MORNEAU SHEPELL MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015

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For more information about Morneau Shepell, visit our website **morneaushepell.com**

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.

This Management's Discussion and Analysis ("MD&A") covers the three and nine months ended September 30, 2015 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, 2015, and the MD&A and the audited consolidated financial statements and notes thereto for the year ended December 31, 2014.

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 and intangible capital assets, which vary according to their vintage, technological currency, and management's estimate of their useful life. Accordingly, EBITDA comprises profit before finance costs, income tax expenses, depreciation and amortization, while Adjusted EBITDA represents EBITDA before taking into account certain unusual expenditures. 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 9, 2015, Morneau Shepell had 48,030,100 common shares, nil preferred shares and $74.9 million 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 2,580,000.

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. Fees for workers compensation services are charged based on billable hours or on a fee-for-service 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.

2015 THIRD QUARTER SUMMARY AND OUTLOOK

(In thousands of dollars)	**Three months ended September 30, 2015**	**Three months ended September 30, 2014**	**Nine months ended September 30, 2015**	**Nine months ended September 30, 2014**
Revenue	$140,778	$132,703	$421,590	$404,671
Organic Revenue[(1)]	$137,557	$129,570	$413,822	$390,757
Adjusted EBITDA	$25,886	$24,429	$80,590	$76,346
Adjusted EBITDA margin	18.4%	18.4%	19.1%	18.9%
Normalized Free Cash Flow	$13,177	$9,357	$43,406	$37,084
Profit (loss)	($3,487)	$7,235	$13,996	$24,679

Footnote:

(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 September 30, 2015**	**Three months ended September 30, 2014**	**Nine months ended September 30, 2015**	**Nine months ended September 30, 2014**
Revenue	**$140,778**	**$132,703**	**$421,590**	**$404,671**
Acquisitions	(3,221)	–	(7,768)	–
Divestitures	–	(3,133)	–	(13,914)
Organic Revenue	**$137,557**	**$129,570**	**$413,822**	**$390,757**

Third quarter:

Third quarter Revenue increased by 6.1% versus the comparative quarter in 2014 while Organic Revenue grew by 6.2%. Adjusted EBITDA also increased by $1.5 million to $25.9 million compared to $24.4 million in the same period in 2014.

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), one of our US Health Exchange outsourcing clients, we determined that the deferred implementation costs related to HRINY were no longer recoverable and recorded a pre-tax write-down of $12.2 million ($8.6 million after tax). In addition, we also recognized impairment charges on internally developed software related to US Health Exchange Outsourcing services in the pre-tax amount of $2.9 million ($2.1 million after tax).

HRINY represents approximately 3.5 per cent 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 this space this quarter.

We expect the loss of HRINY will affect revenue in 2016. 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 THIRD QUARTER OPERATING RESULTS SUMMARY

Results of Operations	**Three months Ended September 30,**		**Nine Months Ended September 30,**	
Selected Unaudited Consolidated Financial Information	**2015**	**2014**	**2015**	**2014**
(In thousands of dollars except per share amounts)				
Revenue	$140,778	$132,703	$421,590	$404,671
Deduct:				
Salaries, benefits and contractor expenses	96,408	92,168	286,683	275,544
Other operating expenses	21,879	20,327	64,517	61,446
Finance costs	3,638	3,744	10,824	10,851
Depreciation and amortization	8,167	8,671	24,257	24,435
Gain on business divestitures	–	(2,113)	–	(2,113)
Write-down of deferred implementation costs and impairment	15,100	–	15,100	–
Income tax expenses (recovery)	(927)	2,671	6,213	9,829
Profit (loss) for the period	**(3,487)**	**7,235**	**13,996**	**24,679**
Add:				
Finance costs	3,638	3,744	10,824	10,851
Depreciation and amortization	8,167	8,671	24,257	24,435
Income tax expenses (recovery)	(927)	2,671	6,213	9,829
EBITDA[1]	$7,391	$22,321	$55,290	$69,794
Adjustments:				
Gain on business divestitures	–	(2,113)	–	(2,113)
Reorganization and operational effectiveness initiatives	–	1,454	–	1,454
Sublease loss provision	–	–	700	–
Write-down of deferred implementation costs and impairment	15,100	–	15,100	–
Mercer Canada Outsourcing conversion costs	3,395	2,767	9,500	7,211
Adjusted EBITDA	**$25,886**	**$24,429**	**$80,590**	**$76,346**
EBITDA margin [2]	5.3%	16.8%	13.1%	17.2%
Adjusted EBITDA margin [2]	18.4%	18.4%	19.1%	18.9%
Cash provided by operating activities	$18,018	$18,488	$24,999	$29,388
Deduct: Capital expenditures [3]	(7,289)	(8,885)	(20,125)	(25,914)
Free Cash Flow [4]	**10,729**	**9,603**	**4,874**	**3,474**
Add (deduct):				
Changes in non-cash operating working capital	(13,373)	(5,604)	19,817	21,849
Mercer Canada Outsourcing conversion – capital	197	226	388	493
Current income taxes, net of income taxes paid	19	911	(3,383)	2,603
Adjustments to EBITDA [5]	15,605	4,221	21,710	8,665
Normalized Free Cash Flow [6]	**$13,177**	**$9,357**	**$43,406**	**$37,084**
Earnings (loss) per Share (basic)	($0.07)	$0.15	$0.28	$0.50
Earnings (loss) per Share (diluted)	($0.07)	$0.15	$0.28	$0.50
Adjusted EBITDA per Share (basic)	$0.52	$0.50	$1.63	$1.55
Dividends declared	9,365	9,359	28,088	28,064
Twelve-month rolling Normalized Payout Ratio [7]	65.9%	70.6%	65.9%	70.6%
Twelve-month rolling Normalized Payout Ratio, including changes in adjusted non-cash operating working capital [8]	89.0%	108.0%	89.0%	108.0%

