MORNEAU SHEPELL MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018

FORWARD LOOKING STATEMENTS AND DEFINITIONS	2
OUTSTANDING SHARE DATA	3
BUSINESS OVERVIEW	3
2018 THIRD QUARTER SUMMARY AND OUTLOOK	4
2018 THIRD QUARTER OPERATING RESULTS SUMMARY	6
ANALYSIS OF THIRD QUARTER 2018 OPERATING RESULTS	7
ANALYSIS OF NINE MONTHS ENDED SEPTEMBER 30, 2018 OPERATING RESULTS	9
LIQUIDITY AND CAPITAL RESOURCES	11
SELECTED STATEMENT OF FINANCIAL POSITION DATA	14
CRITICAL ACCOUNTING POLICIES AND ESTIMATES	16
RISKS AND UNCERTAINTIES	17
SUPPLEMENTARY SUMMARY OF QUARTERLY RESULTS	17
DISCLOSURE CONTROLS AND PROCEDURES	17
INTERNAL CONTROL OVER FINANCIAL REPORTING	17

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

This Management's Discussion and Analysis ("MD&A") covers the three and nine months ended September 30, 2018 and should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements of Morneau Shepell and notes thereto for the three and nine months ended September 30, 2018, and the MD&A and the audited consolidated financial statements and notes thereto for the year ended December 31, 2017. 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 November 6, 2018, Morneau Shepell had 63,992,043 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 2,600,000.

BUSINESS OVERVIEW

Morneau Shepell is the largest Canadian firm providing health and productivity, administrative and retirement solutions. We deliver solutions to assist employers in managing the financial security, health and productivity of their employees. With more than 4,500 employees in offices worldwide, we offer services to approximately 24,000 clients, ranging from small businesses to some of the largest corporations and associations in Canada, the United States and around the globe, directly and through our distribution channel partners.

We derive our revenue primarily from fees charged to clients for consulting engagements, administrative solutions engagements, wellness and employee support solutions, and absence management solutions services.

Fees from consulting engagements are charged based on billable hours or on a fee-for-service basis. In some cases, consulting engagements may be billed on a fixed-fee basis, although these engagements are typically much smaller and the services are delivered over a shorter period of time. For some benefits consulting assignments which involve the purchase of an insurance policy underwritten by an insurance company, we may be paid commissions (in lieu of fees) by the client's insurance company, which is a common practice in the industry. These commissions are based on a percentage of the premiums paid by the client to the insurance company and our policy is to disclose them to our client. We assume no underwriting risk as the insurance policy is underwritten by the insurance company.

Our Administrative Solutions practice is characterized by fixed contracts, which typically have three-year to five-year terms. Most Administrative Solutions contracts contain an upfront implementation fee and an ongoing monthly service fee. Implementations usually take three to twelve months and involve transferring the administration of a client's pension and/or benefits plans onto our systems, tailoring our systems and

training our employees. Additional services provided that are outside the scope of the outsourcing contract are usually paid on a fee-for-service basis. A small number of contracts contain a large up front customization and implementation fee, with lower ongoing maintenance fees. Note that as a result of the Company's adoption of IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), on January 1, 2018 the timing of revenue recognition and accounting for deferred implementation costs for certain groups of clients within our Administrative Solutions line of business was impacted. Please refer to note 3 of the Company's unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2018 for details.

In the billing for Employee Support Solutions ("ESS") services, a portion of the ESS client agreements require payment of a minimum retainer and incremental usage-based fees. The remainder of the ESS agreements are billed based on actual usage or fixed fees. Most ESS agreements may be terminated by the client upon 30 to 60 days' notice to us. It is typical, however, for ESS agreements to continue for multiple years and many automatically renew on an annual basis. Fees for LifeWorks are primarily subscription-based and payable monthly in advance (though some clients pay quarterly and annually). Most LifeWorks agreements may be terminated by the client upon 90 days' notice to us and we typically have 3 year contracts that automatically renew.

Fees from Absence Management Solutions ("AMS") services, such as attendance support and disability management are generally based on negotiated fees or a formula tied to the nature of the service being provided. Fees for workers compensation services are charged based on billable hours or on a fee-for-service basis. Most AMS agreements may be terminated by the client upon 30 to 60 days' notice to us. It is typical, however, for these agreements to continue for multiple years and many automatically renew on an annual basis.

