MORNEAU SHEPELL MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015

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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 to Morneau Sobeco Income Fund (the "Fund").

This Management's Discussion and Analysis ("MD&A") covers the year ended December 31, 2015 and should be read in conjunction with the consolidated financial statements of Morneau Shepell and notes thereto for the years ended December 31, 2015 and 2014. 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 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. We utilize them to monitor compliance with debt covenants and to make decisions related to dividends to shareholders rather than profit due to the significant amount of amortization expense related to our intangible assets acquired from acquisitions. We also believe that Free Cash Flow, Normalized Free Cash Flow, Normalized Payout Ratio, 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 March 2, 2016, Morneau Shepell had 48,272,449 common shares, nil preferred shares and $74,904 aggregate principal amount of 5.75% convertible debentures outstanding. In the event all of the outstanding 5.75% convertible debentures are converted into common shares of the Company by the holders prior to their maturity date, the total number of common shares issuable will be approximately 5,000,000. 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 2,390,000.

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 almost 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, outsourcing 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 outsourcing 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 an actual usage or fixed fees. Most ESS agreements may be terminated by the client upon 30 to 60 days’ notice to us, however, it is typical 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. Like most ESS agreements, most workplace health and productivity agreements may be terminated by the client upon 30 to 60 days’ notice to us; however, it is typical 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 (such as printing and travel), training, marketing, office costs, professional services and insurance.

2015 SUMMARY AND OUTLOOK

In thousands of dollars	**Three months ended December 31, 2015**	**Three months ended December 31, 2014**	**Year ended December 31, 2015**	**Year ended December 31, 2014**
Revenue	$145,696	$131,195	$567,286	$535,866
Organic Revenue[1]	$139,302	$130,896	$553,123	$521,653
Adjusted EBITDA	$25,211	$22,581	$105,801	$98,927
Adjusted EBITDA margin	17.3%	17.2%	18.7%	18.5%
Normalized Free Cash Flow	$18,178	$13,446	$61,584	$50,530
Profit	$2,422	$461	$16,418	$25,140

(1) Organic revenue is defined as revenue excluding acquisitions not in the comparative period and divestitures, and is calculated as follows:

(In thousands of dollars)	**Three months ended December 31, 2015**	**Three months ended December 31, 2014**	**Year ended December 31, 2015**	**Year ended December 31, 2014**
Revenue	**$145,696**	**$131,195**	**$567,286**	**$535,866**
Acquisitions	(6,394)	–	(14,163)	–
Divestitures	–	(299)	–	(14,213)
Organic Revenue	**$139,302**	**$130,896**	**$553,123**	**$521,653**

Fourth quarter:

- Fourth quarter Revenue increased by 11.1% versus the comparative quarter in 2014, while Organic Revenue grew by 6.4%. Adjusted EBITDA increased by $2.6 million to $25.2 million versus the comparative period.

- On November 30, 2015, the Company completed the acquisition of 100% of the outstanding shares of Bensigner Du Pont & Associates, Inc. ("BDA"), a U.S. based company providing problem gambling services, drug testing management, and employee and family assistance programs. This acquisition complements the Company's existing employee support solutions line of business, and expands the Company's operations and service offerings in the U.S.

Highlights of 2015:

- Revenue and Organic Revenue grew by 5.9% and 6.0%, respectively versus the comparative period from new business wins and continued growth with existing clients from all four lines of our business.

- Adjusted EBITDA increased by $6.9 million to $105.8 million.

- As a result of the wind down of business directive issued by the New York State Department of Financial Services, the Centers for Medicare and Medicaid Services, and the New York State of Health to Health Republic Insurance of New York (HRINY), we wrote-off deferred implementation costs of $12.2 million and recognized impairment charges of $2.9 million on internally developed software related to the US Health Exchange outsourcing services business in the third quarter of 2015.

  HRINY represented approximately 3.5% of our revenue, with an insignificant contribution to profit. We remain confident in our overall U.S growth strategy and our core benefits administration business and technology offering remain a strategic focus, as evidenced by our acquisition of Ceridian's health and welfare administration business in the third quarter of 2015.

We are confident that our continued investment in our business and our established and prospective client base will continue to yield positive results for the Company.

2015 OPERATING RESULTS SUMMARY

Results of Operations	**Three Months Ended December 31**		**Year Ended December 31**	
Selected Consolidated Financial Information	**2015**	**2014**	**2015**	**2014**
(In thousands of dollars except per share amounts)				
Revenue	$145,696	$131,195	$567,286	$535,866
Deduct (add):				
Salary, benefits and contractor expenses	105,438	93,183	392,121	368,727
Other operating expenses	23,510	21,843	88,027	83,289
Finance costs	4,178	3,731	15,002	14,582
Depreciation and amortization	8,610	9,512	32,867	33,947
Write-down of deferred implementation costs and impairment	–	–	15,100	–
(Gain)/loss on business divestitures	–	350	–	(1,763)
Income tax expenses	1,538	2,115	7,751	11,944
Profit for the period	**2,422**	**461**	**16,418**	**25,140**
Add:				
Finance costs	4,178	3,731	15,002	14,582
Depreciation and amortization	8,610	9,512	32,867	33,947
Income tax expenses	1,538	2,115	7,751	11,944
EBITDA[1]	$16,748	$15,819	$72,038	$85,613
Adjustments:				
Reorganization and operational effectiveness initiatives	4,440	3,928	4,440	5,382
Sublease loss provision	–	–	700	–
Write-down of deferred implementation costs and impairment	–	–	15,100	–
(Gain)/loss on business divestitures	–	350	–	(1,763)
Mercer Canada Outsourcing conversion costs	4,023	2,484	13,523	9,695
Adjusted EBITDA	**$ 25,211**	**$ 22,581**	**$105,801**	**$98,927**
EBITDA margin [2]	11.5%	12.1%	12.7%	16.0%
Adjusted EBITDA margin [2]	17.3%	17.2%	18.7%	18.5%
Cash provided by operating activities	$38,899	$19,528	$63,898	$48,916
Deduct: Capital expenditures [3]	(5,788)	(7,636)	(25,913)	(33,550)
Free Cash Flow [4]	**33,111**	**11,892**	**37,985**	**15,366**
Add (deduct):				
Changes in non-cash operating working capital	(24,805)	(7,251)	(4,988)	14,598
Mercer Canada Outsourcing conversion – capital	270	230	658	723
Current income taxes, net of income taxes paid	1,614	2,163	(1,769)	4,766
Adjustments to EBITDA [5]	7,988	6,412	29,698	15,077
Normalized Free Cash Flow [6]	**$18,178**	**$13,446**	**$61,584**	**$50,530**
Earnings per Share (basic)	$ 0.05	$ 0.01	$ 0.33	$ 0.51
Earnings per Share (diluted)	$ 0.05	$ 0.01	$ 0.33	$ 0.51
EBITDA per Share (basic)	$ 0.34	$ 0.32	$ 1.46	$ 1.74
Adjusted EBITDA per Share (basic)	$ 0.51	$ 0.46	$ 2.14	$ 2.01
Dividends declared	9,379	9,358	37,467	37,422

