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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 three and six months ended June 30, 2014 and should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements of Morneau Shepell and notes thereto for the three and six months ended June 30, 2014, and the MD&A and the audited consolidated financial statements and notes thereto for the year ended December 31, 2013.

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, Normalized Payout Ratio and twelve-month rolling Normalized Payout Ratio. 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 intangible and tangible capital assets, which vary according to their vintage, technological currency, and management's estimate of their useful life. Accordingly, EBITDA comprises profit before finance costs, income tax expenses, depreciation and amortization, while Adjusted EBITDA represents EBITDA before taking into account certain unusual expenditures. 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 and Normalized Payout Ratio are useful supplemental measures of Morneau Shepell's ability to generate cash after deducting capital expenditures required to maintain or expand the business. 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.

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares and 10 million preferred shares. Each common share entitles the holder to one vote at all meetings of shareholders and represents an interest in dividends declared by the Company and an undivided interest in the net assets of the Company. As at August 7, 2014, Morneau Shepell had 47,988,999 common shares, nil preferred shares and $74,965 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.

BUSINESS OVERVIEW

Morneau Shepell is the largest Canadian firm providing health and productivity, administrative and retirement solutions. We deliver solutions to assist employers in managing the financial security, health and productivity of their employees. With approximately 3,600 employees in offices across North America, we offer services to over 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 organizational health 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. In addition, we earn interest income from our cash balances which is included in other revenue.

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.

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 Organizational Health Solutions ("OHS") 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.

2014 SECOND QUARTER SUMMARY AND OUTLOOK

In thousands of dollars	**Three months ended June 30, 2014**	**Three months ended June 30, 2013**	**Six months ended June 30, 2014**	**Six months ended June 30, 2013**
Revenue	$140,877	$118,328	$271,968	$234,058
Adjusted EBITDA	$27,240	$22,847	$51,917	$44,401
Adjusted EBITDA margin	19.3%	19.3%	19.1%	19.0%
Normalized Free Cash Flow	$13,039	$15,399	$27,727	$26,984
Profit	$10,105	$7,835	$18,589	$14,786

Second quarter:

We had a solid second quarter of 2014 and experienced strong revenue and adjusted EBITDA growth versus the comparative quarter in 2013. Highlights of the second quarter include:

- Strong revenue growth of 19.1% versus the comparative period from acquisitions, new business wins, continued growth in the U.S. outsourcing market as a platform provider to US health insurance exchanges and the timing of client engagements. Revenue excluding acquisitions not in the comparative period (“organic revenue”) grew by 12.4%.

- An increase in adjusted EBITDA of $4.4 million to $27.2 million versus the comparative period.

The organic revenue growth exceeded historical levels in the second quarter of 2014. We expect our organic revenue for the balance of the year to grow in line with historic growth rates. We expect that our continued investment in our business, our new acquisitions, capital structure, established business relationships and prospective client base will continue to yield positive results for the Company.