Our largest operating expense is compensation and related costs. This includes salaries, annual performance-based bonuses, benefits, payroll taxes, independent service providers and temporary staffing services.

The remaining operating expenses include rent and occupancy costs, technology costs (including equipment leases, telecommunications, and software licenses and maintenance), non-recoverable client service costs, training, marketing, office costs, professional services and insurance.

2018 THIRD QUARTER SUMMARY AND OUTLOOK

In thousands of dollars	**Three months ended September 30, 2018**	**Three months ended September 30, 2017 (1)**	**Nine months ended September 30, 2018**	**Nine months ended September 30, 2017 (1)**
Revenue	$182,805	$152,528	$521,522	$468,303
Adjusted EBITDA	33,989	28,333	101,308	90,940
Adjusted EBITDA margin	18.6%	18.6%	19.4%	19.4%
Normalized Free Cash Flow	23,075	17,227	56,829	50,989
Profit (loss)	(9,556)	9,178	18,346	29,575

(1) Certain comparative figures for the three and nine months ended September 30, 2017 have been restated as a result of the Company's adoption of IFRS 15. Please refer to note 3 of the Company's unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2018 for details.

Third quarter:

We had a solid third quarter of 2018 and continued to deliver revenue and adjusted EBITDA growth versus the comparative quarter in 2017. Highlights of the third quarter include:

- Revenue growth of 19.9% versus the comparative period primarily due to revenue from the LifeWorks acquisition.

- Loss for the period was $9.6 million compared to profit of $9.2 million for the same quarter last year. The loss is due to expenses incurred that do not constitute a part of the Company's ongoing operating expenses which totals to approximately $22.3 million, before taxes, including LifeWorks acquisition related costs and corporate reorganization costs (as listed in the 2018 third quarter operating results summary below)

- An increase in adjusted EBITDA of 20.0%, or $5.7 million, to $34.0 million versus the comparative period, while maintaining an 18.6% Adjusted EBITDA margin.

LifeWorks Acquisition

On July 27, 2018, the Company completed the acquisition of all of the issued and outstanding shares of LifeWorks Corporation Limited ("LifeWorks") for a purchase price of approximately $437.6 million (US$334.2 million), subject to final working capital adjustments. The purchase price on Closing was satisfied by delivering cash in the amount of $405.2 million (US$ 309.4 million) and issuing approximately 1.2 million common shares of the Company equivalent to $32.3 million (US$24.8 million). LifeWorks is a global employee assistance program ("EAP") provider, offering employee assistance, wellness, recognition and incentive programs in Canada, the United States, the UK and Australia. This acquisition allows the Company's existing ESS line of business to deliver an expanded set of well-being services in a more integrated way to our clients as well as bolster the Company's geographic footprint through LifeWorks' established presence in the U.S., U.K., Australia and Canada. In 2017, LifeWorks generated revenue of $105.2 million. For details on the purchase consideration and net assets acquired please refer to the business acquisition note of the unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2018.

In order to finance this acquisition, the Company amended and restated the Company's existing credit facility agreement (see the 'Capital Resources' section of the MD&A below for further details), and raised $231.0 million of gross proceeds through the issuance of 8.7 million common shares of the Company through a public share offering.

We expect our continued investments in our business, including the LifeWorks acquisition, and our established and prospective client base will continue to yield positive results for the Company.

