Unaudited Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

# MORNEAU SHEPELL INC.

Three and nine months ended September 30, 2014 and 2013
(Unaudited)

# MORNEAU SHEPELL INC.

Unaudited Condensed Consolidated Interim Statements of Financial Position
(In thousands of Canadian dollars)
September 30, 2014 and December 31, 2013

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Trade and other receivables | $ 73,791 | $ 67,194 |
| Unbilled fees | 67,147 | 57,185 |
| Prepaid expenses and other | 6,269 | 3,761 |
| Cash and investments held in trust | 11,154 | 16,016 |
| Deferred implementation costs | 5,937 | 4,134 |
| Total current assets | 164,298 | 148,290 |
| Unbilled fees | 606 | 1,251 |
| Deferred implementation costs | 12,384 | 10,693 |
| Capital assets | 34,408 | 22,858 |
| Intangible assets | 236,724 | 221,957 |
| Goodwill | 311,548 | 295,067 |
| Total assets | $ 759,968 | $ 700,116 |
| **Liabilities and Equity** | | |
| Current liabilities: | | |
| Bank indebtedness (note 6) | $ 1,708 | $ 5,195 |
| Trade and other payables | 51,898 | 50,194 |
| Income taxes payable | 1,037 | 3,675 |
| Deferred revenue | 4,182 | 2,126 |
| Insurance premium liabilities | 11,154 | 16,016 |
| Future consideration related to acquisitions (notes 4 and 11) | 556 | 821 |
| Promissory notes (note 4) | 2,453 | – |
| Dividends payable | 3,116 | 3,116 |
| Interest rate swap (note 6) | 549 | – |
| Total current liabilities | 76,653 | 81,143 |
| Long-term debt (note 6) | 227,913 | 175,647 |
| Convertible debenture payable | 72,677 | 72,021 |
| Interest rate swap (note 6) | 1,215 | 1,789 |
| Future consideration related to acquisitions (notes 4 and 11) | 641 | 859 |
| Promissory notes (note 4) | 2,343 | – |
| Other liabilities | 14,161 | 9,899 |
| Provisions | 2,346 | 3,326 |
| Deferred tax liability | 36,081 | 30,185 |
| Total liabilities | 434,030 | 374,869 |
| Equity: | | |
| Share capital | 474,367 | 474,088 |
| Contributed surplus | 19,700 | 16,514 |
| Equity component of convertible debenture | 757 | 757 |
| Accumulated other comprehensive loss | (1,228) | (1,839) |
| Deficit | (167,658) | (164,273) |
| Total liabilities and equity | $ 759,968 | $ 700,116 |

Contingencies (note 11)
See accompanying notes to the unaudited condensed consolidated interim financial statements.

# MORNEAU SHEPELL INC.

Unaudited Condensed Consolidated Interim Statements of Income and Comprehensive Income
(In thousands of Canadian dollars, except per share amounts)
For the three and nine months ended September 30, 2014 and 2013

