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 months ended March 31, 2021 and should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements ("interim financial statements") of Morneau Shepell and notes thereto for the three months ended March 31, 2021 and 2020, and the MD&A and the audited consolidated financial statements and notes thereto for the year ended December 31, 2020 ("annual financial statements"). Unless otherwise noted, all financial information presented has been rounded to the nearest thousand, and all financial information is presented in Canadian dollars, in accordance with International Financial Reporting Standards ("IFRS"), unless otherwise noted. Certain totals, subtotals and percentages may not reconcile due to rounding.

FORWARD LOOKING STATEMENTS AND DEFINITIONS

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. The use of words such as "may", "will", "expect", "believe", or other words of similar effect may indicate a "forward-looking" statement. These statements are not guarantees of future performance and are subject to numerous risks and uncertainties, including those described in our publicly filed documents (available on SEDAR at sedar.com) and in this MD&A under the heading "Risks and Uncertainties". Those risks and uncertainties include the ability to maintain profitability and manage growth, the 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, general economic conditions and pandemics, natural disasters or other unanticipated events (including the novel coronavirus ("COVID-19") pandemic). Many of these risks and uncertainties can affect our actual results and could cause our actual results to differ materially from those expressed or implied in any forward-looking statement made by us or on our behalf. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. All forward-looking statements in this MD&A are qualified by these cautionary statements. These statements are made as of the date of this MD&A and, except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Additionally, we undertake no obligation to comment on analyses, expectations or statements made by third parties in respect of us, our financial or operating results, or our securities.

To assist investors in assessing our financial performance, this discussion also makes reference to certain non-IFRS measures such as EBITDA, adjusted EBITDA, adjusted EBITDA per share, EBITDA margin, adjusted EBITDA margin, Free Cash Flow, Normalized Free Cash Flow, twelve-month rolling Normalized Payout Ratio, and twelve-month rolling Normalized Payout Ratio including changes in adjusted operating working capital. EBITDA and adjusted EBITDA are intended to indicate Morneau Shepell's capacity to generate profit from operations before taking into account Management's financing decisions and costs of consuming intangible and tangible capital assets, which vary according to their vintage, technological currency, and Management's estimate of their useful life. Accordingly, EBITDA comprises profit before finance costs, income tax expenses, depreciation and amortization, while Adjusted EBITDA represents EBITDA before taking into account certain unusual expenditures or gains. 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 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 these measures to make decisions related to dividends to shareholders. Free Cash Flow is defined as cash provided by operating activities adjusted for capital expenditures. Normalized Free Cash Flow is defined as cash provided by operating activities, adjusted for changes in operating working capital, capital expenditures, and certain unusual expenditures.

Non-IFRS measures do not have any standard meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. Non-IFRS measures are reconciled to IFRS measures elsewhere in this MD&A.

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares and 10 million preferred shares. Each common share entitles the holder to one vote at all meetings of shareholders and represents an interest in dividends declared by the Company and an undivided interest in the net assets of the Company. As at May 13, 2021, Morneau Shepell had 68,784,513 common shares and nil preferred shares outstanding. The number of long-term incentive plan ("LTIP") units, including those that remain unvested, that are outstanding and may be converted to common shares is approximately 2,000,000.

BUSINESS OVERVIEW

Morneau Shepell is the leading provider of technology-enabled HR services delivering an integrated approach to employee wellbeing through our cloud-based platform. Our focus is to provide world-class solutions to our clients to support the mental, physical, social and financial wellbeing of their people. By improving lives, we improve business. Our approach spans services in employee and family assistance, health and wellness, recognition, pension and benefits administration, retirement consulting, and actuarial and investment services. Morneau Shepell employs approximately 6,500 employees who work with some 24,000 client organizations that use our services in Canada, the United States and around the globe.

The Company has four operating segments, consistent with our four core lines of business, as follows: Wellbeing Solutions, Administrative Solutions, Retirement Solutions, and Health and Productivity Solutions.