2014 SECOND QUARTER OPERATING RESULTS

Results of Operations	**Three months Ended June 30**		**Six Months Ended June 30**	
Selected Consolidated Financial Information	**2014**	**2013**	**2014**	**2013**
(In thousands of dollars except per share amounts)				
Revenue	$140,877	$118,328	$271,968	$234,058
Deduct:				
Salary, benefits and contractor expenses	94,478	78,592	183,376	156,997
Other operating expenses	21,373	18,324	41,119	35,461
Finance costs	3,723	3,455	7,107	6,885
Depreciation and amortization	7,309	6,888	14,203	13,495
Income tax expenses	3,889	3,234	7,574	6,434
Profit for the period	**10,105**	**7,835**	**18,589**	**14,786**
Add:				
Finance costs	3,723	3,455	7,107	6,885
Depreciation and amortization	7,309	6,888	14,203	13,495
Income tax expenses	3,889	3,234	7,574	6,434
EBITDA[1]	$25,026	$21,412	$47,473	$41,600
Adjustments:				
Reorganization and operational effectiveness initiatives	–	236	–	709
Mercer Canada Outsourcing conversion costs	2,214	1,199	4,444	2,092
Adjusted EBITDA	**$27,240**	**$ 22,847**	**$ 51,917**	**$44,401**
EBITDA margin	17.8%	18.1%	17.5%	17.8%
Adjusted EBITDA margin	**19.3%**	**19.3%**	**19.1%**	**19.0%**
Cash provided by operating activities	$2,145	$5,141	$10,900	$5,325
Deduct: Capital expenditures [2]	(13,179)	(5,873)	(17,029)	(9,340)
Free Cash Flow [3]	**(11,034)**	**(732)**	**(6,129)**	**(4,015)**
Add (deduct):				
Changes in non-cash operating working capital [6]	22,165	13,957	27,453	25,496
Mercer Canada Outsourcing conversion – capital	177	1,344	267	1,725
Current income taxes, net of income taxes paid	(483)	(605)	1,692	977
Adjustments to EBITDA, per above	2,214	1,435	4,444	2,801
Normalized Free Cash Flow [4,6]	**$13,039**	**$15,399**	**$27,727**	**$26,984**
Earnings per Share (basic)	$0.21	$0.16	$0.38	$0.30
Earnings per Share (diluted)	$0.20	$0.16	$0.37	$0.30
EBITDA per Share (basic)	$0.51	$0.44	$0.97	$0.85
Adjusted EBITDA per Share (basic)	$0.55	$0.47	$1.06	$0.91
Dividends declared	9,352	9,349	18,705	18,697
Normalized Payout Ratio [5, 6]	71.7%	60.7%	67.5%	69.3%
Twelve-month rolling Normalized Payout Ratio [6]	68.4%	72.7%	68.4%	72.7%

Footnotes:

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

(2) "Capital Expenditures" includes capital assets and intangible assets but excludes additions to capital assets and intangible assets acquired through business acquisitions, and is presented net of disposals.

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

(4) "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.

(5) "Normalized Payout Ratio" is defined as dividends declared divided by Normalized Free Cash Flow.

(6) The normalized free cash flow, change in non-cash operating working capital, normalized payout ratio and twelve-month rolling normalized payout ratio for the comparative six months ended June 30, 2013, and the twelve-month rolling normalized payout ratio for the comparative three months ended June 30, 2013, have been revised as a result of an immaterial correction between two line items within cash provided by operating activities: finance costs paid and change in non-cash working capital. The changes in non-cash operating working capital and normalized free cash flow as previously reported for the comparative six months ended June 30, 2013 were $26,583 and $28,071, respectively. The normalized payout ratio and twelve-month rolling normalized payout ratios as previously reported for the comparative six months ended June 30, 2013 were 66.6% and 71.2%, respectively. The twelve-month rolling normalized payout ratio for the comparative three months ended June 30, 2013 as previously reported was 71.2%.

ANALYSIS OF SECOND QUARTER 2014 OPERATING RESULTS

Revenue

Revenue for the three months ended June 30, 2014 increased by $22.5 million, or 19.1%, to $140.9 million compared to $118.3 million for the same period in 2013. Revenue from acquisitions contributed to an increase of 6.7% over the comparative quarter in 2013. The remaining increase of 12.4% represents growth from new business wins, increased mandates from existing clients, continued growth in the U.S. health insurance exchange outsourcing business and the timing of client engagements. We expect our organic revenue for the balance of the year to grow in line with historic growth rates.

Salary, Benefits and Contractor Expenses

Salary, benefits and contractor expenses for the three months ended June 30, 2014 increased by $15.9 million, or 20.2%, to $94.5 million compared to $78.6 million for the same period in 2013. This increase is attributable to the Groupe AST acquisition which resulted in an incremental compensation expense of $2.8 million. The residual increase of $13.1 million was primarily attributable to general increases to support the Company's continued growth and variable compensation expense adjustments.

Other Operating Expenses

Other operating expenses for the three months ended June 30, 2014 increased by $3.0 million, or 16.6%, to $21.4 million compared to $18.3 million for the same period in 2013. The increase is due to additional operating expenses resulting from the Groupe AST acquisition of $0.7 million that were not in the comparative period, incremental other operating expenses for Mercer Canada Outsourcing conversion of $0.7 million, and $1.6 million of general increases required to support business growth.

