MORNEAU SHEPELL MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017

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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 nine months ended September 30, 2017 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, 2017, and the MD&A and the audited consolidated financial statements and notes thereto for the year ended December 31, 2016. 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, 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, 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 7, 2017, Morneau Shepell had 53,804,871 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 additional 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 solution 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.

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.

2017 THIRD QUARTER SUMMARY AND OUTLOOK

In thousands of dollars	**Three months ended September 30, 2017**	**Three months ended September 30, 2016**	**Nine months ended September 30, 2017**	**Nine months ended September 30, 2016**
Revenue	$153,782	$144,594	$472,433	$442,967
Organic Revenue[(1)]	$151,211	$143,371	$463,614	$438,210
Adjusted EBITDA	$28,968	$27,187	$91,816	$85,548
Adjusted EBITDA margin	18.8%	18.8%	19.4%	19.3%
Normalized Free Cash Flow	$17,862	$17,323	$51,865	$51,214
Profit	$9,654	$5,210	$30,293	$20,340

(1) Organic Revenue is defined as revenue excluding acquisitions not in the comparative period and divestitures, and the U.S. Health Exchange outsourcing business which was terminated in the prior year, and is calculated as follows:

In thousands of dollars	**Three months ended September 30, 2017**	**Three months ended September 30, 2016**	**Nine months ended September 30, 2017**	**Nine months ended September 30, 2016**
Revenue	**$153,782**	**$144,594**	**$472,433**	**$442,967**
Acquisitions	$2,571	–	$8,819	–
U.S. Health Exchange	–	$1,223	–	$4,757
Organic Revenue	**$151,211**	**$143,371**	**$463,614**	**$438,210**

Third quarter:

We had a solid third quarter of 2017 and continued to deliver revenue and adjusted EBITDA growth versus the comparative quarter in 2016. Highlights of the third quarter include:

- Revenue and Organic Revenue growth of 6.4% and 5.5%, respectively, versus the comparative period.
- An increase in Adjusted EBITDA of 6.6%, or $1.8 million, to $29.0 million versus the comparative period, while maintaining an Adjusted EBITDA margin of 18.8%.
- An increase in profit of $4.4 million to $9.7 million.

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

2017 THIRD QUARTER OPERATING RESULTS SUMMARY

Results of Operations	**Three months Ended September 30,**		**Nine Months Ended September 30,**	
Selected Unaudited Consolidated Financial Information	**2017**	**2016**	**2017**	**2016**
(In thousands of dollars except per share amounts)				
Revenue	$153,782	$144,594	$472,433	$442,967
Deduct:				
Salaries, benefits and contractor expenses	102,716	100,903	317,619	302,439
Other operating expenses	24,106	23,658	72,967	72,467
Finance costs	3,450	3,250	9,888	11,749
Depreciation and amortization	9,603	8,778	28,392	26,126
Write-down of deferred implementation costs	–	935	–	935
Income tax expenses	4,253	1,860	13,274	8,911
Profit for the period	**9,654**	**5,210**	**30,293**	**20,340**
Add:				
Finance costs	3,450	3,250	9,888	11,749
Depreciation and amortization	9,603	8,778	28,392	26,126
Income tax expenses	4,253	1,860	13,274	8,911
EBITDA (1)	$26,960	$19,098	$81,847	$67,126
Adjustments:				
Sublease loss provision	–	400	–	400
Mercer Canada Outsourcing conversion costs	2,008	1,911	5,838	7,226
Retirement allowance	–	–	4,131	–
Reorganization and operational effectiveness initiatives	–	4,843	–	9,861
Write-down of deferred implementation costs	–	935	–	935
Adjusted EBITDA	**$28,968**	**$27,187**	**$91,816**	**$85,548**
EBITDA margin (2)	17.5%	13.2%	17.3%	15.2%
Adjusted EBITDA margin (2)	18.8%	18.8%	19.4%	19.3%
Cash provided by operating activities	$18,388	$30,197	$33,583	$39,092
Deduct: Capital expenditures (3)	(6,145)	(5,686)	(19,738)	(18,000)
Free Cash Flow (4)	**12,243**	**24,511**	**13,845**	**21,092**
Add (deduct):				
Changes in non-cash operating working capital	5,579	(12,019)	34,965	17,201
Current income taxes, net of income taxes paid	(1,968)	(1,634)	(4,887)	(3,875)
Adjustments to EBITDA (5)	2,008	6,465	7,942	16,796
Normalized Free Cash Flow (6)	**$17,862**	**$17,323**	**$51,865**	**$51,214**
Earnings per Share:				
Basic	$0.17	$0.09	$0.55	$0.39
Diluted	$0.17	$0.09	$0.54	$0.39
EBITDA per Share (basic)	$0.49	$0.35	$1.48	$1.29
Adjusted EBITDA per Share (basic)	$0.52	$0.49	$1.66	$1.64
Dividends declared	10,525	10,355	31,322	29,625
Twelve-month rolling Normalized Payout Ratio (7)	58.3%	56.2%	58.3%	56.2%
Twelve-month rolling Normalized Payout Ratio, including changes in adjusted non-cash operating working capital (8)	97.5%	54.2%	97.5%	54.2%