2018 THIRD QUARTER OPERATING RESULTS SUMMARY

Results of Operations	**Three months Ended September 30**		**Nine Months Ended September 30**	
Selected Unaudited Consolidated Financial Information	**2018**	**2017 [(1)]**	**2018**	**2017 [(1)]**
(In thousands of dollars except per share amounts)				
Revenue	$182,805	$152,528	$521,522	$468,303
Deduct:				
Salaries, benefits and contractor expenses	126,175	102,097	346,602	314,365
Other operating expenses	35,980	24,106	87,362	72,967
Finance costs	4,948	3,450	11,399	9,888
Transaction costs	8,975	–	9,924	–
Depreciation and amortization	16,743	9,603	37,112	28,392
Share of loss of joint ventures	173	–	198	–
Income tax expenses (recovery)	(633)	4,094	10,579	13,116
Profit (loss) for the period	**(9,556)**	**9,178**	**18,346**	**29,575**
Add:				
Finance costs	4,948	3,450	11,399	9,888
Depreciation, amortization and income tax expense on share of loss of joint ventures	182	–	618	–
Depreciation and amortization	16,743	9,603	37,112	28,392
Income tax expense (recovery)	(633)	4,094	10,579	13,116
EBITDA[(2)]	**11,684**	**26,325**	**78,054**	**80,971**
Adjustments:				
Mercer Canada Outsourcing conversion costs	–	2,008	–	5,838
Transformation project costs	12,278	–	12,278	
LifeWorks transaction costs	8,975	–	9,924	–
LifeWorks integration	1,052	–	1,052	–
Retirement allowance	–	–	–	4,131
Adjusted EBITDA	**33,989**	**28,333**	**101,308**	**90,940**
EBITDA margin [(3)]	6.4%	17.3%	15.0%	17.3%
Adjusted EBITDA margin [(3)]	18.6%	18.6%	19.4%	19.4%
Cash provided by operating activities	24,047	18,388	38,872	33,583
Deduct: Capital expenditures [(4)]	(10,362)	(6,145)	(24,408)	(19,738)
Free Cash Flow [(5)]	**13,685**	**12,243**	**14,464**	**13,845**
Add (deduct):				
Changes in non-cash operating working capital	(18,000)	4,944	17,839	34,089
Current income taxes, net of income taxes paid	5,085	(1,968)	1,272	(4,887)
Adjustments to EBITDA [(6)]	22,305	2,008	23,254	7,942
Normalized Free Cash Flow [(7)]	**23,075**	**17,227**	**56,829**	**50,989**
Earnings per Share:				
Basic	(0.15)	0.17	0.32	0.54
Diluted	(0.15)	0.16	0.31	0.53
EBITDA per Share (basic)	0.19	0.47	1.34	1.47
Adjusted EBITDA per Share (basic)	0.54	0.51	1.74	1.65
Dividends declared	12,505	10,525	33,507	31,322
Twelve-month rolling Normalized Payout Ratio [(8)]	58.0%	59.0%	58.0%	59.0%
Twelve-month rolling Normalized Payout Ratio, including changes in adjusted non-cash operating working capital [(9)]	54.2%	97.5%	54.2%	97.5%

Footnotes:

(1) Certain comparative figures for the three and nine months ended September 30, 2017 have been restated as a result of the Company's adoption of IFRS 15. Please refer to note 3 of the Company's unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2018 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) For the comparative nine month period ended September 30, 2017, adjustments to EBITDA do not include the non-cash component of the retirement allowance of $2,027. This amount has been excluded as it has already been added back in cash from operating activities before the change in non- cash operating working capital.

(7) "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.

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

(9) "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 September 30, 2018, the non-cash operating working capital was adjusted for by $1,181 which represents the working capital impact of the retirement allowance. For the comparative twelve-month period ended September 30, 2017, the non-cash operating working capital was adjusted for by ($1,281), which represents adjustments to working capital for the write-down of Health Republic Insurance of New Jersey deferred implementation costs, and the working capital impact of the retirement allowance.

ANALYSIS OF THIRD QUARTER 2018 OPERATING RESULTS

Revenue

Revenue for the three months ended September 30, 2018 increased by $30.3 million, or 19.9%, to $182.8 million compared to $152.5 million for the same period in 2017. LifeWorks generated revenue of $22.0 million for the period, representing 14.4% of the revenue growth. The remaining increase is coming from new business wins and continued growth with existing clients from all four of our lines of business, with Administrative Solutions contributing 1.0%, and Consulting contributing 1.7%.