Finance Costs

Finance costs for the three months ended June 30, 2014 increased by $0.3 million, or 7.8%, to $3.7 million compared to $3.5 million for the same period in 2013. 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.

Depreciation and Amortization

Depreciation and amortization for the three months ended June 30, 2014 increased by $0.4 million, or 6.1%, to $7.3 million compared to $6.9 million for the same period in 2013. This increase is attributable to incremental depreciation and amortization expense on capital expenditures required to support business growth and acquisitions.

Income Tax Expenses

Income tax expenses increased by $0.7 million, or 20.3%, to $3.9 million, compared to $3.2 million for the same period in 2013. The increase was primarily due to higher profit from operations before income taxes.

Profit for the Period

As a result of the changes noted above, the profit for the three months ended June 30, 2014 was $10.1 million compared to $7.8 million for the same period in 2013.

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

Adjusted EBITDA and EBITDA

Adjusted EBITDA increased by $4.4 million, or 19.2%, to $27.2 million compared to $22.8 million for the same period in 2013. The increase is primarily due to growth in revenue of $22.5 million, partially offset by an increase in salaries and other operating expenses of $18.2 million after EBITDA adjustments. These adjusted EBITDA items do not constitute a part of the Company's on-going operating expenses. Below is a description of the second quarter ended June 30, 2014 adjustment:

- 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 was completed and is expected to take approximately another 18 months.

EBITDA increased by $3.6 million, or 16.9%, to $25.0 million compared to $21.4 million for the same period in 2013.

Free Cash Flow

Free Cash Flow for the three months ended June 30, 2014 decreased by $10.3 million to $(11.0) million compared to $(0.7) million for the same period in 2013. The decrease is due to lower cash provided by operating activities of $3.0 million and higher capital expenditures of $7.3 million (see liquidity and capital resources section below). The decrease in cash from operating activities is a result of higher income taxes paid of $2.6 million and unfavorable changes in non-cash working capital of $8.2 million, which was partially offset by higher cash generated from operating activities of $8.0 million.

Normalized Free Cash Flow

Normalized Free Cash Flow for the three months ended June 30, 2014 decreased by $2.4 million to $13.0 million compared to $15.4 million for the same period in 2013. The decrease is primarily the result of higher current taxes expense of $2.4 million, higher capital expenditures of $8.5 million, once adjusted for the Mercer Canada Outsourcing conversion capital, and higher finance costs of $0.3 million, which was partially offset by an increase in cash generated from operating activities, before non-cash operating working capital and EBITDA adjustments, of $8.8 million.

ANALYSIS OF SIX MONTHS ENDED JUNE 30, 2014 OPERATING RESULTS

Revenue

Revenue for the six months ended June 30, 2014 increased by $37.9 million, or 16.2%, to $272.0 million compared to $234.1 million for the same period in 2013. Revenue from acquisitions contributed to an increase of 4.5% over the comparative quarter in 2013. The remaining increase of 11.7% represents growth from new business wins, increased mandates from existing clients, continued growth in the U.S. health insurance exchange enrollment outsourcing business and the timing of client engagements. We expect our organic revenue for the balance of the year to grow in line with historic growth rates.

Salary, Benefits and Contractor Expenses

Salary, benefits and contractor expenses for the six months ended June 30, 2014 increased by $26.4 million, or 16.8%, to $183.4 million compared to $157.0 million for the same period in 2013. This increase is attributable to the Groupe AST acquisition which resulted in an incremental compensation expense of $3.8 million and higher compensation expense of $0.7 million for Mercer Canada Outsourcing conversion, which was partially offset by a reduction in reorganization and operational effectiveness initiatives of $0.7 million which were in the comparative period. The residual increase of $22.6 million is primarily attributable to general increases to support the Company's continued growth and variable compensation expense adjustments.

Other Operating Expenses

Other operating expenses for the six months ended June 30, 2014 increased by $5.7 million, or 16.0%, to $41.1 million compared to $35.5 million for the same period in 2013. The increase is due to additional operating expenses resulting from the Groupe AST acquisition of $1.0 million that were not in the comparative period, incremental other operating expenses for Mercer Canada Outsourcing conversion of $1.4 million, and $3.3 million of general increases required to support business growth.