	Three Months Ended December 31		Year Ended December 31	
	2015	2014	2015	2014
Twelve-month rolling Normalized Payout Ratio (7)	60.8%	74.1%	60.8%	74.1%
Twelve-month rolling Normalized Payout Ratio, including changes in adjusted non-cash operating working capital (8)	66.5%	98.1%	66.5%	98.1%

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 sublease loss provision of $700, the impairment charges for internally developed software of $2,890, and $475 of non-cash reorganization costs as these amounts 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 three-months ended December 31, 2015 and December 31, 2014 the non-cash working capital was adjusted for by $(690), and for the year ended December 31, 2014 the non-cash operating working capital was adjusted for by $2,196, which represents changes in leasehold inducements receivable related to capital expenditures. For the year ended December 31, 2015 the non-cash operating working capital was adjusted for by ($10,262), which represents 2014 leasehold inducements receivable related to capital expenditures collected in 2015 and the year over year change in non-cash operating working capital resulting from the HRINY deferred implementation costs write-off..

ANALYSIS OF FOURTH QUARTER 2015 OPERATING RESULTS

Revenue

Revenue for the three months ended December 31, 2015 increased by $14.5 million, or 11.1%, to $145.7 million compared to $131.2 million for the same period in 2014. Revenue from acquisitions contributed to an increase of 4.7% or $6.1 million from the comparative quarter in 2014. The remaining increase of 6.4% represents organic revenue growth primarily from our Administrative Solutions and ESS lines of business as a result of increased activity with existing clients and new client wins.

Salary, Benefits and Contractor Expenses

Salary, benefits and contractor expenses for the three months ended December 31, 2015 increased by $12.3 million, or 13.2%, to $105.4 million compared to $93.2 million for the same period in 2014. Excluding the $3.5 million increase in compensation expense resulting from acquisitions, net of the divestiture of the clinic based occupational health business not in the comparative period, compensation expense increased by $8.8 million. The increase was mainly attributable to incremental compensation expense for Mercer Canada Outsourcing conversion of $1.4 million, higher reorganization costs of $0.5 million, and $6.9 million from general increases to support the Company's continued growth.

Other Operating Expenses

Other operating expenses for the three months ended December 31, 2015 increased by $1.7 million, or 7.6%, to $23.5 million compared to $21.8 million for the same period in 2014. Excluding the increase in other operating expenses of $1.4 million resulting from acquisitions not in the comparative period, net of the

divestiture of the clinic based occupational health business, other operating expenses grew by $0.3 million due to general increases required to support business growth.

Finance Costs

Finance costs for the three months ended December 31, 2015 increased by $0.4 million, or 12.0%, to $4.2 million compared to $3.7 million for the same period in 2014. The increase is primarily due to accretion interest related to discounted liabilities recorded in the current quarter.

Depreciation and Amortization

Depreciation and amortization for the three months ended December 31, 2015 decreased by $0.9 million, or 9.5%, to $8.6 million compared to $9.5 million for the same period in 2014. This decrease is mainly attributable to lower amortization on Groupe AST acquired customer contracts which were fully amortized by December 31, 2014, partially offset by higher depreciation from capital expenditures required to support business growth.

Income Tax Expenses

Income tax expenses decreased by $0.6 million, or 27.3% to $1.5 million compared to $2.1 million for the same period in 2014. The decrease was primarily due to higher deferred taxes expenses in the comparative period as a result of a rate adjustment to the deferred tax liabilities previously recognized.

Profit for the Period

As a result of the changes noted above, the profit for the three months ended December 31, 2015 was $2.4 million compared to a $0.5 million profit for the same period in 2014.

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

Adjusted EBITDA and EBITDA

Adjusted EBITDA increased by $2.6 million, or 11.6%, to $25.2 million compared to $22.6 million for the same period in 2014. The increase is primarily due to growth in revenue of $14.5 million, partially offset by an increase in salaries and other operating expenses of $11.8 million after EBITDA adjustments. These adjusted EBITDA items do not constitute a part of the Company's on-going operating expenses. Below is a description of the fourth quarter ended December 31, 2015 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. At year end we have substantially completed the original planned conversion and we expect to finish the remainder during the first half of 2016.

- Reorganization and operational effectiveness initiatives represents severance and professional fees incurred as a result of the loss of HRINY, and corporate reorganizations and employee terminations to achieve post-acquisition planned synergies. We anticipate additional severance costs in the first quarter of 2016 related to these activities.

EBITDA increased by $0.9 million to $16.7 million compared to $15.8 million for the same period in 2014.

Free Cash Flow

Free Cash Flow for the three months ended December 31, 2015 increased by $21.2 million to $33.1 million compared to $11.9 million for the same period in 2014. The increase is due to higher cash provided by operating activities of $19.4 million due to favorable changes in non-cash operating working capital and an increase in profit as well as lower capital expenditures of $1.8 million (see liquidity and capital resources section below).

Normalized Free Cash Flow

Normalized Free Cash Flow for the three months ended December 31, 2015 increased by $4.7 million to $18.2 million compared to $13.4 million for the same period in 2014. The increase was mainly due to lower capital expenditures of $1.8 million and higher cash generated from operating activities, before non-cash operating working capital and EBITDA adjustments of $2.6 million.

ANALYSIS OF YEAR ENDED DECEMBER 31, 2015 OPERATING RESULTS

Revenue

Revenue for the year ended December 31, 2015 increased by $31.4 million, or 5.9%, to $567.3 million compared to $535.9 million in 2014. Excluding acquisitions and the divestiture of the clinic based occupational health business in 2014, organic revenue grew by $31.5 million, or 6.0%. Our Administrative Solutions line of business contributed 4.4% of the organic revenue growth, with the remainder of the increase coming from our other lines of business.