Salaries, Benefits and Contractor Expenses

Salaries, benefits and contractor expenses for the three months ended September 30, 2018 increased by $24.1 million, or 23.6%, to $126.2 million compared to $102.1 million for the same period in 2017. Excluding the net increase in compensation expense of $18.1 million resulting from acquisitions not in the comparative, compensation expense increased by $6.0 million. The increase is mainly attributable to general increases to support the Company's continued growth of $0.4 million, compensation costs for the transformation project of $6.0 million and $0.8 million of LifeWorks integration cost, partially offset by Mercer Canada Outsourcing conversion of $1.2 million in the comparative period.

Other Operating Expenses

Other operating expenses for the three months ended September 30, 2018 increased by 11.9 million, or 49.3%, to $36.0 million compared to $24.1 million for the same period in 2017. Excluding the net increase in other operating expenses of $5.0 million resulting from acquisitions not in the comparative period, other operating expenses increased by $6.9 million. The increase is attributable to transformation project costs of $6.3 million, LifeWorks' integration cost of $0.3 million, and general increases to support the Company's growth of $1.1 million, partially offset by Mercer Canada Outsourcing conversion of $0.8 million in the comparative period.

Finance Costs

Finance costs for the three months ended September 30, 2018 increased by $1.5 million, or 43.4%, to $4.9 million compared to $3.5 million for the same period in 2017 primarily due to increased borrowings under the Company's credit facility agreement to finance the LifeWorks acquisition.***Depreciation and Amortization***

Depreciation and amortization for the three months ended September 30, 2018 increased by $7.1 million, or 74.4%, to $16.7 million compared to $9.6 million for the same period in 2017. The increase is due to higher amortization of $6.5 million related to intangibles acquired from LifeWorks acquisition and higher internally developed software amortization of $0.6 million.

Income Tax Recovery

Income tax recovery for the three months ended September 30, 2018 was $0.6 million compared to income tax expense of $4.1 million for the same period in 2017 due to loss before income taxes in the current period.

Loss for the Period

As a result of the changes noted above, loss for the three months ended September 30, 2018 was $9.6 million compared to a profit of $9.2 million for the same period in 2017.

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

Adjusted EBITDA and EBITDA

Adjusted EBITDA increased by $5.7 million, or 20.0%, to $34.0 million compared to $28.3 million for the same period in 2017. The increase is primarily due to growth in revenue of $30.3 million, partially offset by an increase in salaries and other operating expenses of $24.6 million after EBITDA adjustments.

EBITDA decreased by $14.6 million to $11.7 million compared to $26.3 million for the same period in 2017 as a result of costs not considered as part of the Company's on-going operating expenses, and are described in the analysis of the nine months ended September 30, 2018 operating results section below.

Free Cash Flow

Free Cash Flow for the three months ended September 30, 2018 increased by $1.4 million to $13.7 million compared to $12.2 million for the same period in 2017. The increase is mainly due to higher cash provided by operating activities of $10.6 million compared the same period in 2017, partially offset by higher capital expenditures of $4.1 million, higher income taxes paid of $2.5 million, and higher finance costs paid of $2.6 million.

Normalized Free Cash Flow

Normalized Free Cash Flow for the three months ended September 30, 2018 increased by $5.8 million to $23.1 million compared to $17.2 million for the same period in 2017. The increase is mainly due to higher cash generated from operating activities before changes in non-cash operating working capital and EBITDA adjustments of $7.9 million, lower current income tax expense of $4.6 million partially offset by higher finance costs paid of $2.6 million and capital expenditures of $4.1 million.

Revenue

Revenue for the nine months ended September 30, 2018 increased by $53.2 million, or 11.4%, to $521.5 million compared to $468.3 million for the same period in 2017. LifeWorks generated revenue of $22.0 million for the period, representing 4.7% of the revenue growth. The remaining increase is coming from new business wins and continued growth with existing clients from all four of our lines of business, with Administrative Solutions contributing 2.0%, and Consulting contributing 1.1%.