The Wellbeing Solutions business integrates what was formerly Employee Support Solutions ("ESS") with the people, assets and capabilities of the LifeWorks organization, including its cloud-based user platform for deploying technology-enabled HR services. The business is focused on delivering an integrated employee experience with solutions that encompass the full continuum of care for achieving mental, physical, social and financial wellbeing. These solutions include a broad range of clinical services offered within employee and family assistance plans, along with corporate reward, recognition and perks programs focusing on driving engagement and productivity in workplace culture.

Through the Administrative Solutions business, the Company provides a full range of user-friendly solutions from software to full outsourcing for the administration of employee pension and benefits plans, leveraging its Ariel software platform. The Company provides employees and organizations with self-serve portals, mobile applications and contact centre support to ensure they have the tools and resources to manage their benefits, save for retirement, and ultimately ensure their long-term financial wellbeing.

The Retirement Solutions business helps organizations design, build and operate sustainable retirement programs that provide a strong return on investment while ensuring compliance with all governance and regulatory requirements. The Company leverages actuarial, recordkeeping and risk-management technology and data analytics across the entire defined-benefit to defined-contribution spectrum to provide strategic consulting support and innovative solutions to pension and asset management, minimizing risk and supporting the long-term financial security and wellbeing of employees.

In Health and Productivity Solutions, the Company serves as strategic advisor to help organizations of all sizes design, develop and manage disability programs and policies with a focus on best-in-class employee experience, health prevention, measurable health outcomes, and helping people return to work using the tools and resources available on the state-of-the-art Abiliti platform. The business supports the complex end of the Company's continuum of care through its AbilitiCBT product and non-occupational absence management solutions.

In February 2021, the Company acquired all of the outstanding shares of SMG Health Pty Ltd. ("SMG") through its LifeWorks business in Australia. SMG's services combine mental health services, physical wellbeing checks and social health programs to deliver improved individual and organizational performance and productivity. Together, we bring an unmatched range of services to achieve complete mental, physical, social and financial wellbeing for people in Australia.

2021 FIRST QUARTER SUMMARY AND OUTLOOK

In thousands of dollars, except per share amounts	**Three months ended March 31, 2021**	**Three months ended March 31, 2020**
Revenue	$ 257,140	$ 243,048
Adjusted EBITDA(1)	52,765	47,318
Adjusted EBITDA margin(1)	20.5%	19.5%
Adjusted EBITDA per share (basic)(1)	0.75	0.68
Normalized Free Cash Flow(1)	26,285	24,200
Profit	10,175	38,905
Earnings per share (basic)	0.15	0.56

(1) These items are non-IFRS measures and should not be considered a substitute or alternative for IFRS measures. Refer to the 2021 First Quarter Operating Results Summary for a reconciliation of these non-IFRS measures to IFRS measures.

First quarter highlights:

We had a strong first quarter of 2021 and continued to deliver revenue and adjusted EBITDA growth versus the comparative quarter in 2020. Highlights of the first quarter include:

- Organic revenue growth for the quarter was 7.1%. Overall, revenue growth of 5.8% or $14.1 million versus the comparative period is primarily due to strong organic growth, partially offset by the divestiture of our benefits consulting business.

- An increase in adjusted EBITDA of 11.5% to $52.8 million versus $47.3 million in the comparative period was primarily due to organic revenue growth and lower other operating expenses.

- Adjusted EBITDA margin was 20.5% versus 19.5% in the comparative period. The increase in margin is due to organic revenue growth and lower operating expenses in several areas during the quarter, such as travel, compared to the same period in the prior year.

- Adjusted EBITDA per share (basic) of $0.75 compared to $0.68 in the comparative period due to growth in adjusted EBITDA.

- Profit for the period was $10.2 million compared to profit of $38.9 million in the same period in prior year. The decrease in profit is predominantly due to the after-tax gain on the divestiture of our benefits consulting business of $33.4 million in the first quarter of 2020. Basic earnings per share for the period was $0.15 compared to $0.56 in the comparative period.