Footnotes:

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

(2) "EBITDA margin" represents EBITDA as a percentage of revenue, and "Adjusted EBITDA margin" represents Adjusted EBITDA as a percentage of revenue.

(3) "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.

(4) "Free Cash Flow" is defined as cash provided by operating activities adjusted for capital expenditures.

(5) "Adjustments to EBITDA" do not include the non-cash component of the retirement allowance of $2,027, and for the comparative three months and nine months ended September 30, 2016, the sublease loss provision of $400, and non-cash reorganization and operational effectiveness initiatives costs of $291. These amounts have been excluded as they have already been added back in cash from operating activities before the change in non- cash operating working capital.

(6) "Normalized Free Cash Flow" is defined as cash provided by operating activities, adjusted for changes in non-cash operating working capital, capital expenditures, current income taxes (net of income taxes paid) and certain unusual expenditures.

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

(8) "Twelve-month rolling Normalized Payout Ratio, including changes in adjusted non-cash operating working capital" is defined as dividends declared divided by the Twelve-month rolling Normalized Free Cash Flow, including changes in non-cash operating working capital adjusted for unusual fluctuations. For the twelve-month period ended September 30, 2017, non-cash working capital was adjusted for by ($1,281), which represents the working capital impact of the retirement allowance. For the comparative twelve-month period ended September 30, 2016, the non-cash operating working capital was adjusted for by ($4,973), which represents 2014 leasehold inducements receivable related to capital expenditures collected in the fourth quarter of 2015 and the year over year change in non-cash operating working capital resulting from the Health Republic Insurance of New York deferred implementation costs write-off.

ANALYSIS OF THIRD QUARTER 2017 OPERATING RESULTS

Revenue

Revenue for the three months ended September 30, 2017 increased by $9.2 million, or 6.4%, to $153.8 million compared to $144.6 million for the same period in 2016. Excluding revenue from acquisitions not in the comparative period and the U.S. Health Exchange outsourcing service business, organic revenue grew by $7.8 million or 5.5%. 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 3.2% and ESS 1.3% of the organic revenue growth.

Salaries, Benefits and Contractor Expenses

Salaries, benefits and contractor expenses for the three months ended September 30, 2017 increased by $1.8 million, or 1.8%, to $102.7 million compared to $100.9 million for the same period in 2016. Excluding the net increase in compensation expense of $0.8 million resulting from acquisitions not in the comparative period net of the U.S. Health Exchange outsourcing service business, compensation expense increased by $1.0 million. The increase is mainly attributable to $5.8 million of general increases to support the Company's continued growth, partially offset by reorganization and operational effectiveness initiative costs of $4.8 million in the comparative period.