Salaries, Benefits and Contractor Expenses

Salaries, benefits and contractor expenses for the nine months ended September 30, 2018 increased by $32.2 million, or 10.3%, to $346.6 million compared to $314.4 million for the same period in 2017. Excluding the net increase in compensation expense of $23.9 million resulting from acquisitions not in the comparative period, compensation expense increased by $8.3 million. The increase is mainly attributable to general increases to support the Company's continued growth of $9.3 million, compensation costs for the transformation project of $6.0 million (described in the analysis of the nine months ended September 30, 2018 operating results section below), and LifeWorks integration costs of $0.8 million, partially offset by Mercer Canada Outsourcing conversion of $3.7 million and the retirement allowance for our former President and Chief Executive Officer of $4.1 million in the comparative period

Other Operating Expenses

Other operating expenses for the nine months ended September 30, 2018 increased by $14.4 million, or 19.7%, to $87.4 million compared to $73.0 million for the same period in 2017. Excluding the net increase in other operating expenses of $3.9 million resulting from acquisitions not in the comparative period, other operating expenses grew by $10.5 million. The increase is attributable to general increases to support the Company's growth of $6.1 million, Transformation costs of $6.3 million, and LifeWorks' integration cost of $0.3 million, partially offset by other operating expenses for Mercer Canada Outsourcing conversion of $2.2 million in the comparative period.

Finance Costs

Finance costs for the nine months ended September 30, 2018 increased by $1.5 million, or 15.3%, to $11.4 million compared to $9.9 million for the same period in 2017, due to increased borrowings under the Company's credit facility agreement.

Depreciation and Amortization

Depreciation and amortization for the nine months ended September 30, 2018 increased by $8.7 million, or 30.7%, to $37.1 million compared to $28.4 million for the same period in 2017. This increase is mainly due to higher amortization of $6.5 million related to intangibles acquired from LifeWorks acquisition, higher amortization of $0.6 million from acquired customer relations, and higher internally developed software amortization of $1.6 million.

Income Tax Expenses

Income tax expenses for the nine months ended September 30, 2018 decreased by $2.5 million to $10.6 million compared to $13.1 million for the same period in 2017 primarily due to a decrease in profit before income taxes.

Profit for the Period

As a result of the changes noted above, profit for the nine months ended September 30, 2018 was $18.3 million compared to $29.6 million for the same period in 2017.

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

Adjusted EBITDA and EBITDA

Adjusted EBITDA increased by $10.4 million, or 11.4%, to $101.3 million compared to $90.9 million for the same period in 2017. The increase is primarily due to growth in revenue of $53.2 million, partially offset by an increase in salaries and other operating expenses of $42.8 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 nine months ended September 30, 2018 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. Costs recognized to-date of $12.3 million include fees payable to the third party for milestones achieved of $5.8 million as well as costs incurred, primarily severance, related to the execution of the strategy.

- 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.

- LifeWorks integration represents costs to integrate the LifeWorks business with our existing ESS business to achieve the target synergies. Costs incurred up to September 30, 2018 of $1.1 million include severances and sublease losses. The integration activities will continue until the end of 2019.

EBITDA decreased by $2.9 million to $78.1 million compared to $81.0 million for the same period in 2017.

Free Cash Flow

Free Cash Flow for the nine months ended September 30, 2018 increased by $0.6 million to $14.5 million compared to $13.8 million for the same period in 2017. The increase is due to higher cash generated from operating activities of $13.1 million as a result of an improvement in the days sales outstanding, partially offset by higher income taxes paid of $5.3 million, higher finance costs paid $2.5 million, and higher capital expenditures of $4.7 million.

Normalized Free Cash Flow

Normalized Free Cash Flow for the nine months ended September 30, 2018 increased by $5.8 million to $56.8 million compared to $51.0 million for the same period in 2017. The increase is mainly due to higher cash generated from operating activities before changes in non-cash operating working capital and EBITDA adjustments of $12.1 million and lower income tax expense of $0.9 million partially offset by higher finance costs paid of $2.5 million and higher capital expenditures of $4.7 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)*	**Nine months ended September 30, 2018**	**Nine months ended September 30, 2017**
Operating activities	$ 38,872	$ 33,583
Financing activities	392,516	(13,565)
Investing activities	(430,010)	(24,679)
Increase (decrease) in cash	1,378	$ (4,661)

Cash provided by operating activities for the nine months ended September 30, 2018 increased by $5.3 million to $38.9 million compared to $33.6 million for the same period in 2017. The increase is due to higher cash generated from operating activities of $13.1 million offset by higher taxes paid of $5.3 million and finance costs paid of $2.5 million.