2021 FIRST QUARTER OPERATING RESULTS SUMMARY

Results of Operations	**Three months ended March 31,**	
Selected Unaudited Consolidated Financial Information	**2021**	**2020**
(In thousands of dollars except per share amounts)		
Revenue	$ 257,140	$ 243,048
Deduct/(Add):		
Salaries, benefits and contractor expenses	176,862	164,325
Other operating expenses	33,607	37,417
Finance costs	5,933	7,436
Depreciation and amortization	27,217	26,239
Share of income of joint ventures	(516)	(10)
Income taxes	3,862	8,579
Gain on business divestiture	-	(39,843)
Profit for the period	**$ 10,175**	**$ 38,905**
Add:		
Finance costs	5,933	7,436
Depreciation and amortization	27,217	26,239
Depreciation, amortization, and income taxes on share of income of joint ventures	160	171
Income taxes	3,862	8,579
EBITDA[(1)]	**$ 47,347**	**$ 81,330**
Add/(deduct) adjustments:		
LifeWorks integration	-	1,058
Mercer integration	-	3,749
ERP implementation costs	5,418	1,024
Gain on business divestiture	-	(39,843)
Adjusted EBITDA[(2)]	**$ 52,765**	**$ 47,318**
EBITDA margin[(3)]	18.4%	33.5%
Adjusted EBITDA margin[(3)]	20.5%	19.5%
Cash provided by operating activities	$ 57,825	$ 29,645
Deduct: Capital expenditures[(4)]	(21,221)	(16,448)
Free Cash Flow[(5)]	**$ 36,604**	**$ 13,197**
Add (deduct):		
Change in operating working capital	(15,898)	5,172
Adjustments to Free Cash Flow[(6)]	5,579	5,831
Normalized Free Cash Flow[(7) (8)]	**$ 26,285**	**$ 24,200**
Earnings per share (basic)	$ 0.15	$ 0.56
Earnings per share (diluted)	$ 0.14	$ 0.56
EBITDA per share (basic)	$ 0.68	$ 1.17
Adjusted EBITDA per share (basic)	$ 0.75	$ 0.68
Dividends declared	$ 13,413	$ 13,287
Twelve-month rolling Normalized Payout Ratio [(8) (9)]	51.8%	48.9%
Twelve-month rolling Normalized Payout Ratio, including changes in adjusted operating working capital [(8) (10)]	42.1%	77.5%

Footnotes:

(1) "EBITDA" is defined as profit before finance costs, income taxes, depreciation and amortization.

(2) "Adjusted EBITDA" is defined as "EBITDA" before adjusted items, which do not constitute a part of the Company's on-going operating expenses.

(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) "Adjustments to Free Cash Flow" for the purpose of calculating Normalized Free Cash Flow includes adjusted items and cash payments made in the current period related to the sublease loss provision recorded in the third quarter of 2020, as the non-cash portion of the sublease loss provision was excluded from the adjustment previously.

(7) "Normalized Free Cash Flow" is defined as cash provided by operating activities, adjusted for changes in operating working capital, capital expenditures and certain unusual expenditures.

(8) "Normalized Free Cash Flow" was previously defined as cash provided by operating activities, adjusted for changes in operating working capital, capital expenditures, current income taxes (net of income taxes paid) and certain unusual expenditures. The comparative Normalized Free Cash Flow amounts and twelve-month rolling Normalized Payout Ratio and twelve-month rolling Normalized Payout Ratio, including changes in adjusted operating working capital have been restated to align with the revised definition of Normalized Free Cash Flow.

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

(10) "Twelve-month rolling Normalized Payout Ratio, including changes in adjusted operating working capital" is defined as dividends declared divided by the twelve-month rolling Normalized Free Cash Flow, including changes in operating working capital.

ANALYSIS OF FIRST QUARTER 2021 OPERATING RESULTS

Revenue

Revenue for the three months ended March 31, 2021 increased by $14.1 million, or 5.8%, to $257.1 million compared to $243.0 million for the same period in 2020. The increase is primarily due to strong organic growth of 7.1%, mainly from the Wellbeing and Health and Productivity Solutions lines of business, partially offset by the decrease in revenue due to the divestiture of our benefits consulting business.

Salaries, Benefits and Contractor Expenses

Salaries, benefits and contractor expenses for the three months ended March 31, 2021 increased by $12.6 million, or 7.7%, to $176.9 million compared to $164.3 million for the same period in 2020. The increase in compensation expense is due to business growth.