Other Operating Expenses

Other operating expenses for the three months ended September 30, 2017 increased by $0.4 million, or 1.9%, to $24.1 million compared to $23.7 million for the same period in 2016. Excluding the net decrease in other operating expenses of $0.2 million resulting from acquisitions not in the comparative period and the U.S. Health Exchange outsourcing service business, other operating expenses increased by $0.6 million due to growth in the business.

Finance Costs

Finance costs for the three months ended September 30, 2017 increased by $0.2 million, or 6.2%, to $3.5 million compared to $3.3 million for the same period in 2016 due to higher borrowings under the Company's credit facility agreement.

Depreciation and Amortization

Depreciation and amortization for the three months ended September 30, 2017 increased by $0.8 million, or 9.4%, to $9.6 million compared to $8.8 million for the same period in 2016. The increase is due to higher amortization of internally developed software of $0.6 million and higher depreciation on capital assets of $0.4 million.

Income Tax Expenses

Income tax expenses for the three months ended September 30, 2017 increased by $2.4 million to $4.3 million compared to $1.9 million for the same period in 2016 primarily due to an increase in profit from operations before income taxes.

Profit for the Period

As a result of the changes noted above and the write-down of deferred implementation costs of $0.9 million in the comparative period for Health Republic Insurance of New Jersey ("HRINJ"), profit for the three months ended September 30, 2017 increased by $4.4 million to $9.7 million compared to $5.2 million for the same period in 2016.

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

Adjusted EBITDA and EBITDA

Adjusted EBITDA increased by $1.8 million, or 6.6%, to $29.0 million compared to $27.2 million for the same period in 2016. The increase is primarily due to growth in revenue of $9.2 million, partially offset by an increase in salaries and other operating expenses of $7.4 million after EBITDA adjustments. These adjusted EBITDA items do not constitute a part of the Company's on-going operating expenses, and are described in the analysis of the nine months ended September 30, 2017 operating results section below.

EBITDA increased by $7.9 million to $27.0 million compared to $19.1 million for the same period in 2016.

Free Cash Flow

Free Cash Flow for the three months ended September 30, 2017 decreased by $12.3 million to $12.2 million compared to $24.5 million for the same period in 2016. The decrease is due to lower cash provided by operating activities of $11.8 million due to less favorable changes in non-cash operating working capital of $17.6 million primarily due to a higher trade receivable balance from a large customer and higher income taxes paid of $1.2 million, and higher capital expenditures of $0.5 million. This is partially offset by higher cash generated from operating activities of $7.2 million.

Normalized Free Cash Flow

Normalized Free Cash Flow for the three months ended September 30, 2017 increased by $0.5 million to $17.9 million compared to $17.3 million for the same period in 2016. The increase is due to higher cash generated from operating activities before changes in non-cash operating working capital and EBITDA

adjustments of $2.7 million, partially offset by higher current tax expense of $1.5 million and higher capital expenditures of $0.5 million.

ANALYSIS OF NINE MONTHS ENDED SEPTEMBER 30, 2017 OPERATING RESULTS

Revenue

Revenue for the nine months ended September 30, 2017 increased by $29.5 million, or 6.7%, to $472.4 million compared to $443.0 million for the same period in 2016. Excluding revenue from acquisitions not in the comparative period and the U.S. Health Exchange outsourcing service business, organic revenue grew by $25.4 million or 5.8%. 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 2.8% and ESS 1.4% of the organic revenue growth.

Salaries, Benefits and Contractor Expenses

Salaries, benefits and contractor expenses for the nine months ended September 30, 2017 increased by $15.2 million, or 5.0%, to $317.6 million compared to $302.4 million for the same period in 2016. Excluding the net increase in compensation expense of $2.9 million resulting from acquisitions not in the comparative period and the U.S. Health Exchange outsourcing service business, compensation expense increased by $12.3 million. The increase is mainly attributable to general increases of $19.3 million to support the Company's continued growth and the retirement allowance for our former President and Chief Executive Officer of $4.1 million, partially offset by lower compensation related costs for Mercer Canada Outsourcing conversion of $1.2 million and reorganization and operational effectiveness initiative costs of $9.9 million in the comparative period.