Salary, Benefits and Contractor Expenses

Salary, benefits and contractor expenses for the year ended December 31, 2015 increased by $23.4 million, or 6.3%, to $392.1 million compared to $368.7 million in 2014. Excluding the $2.3 million decrease in compensation expense resulting from the divestiture of the clinic based occupational health business, net of acquisitions not in the comparative period, compensation expense increased by $25.7 million of which $4.1 million was attributable to incremental compensation expense for Mercer Canada Outsourcing conversion and $22.5 million from general increases to support the Company's continued growth. This was partially offset by lower reorganization and operational effectiveness initiatives expenses of $0.9 million.

Other Operating Expenses

Other operating expenses for the year ended December 31, 2015 increased by $4.7 million, or 5.7%, to $88.0 million compared to $83.3 million in 2014. Excluding the increase in other operating expenses of $1.6 million resulting from acquisitions not in the comparative period, net of the divestiture of the clinic based occupational health business, other operating expenses grew by $3.1 million of which $0.7 million was due to a sublease loss provision and $2.4 million due to general increases required to support business growth.

Finance Costs

Finance costs for the year ended December 31, 2015 increased by $0.4 million, or 2.9%, to $15.0 million compared to $14.6 million in 2014. The increase was due to incremental borrowings required to support business growth and acquisitions, which was partially offset by a lower applicable margin charged on borrowings under the Company's amended credit facility agreement, and higher accretion interest related to discounted liabilities.

Depreciation and Amortization

Depreciation and amortization for the year ended December 31, 2015 decreased by $1.1 million, or 3.2%, to $32.9 million compared to $33.9 million in 2014. The decrease is due to lower amortization on Groupe AST customer contracts which were fully amortized by December 31, 2014, partially offset by higher depreciation on capital assets and amortization of internally developed software.

Income Tax Expenses

Income tax expenses decreased by $4.2 million, or 35.1%, to $7.7 million, compared to $11.9 million in 2014. The decrease is mainly due to the deferred income tax recovery related to the write-down of the deferred implementation costs and impairment loss on internally developed software.

Profit for the Year

As a result of the changes noted above, and the write-down of the HRINY deferred implementation costs and impairment charges on internally developed software, profit for the year ended December 31, 2015 was $16.4 million compared to $25.1 million in 2014.

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

Adjusted EBITDA and EBITDA

Adjusted EBITDA increased by $6.9 million, or 7.0%, to $105.8 million, compared to $98.9 million in 2014. The increase is primarily due to growth in revenue of $31.4 million, partially offset by an increase in salaries and other operating expenses of $24.6 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 year end December 31, 2015 adjustments not previously described:

- The sublease loss provision arose as a result of actual subtenant income being lower than originally forecasted in the fourth quarter of 2013 when the provision was recorded for the Vancouver office consolidation. The sublease agreements for all the vacated Vancouver offices are now complete.

- The write-down of the deferred implementation costs and impairment loss on internally developed software was triggered by the sudden wind-down of HRINY following a business directive issued by certain regulatory authorities in the United States, two years after the commencement of the first outsourcing contract term.

EBITDA decreased by $13.6 million to $72.0 million compared to $85.6 million for the same period in 2014.

Free Cash Flow

Free Cash Flow for the year ended December 31, 2015 increased by $22.6 million to $38.0 million compared to $15.4 million for the same period in 2014. The increase is due to higher cash provided by operating activities of $15.0 million due to favorable changes in non-cash operating working capital, and lower capital expenditures of $7.6 million (see liquidity and capital resources section below).

Normalized Free Cash Flow

Normalized Free Cash Flow for the year ended December 31, 2015 increased by $11.1 million to $61.6 million compared to $50.4 million for the same period in 2014. The increase was mainly due to lower capital

expenditures of $7.6 million and higher cash generated from operating activities, before non-cash operating working capital and EBITDA adjustments of $3.9 million.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

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

Cash Flow Information

Selected Consolidated Financial Information:

Cash provided by (used in): *(In thousands of dollars)*	**Year ended December 31, 2015**	**Year ended December 31, 2014**
Operating activities	$ 63,898	$ 48,916
Financing activities	(20,859)	9,091
Investing activities	(35,968)	(57,983)
Increase in cash	$ 7,071	$ 24

Cash provided by operating activities for the year ended December 31, 2015 increased by $15.0 million to $63.9 million compared to $48.9 million in 2014. The increase is primarily due to higher cash generated from operating activities of $8.8 million as a result of an improvement in the change in non-cash operating working capital, and lower taxes paid of $6.7 million due to lower tax installments required in 2015 compared to 2014.

Cash used in financing activities for the year ended December 31, 2015 was $20.9 million compared to cash provided by financing activities of $9.1 million for the same period in 2014. This decrease was due to higher incremental borrowings required in 2014 to finance the Groupe AST acquisition, and higher cash generated from operating activities for the year ended December 31, 2015 which was used to limit incremental borrowings required to support in-year acquisitions and continued business growth.

Cash used in investing activities for the year ended December 31, 2015 decreased by $22.0 million to $36.0 million compared to $58.0 million in 2014. This decrease was primarily due to lower acquisitions related payments of $19.7 million, and a decrease in additions to intangible and capital assets of $7.6 million (see capital expenditures section below) offset by proceeds received from the divestiture of the clinic based occupational health business in 2014 of $5.3 million. In the comparative 2014 period the Company paid $26.9 million (net of $0.1 million cash received) as initial cash consideration for the acquisition of Groupe AST.

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 for the quarter. The Company continued to declare the same monthly dividend amount in January and February 2016.

We consider the amount of cash generated by the business in determining the amount of dividends to pay to shareholders. In general, we do not take into account quarterly working capital fluctuations as these tend to be temporary in nature. 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 December 31, 2015 was 60.8% compared to 74.1% for

2014. The decrease in the Normalized Payout Ratio is primarily due to higher Normalized Free Cash Flow 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 December 31, 2015 decreased by $1.8 million to $5.8 million compared to $7.6 million for the same period in 2014 and the decrease for the year ended December 31, 2015 was $7.6 million to $25.9 million from $33.6 million in 2014. The decrease in capital expenditures for the three months and year ended December 31, 2015 is primarily due to reduced leasehold improvements and office furniture capital expenditures after the completion of the office consolidations in various regions and to integrate Groupe AST.

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 amended credit facility arrangement and convertible debentures described under the section “Capital Resources”.

A summary of contractual obligations, which outlines the year the payments are due is as follows:

(In thousands of dollars)	**Total**	**2016**	**2017**	**2018**	**2019**	**2020 and thereafter**
Long-term debt	$ 242,456	$ -	$ 242,456	$ -	$ -	$ -
Convertible debenture	74,904	-	74,904	-	-	-
Promissory notes [1]	2,500	2,500	-	-	-	-
Operating leases, net	104,434	15,498	13,836	12,917	12,138	50,045
Total	**$ 424,294**	**$ 17,998**	**$ 331,196**	**$ 12,917**	**$ 12,138**	**$ 50,045**

Footnote:

(1) The promissory notes were issued as partial consideration for the acquisition of Groupe AST, and are unsecured and non-interest bearing with $2,500 due on February 28, 2016.