Other Operating Expenses

Other operating expenses for the three months ended March 31, 2021 decreased by $3.8 million, or 10.2%, to $33.6 million compared to $37.4 million for the same period in 2020. This decrease is mainly due to a reduction in operating and integration costs incurred related to acquisitions, partially offset by an increase in implementation costs for the new ERP system.

Finance Costs

Finance costs for the three months ended March 31, 2021 decreased by $1.5 million, or 20.3%, to $5.9 million compared to $7.4 million for the same period in 2020 primarily due to decreased borrowings under the Company's credit facility agreement.

Depreciation and Amortization

Depreciation and amortization for the three months ended March 31, 2021 increased by $1.0 million, or 3.8%, to $27.2 million compared to $26.2 million for the same period in 2020. The increase is primarily due to accelerated depreciation of right-of-use assets and capital assets due to the planned office relocation as well as amortization of internally developed and purchased software. The increases were partially offset by a reduction in amortization due to fully amortized acquired intangible assets.

Income Taxes

Income tax expense for the three months ended March 31, 2021 was $3.9 million compared to income tax expense of $8.6 million for the same period in 2020. The decrease of $4.7 million is primarily due to lower profit in the period, compared to the same period in prior year, which included the gain from the divestiture of our benefits consulting business.

Gain on Business Divestiture

On March 1, 2020, the Company sold its benefits consulting business to HUB International Limited for a purchase price of $70.0 million subject to working capital adjustments, which were finalized during the third quarter of 2020. The gain recognized on the sale was $39.8 million before tax. Refer to note 4 of the annual financial statements for further details.

Profit for the Period

As a result of the changes noted above, profit for the three months ended March 31, 2021 was $10.2 million compared to a profit of $38.9 million for the same period in 2020.

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

Adjusted EBITDA and EBITDA

Adjusted EBITDA increased $5.5 million to $52.8 million compared to $47.3 million for the same period in 2020. The increase is primarily due to organic revenue growth and lower other operating expenses. Adjusted EBITDA excludes adjusted items, which do not constitute a part of the Company's on-going operating expenses.

Below is a description of the adjustments for the three months ended March 31, 2021 and March 31, 2020, except for the gain on business divestiture (explained above):

- New ERP system implementation costs represent costs incurred by the Company to implement a new comprehensive enterprise resource planning solution. The new solution will help with the Company's growth, realize efficiencies, streamline integrations of acquisitions and eliminate redundancies.

- Mercer and LifeWorks Integration costs represent the costs incurred to integrate the clients, employees and operations acquired with our existing businesses. These initiatives were completed in the year ended December 31, 2020.

EBITDA decreased by $34.0 million to $47.3 million compared to $81.3 million for the same period in 2020 primarily due to $39.8 million pre-tax gain on business divestiture of our benefit consulting business included in the comparative period.

Free Cash Flow

Free Cash Flow for the three months ended March 31, 2021 increased by $23.4 million to $36.6 million compared to $13.2 million for the same period in 2020. This increase is primarily due to an increase in cash provided by operating activities of $28.2 million, which is driven by improvement in working capital of $21.1 million, offset by increased capital expenditures of $4.8 million (see Capital Expenditures discussion below).

Normalized Free Cash Flow

Normalized Free Cash Flow for the three months ended March 31, 2021 increased by $2.1 million to $26.3 million compared to $24.2 million for the same period in 2020. The increase is mainly due to higher cash generated from operating activities before changes in operating working capital and EBITDA adjustments of $5.0 million and lower finance costs paid of $1.9 million, partially offset by higher capital expenditures of $4.8 million.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

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

Cash Flow Information

Selected Consolidated Financial Information:

Cash provided by (used in): *(In thousands of dollars)*	**Three months ended March 31, 2021**	**Three months ended March 31, 2020**
Operating activities	$ 57,825	$ 29,645
Financing activities	(16,945)	83,837
Investing activities	(30,795)	43,641
Increase in cash	**$ 10,085**	**$ 157,123**

Cash provided by operating activities for the three months ended March 31, 2021 increased by $28.2 million to $57.8 million compared to $29.6 million for the same period in 2020. The increase consists of $26.4 million higher cash generated from operating activities driven by improved operating working capital of $21.1 million mainly due to the timing of vendor payments and lower finance costs paid of $1.9 million.