Cash provided by financing activities for the nine months ended September 30, 2018 increased by $406.1 million to $392.5 million compared to cash used in financing activities of $13.6 million for the same period in 2017. The increase is due to incremental borrowings under the credit facility, net of debt modification costs, of $186.8 million and proceeds from issuance of shares, net of underwriting fees, of $220.8 million to finance the LifeWorks acquisition, partially offset by higher dividends payment of $1.5 million.

Cash used in investing activities for the nine months ended September 30, 2018 increased by $405.3 million to $430.0 million compared to $24.7 million for the same period in 2017. This increase was primarily due to the cash payment for the acquisition of LifeWorks of $401.0 million and higher capital expenditures of $4.7 million, offset slightly by a decrease in cash used for other business acquisitions of $0.4 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 October 2018.

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 September 30, 2018 was 58.0% and is comparable to 59.0% for the same period in 2017. The twelve-month rolling Normalized Payout Ratio, including changes in adjusted non-cash operating working capital at September 30, 2018 was 54.2% compared to 97.5% for the same period in 2017. 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 September 30, 2018 increased by $4.2 million to $10.4 million compared to $6.1 million for the same period in 2017, and for the nine months ended September 30, 2018 increased by $4.7 million to $24.4 million compared to $19.7 million for the same period in 2017. The increase in capital expenditures for the three months ended September 30, 2018 is primarily due to timing of the leasehold improvements and office furniture expenditures of $1.5 million, and higher spend on internally developed software of $3.1 million partially offset by lower expenditure of $0.3 million on computer hardware. The increase in capital expenditures for the nine months ended September 30 2018 is mainly due to higher spend on internally developed software and purchased software of $5.5 million.

Contractual Obligations

Commitments

We lease office space and selected equipment under operating lease agreements 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 netted against the operating leases amounts reported below. 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**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023 and thereafter**
Long-term debt *	$ 388,099	$ –	$ –	$ –	$ –	$ –	$ 388,099
Convertible debenture	86,000	–	–	–	86,000	–	–
Operating leases, net	116,491	3,698	15,255	14,716	14,599	13,454	54,769
Total	**$ 590,590**	**$ 3,698**	**$ 15,255**	**$ 14,716**	**$ 100,599**	**$ 13,454**	**$ 442,868**

*****The Company amended and restated the Company’s existing credit facility agreement. Please refer to the ‘Capital Resources’ section below for further details.

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 $1.7 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 September 30, 2018.

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 September 30, 2018**	**As at December 31, 2017 [(1)]**
Bank indebtedness (net of Cash)	$ 4,038	$ 5,416
Long- term debt, net of debt issuance costs	384,471	179,669
Convertible debenture, net of issuance costs and equity component of debenture	82,850	82,080
Shareholders' equity	598,815	356,271

(1) Shareholders' equity as at December 31, 2017 has been restated as a result of the Company's adoption of IFRS 15. Please refer to note 3 of the Company's unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2018 for details.

Long-term debt

The long-term debt, net of debt issuance costs, increased by $204.8 million from $179.7 million as at December 31, 2017 to $384.5 million as at September 30, 2018. This increase is the result of an increase in borrowings under the Company's credit facility agreement to finance the acquisition of LifeWorks and business growth.

On July 27, 2018, the Company amended and restated the Company's existing Credit Facility Agreement (the "Amended and Restated Credit Facility Agreement"). Under the Amended and Restated Credit Facility Agreement, the Company's revolving facility increases from $300,000 to $500,000 (including a swing line of $14.0 million), and the agreement has a maturity date five years from closing.

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 September 30, 2018.

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

- $50.0 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

- $130.0 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

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.

Share capital

The Company raised $231.0 million of gross proceeds through the issuance of 8.7 million common shares of the Company at $26.55 per share through a public share offering to finance the acquisition of LifeWorks. Share issuance costs of $10.2 million were incurred, offset by a deferred tax benefit of $2.7 million, which reduced the share capital amount.