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 above. We consider the risk of default by the subtenants to be low therefore no accrual has been set up.

Contingent Consideration

The purchase price for Dion Durrell Workers’ Compensation, BDA, and the U.S. health and welfare benefits administration business of Ceridian are contingent on future business results and the estimated remaining installments of $0.6 million, $2.8 million ($2.0 million U.S.), and $1.2 million ($0.9 million U.S.), respectively, are due in 2016 and 2017. These contingent future installments have been recognized as an acquisition liability on the statement of financial position at their discounted amounts as at December 31, 2015.

In addition there is $0.2 million of contingent consideration due from 2016 through 2018 for other smaller acquisitions.

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 December 31, 2015**	**As at December 31, 2014**
Cash	$ 1,900	$ –
Bank indebtedness	–	5,171
Long- term debt, net of debt issuance costs	241,846	222,435
Convertible debenture, net of issuance costs	73,760	72,875
Shareholders' equity	301,114	318,020

As at December 31, 2015, our working capital increased by $2.7 million from $75.9 million as at December 31, 2014 to $78.6 million as at December 31, 2015. The increase is primarily due to a cash balance of $1.9 million compared to bank indebtedness of $5.2 million as at December 31, 2014, partially offset by a $4.8 million decrease in trade receivables and unbilled fees because of improved collections.

Long-term debt

Long-term debt, net of debt issuance costs, increased by $19.4 million from $222.4 million as at December 31, 2014 to $241.8 million as at December 31, 2015. This increase is the result of an increase in borrowing under the Company's amended credit facility agreement to finance business growth and acquisition related payments.

The Company had a credit facility agreement maturing on November 29, 2017 which provided for a revolving facility of $250.0 million (including a swing line of $7.0 million). The credit facility agreement was amended during the second quarter of 2015 to form the amended credit facility agreement (the "Amended Credit Facility Agreement"). The Amended Credit Facility Agreement provides for a revolving facility of $300.0 million (including a swing line of $7.0 million).

The interest rates for the Amended 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 our consolidated debt to Adjusted EBITDA as defined in the Amended Credit Facility agreement. EBITDA is defined in the Amended Credit Facility Agreement as profit before finance costs, taxes, depreciation, amortization, non-controlling interest, non-recurring gains, and limited non-recurring losses. Adjusted EBITDA is defined in the Amended Credit Facility Agreement as EBITDA plus the pro-forma EBITDA from permitted acquisitions' entities.

The Amended Credit Facility is secured by a general assignment of all our assets. The Amended Credit Facility Agreement also requires us to maintain the following financial covenants on a consolidated basis:

(i) Ratio of debt to Adjusted EBITDA not greater than 3.0:1.0 or for the twelve month period immediately following the completion of a permitted acquisition as defined in the Amended Credit Facility Agreement with a purchase price of $25.0 million or more, not more than 3.5:1.0

(ii) Ratio of EBITDA to interest expense of not less than 3.0:1.0

We are in compliance with all of the required financial covenants.

Interest-rate Swap

In February 2014, 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.

Convertible debenture

On March 27, 2012, the Company issued $75.0 million principal amount of 5.75% Convertible Unsecured Subordinated Debentures ("Debentures") for net proceeds of $71.4 million allocated between debt and equity. The Debentures pay interest semi-annually on March 31 and September 30, and have a maturity date of March 31, 2017.

The debentures are convertible at the option of the holder to common shares at a conversion price of $15.00 per common share. The Company has the option to redeem the debentures on and after March 31, 2015 and at any time prior to March 31, 2016 at a redemption price equal to 100% of their principal amount 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 $15.00. On and after March 31, 2016, but prior to the maturity date, the debentures will be 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 the Company's common shares. During the year ended December 31, 2015, 1,666 shares were issued upon conversion of debentures.

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 December 31, 2015**	**As at December 31, 2014**
Current assets	$ 156,410	$ 160,280
Non-current assets	599,238	596,375
Current liabilities	77,761	84,380
Non-current liabilities	376,773	354,255

Current Assets

Current assets as at December 31, 2015 decreased by $3.9 million to $156.4 million from $160.3 million as at December 31, 2014. The decrease is primarily due to a $4.9 million decrease in trade and other receivables, net of the change in unbilled fees, because of improved collections, a decrease in income taxes receivable of $1.0 million, and a decrease in deferred implementation costs of $0.9 million. This was partially offset by an increase in prepaid expenses of $1.6 million due to growth in the business and cash of $1.9 million compared to a bank indebtedness balance as at December 31, 2014.

Non-current Assets

Non-current assets as at December 31, 2015 increased by $2.9 million to $599.2 million from $596.4 million at December 31, 2014. The increase was primarily related to intangible assets and goodwill acquired as part of the BDA acquisition of $10.0 million, capital expenditures of $25.9 million, and a deferred tax asset of $2.6 million in the U.S. This was partially offset by a decrease in the non-current portion of deferred implementation costs of $3.4 million due to the HRINY write-off, and depreciation and amortization on capital and intangible assets of $32.9 million.

Current Liabilities

Current liabilities as at December 31, 2015 decreased by $6.6 million to $77.8 million from $84.4 million as at December 31, 2014. The decrease is mainly due to a decrease in trade and other payables of $2.7 million from timing of vendor payments, and bank indebtedness of $5.2 million as at December 31, 2014, partially offset by an increase in the current portion of the liability for interest rate swaps of $1.7 million.

Non-current Liabilities

Non-current liabilities as at December 31, 2015 increased by $22.5 million to $376.8 million from $354.3 million at December 31, 2014. The increase is due to an increase in long-term debt of $19.4 million to support overall business growth and in-year acquisitions, an increase in the convertible debenture payable of $0.9 million due to accretion and amortization of issuance costs, an increase in the non-current portion of future consideration related to acquisition of $3.0 million, and an increase in the deferred tax liability of $1.3 million. This was partially offset by the promissory note (non-current) with an amortized cost of $2.4 million as at December 31, 2014 becoming a current liability as at December 31, 2015.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements requires us to make estimates and assumptions that affect the reported values of assets and liabilities as well as disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.