| | Three months ended September 30, 2014 | Three months ended September 30, 2013 | Nine months ended September 30, 2014 | Nine months ended September 30, 2013 |
|---|---|---|---|---|
| Operating revenue | $ 132,703 | $ 118,526 | $ 404,671 | $ 352,584 |
| Operating expenses: | | | | |
| Salary, benefits and contractor | 92,168 | 79,956 | 275,544 | 236,952 |
| Office and administration | 14,251 | 12,628 | 43,089 | 37,314 |
| Rent and occupancy | 6,076 | 5,458 | 18,357 | 16,233 |
| Depreciation and amortization | 8,671 | 6,683 | 24,435 | 20,178 |
| Total operating expenses | 121,166 | 104,725 | 361,425 | 310,677 |
| Finance costs (note 6) | 3,744 | 3,647 | 10,851 | 10,532 |
| Gain on business divestitures (note 5) | (2,113) | – | (2,113) | – |
| Profit from operations before income taxes | 9,906 | 10,154 | 34,508 | 31,375 |
| Income taxes: | | | | |
| Current | 1,965 | 2,303 | 9,336 | 7,480 |
| Deferred | 706 | 914 | 493 | 2,171 |
| Total income taxes | 2,671 | 3,217 | 9,829 | 9,651 |
| Profit for the period | 7,235 | 6,937 | 24,679 | 21,724 |
| Other comprehensive income (loss): | | | | |
| Items that are or may be reclassified subsequently to net income: | | | | |
| Effective portion of change in interest rate cash flow hedges | 352 | 80 | 25 | 1,031 |
| Foreign currency translation differences for foreign operations | 348 | (94) | 428 | 297 |
| Reclassification of foreign currency translation differences on divestiture of foreign operations (note 5) | 289 | – | 289 | – |
| Income taxes on the above items | (94) | (21) | (6) | (270) |
| | 895 | (35) | 736 | 1,058 |
| Items that will not be reclassified to net income: | | | | |
| Actuarial gain (loss) on post-employment benefit plans | 13 | 45 | (174) | 522 |
| Income taxes on the above item | (3) | (11) | 49 | (137) |
| | 10 | 34 | (125) | 385 |
| Other comprehensive income (loss), net of tax effect | 905 | (1) | 611 | 1,443 |
| Comprehensive income for the period | $ 8,140 | $ 6,936 | $ 25,290 | $ 23,167 |
| Earnings per share (note 8): | | | | |
| Basic | $ 0.15 | $ 0.14 | $ 0.50 | $ 0.45 |
| Diluted | $ 0.15 | $ 0.14 | $ 0.50 | $ 0.44 |

See accompanying notes to the unaudited condensed consolidated interim financial statements.

# MORNEAU SHEPELL INC.

Unaudited Condensed Consolidated Interim Statements of Changes in Equity
(In thousands of Canadian dollars)
For the nine months ended September 30, 2014 and 2013

| Nine months ended September 30, 2014 | Share capital | Contributed surplus | Deficit | Accumulated other comprehensive loss | Equity component of convertible debenture | Total equity |
|---|---|---|---|---|---|---|
| Balance, January 1, 2014 | $ 474,088 | $ 16,514 | $ (164,273) | $ (1,839) | $ 757 | $ 325,247 |
| Long-term incentive plan (“LTIP”) | – | 3,431 | – | – | – | 3,431 |
| Shares issued upon redemption of LTIP and conversion of convertible debentures | 279 | (245) | – | – | – | 34 |
| Profit for the period | – | – | 24,679 | – | – | 24,679 |
| Dividends | – | – | (28,064) | – | – | (28,064) |
| Other comprehensive income | – | – | – | 611 | – | 611 |
| Balance, September 30, 2014 | $ 474,367 | $ 19,700 | $ (167,658) | $ (1,228) | $ 757 | $ 325,938 |

| Nine months ended September 30, 2013 | Share capital | Contributed surplus | Deficit | Accumulated other comprehensive loss | Equity component of convertible debenture | Total equity |
|---|---|---|---|---|---|---|
| Balance, January 1, 2013 | $ 473,838 | $ 12,674 | $ (137,322) | $ (3,329) | $ 757 | $ 346,618 |
| LTIP | – | 3,127 | – | – | – | 3,127 |
| Shares issued upon redemption of LTIP | 210 | (210) | – | – | – | – |
| Profit for the period | – | – | 21,724 | – | – | 21,724 |
| Dividends | – | – | (28,046) | – | – | (28,046) |
| Other comprehensive income | – | – | – | 1,443 | – | 1,443 |
| Balance, September 30, 2013 | $ 474,048 | $ 15,591 | $ (143,644) | $ (1,886) | $ 757 | $ 344,866 |

See accompanying notes to the unaudited condensed consolidated interim financial statements.