Other Operating Expenses

Other operating expenses for the nine months ended September 30, 2017 increased by $0.5 million, or 0.7%, to $73.0 million compared to $72.5 million for the same period in 2016. Excluding the net decrease in other operating expenses of $0.5 million resulting from acquisitions not in the comparative period and the U.S. Health Exchange outsourcing service business, other operating expenses grew by $1.0 million due to general increases required to support the Company's continued growth.

Finance Costs

Finance costs for the nine months ended September 30, 2017 decreased by $1.9 million, or 15.8%, to $9.9 million compared to $11.7 million for the same period in 2016, due to reduced borrowings under the Company's credit facility agreement during the first half of the year.

Depreciation and Amortization

Depreciation and amortization for the nine months ended September 30, 2017 increased by $2.3 million, or 8.7%, to $28.4 million compared to $26.1 million for the same period in 2016. This increase is due to higher amortization of internally developed software of $1.2 million and acquired customer relationships of $0.5 million, and higher depreciation on capital assets of $1.0 million, partially offset by lower depreciation in purchased software of $0.5 million.

Income Tax Expenses

Income tax expenses for the nine months ended September 30, 2017 increased by $4.4 million to $13.3 million compared to $8.9 million for the same period in 2016, primarily due to an increase in profit from operations before income taxes.

Profit for the Period

As a result of the changes noted above and the write-down of deferred implementation costs of $0.9 million in the comparative period for HRINJ, profit for the nine months ended September 30, 2017 was $30.3 million compared to $20.3 million for the same period in 2016.

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

Adjusted EBITDA and EBITDA

Adjusted EBITDA increased by $6.3 million, or 7.3%, to $91.8 million compared to $85.5 million for the same period in 2016. The increase is primarily due to growth in revenue of $29.5 million, partially offset by an increase in salaries and other operating expenses of $23.1 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, 2017 adjustments:

- Mercer Canada Outsourcing conversion costs represent systems and service improvements required to support the clients acquired in November, 2012. The process commenced immediately after the acquisition and we have substantially completed the original planned conversion. As a result of the savings we are realizing from the original conversion, we decided in 2016 to convert the remaining clients acquired which were not included in the original conversion. The completion date for the additional conversion has been extended to the end of the fourth quarter to accommodate certain clients' timelines.

- Retirement allowance costs represent retirement remuneration to the former President and Chief Executive Officer of the Company after his decision to retire after twelve years with the Company, including the past eight as President and CEO.

EBITDA increased by $14.7 million to $81.8 million compared to $67.1 million for the same period in 2016.

Free Cash Flow

Free Cash Flow for the nine months ended September 30, 2017 decreased by $7.2 million to $13.8 million compared to $21.1 million for the same period in 2016. The decrease is due to lower cash provided by operating activities of $5.5 million due to less favorable changes in non-cash operating working capital of $17.8 million primarily due to a higher trade receivable balance from a large customer and higher income taxes paid of $3.8 million and higher capital expenditures of $1.7 million. This is partially offset by higher cash generated from operating activities of $16.5 million.

Normalized Free Cash Flow

Normalized Free Cash Flow for the nine months ended September 30, 2017 increased by $0.7 million to $51.9 million compared to $51.2 million for the same period in 2016. The increase is due to higher cash generated from operating activities before changes in non-cash operating working capital and EBITDA adjustments of $7.7 million, partially offset by higher current tax expense of $4.8 million and higher capital expenditures of $1.8 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)*	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Operating activities	$ 33,583	$ 39,092
Financing activities	(13,565)	(21,975)
Investing activities	(24,679)	(19,033)
Decrease in cash	$ (4,661)	$ (1,916)

Cash provided by operating activities for the nine months ended September 30, 2017 decreased by $5.5 million to $33.6 million compared to $39.1 million for the same period in 2016. The decrease is due to less favorable changes in non-cash operating working capital of $17.8 million primarily due to a higher trade receivable balance from a large customer and higher income taxes paid of $3.8 million, partially offset by higher cash generated from operating activities of $16.5 million.