Finance Costs

Finance costs for the six months ended June 30, 2014 increased by $0.2 million, or 3.2%, to $7.1 million compared to $6.9 million for the same period in 2013. 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.

Depreciation and Amortization

Depreciation and amortization for the six months ended June 30, 2014 increased by $0.7 million, or 5.2%, to $14.2 million compared to $13.5 million for the same period in 2013. This increase is attributable to increased depreciation and amortization expense on capital expenditures required to support business growth.

Income Tax Expenses

Income tax expenses increased by $1.1 million, or 17.7%, to $7.6 million, compared to $6.4 million for the same period in 2013. The increase was primarily due to higher profit from operations before income taxes.

Profit for the Period

As a result of the changes noted above, the profit for the six months ended June 30, 2014 was $18.6 million compared to a $14.8 million profit for the same period in 2013.

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

Adjusted EBITDA and EBITDA

Adjusted EBITDA increased by $7.5 million, or 16.9%, to $51.9 million compared to $44.4 million for the same period in 2013. The increase is primarily due to growth in revenue of $37.9 million, partially offset by an increase in salaries and other operating expenses of $30.4 million after EBITDA adjustments. These adjusted EBITDA items do not constitute a part of the Company's on-going operating expenses. Below is a description of the six months ended June 30, 2014 adjustment:

- 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 was completed and is expected to take approximately another 18 months.

EBITDA increased by $5.9 million, or 14.1%, to $47.5 million compared to $41.6 million for the same period in 2013.

Free Cash Flow

Free Cash Flow for the six months ended June 30, 2014 decreased by $2.1 million to $(6.1) million compared to $(4.0) million for the same period in 2013. The decrease is due to higher capital expenditures of $7.7 million (see liquidity and capital resources section below), which was partially offset by higher cash provided by operating activities of $5.6 million.

Normalized Free Cash Flow

Normalized Free Cash Flow for the six months ended June 30, 2014 increased by $0.7 million to $27.7 million compared to $27.0 million for the same period in 2013. The increase is primarily a result of an increase in cash generated from operating activities, before non-cash operating working capital and EBITDA adjustments, of $12.3 million, which was partially offset by higher capital expenditures of $9.1 million, once adjusted for the Mercer Canada Outsourcing conversion capital, and higher current taxes expense of $2.2 million.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

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

Cash Flow Information

Selected Consolidated Financial Information:

Cash provided by (used in): *(In thousands of dollars)*	**Six months ended June 30, 2014**	**Six months ended June 30, 2013**
Operating activities	**$ 10,900**	$ 5,325
Financing activities	**33,517**	1,502
Investing activities	**(45,521)**	(9,840)
Decrease in cash	**$ (1,104)**	$ (3,013)

Cash provided by operating activities for the six months ended June 30, 2014 increased by $5.6 million to $10.9 million compared to $5.3 million in 2013. The increase is primarily due to higher cash generated from operating activities of $10.7 million from an increase in profit for the period and items not involving cash. This was partially offset by an unfavorable change in non-cash operating working capital of $2.0 million and higher income taxes paid of $2.9 million compared to the six months ended June 30, 2013 as a result of higher interim tax installments.

Cash provided by financing activities for the six months ended June 30, 2014 increased by $32.0 million to $33.5 million compared to $1.5 million for the same period in 2013. This increase is the result of additional borrowing primarily to finance the acquisition of Groupe AST.

Cash used in investing activities for the six months ended June 30, 2014 increased by $35.7 million to $45.5 million compared to $9.8 million in 2013. This increase is primarily attributable to the acquisitions of Groupe AST and Pacific Risk Management Corp. ("PRM") in which net cash consideration of $27.5 million and $0.5 million, respectively, was paid on closing and to settle working capital adjustments. Additionally there was an increase in additions to intangible and capital assets of $7.7 million (see capital expenditures section below).

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 July 2014.

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 June 30, 2014 was 68.4% compared to 72.7% in 2013. The decrease in the Normalized Payout Ratio is primarily due to higher adjusted EBITDA during the past twelve months.