# MORNEAU SHEPELL INC.

Unaudited Condensed Consolidated Interim Statements of Cash Flows
(In thousands of Canadian dollars)
For the nine months ended September 30, 2014 and 2013

| | Nine months ended September 30, 2014 | 2013 |
|---|---|---|
| Operating activities: | | |
| Profit for the period | $ 24,679 | $ 21,724 |
| Items not involving cash: | | |
| Depreciation and amortization | 24,435 | 20,178 |
| Finance costs (note 6) | 10,851 | 10,532 |
| Long-term incentive plan | 3,315 | 2,688 |
| Income taxes | 9,829 | 9,651 |
| Change in other liabilities | 3,904 | 85 |
| Gain on business divestitures (note 5) | (2,113) | – |
| Other | (978) | (220) |
| | 73,922 | 64,638 |
| Change in non-cash operating working capital (note 10) | (21,849) | (24,505) |
| Cash generated from operating activities | 52,073 | 40,133 |
| Finance costs paid | (10,746) | (10,389) |
| Income taxes paid | (11,939) | (5,815) |
| Cash provided by operating activities | 29,388 | 23,929 |
| Financing activities: | | |
| Change in revolving loan (net) | 52,060 | 20,118 |
| Dividends paid | (28,064) | (28,046) |
| Cash provided by (used in) financing activities | 23,996 | (7,928) |
| Investing activities: | | |
| Business acquisitions (note 4) | (29,307) | (5,202) |
| Business divestitures (note 5) | 5,324 | – |
| Additions to intangible assets | (8,855) | (8,471) |
| Additions to capital assets | (17,059) | (7,347) |
| Cash used in investing activities | (49,897) | (21,020) |
| Increase (decrease) in cash for the period | 3,487 | (5,019) |
| Bank indebtedness, beginning of period | (5,195) | (134) |
| Bank indebtedness, end of period | $ (1,708) | $ (5,153) |

See accompanying notes to the unaudited condensed consolidated interim financial statements.

**1. Organization and nature of the business:**

Morneau Shepell Inc. (the "Company") was incorporated pursuant to the laws of the Province of Ontario on October 21, 2010 and is a continuation of Morneau Sobeco Income Fund (the "Fund"), which was converted from an income trust structure into the Company, effective January 1, 2011.

The Company provides health and productivity, administrative and retirement solutions to assist employers in managing the financial security, health and productivity of their employees. The Company’s principal and head office is located at One Morneau Shepell Centre, 895 Don Mills Road, Suite 700, Toronto, Ontario, M3C 1W3. The Company offers its services to organizations that are situated in Canada, in the United States and internationally.

References herein to the Company represent the financial position, results of operations, cash flows and disclosures of Morneau Shepell Inc. and its subsidiaries on a consolidated basis.

These unaudited condensed consolidated interim financial statements were approved by the Company's Board of Directors on November 12, 2014.

**2. Basis of preparation:**

These unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2014 and 2013 have been prepared in accordance with International Accounting Standards 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB").

These interim financial statements do not include all the disclosures required by International Financial Reporting Standards ("IFRS") for annual consolidated financial statements and accordingly should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2013 prepared in accordance with IFRS as issued by the IASB.

**3. Significant accounting policies:**

(i) Changes in accounting policies:

Except as described below, the accounting policies applied by the Company in these unaudited condensed consolidated interim financial statements are consistent with those applied by the Company in its consolidated financial statements as at and for the year ended December 31, 2013.

(a) 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.

(b) 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 cash-generating units ("CGUs") are required to be disclosed, clarification of the disclosures required, and the introduction of an explicit requirement to disclose the discount rate used in determining impairment or impairment reversals where the 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.

(ii) Future accounting change:

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.

(In thousands of Canadian dollars)

**4. Business acquisitions:**

(a) Groupe AST (1993) Inc.:

On March 3, 2014, the Company completed the acquisition of 100% of the outstanding shares of Groupe AST (1993) Inc. ("Groupe AST") from ADP Canada Co. This acquisition complements the Company's existing workers' compensation practice in the Absence Management Services sub-service line within the Organizational Health Solutions line of business. Acquiring Groupe AST will expand the Company's client base and market share in Quebec and nationally.

