the same period in 2018. The increase is due to higher cash generated from operating activities of $11.3 million due to higher EBITDA and better working capital management and lower taxes paid of $1.7 million, partially offset by higher finance costs paid of $2.8 million.

Cash used in financing activities for the three months ended March 31, 2019 increased by $7.5 million to $15.5 million compared to cash used in financing activities of $8.0 million for the same period in 2018. The increase is due to higher dividend payments of $2.0 million and payments related to leases under IFRS 16 of $3.2 million, partially offset by a lower drawdown from the credit facility of $2.3 million.

Cash used in investing activities for the three months ended March 31, 2019 increased by $1.8 million to $10.7 million compared to $8.8 million for the same period in 2018. This increase was primarily due to higher capital expenditures of $3.3 million, partially offset by a decrease in cash used for other business acquisitions of $1.5 million.

Dividends to Shareholders

Monthly dividends were declared for shareholders of record on the last business day of each month and were paid on approximately the 15th day of the following month. Monthly dividends were $0.065 per share each month for the quarter. The Company continued to declare the same monthly dividend amount in April 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 March 31, 2019 was 58.4% 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 March 31, 2019 was 64.2% compared to 74.0% 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 March 31, 2019 increased by $3.3 million to $10.2 million compared to $6.9 million for the same period in 2018. The increase is primarily due to higher spend on internally developed software and computer hardware of $5.7 million partially offset by lower expenditure of $2.2 million on purchased software, furniture and fixtures and leasehold improvements.

Contractual Obligations

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	$ 378,095	$ –	$ –	$ –	$ –	$ 378,095	$
Convertible debenture	86,000	–	–	86,000	–	–	–
Leases, net	113,619	12,787	15,913	15,249	13,963	11,730	43,977
Total	**$ 577,714**	**$12,787**	**$15,913**	**$101,249**	**$13,963**	**$ 389,825**	**$ 43,977**

Contingent Consideration

The remaining purchase price for Groupe Pro-Santé Inc. ("Pro-Santé"), and Les Consultants Longpré & Associés Inc. ("Longpré") is contingent on future business results and the estimated remaining contingent consideration payable for these acquisitions is $1.3 million due from 2018 through 2022. These contingent future installments have been recognized as an acquisition liability on the statement of financial position at their estimated discounted amounts as at March 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 March 31, 2019**	**As at December 31, 2018**
Bank indebtedness (net of Cash)	$ 8,186	$ 9,141
Long- term debt, net of debt issuance costs	374,752	374,381
Convertible debenture, net of issuance costs and equity component of debenture	83,383	83,117
Shareholders' equity	595,879	606,404

Long-term debt

The long-term debt, net of debt issuance costs, increased by $0.4 million from $374.4 million as at December 31, 2018 to $374.8 million as at March 31, 2019.

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.

We are in compliance with all of the required financial covenants as at March 31, 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 March 31, 2019	As at December 31, 2018
Current assets	$ 214,131	$ 212,539
Non-current assets	1,195,719	1,135,803
Current liabilities	154,179	142,886
Non-current liabilities	659,792	599,052

Current Assets

Current assets as at March 31, 2019 increased by $1.6 million to $214.1 million from $212.5 million as at December 31, 2018. The increase is primarily attributable to an increase in unbilled fees of $1.6 million, 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 $4.5 million due to timing of payments to vendors, an increase in cash and investments held in trust of $2.5 million, an increase in current portion of interest rate swaps of $0.7 million, partially offset by a decrease in trade and other receivables of $7.4 million due to increased collections, and deferred implementation cost of $1.9 million.

Non-current Assets

Non-current assets as at March 31, 2019 increased by $59.9 million to $1,195.7 million from $1,135.8 million as at December 31, 2018. The increase is primarily due to higher capital assets of $68.2 million as a result of additions in excess of depreciation for the period; $68.1 million of additions related to right-of-use assets. The remaining increase is due to finance lease receivables of $4.6 million recognized for subleases due to the adoption of IFRS 16 and an increase in deferred implementation costs of $2.9 million. This was partially offset by a decrease in goodwill of $3.7 million due to foreign exchange movement and a decrease in intangible assets of $11.7 million due to foreign exchange movement and amortization in excess of additions.