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 September 30, 2018**	**As at December 31, 2017 (1)**
Current assets	$ 216,943	$ 186,070
Non-current assets	1,114,302	635,618
Current liabilities	126,558	118,325
Non-current liabilities	605,872	347,092

(1) Comparative figures as at December 31, 2017 have been restated as a result of the Company's adoption of IFRS 15. Please refer to note 3 of the Company's unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2018 for details.

Current Assets

Current assets as at September 30, 2018 increased by $30.8 million to $216.9 million from $186.1 million as at December 31, 2017. The increase is primarily attributable to an increase in trade and other receivables and unbilled fees of $26.8 million (of which LifeWorks accounted for $21.6 million not included in the comparative period and $5.2 million due to growth in the business and the revenue billing cycle in accordance with contract terms), an increase in prepaid expenses and other assets of $4.7 million (of which LifeWorks accounted for $2.4 million not included in the comparative period and $2.3 million was due to timing of payments to vendors), an increase in cash of $3.9 million (of which LifeWorks accounted for $2.6 million not included in the comparative period), and an increase in the deferred implementation costs of $1.9 million, partially offset by a decrease in cash and investments held in trust of $6.5 million.

Non-current Assets

Non-current assets as at September 30, 2018 increased by $478.7 million to $1,114.3 from $635.6 million as at December 31, 2017. The increase is primarily due to higher intangible assets of $196.2 million due to LifeWorks acquisition in excess of amortization for the period, an increase in goodwill of $279.8 million due to LifeWorks acquisition, an increase in deferred implementations costs of $2.0 million, an increase in capital assets of $1.8 million due to capital asset additions in excess of depreciation, and an increase in interest rate swaps of $0.7 million. This was partially offset by a decrease in deferred tax asset of $1.5 million, and investments in joint venture of $0.3 million.

Current Liabilities

Current liabilities as at September 30, 2018 increased by $8.3 million to $126.6 million from $118.3 million as at December 31, 2017. This increase is primarily due to higher trade and other payables of $5.6 million (of which LifeWorks accounted for $12.8 million; the decrease in non-Lifework's trade and other payables is due to timing of compensation related accruals and annual incentive payments), an increase in bank indebtedness of $2.6 million, an increase in deferred revenue of $11.9 million (of which LifeWorks accounted for $4.7 million; the increase in non-Lifework's deferred revenue of $7.2 million was due to timing of consideration received from customers), and an increase in dividends payable of $0.7 million due to increase in number of shares outstanding. This was partially offset by a decrease in the current portion of future consideration related to acquisitions of $1.9 million (primarily as a result of acquisition settlement payments), a decrease in insurance premium liabilities of $6.4 million, a decrease in income taxes payable of $4.2 million due to lower tax expense.

Non-current Liabilities

Non-current liabilities as at September 30, 2018 increased by $258.8 million to $605.9 million from $347.1 million at December 31, 2017. The increase is mainly due to an increase in the long-term debt of $204.8 million due to higher amounts borrowed to finance the LifeWorks acquisition and other company growth, an increase of $0.8 million in the convertible debentures due to non-cash accretion and amortization of issuance costs, and an increase in other liabilities of $1.2 million, an increase in deferred tax liability of $59.9 million due to LifeWorks acquisition. This was partially offset by a decrease of $7.9 million in the non-current portion of deferred revenue.

As a result of the changes in current assets and current liabilities discussed above, working capital increased by $22.7 million from $67.7 million as at December 31, 2017 to $90.4 million as at September 30, 2018.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In our year ended December 31, 2017 audited consolidated financial statements and accompanying notes, and in our 2017 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 unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2018 have been prepared using the same accounting policies consistent with those applied in the audited consolidated financial statements for the year ended December 31, 2017. Our critical accounting estimates and assumptions remain substantially unchanged.

Changes in Accounting Policies

IFRS 15, Revenue from Contracts with Customers (“IFRS 15”)

On January 1, 2018 the Company adopted IFRS 15 and as a result, changed its accounting policy for revenue recognition. Please refer to note 3 of the unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2018 for further details.

IFRS 9, Financial Instruments (“IFRS 9”)

The Company adopted IFRS 9 on January 1, 2018, which replaces IAS 39, Financial Instruments: Recognition and Measurement (“IAS 39”). Please refer to note 3 of the unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2018 for further details.