The consideration for this acquisition included an initial payment of $27,000 that was settled on closing, an additional $686 in cash consideration for working capital adjustments, of which $553 was settled in the second quarter of 2014 and the remainder is expected to be settled in the fourth quarter of 2014, and the issuance of promissory notes that are in the principal amount of $5,000. The promissory notes are unsecured, non-interest bearing and have a fair value of $4,664, with $2,500 due on each of February 28, 2015 and 2016. The fair value of the promissory notes due on February 28, 2015 and 2016 on initial recognition was determined using market rates of interest of 4.70% and 4.80%, respectively, that would be charged on similar promissory notes issued by a company with a similar risk profile (Level 2 inputs on the fair value hierarchy). The promissory notes will be accreted to their principal amount due on maturity as finance costs through profit or loss.

This acquisition has been accounted for using the acquisition method of accounting. During the third quarter of 2014 the Company finalized the purchase price allocation resulting from adjustments to working capital, intangible assets, goodwill, and the deferred tax liability. The final valuation increased the purchase consideration assigned to customer contract intangible assets which have a shorter amortization period than the intangible assets initially identified. As a result, amortization expense for the first and second quarter of 2014 was recast to be higher by $390 and $1,171, respectively. The impact of the increased amortization expense is reflected in the statement of income and comprehensive income for the nine months ended September 30, 2014.

| | Initial | Adjustments | Final |
|---|---|---|---|
| Cash | $ 107 | $ – | $ 107 |
| Trade and other receivables | 1,518 | – | 1,518 |
| Prepaid expenses and other | 65 | – | 65 |
| Income taxes receivable | 362 | 134 | 496 |
| Capital assets | 671 | – | 671 |
| Intangible assets | 24,612 | (1,092) | 23,520 |
| Goodwill | 14,766 | 937 | 15,703 |
| Trade and other payables | (1,254) | – | (1,254) |
| Deferred revenue | (2,287) | – | (2,287) |
| Deferred tax liability | (6,338) | 150 | (6,188) |
| | $ 32,222 | $ 129 | $ 32,351 |

(In thousands of Canadian dollars)

The goodwill acquired is attributable primarily to the synergies expected to be achieved from integrating Groupe AST's workers' compensation practice into the Company's existing Absence Management Solutions sub-service line within the Organizational Health Solutions line of business.

From the date of acquisition up to and including September 30, 2014, Groupe AST has contributed revenues of $13,736 and profit of $3,739. Had this acquisition occurred on January 1, 2014, the Company estimates that the consolidated revenues of the Company would have been higher by $3,505 and consolidated profit would have remained unchanged. In determining these amounts, the Company has assumed that the preliminary fair value adjustments that arose on the acquisition date of Groupe AST would have been the same had the acquisition occurred on January 1, 2014.

(b) Other Acquisitions

During the period the Company completed two other smaller strategic acquisitions. On March 31, 2014, the Company completed the acquisition of Pacific Risk Management Corp. ("PRM"), a workers' compensation provider in British Columbia and on July 4, 2014, the Company completed the acquisition of Blue Balloon Health Services ("Blue Balloon"), a privately-held group of professionals providing pediatric health-centered care in the Greater Toronto Area. These acquisitions complement our Organizational Health Solutions and Employee Support Solutions lines of business.

The total consideration for the above acquisitions was as follows:

| | | |
|---|---|---|
| PRM – amount paid on closing and settlement of working capital adjustments | $ | 489 |
| Blue Balloon – amount paid on closing | | 500 |
| Future consideration, discounted | | 259 |
| | $ | 1,248 |

The future consideration is dependent on achieving certain revenue and/or earnings before interest, taxes, depreciation and amortization ("EBITDA") targets. At September 30, 2014, $268 has been recognized as an acquisition liability on the statement of financial position, representing the fair value of future cash consideration discounted.