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, and the impairment charges for internally developed software of $2,890 recognized as a result of the wind down of business directive issued to HRINY. 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, 2015 and September 30, 2014 the non-cash working capital was adjusted by $(2,196) and $2,886, respectively, which represents the change in the leasehold inducement receivable related to capital expenditures.

ANALYSIS OF THIRD QUARTER 2015 OPERATING RESULTS

Revenue

Revenue for the three months ended September 30, 2015 increased by $8.1 million, or 6.1%, to $140.8 million compared to $132.7 million for the same period in 2014. Excluding acquisitions and the divestiture of the clinic based occupational health business in 2014, Organic Revenue grew by $8.0 million or 6.2%. Our Administrative Solutions line of business contributed 4.9% of the Organic Revenue growth during the quarter with the remainder of the increase came from our other lines of business.

Salaries, Benefits and Contractor Expenses

Salaries, benefits and contractor expenses for the three months ended September 30, 2015 increased by $4.2 million, or 4.6%, to $96.4 million compared to $92.2 million for the same period in 2014. Excluding the decrease in compensation expense of $0.9 million resulting from the divestiture of the clinic based occupational health business, net of acquisitions not in the comparative period, compensation expense increased by $5.2 million of which $0.7 million was attributable to incremental compensation expense for Mercer Canada Outsourcing conversion and $4.5 million from general increases to support the Company's continued growth.

Other Operating Expenses

Other operating expenses for the three months ended September 30, 2015 increased by $1.6 million, or 7.6%, to $21.9 million compared to $20.3 million for the same period in 2014. Excluding the increase in other operating expenses of $0.6 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 $1.0 million due to general increases required to support business growth.

Finance Costs

Finance costs for the three months ended September 30, 2015 decreased by $0.1 million, or 2.8%, to $3.6 million compared to $3.7 million for the same period in 2014 due to lower applicable margins on borrowings and interest paid under the interest-rate swap agreement, partially offset by incremental borrowings required to support business growth.

Depreciation and Amortization

Depreciation and amortization for the three months ended September 30, 2015 decreased by $0.5 million, or 5.8%, to $8.2 million compared to $8.7 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 (recovery)

Income tax expenses (recovery) for the three months ended September 30, 2015 was a recovery of $0.9 million compared to an expense of $2.7 million for the same period in 2014. The recovery is 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 Period

As a result of the changes noted above, the loss for the three months ended September 30, 2015 was $3.5 million compared to a profit of $7.2 million 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 $1.5 million, or 6.0%, to $25.9 million compared to $24.4 million for the same period in 2014. The increase is primarily due to growth in revenue of $8.1 million, partially offset by an increase in salaries and other operating expenses of $6.6 million after EBITDA adjustments. The nature of the EBITDA adjustments are discussed in the Analysis of the Nine Months Ended September 30, 2015 Operating Results section.

EBITDA decreased by $14.9 million to $7.4 million compared to $22.3 million for the same period in 2014 mainly due to the write-down of the deferred implementation costs and the impairment of internally developed software.

Free Cash Flow

Free Cash Flow for the three months ended September 30, 2015 increased by $1.1 million to $10.7 million compared to $9.6 million for the same period in 2014. The increase is primarily due to lower capital expenditures of $1.6 million (see discussion of capital expenditures in Liquidity and Capital Resources section below), which was partially offset by lower cash provided by operating activities as a result of increased activities related to the Mercer Canada Outsourcing conversion costs.