Cash used in financing activities for the three months ended March 31, 2021 increased by $100.7 million compared to three months ended March 31, 2020. The increase is mainly due to a net change in the revolving loan of $102.2 million.

Cash used in investing activities for the three months ended March 31, 2021 increased by $74.4 million compared to three months ended March 31, 2020. The increase was primarily due to $67.5 million of proceeds from the divestiture of the benefits consulting business in 2020 and higher capital expenditures of $4.8 million in 2021.

Dividends to Shareholders

Monthly dividends were declared for shareholders of record on the last business day of each month and were paid on approximately the 15th day of the following month. Monthly dividends were $0.065 per share each month for the quarter. The Company continued to declare the same monthly dividend amount in April and May 2021.

We consider the amount of cash generated by the business in determining the amount of dividends to pay to shareholders. We do not generally consider profit or loss in setting the level of dividends as this is a non-cash metric and is not reflective of the level of cash flow that we generate.

The twelve-month rolling Normalized Payout Ratio at March 31, 2021 was 51.8% compared to 48.9% for the same period in 2020. The increase in the ratio is mainly due to higher dividends payable after the redemption of convertible debentures in the fourth quarter of 2019 and lower cash generated from operating activities before changes in operating working capital due to increased capital expenditures. The twelve-month rolling Normalized Payout Ratio, including changes in adjusted operating working capital at March 31, 2021 was 42.1% compared to 77.5% for the same period in 2020. The decrease in the ratio is mainly due to improved change in operating working capital.

Capital Expenditures

Our capital expenditures typically include information technology hardware and software (external and internally developed), leasehold improvements, and office furniture. Such amounts are expected to be funded from our operating cash flow. Additional capital expenditure requirements may result from significant business expansion. Capital expenditures for the three months ended March 31, 2021 increased by $4.8 million to $21.2 million compared to $16.4 million for the same period in 2020 mainly due to capital expenditures related to the leasehold improvements for our new corporate head office.

Contractual Obligations

The Company manages and continually monitors its commitments and contractual obligations to ensure that these can be met with funding provided by operations and capital resources available.

Commitments

We lease office space and selected equipment under lease agreements as well as software licences, with terms ranging from one to 15 years. We also have revolving loans under the credit facility.

We are a party to various subleases to which we would be liable for the rental payment in the case of a default by the subtenants. The minimum payments and the aggregate sublease income related to these premises have been presented on a "net" basis below for the purpose of the Commitments disclosure. A summary of contractual obligations, which outlines the year the payments are due is as follows:

(In thousands of dollars)	**Total**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026 and thereafter**
Long-term debt	$ 414,168	$ -	$ -	$ 414,168	$ -	$ -	$ -
Guaranteed future consideration related to acquisitions	957	-	957	-	-	-	-
Leases (net) and software licenses	180,979	18,042	22,952	20,912	15,786	11,363	91,924
Total	**$ 596,104**	**$ 18,042**	**$ 23,909**	**$ 435,080**	**$ 15,786**	**$ 11,363**	**$ 91,924**

Future Consideration Related to Acquisitions

Future consideration related to acquisitions include a holdback portion, which has been included in the Commitments table above, and amounts that are contingent on future business results. The total undiscounted future consideration remaining to be paid is $4.4 million, due from 2021 through 2022. These contingent future installments have been recognized as future consideration related to acquisitions on the statement of financial position at their estimated discounted amounts as at March 31, 2021.

We have no material contractual obligations and have no off-balance sheet financing arrangements other than those described in this MD&A.