These acquisitions have been accounted for using the acquisition method of accounting. The allocation of the $1,248 purchase consideration for these acquisitions is final, and is as follows:

| | | |
|---|---|---|
| Working capital | $ | 56 |
| Intangible assets | | 544 |
| Capital assets | | 60 |
| Goodwill | | 622 |
| Deferred tax liability | | (34) |
| | $ | 1,248 |

(In thousands of Canadian dollars)

Goodwill arose on the Blue Balloon acquisition and is attributable primarily to the workforce and the synergies expected to be achieved from the ability to expand the Company's existing Children's Support Solutions portfolio.

## 5. Business divestitures:

During 2014, the Company completed a strategic review of its clinic-based occupational health operations and made the decision to exit the business. The Company closed some locations and sold the remainder of the business and health clinic locations, including its 48% and 70% interest held in Innu-Med Inc. and FGI World New Caledonia, respectively.

The assets and liabilities disposed of were comprised of the following:

| | |
|---|---|
| Cash | $ 376 |
| Trade and other receivables | 5,774 |
| Unbilled fees | 356 |
| Prepaid expenses and other | 40 |
| Capital assets | 78 |
| Intangible assets | 176 |
| Trade and other payables | (900) |
| Income taxes payable | (15) |
| | $ 5,885 |

The consideration for the sale is preliminary, pending finalization of contractual adjustments including for working capital and customer contracts sold. The sales price includes cash consideration of $5,700 that was received during the third quarter, future cash consideration including adjustments for working capital and customer contracts of $834 that is expected to be settled in the fourth quarter of 2014, and a $2,000 holdback receivable. The holdback receivable is included in Trade and other receivables on the statements of financial position and is expected to be received within 10 days of August 29, 2015. Its fair value on initial recognition of $1,860 was determined using a market rate of interest of 7.5% that would be received on a similar holdback receivable due from a company with a similar risk profile as the purchaser (Level 2 inputs on the fair value hierarchy). The holdback receivable will be accreted to its gross amount receivable on maturity as a reduction of finance costs through profit or loss.

Total selling costs for the divestiture of the Health Clinics sub-service line were $107. The gain recognized through profit or loss for the divestiture, including reclassification of foreign currency translation differences on the divestiture of FGI World New Caledonia from accumulated other comprehensive income, was $2,113.

(In thousands of Canadian dollars)

## 6. Long- term debt:

The Company's long-term debt obligations can be broken down as follows:

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Revolving loans | $ 228,741 | $ 176,720 |
| Less: debt issuance costs, net of accumulated amortization | 828 | 1,073 |
| | $ 227,913 | $ 175,647 |

The Company had a credit facility agreement (the "Original Credit Facility Agreement ") with a term of four years, maturing on January 5, 2015 which was amended on November 29, 2013. The second amended and restated credit facility agreement (the "Amended Credit Facility Agreement") matures on November 29, 2017 and provides for a revolving facility of $250,000 (including a swing line of $7,000).

The interest rates for the Amended Credit Facility are floating, based on a margin over certain referenced rates of interest. The applicable margin may vary up or down depending on the ratio of the Company's consolidated Debt to Adjusted EBITDA as calculated in the Amended Credit Facility Agreement.

The Amended Credit Facility is secured by a general assignment of all the assets of the Company and requires the Company to maintain, on a consolidated basis, a Debt to Adjusted EBITDA financial covenant of not more than 3.0:1.0 and an EBITDA to interest expense ratio of not less than 3.0:1.0.

In the calculation of the consolidated Debt to Adjusted EBITDA financial covenant under the Amended Credit Facility Agreement, Debt excludes the Convertible Debenture Payable.

EBITDA in the Amended Credit Facility Agreement is defined as profit before finance costs, income taxes, depreciation, amortization, non-controlling interest, and non-recurring gains or losses. Adjusted EBITDA is defined as EBITDA plus the pro-forma EBITDA from permitted acquisitions' entities.