Capital Expenditures

Our capital expenditures typically include information technology hardware and software (external and internally developed), leasehold improvements, and office furniture. Such amounts are expected to be funded from our operating cash flow. Additional capital expenditure requirements may result from significant business expansion. Capital expenditures for the three months ended June 30, 2014 increased by $7.3 million to $13.2 million compared to $5.9 million for the same period in 2013 and the increase for the six months ended June 30, 2014 was $7.7 million to $17.0 million from $9.3 million in the comparative period. The increase in capital expenditures for the three months ended June 30, 2014 is from incremental expenditures for hardware and purchased software of $1.2 million primarily due to the acquisition of Groupe AST and to support the US health exchange enrollment, incremental internally-developed software spend of $0.8 million, and $6.5 million for leasehold improvements and office furniture (before inducements of $4.4 million) in order to support business growth and the consolidation of the downtown Toronto offices and consolidation of the Vancouver offices. This was partially offset by reduced spending on Mercer Canada Outsourcing conversion capital of $1.2 million.

The increase in capital expenditures for the six months ended June 30, 2014 is due to incremental expenditures for hardware and purchased software of $1.4 million, incremental internally-developed software spend of $0.9 million, and $6.9 million for leasehold improvements and office furniture (before inducements of $4.4 million) in order to support business growth and the consolidation of the downtown Toronto offices and consolidation of the Vancouver offices, which was partially offset by reduced spending on Mercer Canada Outsourcing conversion capital of $1.5 million.

Contractual Obligations

Commitments

We lease office space and selected equipment under operating lease agreements with terms ranging from one to fifteen years. We also have a revolving loan and convertible debenture described under the section "Capital Resources", as well as promissory notes.

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

(In thousands of dollars)	**Total**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019 and thereafter**
Long-term debt	$ 228,007	$ -	$ -	$ -	$ 228,007	$ -	$ -
Convertible debenture	74,965	-	-	-	74,965	-	-
Promissory notes	5,000	-	2,500	2,500	-	-	-
Operating leases, net	114,047	7,685	13,937	12,716	11,893	11,144	56,672
Total	**$ 422,019**	**$ 7,685**	**$ 16,437**	**$ 15,216**	**$ 314,865**	**$ 11,144**	**$ 56,672**

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 is contingent on future business results and the contingent payments are payable in three instalments. The estimated three instalments of $0.2 million, $0.6 million, and $0.6 million to be paid within 45 days of June 30, 2014, June 30, 2015 and June 30, 2016, respectively, are subject to revenue adjustments. At June 30, 2014, $1.1 million has been recognized as an acquisition liability on the statement of financial position, representing the total estimated contingent future instalments of $1.4 million discounted.

The purchase price for PRM is contingent on future business results and is payable within 60 days of March 31, 2015. The contingent consideration of $0.1 million is subject to revenue adjustments. As at June 30, 2014, $0.1 million has been recognized as an acquisition liability on the statement of financial position, representing the total contingent future consideration discounted.

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

Capital Resources

The following table provides an overview of our capital resources:

(In thousands of dollars)	**As at June 30, 2014**	**As at December 31, 2013**
Bank indebtedness	$ 6,299	$ 5,195
Long- term debt, net of debt issuance costs	228,007	175,647
Convertible debenture, net of issuance costs	72,445	72,021
Shareholders' equity	327,097	325,247

As at June 30, 2014 our working capital was $91.6 million, an increase of $24.4 million from $67.1 million as at December 31, 2013. The increase is primarily attributable to an increase in trade and other receivables and unbilled fees of $25.4 million because of growth in the business, in year acquisitions and timing of billings, an increase in prepaid expenses of $3.4 million due to timing of vendor payments, and a decrease in income taxes payable of $1.9 million. This was partially offset by higher bank indebtedness of $1.1 million, higher deferred revenue of $3.4 million due to timing of client engagements and the acquisition of Groupe AST, the $0.9 million fair value of the interest-rate swap agreement entered into to hedge against the variable interest rate component of the term loan outstanding under the Original Credit Facility Agreement, and a decrease in the current portion of the future consideration related to acquisitions of $0.6 million.

