MORNEAU SHEPELL MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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 six months ended June 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 six months ended June 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 August 9, 2018, Morneau Shepell had 63,782,411 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 approximately 4,000 employees in offices across North America, we offer services to approximately 20,000 organizations 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, employee and family assistance programs, 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 six months ended June 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 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 SECOND QUARTER SUMMARY AND OUTLOOK

In thousands of dollars	**Three months ended June 30, 2018**	**Three months ended June 30, 2017 (1)**	**Six months ended June 30, 2018**	**Six months ended June 30, 2017 (1)**
Revenue	$171,191	$159,193	$338,717	$315,755
Adjusted EBITDA	33,734	31,332	67,318	62,606
Adjusted EBITDA margin	19.7%	19.7%	19.9%	19.8%
Normalized Free Cash Flow	16,922	15,422	33,754	33,761
Profit	13,672	12,117	27,902	20,397

(1) Certain comparative figures for the three and six months ended June 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 six months ended June 30, 2018 for details.

Second quarter:

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

- Revenue growth of 7.5% versus the comparative period.
- An increase in profit of $1.6 million to $13.7 million.
- An increase in adjusted EBITDA of 7.7%, or $2.4 million, to $33.7 million versus the comparative period, while maintaining a 19.7% Adjusted EBITDA margin.

Lifeworks Acquisition

Subsequent to the second quarter, on July 9, 2018, the Company announced that it had entered into an agreement of purchase and sale (the "Purchase Agreement") to acquire all of the issued and outstanding shares of Lifeworks Corporation Limited ("Lifeworks") for a purchase price of approximately $426 million (US$325 million), subject to working capital adjustments including for cash acquired. The acquisition closed on July 27, 2018. 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 subsequent events note of the unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2018.

In order to finance this acquisition, subsequent to June 30, 2018, 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 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 SECOND QUARTER OPERATING RESULTS SUMMARY

Results of Operations	**Three months Ended June 30**		**Six Months Ended June 30**	
Selected Unaudited Consolidated Financial Information	**2018**	**2017 [1]**	**2018**	**2017 [1]**
(In thousands of dollars except per share amounts)				
Revenue	$171,191	$159,193	$338,717	$315,775
Deduct:				
Salaries, benefits and contractor expenses	111,122	104,850	220,428	212,269
Other operating expenses	27,390	25,249	52,331	48,861
Finance costs	3,297	3,165	6,452	6,438
Depreciation and amortization	10,149	9,456	20,368	18,789
Share of loss of joint ventures	44	–	25	
Income tax expenses	5,517	4,356	11,211	9,021
Profit for the period	**13,672**	**12,117**	**27,902**	**20,397**
Add:				
Finance costs	3,297	3,165	6,452	6,438
Depreciation, amortization and income tax expense on share of loss of joint ventures	150	–	436	–
Depreciation and amortization	10,149	9,456	20,368	18,789
Income tax expenses	5,517	4,356	11,211	9,021
EBITDA[2]	**32,785**	**29,094**	**66,369**	**54,645**
Adjustments:				
Mercer Canada Outsourcing conversion costs	–	2,238	–	3,830
Lifeworks transaction costs	949	–	949	–
Retirement allowance	–	–	–	4,131
Adjusted EBITDA	**33,734**	**31,332**	**67,318**	**62,606**
EBITDA margin [3]	19.2%	18.3%	19.6%	17.3%
Adjusted EBITDA margin [3]	19.7%	19.7%	19.9%	19.8%
Cash provided by operating activities	(2,091)	$1,079	14,825	$15,195
Deduct: Capital expenditures [4]	(7,196)	(8,521)	(14,046)	(13,593)
Free Cash Flow [5]	**(9,287)**	**(7,442)**	**779**	**1,602**
Add (deduct):				
Changes in non-cash operating working capital	28,793	22,940	35,839	29,144
Current income taxes, net of income taxes paid	(3,533)	(2,314)	(3,813)	(2,919)
Adjustments to EBITDA [6]	949	2,238	949	5,934
Normalized Free Cash Flow [7]	**16,922**	**15,422**	**33,754**	**33,761**
Earnings per Share:				
Basic	$0.25	$0.22	$0.50	$0.37
Diluted	$0.24	$0.22	$0.50	$0.37
EBITDA per Share (basic)	$0.59	$0.53	$1.19	$0.99
Adjusted EBITDA per Share (basic)	$0.60	$0.57	$1.21	$1.14
Dividends declared	10,504	10,417	21,002	20,797
Twelve-month rolling Normalized Payout Ratio [8]	60.0%	58.7%	60.0%	58.7%
Twelve-month rolling Normalized Payout Ratio, including changes in adjusted non-cash operating working capital [9]	80.2%	70.7%	80.2%	70.7%