Capital Resources

The following table provides an overview of our capital resources:

(In thousands of dollars)	**As at March 31, 2021**	**As at December 31, 2020**
Cash (Bank indebtedness, net of cash)	$ 6,037	$ (4,048)
Long- term debt, net of debt issuance costs	412,425	411,924
Shareholders' equity	652,033	656,707

Cash, net of bank indebtedness

Cash increased by $10.1 million from net bank indebtedness of $4.0 million as at December 31, 2020 to cash of $6.0 million as at March 31, 2021 due to higher cash provided by operating activities, partially offset by increase in cash used in financing and investing activities.

Long-term debt

The long-term debt, net of debt issuance costs, increased by $0.5 million from $411.9 million as at December 31, 2020 to $412.4 million as at March 31, 2021.

As at March 31, 2021, under the Credit Facility Agreement, the Company had a revolving facility of $600 million (including a swing line of $14 million), which matures on July 27, 2023 and a $100 million Incremental Facility that matures on April 16, 2021.

On April 15, 2021, the Company extended the $100 million Incremental Facility for an additional 364 days and changed the Incremental Facility from a revolving credit facility to a term loan facility. The Company drew from the term loan facility, which charges a lower applicable margin, and used the proceeds to pay down an equivalent amount of the revolving credit facility. There are no material changes to the other terms of the Credit Facility Agreement.

As at March 31, 2021, the Company had borrowed $328.7 million (December 31, 2020 – $314.7 million) and $85.5 million (US$ 68.0 million) (December 31, 2020 – $99.3 million, US$ 78.0 million), and had not utilized the swing line available (December 31, 2020 - $6.6 million utilized, which is included in the bank indebtedness). Borrowings in Canadian dollars bear interest at CDOR or Canadian Prime plus the applicable margin. Borrowings in US dollars bear interest at US Base Rate or LIBOR plus the applicable margin.

As at March 31, 2021, the Company complied with all the required financial covenants.

SELECTED STATEMENT OF FINANCIAL POSITION DATA

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

(in thousands of dollars)	**As at March 31, 2021**	**As at December 31, 2020**
Current assets	$ 256,005	$ 250,445
Non-current assets	1,272,754	1,264,061
Current liabilities	183,655	167,406
Non-current liabilities	693,071	690,393

Current Assets

Current assets as at March 31, 2021 increased by $5.6 million to $256.0 million from $250.4 million as at December 31, 2020. The increase consists of $6.9 million trade and other receivables and unbilled fees due to higher revenue, $1.9 million prepaid expenses and other, and $1.8 million current portion of deferred implementation costs. The increases were partially offset by a $2.9 million decrease in income taxes receivable and $2.7 million decrease in cash.

Non-current Assets

Non-current assets as at March 31, 2021 increased by $8.7 million to $1,272.8 million from $1,264.1 million as at December 31, 2020. Intangible assets increased by $4.2 million mainly due to an increase in internally developed software due to business growth. Capital assets increased by $1.8 million, net of depreciation, mainly due to leasehold improvements related to the new corporate head office. Goodwill increased by $4.1 million due to acquisitions in the quarter, partially offset by lower foreign denominated balances.

Current Liabilities

Current liabilities as at March 31, 2021 increased by $16.3 million to $183.7 million from $167.4 million as at December 31, 2020. Trade and other payables increased by $23.3 million due to timing of vendor payments and accruals. Lease liabilities increased by $2.4 million, provisions increased by $1.2 million, and future consideration related to acquisitions increased by $1.4 million. These increases were partially offset by lower bank indebtedness of $12.8 million.

Non-current Liabilities

Non-current liabilities as at March 31, 2021 increased by $2.7 million to $693.1 million from $690.4 million at December 31, 2020. Deferred tax liability and future consideration related to acquisitions increased by $1.6 million and $1.9 million respectively mainly due to acquisitions in the quarter. Deferred revenue increased by $1.9 million. These increases were partially offset by a decrease in the fair value of interest rate swaps by $1.1 million, decrease in lease liabilities by $1.1 million, and decrease in provisions by $1.0 million.

As a result of the changes in current assets and current liabilities discussed above, working capital decreased by $10.7 million from $83.0 million as at December 31, 2020 to $72.3 million as at March 31, 2021.

CRITICAL ACCOUNTING ESTIMATES

In our annual financial statements, and in our MD&A for the year ended December 31, 2020, we have identified the accounting estimates that are critical to understanding our business operations and our results from operations.