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 Company's significant accounting policies are presented in Note 3 of the audited consolidated financial statements and notes thereto for the years ended December 31, 2015 and 2014. The accounting policies and estimates that are critical to our business relate to the following items:

Revenue Recognition

Revenue includes fees generated from consulting engagements, outsourcing engagements, ESS and AMS services.

Generally, revenue from the rendering of services is recognized when the following criteria are met:

- The amount of revenue can be reliably measured;
- The stage of completion can be reliably measured;
- The receipt of economic benefits is probable; and
- Costs incurred and to be incurred can be reliably measured.

Concurrently with the above general principles, Morneau Shepell applies the following specific revenue recognition policies:

Fees for outsourcing, actuarial and consulting services are billed either on a time-and-material basis or on a fixed-fee basis. Revenue is recognized as services are rendered and expenditures are incurred.

ESS revenue is recognized through a combination of the minimum contracted amount and incremental usage above the minimum thresholds. The minimum contracted amount is recognized on a basis consistent with the provision of ESS services. Incremental usage is recognized when the minimum usage threshold is exceeded.

AMS revenue is recognized on a fixed-fee or time-and-material basis. On fixed-fee basis arrangements, where the provision of service is characterized by an indeterminate number of acts, revenue is recognized on a straight-line basis over the term of the contract. On time-and-material basis arrangements, revenue is recognized as services are rendered and expenditures are incurred.

Outsourcing engagements typically involve both an implementation and administration component. Where a singular contract requires the delivery of multiple components, revenue recognition criteria are applied to determine whether each component of the outsourcing contract qualifies for treatment as a separate unit of accounting. Multiple deliverable arrangements are determined to exist if all of the following criteria are met:

- The delivered item has value to the customer on a stand-alone basis; and
- The fair value of the undelivered item can be reliably measured.

If these criteria are not met, deliverables (components) included in an arrangement are accounted for as a single unit of accounting and revenue is deferred and recognized on a basis consistent with elements of the service contract.

Unbilled fees represent fees earned for services rendered but not yet invoiced as at the reporting date; upon billing, this balance will be transferred to trade receivables. Unbilled fees are recorded at the lower of unbilled hours worked at normal billing rates and the amount which is estimated to be recoverable upon invoicing. Morneau Shepell maintains a provision for amounts expected to be unrecoverable.

Other sources of operating revenue include the following:

(i) Investment income earned in the course of normal business operations, and is recorded on the accrual basis.

(ii) Commissions income are recognized when earned, which is at the later of the billing or the effective date of the policy, net of a provision for return commissions due to policy cancellations or change of brokers.

Intangible Assets

Intangible assets consist of customer relationships, customer contracts, proprietary software, clawback agreements and trade names acquired through acquisitions or business combinations, internally-developed software and purchased software.

Internally-developed software is recognized at the cost of all eligible development costs, when all the

following criteria are met:

- It is technically feasible to complete the software so that it will be available for use;
- Management intends to complete the software and use or sell it;
- Morneau Shepell is able to use or sell the software;
- Future benefits associated with the software can be demonstrated;
- Adequate technical, financial, and other resources to complete the development and to use or sell the software are available; and
- The expenditures attributable to the software during its development can be reliably measured.

Eligible expenditures capitalized as part of internally-developed software include external direct costs of materials and services consumed in development, and payroll and payroll-related costs for employees who are directly associated with and who devote time to the development of the software. All costs incurred in the preliminary research stage of the projects are expensed as incurred.

Intangible assets with a finite life are amortized on a straight-line basis over their estimated useful lives. Intangible assets with an indefinite life are not amortized, but are tested for impairment annually or whenever impairment indicators are identified. Trade names have been determined to have an indefinite life based on their strength, history, and expected future use.

Amortization expense has been presented in profit or loss as depreciation and amortization. Assets are removed from asset and accumulated amortization balances once they become fully depreciated. Proceeds from disposals are netted against the related assets and accumulated amortization, and resulting gains and losses are included in profit or loss.

Amortization on internally-developed software does not commence until the asset is ready for use as management intended.

Goodwill

Goodwill represents the excess of the cost of business acquisitions over the fair value of our share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is carried at cost less accumulated impairment charges and is subject to impairment test annually or whenever impairment indicators are identified.

Deferred implementation costs and deferred outsourcing revenues:

Implementation costs incurred in connection with outsourcing service contracts, relate to those costs necessary to set up clients and their human resource or benefit programs onto the Company's systems and operating processes. Such costs may include internal and external costs for coding and customizing systems, client data conversion costs, and contract negotiation costs. For outsourcing contracts that are accounted for as a combined unit of accounting, specific, incremental, and direct costs, net of any revenue received from the implementation component, are deferred and amortized over the term of the service contract. For outsourcing contracts where each component is considered a separate unit of accounting, those costs are deferred and amortized over the remaining term of each component.

If a client terminates an outsourcing contract prior to its end, a loss on the contract may be recorded (if necessary), and any remaining deferred implementation revenues and costs would be recognized into income over the remaining implementation period through to the date of termination.

Deferred income tax assets and liabilities (utilization of tax losses)

Deferred tax assets are recognized for all unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary differences can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Future consideration related to acquisitions

The Company may pay future consideration related to acquisitions based upon performance measures contractually agreed at the time of purchase. Management estimates the future consideration payable based on underlying contract terms, and best estimates of the future performance of the acquiree. Depending on the future performance of the acquiree, management estimates of the amounts payable for future consideration related to acquisitions may materially differ from the consideration ultimately paid.

Impairment of Non-financial Assets

The Company's identifiable tangible and intangible assets with finite useful lives are reviewed for indications of impairment at each statement of financial position date and when events or changes in circumstances indicate that they may be impaired. Impairments are recorded when the recoverable amount of assets are less than their carrying amounts. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use.

Similarly, intangible assets with indefinite useful lives and goodwill are tested for impairment annually or whenever impairment indicators are identified, by estimating their recoverable amounts and comparing it to their carrying amounts. Where individual assets cannot be tested individually, they are grouped together into cash-generating units ("CGU"), the smallest group of assets that are capable of generating cash inflow from continuing use largely independent of other groups of assets, and tested on this basis. Goodwill acquired through business combinations is allocated to each CGU or groups of CGU's but not larger than an operating segment that is expected to benefit from the synergies of the combination.

An impairment loss is recognized if the carrying amount of the CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss, and those impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

Impairment losses in respect of goodwill are not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization had no impairment charge been recorded.

Goodwill and intangible assets impairment review involves significant estimates and assumptions regarding cash flow projections, growth projections, economic risk, and weighted cost of capital. If future events or results differ adversely from these estimates and assumptions, the Company could incur impairment charges in future periods.