Normalized Free Cash Flow

Normalized Free Cash Flow for the three months ended September 30, 2015 increased by $3.8 million to $13.2 million compared to $9.4 million for the same period in 2014. The increase was mainly due to lower capital expenditures of $1.6 million and higher cash generated from operating activities, before non-cash operating working capital and EBITDA adjustments of $2.7 million. This is offset by higher current taxes of $0.5 million.

ANALYSIS OF NINE MONTHS ENDED SEPTEMBER 30, 2015 OPERATING RESULTS

Revenue

Revenue for the nine months ended September 30, 2015 increased by $16.9 million, or 4.2%, to $421.6 million compared to $ 404.7 million for the same period in 2014. Excluding acquisitions and the divestiture of the clinic based occupational health business in 2014, organic revenue grew by $23.1 million or 5.9%. Our Administrative Solutions line of business contributed 4.5% of the organic revenue growth during the nine months ended September 30, 2015 with the remainder of the increase coming from our other lines of business.

Salaries, Benefits and Contractor Expenses

Salaries, benefits and contractor expenses for the nine months ended September 30, 2015 increased by $11.2 million, or 4.0%, to $286.7 million compared to $275.5 million for the same period in 2014. Excluding the decrease in compensation expense of $5.7 million resulting from the divestiture of the clinic based occupational health business, net of acquisitions not in the comparative period, compensation expense increased by $16.9 million of which $2.7 million was attributable to incremental compensation expense for Mercer Canada Outsourcing conversion and $14.2 million from general increases to support the Company's continued growth.

Other Operating Expenses

Other operating expenses for the nine months ended September 30, 2015 increased by $3.1 million, or 5.0%, to $64.5 million compared to $61.4 million for the same period in 2014. The increase is primarily due to the $0.7 million sublease loss provision that was not in the comparative period (see discussion of Adjusted EBITDA items in the Key Financial Measures section below) and $2.4 million of general increases required to support business growth.

Finance Costs

Finance costs for the nine months ended September 30, 2015 decreased by $0.1 million, or 0.2% to $10.8 million compared to $10.9 million for the same period in 2014 due to lower applicable margins on borrowings and interest paid under the interest-rate swap agreement, partially offset by incremental borrowings required to support business growth and acquisitions.

Depreciation and Amortization

Depreciation and amortization for the nine months ended September 30, 2015 decreased by $0.1 million, or 0.7%, to $24.3 million compared to $24.4 million for the same period in 2014. The decrease is due to lower amortization on Groupe AST customer contracts which were fully amortized by December 31, 2014, partial offset by a higher capital assets balance.

Income Tax Expenses

Income tax expenses for the nine months ended September 30, 2015 decreased by $3.6 million, or 36.8%, to $6.2 million compared to $9.8 million for the same period in 2014. The decrease is 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 Period

As a result of the changes noted above, the profit for the nine months ended September 30, 2015 was $14.0 million compared to $24.7 million 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 $4.3 million, or 5.6%, to $80.6 million compared to $76.3 million for the same period in 2014. The increase is primarily due to growth in revenue of $16.9 million, partially offset by an increase in salaries and other operating expenses of $12.6 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 nine months ended September 30, 2015 adjustments:

- Mercer Canada Outsourcing conversion costs represent systems and service improvements required to support the clients acquired in the acquisition in November, 2012. The process commenced immediately after the acquisition and is expected to be materially complete by the end of 2015.

- 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 of 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 business directive issued by certain regulatory authorities in the United States within two years after the commencement of the first outsourcing contract term.

EBITDA decreased by $14.5 million to $55.3 million compared to $69.8 million for the same period in 2014 primarily due to the above.

Free Cash Flow

Free Cash Flow for the nine months ended September 30, 2015 increased by $1.4 million to $4.9 million compared to $3.5 million for the same period in 2014. The increase is due to lower capital expenditures of $5.8 million (see discussion of capital expenditures in Liquidity and Capital Resources section below), which was partially offset by lower cash provided by operating activities mainly due to increased activities related to the Mercer Canada Outsourcing conversion.

Normalized Free Cash Flow

Normalized Free Cash Flow for the nine months ended September 30, 2015 increased by $6.3 million to $43.4 million compared to $37.1 million for the same period in 2014. The increase was mainly due to lower capital expenditures of $5.7 million, once adjusted for the Mercer Canada Outsourcing conversion capital.