At September 30, 2014, the Company had utilized the following amounts under the Amended Credit Facility:

- $216,500 of BA loans under the revolving loan. The BA loans are renewed on a monthly basis, bearing interest at the one-month BA rate plus an applicable margin of 1.875%.

- $10,000 of prime loans under the revolving loan. The prime loans bear interest at the prime rate plus an applicable margin of 0.875%.

- $2,241 (U.S. $2,000) of Libor loans under the revolving loan. The Libor loans are renewed on a monthly basis, bearing interest at the one- month Libor rate plus an applicable margin of 1.875%.

- $1,864 of the swing line available. The swing line carries interest at prime plus an applicable margin of 0.875%.

As at September 30, 2014, the Company complied with all of the required financial covenants.

(a) Interest rate swaps:

The Company had entered into an interest-rate swap agreement to hedge against the variable interest rate component of the term loan outstanding under the Original Credit Facility Agreement. The notional amount of the swap is $130,000, for the period from February 1, 2011 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, for the duration of the term and has been designated as a cash flow hedge. The fair value of this interest rate swap at September 30, 2014 was a liability of $549 (December 31, 2013 - $1,789).

On November 29, 2013 the term loan was converted into a revolving loan under the Amended Credit Facility. The amendments to the Original Credit Facility were not considered substantive and therefore the variable interest payments on the term loan, the hedged item under the designated cash flow hedge, were not deemed to be extinguished under IAS 39. Therefore, the designated cash flow hedge was not required to be discontinued on the date of amendment of the Original Credit Facility Agreement.

The Company entered into a forward starting interest-rate swap agreement in February 2014 to hedge against the variable interest rate component on $160,000 notional amount borrowed under the Amended 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. The fair value of this interest rate swap at September 30, 2014 was a liability of $1,215.

(In thousands of Canadian dollars)

(b) Finance costs:

The Company's finance costs comprise the following:

| | Three months ended September 30, 2014 | Three months ended September 30, 2013 | Nine months ended September 30, 2014 | Nine months ended September 30, 2013 |
|---|---|---|---|---|
| Interest on term loan, revolving loan, bank indebtedness and other charges | $ 2,251 | $ 2,110 | $ 6,344 | $ 6,026 |
| Interest on convertible debenture | 1,142 | 1,141 | 3,388 | 3,387 |
| Amortization of debt issuance costs | 252 | 289 | 740 | 868 |
| Other | 99 | 107 | 379 | 251 |
| | $ 3,744 | $ 3,647 | $ 10,851 | $ 10,532 |

## 7. Dividends:

The monthly dividend rate, approved by the Board of Directors, was $0.065 for the three and nine months ended September 30, 2014 (2013 - $0.065). Dividends declared for the three and nine months ended September 30, 2014 were $9,359 and $28,064, respectively. The Company continued to declare the same monthly dividend amount in October 2014.

## 8. Earnings per share:

Basic earnings per share was calculated by dividing profit attributable to common shares by the sum of the weighted average number of common shares outstanding during the period, plus vested LTIP awards.

Diluted earnings per share was calculated using the basic calculation described above, and adjusting for the potentially dilutive effect of total number of additional common shares that would have been issued by the Company on unvested LTIP awards and the redemption of the convertible debentures.

The following details the earnings per share, basic and diluted, calculations for the three and nine months ended September 30, 2014 and 2013:

(In thousands of Canadian dollars)

| | Three months ended September 30, 2014 | Three months ended September 30, 2013 | Nine months ended September 30, 2014 | Nine months ended September 30, 2013 |
|---|---|---|---|---|
| Profit attributable to common shares (basic and diluted) | $ 7,235 | $ 6,937 | $ 24,679 | $ 21,724 |
| Weighted average number of common shares: | | | | |
| January 1 | – | – | 47,962,793 | 47,940,409 |
| July 1 | 47,988,999 | 47,940,409 | – | – |
| Vested LTIP awards | 1,245,168 | 852,435 | 1,127,724 | 774,777 |
| Shares issued on redemption of LTIP[1] | – | 7,296 | 9,532 | 2,468 |
| Shares issued upon conversion of convertible debentures[1] | – | – | 1,050 | – |
| Basic | 49,234,167 | 48,800,140 | 49,101,099 | 48,717,654 |
| Dilutive effect of unvested LTIP awards | 572,470 | 541,578 | 584,701 | 555,965 |
| Diluted | 49,806,637 | 49,341,718 | 49,685,800 | 49,273,619 |
| Earnings per share: | | | | |
| Basic | $ 0.15 | $ 0.14 | $ 0.50 | $ 0.45 |
| Diluted | $ 0.15 | $ 0.14 | $ 0.50 | $ 0.44 |

[1] During the nine months ended September 30, 2014, 23,873 shares (2013- 17,212 shares) were issued on redemption of LTIP units, and 2,333 shares (2013- nil shares) were issued upon conversion of convertible debentures.

Due to its anti-dilutive effect, the potential issuance related to the convertible debentures has been excluded from the diluted earnings per share calculations.

**9. Segmented information:**

The Company provides health and productivity, administrative and retirement solutions to assist employers in managing the financial security, health and productivity of their employees. As at September 30, 2014, aggregation of operating segments was applied to determine that the Company had only one reportable segment.

The Company operates primarily within two geographical areas: Canada and the United States. The following details the revenues and total assets by geographical area, reconciled to the Company's unaudited condensed consolidated interim financial statements:

(In thousands of Canadian dollars)

| | Three months ended September 30, 2014 | Three months ended September 30, 2013 | Nine months ended September 30, 2014 | Nine months ended September 30, 2013 |
|---|---|---|---|---|
| Revenue: | | | | |
| Canada | $ 120,959 | $ 109,681 | $ 371,634 | $ 328,211 |
| United States | 11,744 | 8,845 | 33,037 | 24,373 |
| Consolidated total | $ 132,703 | $ 118,526 | $ 404,671 | $ 352,584 |

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Total assets: | | |
| Canada | $ 736,130 | $ 680,360 |
| United States | 23,838 | 19,756 |
| Consolidated total | $ 759,968 | $ 700,116 |

**10. Supplementary cash flow information:**

Change in non-cash operating working capital for the nine months ended September 30, 2014 and 2013 was as follows:

| | 2014 | 2013 |
|---|---|---|
| Trade and other receivables | $ (7,846) | $ (6,501) |
| Unbilled fees, current and non-current | (9,673) | (11,805) |
| Prepaid expenses and other | (2,432) | (2,908) |
| Deferred implementation costs, current and non-current | (3,494) | (1,455) |
| Trade and other payables | 1,827 | (2,512) |
| Deferred revenue | (231) | 676 |
| | $ (21,849) | $ (24,505) |

Significant non-cash transactions included the issuance of promissory notes with a fair value of $4,664 as partial consideration for the acquisition of Groupe AST (see note 4).

(In thousands of Canadian dollars)

**11. Financial instruments:**

Financial instruments carried at fair value:

Fair value represents management's estimates of the market value at a given point in time. The fair value of the Company's current financial assets and liabilities approximate their carrying values due to their short-term nature.

The following table summarizes information regarding the carrying value, fair value and level used to determine the fair value measurement of the Company's financial assets and liabilities carried at fair value:

| | Carrying Value and Fair Value | | |
|---|---|---|---|
| | September 30, 2014 | Dec. 31, 2013 | Level |
| Assets carried at fair value: | | | |
| Cash and investments held in trust | $ 11,154 | $ 16,016 | 2 |
| | $ 11,154 | $ 16,016 | |
| Liabilities carried at fair value: | | | |
| Interest rate swaps | $ 1,764 | $ 1,789 | 2 |
| Bank indebtedness | 1,708 | 5,195 | 2 |
| Future consideration related to acquisitions | 1,197 | 1,680 | 3 |
| | $ 4,669 | $ 8,664 | |

Fair value hierarchy:

Below is a discussion of the Company’s determination of fair value for financial instruments carried at fair value. The three levels of fair value hierarchy are defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data

During the nine months ended September 30, 2014, there were no transfers between any levels.