Allowance for Doubtful Accounts

We are required to assess whether accounts receivables are collectible from customers. Accordingly, management establishes an allowance for estimated losses arising from non-payment and delinquent accounts, taking into consideration customer creditworthiness, current economic trends, and past experience. If future collections differ from estimates, future earnings could be adversely affected.

Litigation and Claims

We are involved in litigation and other claims arising in the normal course of business. We must use judgment to determine whether or not a claim has any merit, the amount of the claim and whether to record a provision, which is dependent upon the potential success of the claim. We believe that none of the current claims will have a material adverse impact on our financial position.

Changes in Accounting Policies

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2015.

IFRS 8, Operating Segments ("IFRS 8")

IFRS 8 has been amended to explicitly require disclosure of judgments made in applying the aggregation criteria to aggregate operating segments. The amendments to IFRS 8 also clarify that a reconciliation of total reportable segments' assets to the entity's total assets is only required if this information is regularly provided to the entity's chief operating decision maker. The Company adopted these amendments to IFRS 8 effective January 1, 2015. The adoption of these amendments resulted in the Company enhancing its disclosure of the criteria that it uses to identify its reportable segment for the purposes of its disclosure for the consolidated financial statements for the year ended December 31, 2015.

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. The extent of the impact of adoption of the standard has not yet been determined.

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 has not yet been determined.

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 remains subject to a number of risks and uncertainties and are affected by a number of factors outside of our control.

Ability to Maintain Profitability and Manage Growth

There can be no assurance that Morneau Shepell will be able to sustain profitability in future periods. Morneau Shepell's future operating results will depend on a number of factors, including its ability to continue to successfully execute its strategic initiatives.

There can be no assurance that Morneau Shepell will be successful in achieving its strategic plan or that its strategic plan will enable the firm to maintain its historical revenue growth rates or to sustain profitability. Failure to successfully execute any material part of Morneau Shepell’s strategic plan could have a material adverse effect on its business, financial condition and operating results, and the ability of Morneau Shepell to pay dividends.

There can be no assurance that Morneau Shepell will be able to effectively manage its growth, and any failure to do so could have a material adverse effect on the firm’s business, financial condition and operating results, and on the ability of Morneau Shepell to pay dividends.

Cash Dividends Are Not Guaranteed and Will Fluctuate With the Business Performance

As a corporation, Morneau Shepell’s dividend policy is at the discretion of its Board of Directors. The ability of Morneau Shepell to make dividend payments, and the actual amount paid is entirely dependent on the operations and assets of its subsidiaries and is subject to various factors applicable to Morneau Shepell and its subsidiaries including financial performance, obligations under credit facilities, fluctuations in working capital, the sustainability of margin and capital expenditure requirements and applicable laws and regulations.

Reliance on Information Systems and Technology

Information systems are an integral part of Morneau Shepell’s business and the products and services

offered to its clients. Morneau Shepell relies on systems to maintain accurate, accessible and secure records and to carry on its business and deliver services to its clients. In order to maintain the level of security, service and reliability that clients require, Morneau Shepell may be required to make significant investments in the online means of delivering services. Morneau Shepell maintains a robust information technology development and management program that includes disaster recovery, business continuity and security defenses.

Any disruptions in Morneau Shepell's systems or internet access, or the failure of the systems to operate as expected, including as a result of security breaches, cyber attacks, fraud or other criminal activity could, depending on the magnitude of the problem, result in a loss of current or future business and/or potential claims against Morneau Shepell, all of which could have a material adverse effect on Morneau Shepell's business, financial condition and operating results, and on the ability of Morneau Shepell to pay dividends.

Reputational Risk

Morneau Shepell depends to a large extent upon its relationships with its clients and its reputation for high-quality services. As a result, the impact of client dissatisfaction with Morneau Shepell's services or products may be more damaging in Morneau Shepell's business than in other businesses. Moreover, if the firm fails to meet its contractual or regulatory obligations, Morneau Shepell could be subject to legal liability and a loss of client relationships.

Confidentiality of Client Information

Morneau Shepell depends to a large extent on its relationships with its customers and its ability to properly maintain confidential client information. Morneau Shepell maintains rigorous controls to protect confidential information from unauthorized use or disclosure, however the failure of Morneau Shepell to maintain client confidentiality could, depending on the magnitude of the problem, result in a loss of future business and/or potential claims against Morneau Shepell. This could have a material adverse effect on Morneau Shepell's business, financial condition and operating results, and on the ability of Morneau Shepell to pay dividends.

Dependence on Key Clients

As clients may terminate engagements with minimum notice, there can be no assurance that Morneau Shepell will be able to retain relationships with its largest clients. Moreover, there can be no assurance that such clients will continue to use Morneau Shepell's services in the future. Any negative change involving any of Morneau Shepell's largest clients, including but not limited to a client's financial condition or desire to continue using the firm's services, could result in a significant reduction in revenue which could have a material adverse effect on Morneau Shepell's business, financial condition and operating results, and on the ability of Morneau Shepell to pay dividends. No one Morneau Shepell client makes up more than 10% of Morneau Shepell's total revenue for the years ended December 31, 2015 and 2014.

Reliance on Key Professionals

Morneau Shepell's operations are dependent upon the abilities, experience and efforts of its professionals, many of whom have excellent reputations and a significant number of contacts in the industries in which Morneau Shepell operates. Morneau Shepell's business depends, in part, on its professionals' abilities to develop and maintain client relationships and alliances with businesses such as financial services companies, healthcare organizations, insurance companies, business process outsourcing organizations and other companies, in order to develop, market and deliver its services. Profitability could be negatively impacted if

Morneau Shepell’s client relationships or business alliances are discontinued due to the loss of professional staff or if the firm has difficulty developing new alliances.

Should any member of its professional staff be unable or unwilling to continue his or her relationship with Morneau Shepell, this change could have a material adverse effect on Morneau Shepell’s business, financial condition and operating results, and on the ability of Morneau Shepell to pay dividends.

Risk of Future Legal Proceedings

Morneau Shepell may be threatened with, or may be named as a defendant in, or may become subject to, various legal proceedings in the ordinary course of conducting its business, including lawsuits based upon professional errors and omissions.