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, 2015**	Nine months ended September 30, 2014
Operating activities	**$ 24,999**	$ 29,388
Financing activities	**(1,091)**	23,996
Investing activities	**(20,413)**	(49,897)
Increase in cash	**$ 3,495**	$ 3,487

Cash provided by operating activities for the nine months ended September 30, 2015 decreased by $4.4 million to $25.0 million compared to $29.4 million for the same period in 2014. The decrease is primarily due to the unfavorable change in trade and other payable balance of $13.6 million due to timing of vendor payments and changes in variable compensation accruals. This is partially offset by lower income taxes paid of $5.4 million as well as favorable change in trade, other receivables and unbilled of $3.6 million.

Cash provided by financing activities for the nine months ended September 30, 2015 decreased by $25.1 million to cash used of $1.1 million compared to cash provided of $24.0 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 the repayment of $2.5 million of promissory notes issued as partial consideration for the acquisition of Groupe AST in March 2015.

Cash used in investing activities for the nine months ended September 30, 2015 decreased by $29.5 million to $20.4 million compared to $49.9 million for the same period in 2014. This decrease was primarily due to lower acquisitions related payments of $29.0 million, and a decrease in additions to intangible and capital assets of $5.8 million (see capital expenditures section below) offset by proceeds received from the divestiture of the 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 October 2015.

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, 2015 was 65.9% compared to 70.6% for the same period in 2014. The twelve-month rolling Normalized Payout Ratio, including changes in adjusted non-cash operating working capital, at September 30, 2015 was 89.0% compared to 108.0% for the same period in 2014. Both ratios improved over the comparative period primary due to lowered capital expenditures as well as higher cash generated from operating activities, before non-cash operating working

capital and EBITDA adjustments during the twelve-month period ended September 30, 2015 compared to the same period last year.

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, 2015 decreased by $1.6 million to $7.3 million compared to $8.9 million for the same period in 2014 and the decrease for the nine months ended September 30, 2015 was by $5.8 million to $20.1 million from $25.9 million in the comparative period. The decrease in capital expenditures for the three and nine months period ended September 30, 2015 is primarily due to reduced leasehold improvements and office furniture expenditures after the completion of the offices consolidation 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 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**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020 and thereafter**
Long-term debt	$ 252,845	$ -	**$ -**	$ 252,845	**$ -**	$ -	$ -
Convertible debenture	74,904	-	**-**	74,904	**-**	-	-
Promissory notes [(1)]	2,500	-	2,500	-	-	-	-
Operating leases, net	101,466	3,835	14,085	12,801	11,910	11,433	47,402
Total	**$ 431,715**	**$ 3,835**	**$ 16,585**	**$ 340,550**	**$ 11,910**	**$ 11,433**	**$ 47,402**

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 which was acquired in July 2013 is contingent on future business results and the contingent payments are payable in two remaining installments. The estimated two remaining installments of $0.5 million and $0.6 million to be paid in the fourth quarter of 2015 and within 45 days of June 30, 2016, respectively, are subject to revenue adjustments. At September

30, 2015, $1.0 million has been recognized as an acquisition liability on the statement of financial position, representing the total estimated contingent future installments of $1.1 million discounted.

In addition, there is $1.2 million of contingent considerations due from 2015 through to 2018 related to four 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 September 30, 2015**	**As at December 31, 2014**
Bank indebtedness	$ 1,676	$ 5,171
Long- term debt, net of debt issuance costs	252,156	222,435
Convertible debenture, net of issuance costs and equity component of debenture	73,530	72,875
Shareholders' equity	306,552	318,020

As at September 30, 2015, our working capital increased by $23.3 million from $75.9 million as at December 31, 2014 to $99.2 million as at September 30, 2015. This increase is consistent with historical trend as working capital is generally high in the third quarter compared to the year-end due to timing of revenue billing as well as vendor and customer payments. The growth in business also contributed to the increase in accounts receivables and unbilled versus year end.

Long-term debt

Long-term debt, net of debt issuance costs, increased by $29.7 million from $222.4 million as at December 31, 2014 to $252.1 million as at September 30, 2015. This increase is the result of an increase in borrowing under the Company's 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 $250,000 (including a swing line of $7,000). 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 $300,000 (including a swing line of $7,000).

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 $25,000 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.