Footnotes:

(1) Certain comparative figures for the three and six months ended June 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 six months ended June 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 six month period ended June 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 June 30, 2018, the non-cash operating working capital was adjusted for by $1,165 which represents the working capital impact of the retirement allowance. For the comparative twelve-month period ended June 30, 2017, the non-cash operating working capital was adjusted for by ($2,363), 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 SECOND QUARTER 2018 OPERATING RESULTS

Revenue

Revenue for the three months ended June 30, 2018 increased by $12.0 million, or 7.5%, to $171.2 million compared to $159.2 million for the same period in 2017. Excluding revenue from acquisitions not in the comparative period, revenue grew by $8.1 million or 5.1%. The 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 2.5% and ESS 0.9% of the organic revenue growth of 5.1%.

Salaries, Benefits and Contractor Expenses

Salaries, benefits and contractor expenses for the three months ended June 30, 2018 increased by $6.3 million, or 6.0%, to $111.1 million compared to $104.9 million for the same period in 2017. Excluding the net increase in compensation expense of $2.9 million resulting from acquisitions not in the comparative, compensation expense increased by $3.4 million. The increase is mainly attributable to general increases to support the Company's continued growth of $4.9 million, partially offset by compensation costs for Mercer Canada Outsourcing conversion of $1.5 million in the comparative period.

Other Operating Expenses

Other operating expenses for the three months ended June 30, 2018 increased by $2.1 million, or 8.5%, to $27.4 million compared to $25.2 million for the same period in 2017. Excluding the net increase in other operating expenses of $0.1 million resulting from acquisitions not in the comparative period, other operating expenses increased by $2.0 million. The increase is mainly attributable to general increases to support the Company's growth of $1.9 million and transaction costs incurred for Lifeworks of $0.9 million, partially offset by other operating expenses for Mercer Canada Outsourcing conversion in the comparative period of $0.8 million.

Finance Costs

Finance costs for the three months ended June 30, 2018 increased by $0.1 million, or 4.2%, to $3.3 million compared to $3.2 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 three months ended June 30, 2018 increased by $0.7 million, or 7.3%, to $10.1 million compared to $9.5 million for the same period in 2017. The increase is mainly due to higher amortization of internally developed software $0.4 million and acquired customer relationships of $0.2 million.

Income Tax Expenses

Income tax expenses for the three months ended June 30, 2018 increased by $1.2 million to $5.5 million compared to $4.4 million for the same period in 2017 primarily due to an increase in profit from operations before income taxes.

Profit for the Period

As a result of the changes noted above, profit for the three months ended June 30, 2018 increased by $1.6 million to $13.7 million compared to $12.1 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 $2.4 million, or 7.7%, to $33.7 million compared to $31.3 million for the same period in 2017. The increase is primarily due to growth in revenue of $12.0 million, partially offset by an increase in salaries and other operating expenses of $9.6 million after EBITDA adjustments. These adjusted EBITDA items do not constitute a part of the Company's on-going operating expenses, and are described in the analysis of the six months ended June 30, 2018 operating results section below.

EBITDA increased by $3.7 million to $32.8 million compared to $29.1 million for the same period in 2017.

Free Cash Flow

Free Cash Flow for the three months ended June 30, 2018 decreased by $1.8 million to $(9.3) million compared to $(7.4) million for the same period in 2017. The decrease is due to cash used in operating activities of $2.1 million compared to cash provided by operating activities of $1.1 million for the same period in 2017, partially offset by lower capital expenditures of $1.3 million.

Normalized Free Cash Flow

Normalized Free Cash Flow for the three months ended June 30, 2018 increased by $1.5 million to $16.9 million compared to $15.4 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 $2.4 million and lower capital expenditures of $1.3 million, partially offset by higher current income tax expense of $2.0 million and higher finance costs paid of $0.3 million.

ANALYSIS OF SIX MONTHS ENDED JUNE 30, 2018 OPERATING RESULTS

Revenue

Revenue for the six months ended June 30, 2018 increased by $22.9 million, or 7.3%, to $338.7 million compared to $315.8 million for the same period in 2017. Excluding revenue from acquisitions not in the comparative period, revenue grew by $16.1 million or 5.1%. The 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 2.5%, and ESS 0.9% of the organic revenue growth of 5.1%.