Consulting services involves assumptions and estimates concerning future events, the actual outcome of which cannot be known with certainty in advance. In addition, computational, software programming or data management errors could occur. For example, possible legal proceedings could result from a client's assertion that actuarial assumptions used in a pension plan were unreasonable, leading to plan underfunding; a claim that inaccurate data was used, which could lead to an underestimation of plan liabilities; or a claim that employee benefits plan documents were misinterpreted or plan amendments were misstated in plan documents, which could lead to overpayments to beneficiaries. The employee health and productivity services involve confidential counseling, occupational health activities and disability case management. Each of these activities could potentially put Morneau Shepell in conflict with its customers, their employees, or both. Possible legal proceedings could also result from matters such as an employee claiming for breach of confidence, failure to provide adequate counsel, or denial of benefits or employment as a result of Morneau Shepell’s actions.

Defending lawsuits of this nature could require much management attention, which could divert its focus from operations. Such claims could produce negative publicity that could harm Morneau Shepell's reputation and business. A significant judgment against Morneau Shepell, or the imposition of a significant fine or penalty as a result of a finding that Morneau Shepell failed to comply with laws or regulations, could have a material adverse effect on Morneau Shepell's business, financial condition and operating results, and on the ability of Morneau Shepell to pay dividends.

Economic Conditions

An economic slowdown could cause a decline in demand for Morneau Shepell’s services. Growth in its clients’ businesses may be affected by economic slowdowns and could therefore potentially have an impact on Morneau Shepell’s operating results. During an economic downturn, Morneau Shepell clients and potential clients may reduce or delay services or projects, or defer contracts currently underway. This situation could also lead to greater delays and defaults in payments or debt collection, resulting in lower operating results. Because of lower revenue during an economic slowdown, competition may increase and prices may be reduced by certain competitors to maintain or expand their market share. Pricing and profitability could be adversely affected as a result.

Competition

Morneau Shepell operates in a highly competitive North American market. As a result, Morneau Shepell competes with many domestic and international firms. Some of its competitors have achieved substantially more market penetration in certain of the areas in which Morneau Shepell competes. In addition, some of Morneau Shepell's competitors have substantially more financial resources and/or financial flexibility than Morneau Shepell. Further, Morneau Shepell's business relies, in part, upon its ability to develop and

implement technology solutions, in a cost effective manner that anticipate and keep pace with rapid and continuing changes in technology, industry standards and client preferences.

Morneau Shepell's competitors may offer new technologies more efficiently or cost effectively than Morneau Shepell. Competitive forces could result in reduced market share and thus have a material adverse effect on Morneau Shepell's business, financial condition and operating results, and on the ability of Morneau Shepell to pay dividends.

Satisfactory Performance of Obligations

In its contracts with clients, Morneau Shepell is sometimes committed to meeting identified service levels and/or timelines. If the service levels/timelines are not met, Morneau Shepell may experience reduced revenues, incur significant additional costs or be held responsible for the costs incurred by the client for failure to meet the service level/timeline. Morneau Shepell's success depends in large part upon whether it fulfills these and other contractual obligations with clients and maintains client satisfaction. If Morneau Shepell fails to satisfactorily perform its contractual obligations, its clients could terminate contracts and/or take legal action against Morneau Shepell. Such occurrences could result in a loss of its professional reputation and in extra costs needed to defend or rectify the situation and thus have a material adverse effect on Morneau Shepell's business, financial condition and operating results, and on the ability of Morneau Shepell to pay dividends.

Protection of Intellectual Property

Morneau Shepell continually develops and improves its proprietary technology solutions for the delivery of its services. No assurance can be given that Morneau Shepell's competitors will not develop substantially similar technology.

Morneau Shepell relies on one or more of the following to protect its proprietary rights: trademarks, copyrights, trade secrets, confidentiality procedures and contractual provisions. Despite Morneau Shepell's efforts to protect its proprietary rights, unauthorized parties may attempt to obtain and use information that Morneau Shepell regards as proprietary. Stopping unauthorized use of Morneau Shepell's intellectual property may be difficult, time-consuming and costly. There can be no assurance that Morneau Shepell will be successful in protecting its proprietary rights and, if it is not, this could have a material adverse effect on Morneau Shepell's business, financial condition and operating results, and on the ability of Morneau Shepell to pay dividends.

Relationship with Channel Partners

Morneau Shepell markets its services directly to end-user employers as well as through certain channel partners, primarily insurance companies (many of which compete amongst themselves directly). There can be no assurance that Morneau Shepell will be able to maintain its existing relationships with all these channel partners, which could have a material adverse effect on Morneau Shepell's business, financial condition and operating results, and on the ability of Morneau Shepell to pay dividends.

Implications of Fixed-Price Contracts

A portion of Morneau Shepell's revenue comes from fixed-price contracts. A fixed-price contract requires Morneau Shepell to perform either all or a specified portion of work under the contract for a fixed price.

Fixed-price contracts expose Morneau Shepell to a number of risks, including underestimation of costs,

ambiguities in specifications, unforeseen costs or difficulties, problems with new technologies, delays beyond the control of Morneau Shepell, failures of subcontractors to perform, and economic or other changes that may occur during the contract period. Losses under fixed-price contracts could have a material adverse effect on Morneau Shepell's business, financial condition and operating results, and on the ability of Morneau Shepell to pay dividends.

Potential Undisclosed Liabilities Associated with Acquisition/Limited Indemnification

In connection with acquisitions completed by Morneau Shepell, there may be liabilities and contingencies that Morneau Shepell failed to discover or were unable to quantify in its due diligence which it conducted prior to the execution of an acquisition, and Morneau Shepell may not be indemnified for some or all of these liabilities and contingencies. The existence of any material liabilities or contingencies could have a material adverse effect on Morneau Shepell's business, financial condition, liquidity and results of operations.

Insurance

Morneau Shepell believes that its professional errors and omissions insurance, cyber liability insurance, crime insurance, director and officer liability insurance, and commercial general liability insurance coverage address all material insurable risks, provides coverage that is similar to that which would be maintained by a prudent operator of a similar business and is subject to deductibles, limits and exclusions which are customary or reasonable given the cost of procuring insurance and current operating conditions.

However, there can be no assurance that such insurance will continue to be offered on economically feasible terms, that all events that could give rise to a loss or liability are insurable, or that the amounts of insurance will at all times be sufficient to cover each and every loss or claim that may occur involving Morneau Shepell's assets or operations.

Foreign Exchange Risk

A portion of Morneau Shepell's sales are in U.S. dollars and thus Morneau Shepell is exposed to fluctuations in the value of the U.S. dollar relative to the Canadian dollar.

The net revenue exposure denominated in U.S. dollars was $7.9 million for the year ended December 31, 2015. An increase in foreign revenues would expose Morneau Shepell to fluctuations in exchange rates which may have a material adverse effect on Morneau Shepell's business, financial condition, and operating results, and on the ability of Morneau Shepell to pay dividends.