(In thousands of Canadian dollars)

The interest rate swaps are financial instruments carried at fair value. The liability is measured at fair value through other comprehensive income. As at September 30, 2014, the liability was $1,764 (December 31, 2013 - $1,789).

The future consideration related to acquisitions is a financial instrument carried at fair value through profit or loss. As at September 30, 2014 the liability was $1,197 (December 31, 2013- $1,680). Contingent consideration arose on the acquisitions of Dion Durrell Workers' Compensation, PRM and Blue Balloon.

In the acquisitions of Dion Durrell Workers' Compensation and PRM, there is a clause that entitles the seller to an amount based on exceeding revenue targets. In the acquisition of Blue Balloon there are clauses that entitle the seller to an amount based on exceeding certain EBITDA and revenue targets.

The fair value of the future consideration related to these acquisitions is determined considering the estimated payment, discounted to present value. The contingent consideration remaining to be paid for these acquisitions ranges from a contractual amount of $nil to a contractual maximum as follows:

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| SBC Systems Company | $ – | $ 532 |
| Dion Durrell Workers' Compensation | 1,636 | 2,146 |
| Blue Balloon | 200 | – |
| PRM | 100 | – |
| | $ 1,936 | $ 2,678 |

The estimated payment is calculated considering different scenarios of projected revenue and EBITDA, and the amount to be paid under each scenario, weighted by the probability of each scenario. The key unobservable inputs include anticipated revenue and EBITDA, and the discount rate. The estimated fair value increases the higher the annual revenue and EBITDA, and the lower the discount rate, with estimated payments being limited to a contractual maximum for each of the Dion Durrell Workers' Compensation, PRM and Blue Balloon acquisitions.

Management considers that changing the above mentioned unobservable inputs to reflect other reasonably possible alternative assumptions would not result in a significant change in the estimated fair value.

The following table indicates the changes in the future consideration related to acquisitions during the nine months ended September 30, 2014:

(In thousands of Canadian dollars)

| | Future consideration related to acquisitions |
|---|---|
| Balance at January 1, 2014 | $ 1,680 |
| Fair value of future consideration for acquisitions | 392 |
| Settlement of final contingent consideration for SBC Systems Company | (552) |
| First instalment contingent consideration for Dion Durrell Workers' Compensation | (320) |
| Accretion on future consideration related to acquisitions | 159 |
| Foreign exchange on future consideration related to acquisitions | 22 |
| Re-measurement of future consideration related to acquisitions | (184) |
| | $ 1,197 |

Financial instruments carried at amortized cost:

The carrying value of trade and other receivables, trade and other payables, insurance premium liabilities, and dividends payable, which are financial instruments carried at amortized cost, approximate their fair values because of their short-term nature.

The promissory notes are financial instruments carried at amortized cost whose carrying value approximates their fair value. The fair value is determined based on the market rate of interest that would be charged on similar promissory notes issued by a company with a similar risk profile (Level 2).

The convertible debenture payable and long-term debt are financial instruments carried at amortized cost whose carrying values do not equal their fair market values. The convertible debenture payable has a carrying value of $72,677 (December 31, 2013 - $72,021) and a fair value of $83,734 (December 31, 2013 - $81,930). The fair value is determined using quoted market values (Level 1) for the convertible debentures at the end of the period. The long-term debt has a carrying value of $227,913 (December 31, 2013 - $175,647) and a fair value of $228,741 (December 31, 2013 - $176,720). The fair value is determined based on the current cost of borrowing for a company with a similar risk profile (Level 2).