Salaries, Benefits and Contractor Expenses

Salaries, benefits and contractor expenses for the six months ended June 30, 2018 increased by $8.2 million, or 3.8%, to $220.4 million compared to $212.3 million for the same period in 2017. Excluding the net increase in compensation expense of $5.9 million resulting from acquisitions not in the comparative period, compensation expense increased by $2.3 million. The increase is mainly attributable to general increases to support the Company's continued growth of $8.8 million, partially offset by compensation costs for Mercer Canada Outsourcing conversion of $2.4 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 six months ended June 30, 2018 increased by $3.5 million, or 7.1%, to $52.3 million compared to $48.9 million for the same period in 2017. Excluding the net increase in other operating expenses of $0.3 million resulting from acquisitions not in the comparative period, other operating expenses grew by $3.2 million. The increase is mainly attributable to general increases to support the Company's growth of $3.7 million and transaction costs incurred for Lifeworks of $0.9 million, partially offset by other operating expenses for Mercer Canada Outsourcing conversion of $1.4 million in the comparative period.

Finance Costs

Finance costs for the six months ended June 30, 2018 increased by $0.1 million, or 0.2%, to $6.5 million compared to $6.4 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 six months ended June 30, 2018 increased by $1.6 million, or 8.4%, to $20.4 million compared to $18.8 million for the same period in 2017. This increase is mainly due to higher amortization of internally developed software $1.1 million, and acquired customer contracts and relationships of $0.5 million.

Income Tax Expenses

Income tax expenses for the six months ended June 30, 2018 increased by $2.2 million to $11.2 million compared to $9.0 million for the same period in 2017 primarily due to an increase in profit from operations before income taxes.

Profit for the Period

As a result of the changes noted above, profit for the six months ended June 30, 2018 was $27.9 million compared to $20.4 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 $4.7 million, or 7.5%, to $67.3 million compared to $62.6 million for the same period in 2017. The increase is primarily due to growth in revenue of $22.9 million, partially offset by an increase in salaries and other operating expenses of $18.2 million after EBITDA adjustments. These adjusted EBITDA items do not constitute a part of the Company's on-going operating expenses. Below is a description of the six months ended June 30, 2018 adjustments:

- Lifeworks transaction costs represent advisory, legal, and other professional and consulting fees, including for due diligence, incurred up to June 30, 2018 in respect of the Lifeworks acquisition which was completed in July 2018.

EBITDA increased by $11.7 million to $66.4 million compared to $54.6 million for the same period in 2017.

Free Cash Flow

Free Cash Flow for the six months ended June 30, 2018 decreased by $0.8 million to $0.8 million compared to $1.6 million for the same period in 2017. The decrease is due to higher income taxes paid of $2.8 million, partially offset by higher cash generated from operating activities of $2.4 million, and higher capital expenditures of $0.5 million.

Normalized Free Cash Flow

Normalized Free Cash Flow for the six months ended June 30, 2018 remained unchanged at $33.8 million compared to the same period in 2017. Higher cash generated from operating activities before changes in non-cash operating working capital and EBITDA adjustments of $4.1 million and lower finance costs paid of $0.1 million, were fully offset by higher current income tax expense of $3.7 million and higher capital expenditures of $0.5 million.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

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

Cash Flow Information

Selected Consolidated Financial Information:

Cash provided by (used in): *(In thousands of dollars)*	**Six months ended June 30, 2018**	**Six months ended June 30, 2017**
Operating activities	$ 14,825	$ 15,195
Financing activities	4,730	(1,553)
Investing activities	(18,576)	(18,510)
Increase (decrease) in cash	$ 979	$ (4,868)

Cash provided by operating activities for the six months ended June 30, 2018 decreased by $0.4 million to $14.8 million compared to $15.2 million for the same period in 2017. The decrease is due to higher income taxes paid of $2.8 million, partially offset by higher cash generated from operating activities of $2.4 million primarily due to higher profit for the period of $7.5 million and an increase in items not involving cash of $1.6 million, partially offset by less favorable changes in working capital of $6.7 million.

Cash provided by financing activities for the six months ended June 30, 2018 increased by $6.3 million to $4.7 million compared to cash used in financing activities of $1.5 million for the same period in 2017. The increase is primarily due to incremental borrowings under the credit facility of $6.5 million, partially offset by higher dividends payment of $ 0.2 million.