Current Liabilities

Current liabilities as at March 31, 2019 increased by $11.3 million to $154.2 million from $142.9 million as at December 31, 2018. This increase is primarily due to an increase in deferred revenue of $4.8 million due to timing of consideration received from customers, an increase in lease liabilities of $13.1 million due to the adoption of IFRS 16, and an increase in insurance premium liabilities of $2.4 million, partially offset by a decrease in trade and other payables of $8.6 million.

Non-current Liabilities

Non-current liabilities as at March 31, 2019 increased by $60.7 million to $659.8 million from $599.1 million at December 31, 2018. The increase is mainly due to an increase in lease liabilities of $81.0 million, net of a decrease in other liabilities of $19.3 million, primarily 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 $9.7 million from $69.6 million as at December 31, 2018 to $59.9 million as at March 31, 2019.

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 months ended March 31, 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 has initially adopted IFRS 16 from 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 initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Company recognized $68,071 of right-of-use assets and $94,119 of lease liabilities as at March 31, 2019. The Company also recognized $6,519 of finance lease receivables related to its subleases as at March 31, 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 March 31, 2019, the Company recognized $2,917 of depreciation charges and $1,099 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 March 31, 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 has initially adopted the interpretation from 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 March 31, 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	March 31, 2019	December 31, 2018 (4)	September 30, 2018 (4)	June 30, 2018 (4)	March 31, 2018 (4)	December 31, 2017 (1)	September 30, 2017 (1)	June 30, 2017 (1)
Revenue	204,695	200,761	182,805	171,191	167,526	156,787	152,528	159,193
Profit (loss) (2)	8,659	3,450	(9,556)	13,672	14,229	3,452	9,178	12,117
EBITDA	41,460	27,842	11,684	32,785	33,584	17,773	26,325	29,094
Adjusted EBITDA	44,718	35,652	33,989	33,734	33,584	27,487	28,333	31,332
EBITDA margin	20.3%	13.9%	6.4%	19.2%	20.0%	11.3%	17.3%	18.3%
Adjusted EBITDA margin	21.8%	17.8%	18.6%	19.7%	20.0%	17.5%	18.6%	19.7%
Earnings (loss) per share (basic)	0.13	0.05	(0.15)	0.25	0.26	0.06	0.17	0.22
Earnings per (loss) share (diluted)	0.13	0.05	(0.15)	0.24	0.25	0.06	0.16	0.22
Normalized Free Cash Flow	24,013	18,284	23,075	16,922	16,832	18,949	17,227	15,422
Dividends declared	12,533	12,493	12,505	10,504	10,498	10,457	10,525	10,417
Twelve-month rolling normalized payout ratio	58.4%	61.2%	58.0%	60.0%	61.2%	59.7%	59.0%	58.7%
Twelve-month rolling normalized payout ratio, including changes in adjusted non-cash operating working capital	64.2%	71.0%	54.2%	80.2%	74.0%	73.6%	97.5%	70.7%
Total assets (3)	1,409,850	1,348,342	1,331,245	833,815	820,939	821,688	797,158	804,983
Total long-term debt	374,752	374,381	384,471	205,538	182,278	179,669	184,254	185,697

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 initially 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 initially 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 months ended March 31, 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 March 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 as at March 31, 2019. No changes were made in our internal controls over financial reporting during the first quarter ended March 31, 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 $29.0 million and a loss of $3.7 million (which include a pre-tax amortization charge of $7.3 million for acquisition related intangibles) for the quarter ended March 31, 2019.
- Current and non-current assets as at March 31, 2019 of $23.7 million and $491.2 million respectively.
- Current and non-current liabilities as at March 31, 2019 of $26.1 million and $58.3 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 May 8, 2019.