Cash used in financing activities for the nine months ended September 30, 2017 decreased by $8.4 million to $13.6 million compared to $22.0 million for the same period in 2016. This decrease was due to a net increase in borrowings under the credit facility (net of the proceeds received from the $86.0 convertible debentures issued in the comparative period which were used to pay down amounts borrowed under the credit facility and to fund the redemption of the previously issued convertible debentures that remained outstanding) of $7.9 million and the repayment of the $2.5 million promissory notes issued as partial consideration for the acquisition of Group AST (1993) Inc. in the comparative period, partially offset by higher dividends paid of $2.0 million.

Cash used in investing activities for the nine months ended September 30, 2017 increased by $5.7 million to $24.7 million compared to $19.0 million for the same period in 2016. This increase was primarily due to higher acquisition related payments of $3.9 million and higher additions to capital assets of $3.4 million, partially offset by lower additions to intangible assets of $1.6 million.

Dividends to Shareholders

Monthly dividends were declared for shareholders of record on the last business day of each month and were paid approximately on the 15th day of the following month. Monthly dividends were $0.065 per share during the quarter. The Company continued to declare the same monthly dividend amount in October 2017.

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, 2017 was 58.3% compared to 56.2% for the same period in 2016. The increase in the Normalized Payout Ratio is due to higher dividends paid due to shares issued upon the conversion of convertible debentures and on redemption of LTIP. The twelve-month rolling Normalized Payout Ratio, including changes in adjusted non-cash operating working capital at September 30, 2017 was 97.5% compared to 54.2% for the same period in 2016. The increase in the ratio was

mainly due to the change in the adjusted non-cash 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 September 30, 2017 increased by $0.5 million to $6.1 million compared to $5.7 million for the same period in 2016 and the increase for the nine months ended September 30, 2017 was $1.7 million to $19.7 million from $18.0 million in the comparative period. The increase in capital expenditures for the three months ended September 30, 2017 is primarily due to higher internally developed software expenditures of $0.5 million, and the increase for the nine months ended September 30 2017 is due to higher year to date leasehold improvements and office furniture expenditures of $2.0 million (net of leasehold inducements) primarily to facilitate the move to our new Markham, Ontario office location which was completed in June, 2017.

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 a party to various subleases for which we would be liable for the rental payment in the case of 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**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022 and thereafter**
Long-term debt	$ 185,104	$ –	$ –	$ –	$ 185,104	$ –	$ –
Convertible debenture	86,000	–	–	–	–	86,000	–
Operating leases, net	90,475	3,974	15,039	14,107	13,798	13,006	30,551
Total	**$ 361,579**	**$ 3,974**	**$ 15,039**	**$ 14,107**	**$ 198,902**	**$ 99,006**	**$ 30,551**

Contingent Consideration

The remaining purchase price for Solareh, Société pour L`Avancement Des Ressources Humaines Inc. (“Solareh”), and Les Consultants Longpré & Associés Inc. (“Longpré”) is contingent on future business results and the estimated remaining contingent consideration payable for these acquisitions is $3.1 million due from 2017 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 September 30, 2017.

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, 2017**	**As at December 31, 2016**
Bank indebtedness	$7,717	$ 3,056
Long- term debt, net of debt issuance costs	184,254	166,299
Convertible debentures, net of issuance costs and equity component of debenture	81,828	81,096
Shareholders' equity	365,616	361,707

Long-term debt

The long-term debt, net of debt issuance costs, increased by $18.0 million from $166.3 million as at December 31, 2016 to $184.3 million as at September 30, 2017. 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 September 30, 2017, $192.0 million of the Credit Facility, including $6.9 million of the swing line available, had been utilized.