Indebtedness and Interest Rates

The ability of Morneau Shepell to pay dividends or make other payments or advances will be subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness of Morneau Shepell.

The degree to which Morneau Shepell is leveraged could have important consequences including: Morneau Shepell's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited; a significant portion of Morneau Shepell's cash flow from operations may be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for future operations; certain borrowings will be at variable rates of interest, which exposes

Morneau Shepell to the risk of increased interest rates; and Morneau Shepell may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures.

These factors may increase the sensitivity of free cash flow to interest rate variations. Interest rate swap agreements are used as part of Morneau Shepell's program to manage the fixed and floating interest rate of Morneau Shepell's credit facility related overall cost of borrowing.

The credit facility contains numerous restrictive covenants that limit the discretion of management with respect to certain business matters. These covenants place significant restrictions on, among other things, the ability of Morneau Shepell to create liens or other encumbrances, to pay dividends or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity.

In addition, the credit facility contains financial covenants that require Morneau Shepell to meet certain financial ratios and financial condition tests. A failure to comply with the obligations in the credit facility could result in a default which, if not cured or waived, could result in a reduction or termination of dividends by Morneau Shepell and permit acceleration of the relevant indebtedness. If the indebtedness under the credit facility was to be accelerated, there can be no assurance that the assets of Morneau Shepell would be sufficient to repay in full that indebtedness. In addition, the credit facility matures on November 29, 2017. There can be no assurance that future borrowings or equity financing will be available to Morneau Shepell or available on acceptable terms, in an amount sufficient to fund Morneau Shepell's needs.

The convertible debentures are convertible into the Company's common shares at the option of the holder of the debenture. If the debentures are converted this may have a dilutive impact on the Company's earnings per share.

Market Price of Common Shares

The market price of the Common Shares may be subject to wide fluctuations in response to many factors, including variations in operating results of Morneau Shepell, divergence in financial results from expectations, changes in business prospects for Morneau Shepell, general economic conditions, legislative changes, and other events and factors outside Morneau Shepell's control.

Sales of a substantial number of Common Shares by a significant shareholder in the public market or otherwise could adversely affect the prevailing market prices of the Common Shares and could impair the Corporation's ability to raise additional capital through an offering of Common Shares. The possible perception among the public that these sales will occur could also produce the same effect.

Dilution of Common Shares

Pursuant to its articles of incorporation, Morneau Shepell is authorized to issue an unlimited number of Common Shares and 10 million preferred shares for the consideration and on such terms as are established by the Board of Directors without the approval of any shareholders. Any further issuance of Common shares may dilute the interests of existing shareholders. Furthermore, Morneau Shepell may make future acquisitions or enter into financings or other transactions involving the issuance of securities of Morneau Shepell which may be dilutive.

SELECTED ANNUAL INFORMATION

(In thousands of dollars except per share amounts)	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2013
Revenue	$567,286	$535,866	$471,154
Profit [(1)]	16,418	25,140	10,445
Earnings per share (basic)	0.33	0.51	0.21
Earnings per share (diluted)	0.33	0.51	0.21
Dividends declared per share	0.78	0.78	0.78
Total assets	755,648	756,655	700,116
Total long-term debt [(2)]	315,606	295,310	247,668

Footnotes:

(1) The profit for the year ended December 31, 2013 included impairment charges of $16,700 primarily related to the Health Clinics sub-service line within the former OHS line of business, and the profit for the year ended December 31, 2015 includes the write-down of deferred implementation costs and impairment charges totaling $15,100 related to HRINY.

(2) Includes convertible debentures issued on March 27, 2012.

SUPPLEMENTARY SUMMARY OF QUARTERLY RESULTS

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

Quarter ended	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014
Revenue	145,696	140,778	142,420	138,392	131,195	132,703	140,877	131,091
Profit (loss) [(1,3)]	2,422	(3,487)	9,272	8,211	461	7,235	9,246	8,198
EBITDA	16,748	7,391	24,653	23,246	15,819	22,321	25,026	22,447
Adjusted EBITDA	25,211	25,886	28,060	26,644	22,581	24,429	27,240	24,677
EBITDA margin	11.5%	5.3%	17.3%	16.8%	12.1%	16.8%	17.8%	17.1%
Adjusted EBITDA margin	17.3%	18.4%	19.7%	19.3%	17.2%	18.4%	19.3%	18.8%
Earnings (loss) per share (basic)[(1)]	0.05	(0.07)	0.19	0.17	0.01	0.15	0.19	0.17
Earnings (loss) per share (diluted)[(1)]	0.05	(0.07)	0.19	0.16	0.01	0.15	0.19	0.17
Normalized Free Cash Flow	18,178	13,177	16,054	14,175	13,446	9,357	13,039	14,688
Dividends declared	9,379	9,365	9,363	9,360	9,358	9,359	9,352	9,353
Twelve-month rolling normalized payout ratio	60.8%	65.9%	70.6%	74.8%	74.1%	70.6%	68.4%	65.5%
Twelve-month rolling normalized payout ratio, including changes in adjusted non-cash operating working capital	66.5%	89.0%	114.5%	107.5%	98.1%	108.0%	117.9%	94.9%
Total assets	755,648	762,021	775,921	772,449	756,655	759,968	767,980	751,754
Total long-term debt [(2)]	315,606	325,686	323,923	303,904	295,310	300,590	300,452	282,112

Footnotes:

(1) The profit, basic and diluted earnings per share, and total assets for the quarters ended June 30, 2014 and March 31, 2014 were revised to reflect the retrospective adjustment due to the finalization of the intangible assets valuation for Groupe AST in the third quarter of 2014. This resulted from a change to the purchase price allocation and faster amortization of acquired customer contract intangible assets. The amounts previously reported for these figures for the quarters ended June 30, 2014 and March 31, 2014 were as follows:

	June 30, 2014	March 31, 2014
Profit	10,105	8,484
Earnings per share (basic)	0.21	0.17
Earnings per share (diluted)	0.20	0.17
Total assets	769,583	752,165

(2) Includes convertible debentures issued on March 27, 2012.

(3) The profit for the quarter ended September 30, 2015 included the write-down of deferred implementation costs and impairment charges totaling $15,100 related to HRINY

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 and operating effectively as at December 31, 2015.

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 and operating effectively to provide this assurance based on the evaluation of these controls conducted as at December 31, 2015. No changes were made in our internal controls over financial reporting during the fourth quarter ended December 31, 2015, 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 symbol 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 March 2, 2016.