These estimates are reviewed periodically and, as adjustments become necessary, they are reported in profit or loss in the periods in which they become known. Accordingly, actual results could differ from these estimates. The future impact of COVID-19 uncertainties could generate, in future reporting periods, a significant risk of material adjustment to the reported amounts of assets, liabilities, revenue and expenses in the interim financial statements. Examples of accounting estimates and judgments that may be impacted by the pandemic include: revenue recognition, impairment of goodwill and intangible assets, allowance for expected credit losses, corporate income taxes, provisions and contingent consideration payable related to acquisitions.

The interim financial statements have been prepared using the critical accounting estimates and assumptions consistent with those applied in the audited annual 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 MD&A for the year ended December 31, 2020. The risks and uncertainties remain substantially unchanged from those previously disclosed.

SUPPLEMENTARY SUMMARY OF QUARTERLY RESULTS

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

Quarter ended	March 31, 2021	December 31, 2020	September 30, 2020[1]	June 30, 2020	March 31, 2020[2]	December 31, 2019	September 30, 2019	June 30, 2019
Revenue	257,140	249,644	240,300	246,175	243,048	247,549	223,980	212,666
Profit (loss)	10,175	10,828	(2,069)	8,258	38,905	2,648	1,332	6,329
EBITDA[3]	47,347	47,122	33,833	44,386	81,330	39,433	34,459	39,032
Adjusted EBITDA[3]	52,765	50,998	49,634	52,075	47,318	48,041	43,811	45,882
EBITDA margin[3]	18.4%	18.9%	14.1%	18.0%	33.5%	15.9%	15.4%	18.4%
Adjusted EBITDA margin[3]	20.5%	20.4%	20.7%	21.2%	19.5%	19.4%	19.6%	21.6%
Earnings (loss) per share (basic)	0.15	0.15	(0.03)	0.12	0.56	0.04	0.02	0.10
Earnings (loss) per share (diluted)	0.14	0.15	(0.03)	0.12	0.56	0.04	0.02	0.10
Normalized Free Cash Flow[3] [4]	26,285	22,964	21,195	32,799	24,200	17,964	32,745	29,750
Dividends declared	13,413	13,388	13,358	13,327	13,287	12,739	12,596	12,586
Twelve-month rolling Normalized Payout Ratio[3] [4]	51.8%	52.8%	54.8%	48.2%	48.9%	48.2%	49.3%	57.5%
Twelve-month rolling Normalized Payout Ratio, including changes in adjusted operating working capital[3] [4]	42.1%	51.4%	60.9%	61.6%	77.5%	75.0%	73.5%	72.1%
Total assets	1,528,759	1,514,506	1,542,080	1,512,230	1,709,699	1,530,218	1,483,878	1,397,115
Long-term debt	412,425	411,924	424,028	424,228	586,244	470,456	460,474	408,715

Footnotes:

1. September 30, 2020 results included a sublease loss of $10.3 million.
2. March 31, 2020 results included a gain on business divestiture of $39.8 million.
3. These items are non-IFRS measures and should not be considered a substitute or alternative for IFRS measures. Refer to the 2021 First Quarter Operating Results Summary for a reconciliation of these non-IFRS measures to IFRS measures.
4. The historical Normalized Free Cash Flow amounts and twelve-month rolling Normalized Payout Ratio and twelve-month rolling Normalized Payout Ratio, including changes in adjusted operating working capital, have been restated to align with the revised definition of Normalized Free Cash Flow.

DISCLOSURE CONTROLS AND PROCEDURES

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

The Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures are appropriately designed as at March 31, 2021.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for designing internal controls over financial reporting, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. In designing these controls, Management used the *Internal Control – Integrated Framework* (COSO 2013 Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission.

The Chief Executive Officer and the Chief Financial Officer have concluded that the internal controls over financial reporting are appropriately designed as at March 31, 2021. No changes were made to our internal controls over financial reporting during the first quarter ended March 31, 2021, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

ADDITIONAL INFORMATION

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

The content of this MD&A reflects information known as of May 13, 2021.