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. The Company entered into a forward-starting interest rate swap agreement to hedge against the variable interest rate component on $160.0 million notional amount borrowed under the Credit Facility Agreement for the period from January 5, 2015 up to and ending November 29, 2017. The notional amount of this swap is $160.0 million and is used to fix the variable component of the interest rate at 1.98%, before the applicable margin, for the duration of this period and has been designated as a cash flow hedge. 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 $25.0 million 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 September 30, 2017.

Convertible debentures

In June 2016, the Company issued $86.0 million principal amount of 4.75% Convertible Unsecured

Subordinated Debentures (the "4.75% Convertible Debentures") for net proceeds of $82.0 million. The 4.75% Convertible Debentures pay interest semi-annually on June 30 and December 31, commencing with the initial interest payment on December 31, 2016 and have a maturity date of June 30, 2021.

These debentures are convertible at the option of the holder to common shares at a conversion price of $25.10 per common share. The Company has the option to redeem the 4.75% Convertible Debentures on and after June 30, 2019 and at any time prior to June 30, 2020 at a redemption price equal to 100% of their principal plus accrued and unpaid interest provided that the weighted average trading price for the 20 consecutive trading days ending five days preceding the date on which the notice of redemption is given is at least 125% of the conversion price of $25.10. On and after June 30, 2020, but prior to the maturity date, the 4.75% Convertible Debentures are redeemable at a redemption price equal to 100% of their principal amount plus accrued and unpaid interest. On redemption or maturity, the Company may elect to repay the principal and satisfy its interest obligations by issuing common shares.

SELECTED STATEMENT OF FINANCIAL POSITION DATA

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

(in thousands of dollars)	**As at September 30, 2017**	**As at December 31, 2016**
Current assets	$182,805	$ 160,938
Non-current assets	602,907	612,688
Current liabilities	88,798	97,082
Non-current liabilities	331,298	314,837

Current Assets

Current assets as at September 30, 2017 increased by $21.9 million to $182.8 million from $160.9 million as at December 31, 2016. The increase is primarily attributable to an increase in trade and other receivables and unbilled fees of $21.9 million due to growth in the business and billing terms in accordance with contracts, an increase in prepaid expenses and other assets of $3.5 million due to timing of vendor payments and renewal cycle, and an increase in the current portion of deferred implementation cost of $0.8 million. This was partially offset by a decrease in cash and investments held in trust of $4.4 million.

Non-current Assets

Non-current assets as at September 30, 2017 decreased by $9.8 million to $602.9 from $612.7 million as at December 31, 2016. The decrease is primarily due to lower intangible assets of $11.3 million due to amortization of intangible assets in excess of additions, and a decrease in the non-current portion of unbilled fees and deferred tax asset of $1.3 million each. This was partially offset by an increase in the non-current portion of deferred implementation costs of $2.6 million and higher capital assets of $1.9 million due to capital additions in excess of depreciation.

Current Liabilities

Current liabilities as at September 30, 2017 decreased by $8.3 million to $88.8 million from $97.1 million as at December 31, 2016. This decrease is primarily due to lower trade and other payables of $9.8 million due to timing of payments to vendors and timing of compensation related accruals, a decrease in future consideration related to acquisitions of $2.6 million primarily as a result of acquisition settlement payments, a decrease in insurance premium liabilities of $4.4 million, and a decrease in the fair value of the liability for the interest rate swaps of $1.4 million. This was partially offset by an increase in the bank indebtedness

balance of $4.7 million, an increase in deferred revenue of $1.4 million due to timing of consideration received from customers, and an increase in income taxes payable of $3.8 million.