The long-term debt, net of debt issuance costs, increased by $52.4 million from $175.6 million as at December 31, 2013 to $228.0 million as at June 30, 2014. The increase is due to incremental borrowings required to support business growth and in-year acquisitions.

The Company has a credit facility agreement for a term of four years, maturing on November 29, 2017. The credit facility provides for a senior secured revolving term facility of $250.0 million, which includes a swing line of $7.0 million. As at June 30, 2014, the Company has $15.4 million of available unused revolving term facility.

The interest rates for the facility 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 calculated in the credit agreement. EBITDA is defined in the credit agreement as profit before finance costs, taxes, depreciation, amortization, non-controlling interest and non-recurring expenditures. Adjusted EBITDA is defined in the credit agreement as EBITDA plus the pro-forma EBITDA from permitted acquisitions' entities.

The credit facility is secured by a general assignment of all our assets. The credit 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
(ii) Ratio of EBITDA to interest expense of not less than 3.0:1.0

We are in compliance with all the required financial covenants.

The Company has an interest-rate swap agreement to hedge against the variable interest rate component on $130,000 notional amount borrowed under the credit facility agreement up to and ending January 5, 2015. This swap is used to fix the variable component of the interest rate at 2.48%, before the applicable margin, through to January 5, 2015 and has been designated as a cash flow hedge.

In February 2014, the Company entered into a forward starting interest-rate swap agreement to hedge against the variable interest rate component on $160,000 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 $160,000 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.

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.

SELECTED STATEMENT OF FINANCIAL POSITION DATA

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

(in thousands of dollars)	**As at June 30, 2014**	**As at December 31, 2013**
Current assets	$175,170	$ 148,290
Non-current assets	594,413	551,826
Current liabilities	83,593	81,143
Non-current liabilities	358,893	293,726

Current Assets

Current assets as at June 30, 2014 increased by $26.9 million to $175.2 million from $148.3 million as at December 31, 2013. The increase is primarily attributable to an increase in trade and other receivables and unbilled fees of $25.4 million because of growth in the business, in year acquisitions and timing of billings, an increase in prepaid expenses of $3.4 million due to timing of vendor payments, and an increase in deferred implementation costs of $0.8 million, which was partially offset by a decrease in cash and investments held in trust for insurance premiums of $2.7 million.

Non-current Assets

Non-current assets as at June 30, 2014 increased by $42.6 million to $594.4 million from $551.8 million as at December 31, 2013. The increase was primarily due to capital assets, intangible assets and goodwill acquired of $40.6 million as a result of the acquisitions of Groupe AST and PRM, and capital expenditures, including those that were fully funded by the Company's landlords, of $17.0 million to support continued business growth. This increase was partially offset by the depreciation and amortization of capital and intangible assets of $14.2 million.

Current Liabilities

Current liabilities as at June 30, 2014 increased by $2.5 million to $83.6 million from $81.1 million as at December 31, 2013. The acquisition of Groupe AST contributed to an increase of $5.5 million in current liabilities compared to December 31, 2013. Additionally there was an increase in non-Groupe AST current liabilities due to higher bank indebtedness of $1.1 million, higher deferred revenue of $1.2 million due to timing of client engagements, and the $0.9 million fair value of the interest-rate swap agreement entered into to hedge against the variable interest rate component of the term loan outstanding under the Original Credit Facility Agreement. This was partially offset by non-Groupe AST current liabilities decrease in trade and other payables of $2.5 million due to the timing of the annual bonus payment, partially offset by higher accruals for capital expenditures and sales tax payable, a decrease in insurance premium liabilities of $2.7 million and a decrease in income taxes payable of $0.6 million.

Non-current Liabilities

Non-current liabilities as at June 30, 2014 increased by $65.2 million to $358.9 million from $293.7 million at December 31, 2013. The increase in non-current liabilities is the result of an increase in long-term debt of $52.4 million primarily to finance the acquisition of Groupe AST and to support overall business growth, the issuance of promissory notes (non-current) with an amortized cost of $2.3 million as at June 30, 2014 as partial consideration for the acquisition of Groupe AST, an increase in the deferred tax liability of $6.2 million primarily due to the acquisition of Groupe AST and an increase in other liabilities of $4.4 million primarily due to leasehold inducements from the Company's landlords.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In our year ended December 31, 2013 audited consolidated financial statements and accompanying notes, and in our 2013 fourth quarter 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 six months ended June 30, 2014 have been prepared using the same accounting policies consistent with those applied in the audited consolidated financial statements for the year ended December 31, 2013. Our critical accounting estimates and assumptions remain substantially unchanged.