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 nine months ended September 30, 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 September 30, 2015**	**As at December 31, 2014**
Current assets	$ 175,838	$ 160,280
Non-current assets	586,183	596,375
Current liabilities	76,623	84,380
Non-current liabilities	378,846	354,255

Current Assets

Current assets as at September 30, 2015 increased by $15.6 million to $175.8 million from $160.3 million as at December 31, 2014. The increase is primarily attributable to an increase in trade and other receivables and unbilled fees of $14.2 million due to growth in the business and the revenue billing cycle in accordance with contract terms and an increase in prepaid expenses and other assets of $3.7 million due to timing of vendor payments. This was partially offset by and an income taxes payable balance of $2.2 million compared to a receivable of $1.7 million at December 31, 2014.

Non-current Assets

Non-current assets as at September 30, 2015 decreased by $10.2 million to $586.2 million from $596.4 million at December 31, 2014. The decrease was primarily due to a decrease in the non-current portion of deferred implementation costs of $5.6 million as a result of the HRI write-down, and depreciation and

amortization of capital and intangible assets of $24.3 million. This decrease was partially offset by capital expenditures of $20.1 million to support continued business growth, and $1.4 million of acquired intangible.

Current Liabilities

Current liabilities as at September 30, 2015 decreased by $7.8 million to $76.6 million from $84.4 million as at December 31, 2014. The decrease is mainly due to a decrease in trade and other payables of $10.5 million due to a change in compensation related accruals and a decrease in bank indebtedness of $3.5 million. This was partially offset by higher deferred revenue of $2.0 million, an increase in the current portion of the fair value of the liability for the interest rate swap of $1.9 million, an increase in the current portion of future consideration related to acquisitions of $0.8 million and an income taxes payable of $2.2 million compared to income taxes receivable of $1.7 million as at December 31, 2014.

Non-current Liabilities

Non-current liabilities as at September 30, 2015 increased by $24.6 million to $378.8 million from $354.3 million at December 31, 2014. The increase in non-current liabilities is primarily the result of an increase in long-term debt of $29.7 million to support overall business growth and an increase in the convertible debenture payable of $0.7 million primarily due to accretion and amortization of issuance costs. 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 September 30, 2015, and a decrease in the deferred tax liability of $4.6 million.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In our year ended December 31, 2014 audited consolidated financial statements and accompanying notes, and in our 2014 annual MD&A, we have identified the accounting policies and estimates that are critical to the understanding of our business operations and our results from operations. Except as described below, the interim unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2015 have been prepared using the same accounting policies consistent with those applied in the audited consolidated financial statements for the year ended December 31, 2014. Our critical accounting estimates and assumptions remain substantially unchanged.

Changes in Accounting Policies

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 will result 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 ending 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.

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 2014 annual MD&A. The risk and uncertainties remain substantially unchanged from those disclosed in our 2014 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, 2015	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013
Revenue	140,778	142,420	138,392	131,195	132,703	140,877	131,091	118,570
Profit (loss) [1, 2]	(3,487)	9,272	8,211	461	7,235	9,246	8,198	(11,279)
EBITDA	7,391	24,653	23,246	15,819	22,321	25,026	22,447	(2,502)
Adjusted EBITDA	25,886	28,060	26,644	22,581	24,429	27,240	24,677	20,217
EBITDA margin	5.3%	17.3%	16.8%	12.1%	16.8%	17.8%	17.1%	(2.1%)
Adjusted EBITDA margin	18.4%	19.7%	19.3%	17.2%	18.4%	19.3%	18.8%	17.1%
Earnings (loss) per share (basic)[2]	(0.07)	0.19	0.17	0.01	0.15	0.19	0.17	(0.23)
Earnings (loss) per share (diluted)[2]	(0.07)	0.19	0.16	0.01	0.15	0.19	0.17	(0.23)
Normalized Free Cash Flow	13,177	16,054	14,175	13,446	9,357	13,039	14,688	15,939
Dividends declared	9,365	9,363	9,360	9,358	9,359	9,352	9,353	9,350
Twelve-month rolling normalized payout ratio	65.9%	70.6%	74.8%	74.1%	70.6%	68.4%	65.5%	69.3%
Twelve-month rolling normalized payout ratio, including changes in adjusted non-cash operating working capital	89.0%	114.5%	107.5%	98.1%	108.0%	117.9%	94.9%	124.4%
Total assets	762,021	775,921	772,449	756,655	759,968	767,980	751,754	700,116
Total long-term debt	325,686	323,923	303,904	295,310	300,590	300,452	282,112	247,668

Footnotes:

(1) The loss for the current quarter ended September 30, 2015 includes write-down of deferred implementation costs and impairment of $15,100 related to HRINY and the US Health Exchange Services business.

The loss for the quarter 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.

(2) 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 in 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

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, 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 as at September 30, 2015. No changes were made in our internal controls over financial reporting during the third quarter ended September 30, 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 November 9, 2015.