Cash used in investing activities for the six months ended June 30, 2018 increased by $0.1 million to $18.6 million compared to $18.5 million for the same period in 2017. This increase was primarily due to higher capital expenditures of $0.5 million, partially offset by lower acquisition related payments 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 July 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 June 30, 2018 was 60.0% and is comparable to 58.7% for the same period in 2017. The twelve-month rolling Normalized Payout Ratio, including changes in adjusted non-cash operating working capital at June 30, 2018 was 80.2% compared to 70.7% for the same period in 2017. The increase in the ratio is mainly due to the change in the adjusted non-cash operating working capital due to growth in revenue and higher capital expenditures during the past twelve months.

Capital Expenditures

Our capital expenditures typically include information technology hardware and software (external and internally developed), leasehold improvements, and office furniture. Such amounts are expected to be funded from our operating cash flow. Additional capital expenditure requirements may result from significant business expansion. Capital expenditures for the three months ended June 30, 2018 decreased by $1.3 million to $7.2 million compared to $8.5 million for the same period in 2017, and for the six months ended June 30, 2018 increased by $0.5 million to $14.0 million compared to $13.6 million for the same period in 2017. The decrease in capital expenditures for the three months ended June 30 2018 is due to lower leasehold improvements and office furniture expenditures of $2.5 million, primarily due to office furniture and leasehold improvement spend in the comparative period to facilitate our move to our Markham, Ontario office location which was completed in June 2017, and lower information technology hardware spend of $0.8 million, which was partially offset by higher spend on internally developed software of $1.8 million. The increase in capital expenditures for the six months ended June 30 2018 is due to higher spend on internally developed software of $2.3 million, partially offset by lower information technology hardware spend of $1.6 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 *	$ 206,178	$ –	$ –	$ 206,178	$ –	$ –	$ –
Convertible debenture	86,000	–	–	–	86,000	–	–
Operating leases, net	115,982	6,524	14,466	13,960	13,722	12,647	54,663
Total	**$ 408,160**	**$ 6,524**	**$ 14,466**	**$ 220,138**	**$ 99,722**	**$ 12,647**	**$ 54,663**

***** As noted in the ‘Lifeworks Acquisition’ section above, the Company amended and restated the Company’s existing credit facility agreement subsequent to the June 30, 2018. Please refer to the ‘Lifeworks Acquisition’ section of the ‘2018 Second Quarter Summary and Outlook’ above and the ‘Capital Resources’ section of the MD&A 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 thru 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 June 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 June 30, 2018**	**As at December 31, 2017 [(1)]**
Bank indebtedness	$ 4,437	$ 5,416
Long- term debt, net of debt issuance costs	205,538	179,669
Convertible debenture, net of issuance costs and equity component of debenture	82,586	82,080
Shareholders' equity	367,250	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 six months ended June 30, 2018 for details.

Long-term debt

The long-term debt, net of debt issuance costs, increased by $25.9 million from $179.7 million as at December 31, 2017 to $205.5 million as at June 30, 2018. This increase is the result of an increase in borrowings under the Company's credit facility agreement to finance business growth and acquisition related payments.

The Company has a credit facility agreement (the "Credit Facility Agreement") that matures on December 20, 2020 and provides for a revolving facility of $300.0 million (including a swing line of $14.0 million). As at June 30, 2018, we had utilized $209.6 million of the Credit Facility, including $3.5 million of the swing line available.

The interest rates for the Credit Facility Agreement are floating, based on a margin over certain referenced rates of interest. The applicable margin may vary up and down depending on the ratio of the Company's consolidated debt to Adjusted EBITDA as defined in the Credit Facility Agreement. In July 2017, the Company entered into a forward-starting interest rate swap agreement to hedge against the variable interest rate component on $50.0 million notional amount borrowed under the Credit Facility Agreement for the period from November 29, 2017 up to and ending December 20, 2020. The notional amount of this swap is $50.0 million and is used to fix the variable component of the interest rate at 1.79%, before the applicable margin, for the duration of this period and has been designated as a cash flow hedge.

The 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 3.0:1.0 or for the twelve month period immediately following the completion of a permitted acquisition as defined in the Credit Facility Agreement with a purchase price of $25,000 or more, not more than 3.5:1.0, and an EBITDA to interest expense ratio of not less than 3.0:1.0.

We are in compliance with all of the required financial covenants as at June 30, 2018.

On July 27, 2018, subsequent to the period of these financial statements, 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, and the agreement has a maturity date five years from closing.

The interest rates for the Amended and Restated Credit Facility 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 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.

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

As noted in the 'Lifeworks Acquisition' section of the MD&A, subsequent to June 30, 2018, the Company raised $231.0 million of gross proceeds through the issuance of 8.7 million common shares of the Company through a public share offering.