Non-current Liabilities

Non-current liabilities as at September 30, 2017 increased by $16.5 million to $331.3 million from $314.8 million at December 31, 2016. The increase is mainly due to an increase in the long-term debt of $18.0 million due to higher amounts borrowed under the Credit Facility Agreement, and an increase of $0.7 million in the Convertible Debentures due to non-cash accretion and amortization of issuance costs, which was partially offset by a decrease of $1.8 million in the non-current portion of future consideration related to acquisitions.

As a result of the changes in current assets and current liabilities discussed above, working capital increased by $30.2 million from $63.9 million as at December 31, 2016 to $94.0 million as at September 30, 2017.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In our year ended December 31, 2016 audited consolidated financial statements and accompanying notes, and in our 2016 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. The unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2017 have been prepared using the same accounting policies consistent with those applied in the audited consolidated financial statements for the year ended December 31, 2016. Our critical accounting estimates and assumptions remain substantially unchanged.

Future Accounting Changes

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

On May 28, 2014, the IASB issued IFRS 15. The new standard is effective for fiscal years beginning on or after January 1, 2018 and is available for early adoption. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018.

We expect the application of IFRS 15 will impact our financial statements in respect of timing of revenue recognition and the accounting for deferred implementation costs related to certain groups of clients within our Administrative Solutions line of business. We are working through our project plan and have made progress in our implementation of IFRS 15, 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 2017 annual consolidated financial statements.

IFRS 9, Financial Instruments ("IFRS 9")

In July 2014 the IASB finalized IFRS 9. The standard is effective for fiscal years beginning on or after January 1, 2018 and is available for early adoption. The new standard includes revised guidance on the classification and measurement of financial assets, a new 'expected loss' impairment model and introduces a substantially-reformed approach to hedge accounting. The Company intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the

standard is not expected to be significant.

IFRS 16, Leases ("IFRS 16")

In January 2016, the IASB 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 2016 annual and fourth quarter MD&A. The risks and uncertainties remain substantially unchanged from those disclosed in our 2016 annual and fourth quarter MD&A.

SUPPLEMENTARY SUMMARY OF QUARTERLY RESULTS

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

Quarter ended	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
Revenue	153,782	160,814	157,837	149,089	144,594	149,251	149,123	145,696
Profit	9,654	12,475	8,164	5,660	5,210	8,081	7,049	2,422
EBITDA	26,960	29,585	25,302	21,082	19,098	25,449	22,579	16,748
Adjusted EBITDA	28,968	31,823	31,025	26,714	27,187	29,533	28,828	25,211
EBITDA margin	17.5%	18.4%	16.0%	14.1%	13.2%	17.1%	15.1%	11.5%
Adjusted EBITDA margin	18.8%	19.8%	19.7%	17.9%	18.8%	19.8%	19.3%	17.3%
Earnings per share (basic)	0.17	0.23	0.15	0.10	0.09	0.16	0.14	0.05
Earnings per share (diluted)	0.17	0.22	0.15	0.10	0.09	0.16	0.14	0.05
Normalized Free Cash Flow	17,862	15,913	18,090	19,690	17,323	18,585	15,308	18,178
Dividends declared	10,525	10,417	10,380	10,374	10,355	9,857	9,413	9,379
Twelve-month rolling normalized payout ratio	58.3%	58.5%	55.6%	56.4%	56.2%	58.3%	59.8%	60.8%
Twelve-month rolling normalized payout ratio, including changes in adjusted non-cash operating working capital	97.5%	70.7%	72.4%	66.4%	54.2%	60.1%	58.7%	66.5%
Total assets	785,712	793,315	777,627	773,626	760,402	768,256	757,357	755,648
Total long-term debt (1)	266,082	267,277	247,638	247,395	253,293	262,031	316,292	315,606

Footnotes:

(1) Includes convertible debentures.

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, 2017.

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, 2017. No changes were made in our internal controls over financial reporting during the third quarter ended September 30, 2017, 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 November 7, 2017.