Future Accounting Changes

IFRS 16, Leases (“IFRS 16”)

In January 2016, the International Accounting Standards Board issued IFRS 16. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted for those entities that have also adopted IFRS 15. The new standard provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements. IFRS 16 supersedes IAS 17, Leases, and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, differentiating between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. Among other significant changes, the distinction between operating and finance leases is removed and assets and liabilities are recognized in respect of all leases (except those that meet limited exception criteria). Furthermore, IFRS 16 requires a front-loaded pattern for the recognition of lease expense over the life of the lease.

The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. As the Company has significant contractual obligations classified as operating leases under the existing standard, there will be an increase to both assets and liabilities upon adoption of IFRS 16, and changes to the timing of recognition and presentation of expenses associated with the lease arrangements. We are working through our project plan and have made progress in our implementation of IFRS 16, but it is not yet possible to make a final determination of the impact of the new standard on our financial statements. We expect to report more detailed information, including estimated quantitative financial effects, in our 2018 annual 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. For more information about our risks and uncertainties, please refer to our 2017 annual MD&A. The risks and uncertainties remain substantially unchanged from those disclosed in our 2017 annual and fourth quarter MD&A, with the exception of an additional risk related to successfully integrating new acquisitions. If new acquisitions are not successfully integrated, the future performance of the Company may be negatively impacted, and anticipated synergies from the acquisitions may not be realized.

SUPPLEMENTARY SUMMARY OF QUARTERLY RESULTS

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

Quarter ended	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017 (2)	September 30, 2017 (2)	June 30, 2017 (2)	March 31, 2017 (2)	December 31, 2016
Revenue	182,805	171,191	167,526	156,787	152,528	159,193	156,582	149,089
Profit (loss)	(9,556)	13,672	14,229	3,452	9,178	12,117	8,280	5,660
EBITDA	11,684	32,785	33,584	17,773	26,325	29,094	25,552	21,082
Adjusted EBITDA	33,989	33,734	33,584	27,487	28,333	31,332	31,275	26,714
EBITDA margin	6.4%	19.2%	20.0%	11.3%	17.3%	18.3%	16.3%	14.1%
Adjusted EBITDA margin	18.6%	19.7%	20.0%	17.5%	18.6%	19.7%	20.0%	17.9%
Earnings per share (basic)	(0.15)	0.25	0.26	0.06	0.17	0.22	0.15	0.10
Earnings per share (diluted)	(0.15)	0.24	0.25	0.06	0.16	0.22	0.15	0.10
Normalized Free Cash Flow	23,075	16,922	16,832	18,949	17,227	15,422	18,340	19,690
Dividends declared	12,505	10,504	10,498	10,457	10,525	10,417	10,380	10,374
Twelve-month rolling normalized payout ratio	58.0%	60.0%	61.2%	59.7%	59.0%	58.7%	55.4%	56.4%
Twelve-month rolling normalized payout ratio, including changes in adjusted non-cash operating working capital	54.2%	80.2%	74.0%	73.6%	97.5%	70.7%	72.4%	66.4%
Total assets	1,331,245	833,815	820,939	821,688	797,158	804,983	788,946	773,626
Total long-term debt (1)	467,321	288,124	264,608	261,749	266,082	267,277	247,638	247,395

Footnotes:

(1) Includes convertible debentures.

(2) 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 unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2018 for further details.

Disclosure Controls and Procedures

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

The Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures are appropriately designed as at September 30, 2018.

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 September 30, 2018. No changes were made in our internal controls over financial reporting during the third quarter ended September 30, 2018, 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.

As discussed in the '2018 Third Quarter Summary and Outlook' section of the MD&A above, 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 2018 and in 2019.

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

- Revenue of $22.0 million and a loss of $3.2 million (which include a pre-tax amortization charge of $5.3 million for acquisition related intangibles) for the period from the date of acquisition to September 30, 2018.

- Current and non-current assets as at September 30, 2018 of $28.9 million and $481.9 million respectively.

- Current and non-current liabilities as at September 30, 2018 of $17.6 million and $63.0 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 November 6, 2018.