SELECTED STATEMENT OF FINANCIAL POSITION DATA

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

(in thousands of dollars)	**As at June 30, 2018**	**As at December 31, 2017 (1)**
Current assets	$ 200,424	$ 186,070
Non-current assets	633,391	635,618
Current liabilities	97,648	118,325
Non-current liabilities	368,917	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 six months ended June 30, 2018 for details.

Current Assets

Current assets as at June 30, 2018 increased by $14.4 million to $200.4 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 $13.6 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 $5.4 million due to timing of payments to vendors, and an increase in the current portion of deferred implementation costs of $1.4 million, partially offset by a decrease in cash and investments held in trust of $6.1 million.

Non-current Assets

Non-current assets as at June 30, 2018 decreased by $2.2 million to $633.4 from $635.6 million as at December 31, 2017. The decrease is primarily due to lower intangible assets of $3.5 million due to amortization of these assets in excess of additions, and a decrease of $0.6 million in the deferred tax asset. This was partially offset by an increase in the non-current portion of deferred implementation costs of $0.6 million, an increase in capital assets of $0.4 million due to capital asset additions in excess of depreciation, and an increase in goodwill of $0.7 million.

Current Liabilities

Current liabilities as at June 30, 2018 decreased by $20.7 million to $97.6 million from $118.3 million as at December 31, 2017. This decrease is primarily due to lower trade and other payables of $19.3 million, due to timing of compensation related accruals and annual incentive payments, a decrease in the current portion of future consideration related to acquisitions of $2.0 million primarily as a result of acquisition settlement payments, a decrease in insurance premium liabilities of $6.1 million, and a decrease in bank indebtedness of $1.0 million. This was partially offset by an increase in deferred revenue of $4.7 million due to timing of consideration received from customers, and an increase in income taxes payable of $3.0 million.

Non-current Liabilities

Non-current liabilities as at June 30, 2018 increased by $21.8 million to $368.9 million from $347.1 million at December 31, 2017. The increase is mainly due to an increase in the long-term debt of $25.9 million due to higher amounts borrowed under the Credit Facility Agreement, an increase of $0.5 million in the Convertible Debentures due to non-cash accretion and amortization of issuance costs, and an increase in Other Liabilities of $ 0.6 million. This was partially offset by a decrease of $2.7 million in the non-current portion of deferred revenue, a decrease in the deferred tax liability of $1.8 million, and lower provisions of $0.8 million.

As a result of the changes in current assets and current liabilities discussed above, working capital increased by $35.0 million from $67.7 million as at December 31, 2017 to $102.8 million as at June 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 six months ended June 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

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 six months ended June 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 six months ended June 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. 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. The extent of the impact of adoption of the standard has not yet been determined.

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	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	September 30, 2016
Revenue	171,191	167,526	156,787	152,528	159,193	156,582	149,089	144,594
Profit	13,672	14,229	3,452	9,178	12,117	8,280	5,660	5,210
EBITDA	32,785	33,584	17,773	26,325	29,094	25,552	21,082	19,098
Adjusted EBITDA	33,734	33,584	27,487	28,333	31,332	31,275	26,714	27,187
EBITDA margin	19.2%	20.0%	11.3%	17.3%	18.3%	16.3%	14.1%	13.2%
Adjusted EBITDA margin	19.7%	20.0%	17.5%	18.6%	19.7%	20.0%	17.9%	18.8%
Earnings per share (basic)	0.25	0.26	0.06	0.17	0.22	0.15	0.10	0.09
Earnings per share (diluted)	0.24	0.25	0.06	0.16	0.22	0.15	0.10	0.09
Normalized Free Cash Flow	16,922	16,832	18,949	17,227	15,422	18,340	19,690	17,323
Dividends declared	10,504	10,498	10,457	10,525	10,417	10,380	10,374	10,355
Twelve-month rolling normalized payout ratio	60.0%	61.2%	59.7%	59.0%	58.7%	55.4%	56.4%	56.2%
Twelve-month rolling normalized payout ratio, including changes in adjusted non-cash operating working capital	80.2%	74.0%	73.6%	97.5%	70.7%	72.4%	66.4%	54.2%
Total assets	833,815	820,939	821,688	797,158	804,983	788,946	773,626	760,402
Total long-term debt [(1)]	288,124	264,608	261,749	266,082	267,277	247,638	247,395	253,293

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 six months ended June 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 June 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 June 30, 2018. No changes were made in our internal controls over financial reporting during the second quarter ended June 30, 2018, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Additional Information

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

The content of this MD&A reflects information known as of August 9, 2018.