Changes in accounting policies

IAS 39, Financial Instruments ("IAS 39"):

An amendment to IAS 39 made it clear that there is no need to discontinue hedge accounting where a derivative hedging instrument has been novated to effect clearing with a central counterparty as a result of laws or regulation, provided specific conditions are met. Novation refers to where parties to a contract agree to replace their original counterparty with a new one. The Company adopted this amendment to IAS 39 effective January 1, 2014. This amendment did not result in any changes to the Company's hedge accounting for any of its existing hedges.

IAS 36, Impairment of Assets ("IAS 36"):

Amendments to IAS 36 cover recoverable amount disclosures for non-financial assets, including circumstances in which the recoverable amount of assets or CGUs are required to be disclosed, clarification of the disclosures required, and introducing an explicit requirement to disclose the discount rate used in determining impairment or impairment reversals where recoverable amount is determined using a present value technique.
The Company adopted these amendments to IAS 36 effective January 1, 2014. The adoption of these amendments to IAS 36 will not have a significant impact on the Company's existing disclosures for its impairment testing of its non-financial assets.

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 ending on or after December 31, 2017 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, 2017. 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 2013 annual and fourth quarter MD&A. The risk and uncertainties remain substantially unchanged from those disclosed in our 2013 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	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012
Revenue	140,877	131,091	118,570	118,526	118,328	115,730	107,258	101,331
Profit (loss) [1]	10,105	8,484	(11,279)	6,937	7,835	6,951	4,234	6,105
EBITDA	25,026	22,447	(2,502)	20,484	21,412	20,188	16,242	18,269
Adjusted EBITDA	27,240	24,677	20,217	21,909	22,847	21,554	18,843	19,278
EBITDA margin	17.8%	17.1%	(2.1%)	17.3%	18.1%	17.4%	15.1%	18.0%
Adjusted EBITDA margin	19.3%	18.8%	17.1%	18.5%	19.3%	18.6%	17.6%	19.0%
Earnings per share (basic)	0.21	0.17	(0.23)	0.14	0.16	0.14	0.09	0.13
Earnings per share (diluted)	0.20	0.17	(0.23)	0.14	0.16	0.14	0.09	0.12
Dividends declared	9,352	9,353	9,350	9,349	9,349	9,348	9,348	9,349
Twelve-month rolling normalized payout ratio [2]	68.4%	65.5%	69.3%	73.2%	72.7%	72.4%	70.1%	77.1%
Total assets [3]	769,583	752,165	700,116	708,412	699,259	695,388	686,357	677,864
Total long-term debt [4]	300,452	282,112	247,668	245,324	245,062	233,593	224,177	227,790

(1) 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 Organizational Health Solutions line of business.

The twelve-month rolling normalized payout ratios for the quarters ended June 30, 2013 and March 31, 2013 have been revised as a result of an immaterial correction related to the quarter ended March 31, 2013 between two line items within cash provided by operating activities: finance costs paid and change in non-cash working capital. The ratios as previously reported for the quarters ended June 30, 2013 and March 31, 2013 were 71.2% and 70.9%, respectively.

(2) Total assets as at June 30, 2014 and March 31, 2014 include assets acquired as part of the Groupe AST business acquisition.

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

Disclosure Controls and Procedures

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

The Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures are appropriately designed as at June 30, 2014.

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 1992 Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission.

The Chief Executive Officer and the Chief Financial Officer have concluded that the internal controls over financial reporting are appropriately designed as at June 30, 2014. No changes were made in our internal controls over financial reporting during the second quarter ended June 30, 2014, 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, is available on the SEDAR Web site (www.sedar.com) and on our own website at www.morneaushepell.com.

The content of this MD&A reflects information known as of August 7, 2014.