Unaudited Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

MORNEAU SHEPELL INC.

Three and six months ended June 30, 2014 and 2013
(Unaudited)

MORNEAU SHEPELL INC.

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

	June 30, 2014	December 31, 2013
Assets		
Current assets:		
Trade and other receivables	$ 80,800	$ 67,194
Unbilled fees	68,948	57,185
Prepaid expenses and other	7,120	3,761
Cash and investments held in trust	13,333	16,016
Deferred implementation costs	4,969	4,134
Total current assets	175,170	148,290
Unbilled fees	669	1,251
Deferred implementation costs	10,406	10,693
Capital assets	30,834	22,858
Intangible assets	242,668	221,957
Goodwill	309,836	295,067
Total assets	$ 769,583	$ 700,116
Liabilities and Equity		
Current liabilities:		
Bank indebtedness (note 5)	$ 6,299	$ 5,195
Trade and other payables	49,936	50,194
Income taxes payable	1,803	3,675
Deferred revenue	5,479	2,126
Insurance premium liabilities	13,333	16,016
Future consideration related to acquisitions (notes 4 and 10)	243	821
Promissory notes (note 4)	2,425	–
Dividends payable	3,116	3,116
Interest rate swap (note 5)	959	–
Total current liabilities	83,593	81,143
Long-term debt (note 5)	228,007	175,647
Convertible debenture payable	72,445	72,021
Interest rate swap (note 5)	1,157	1,789
Future consideration related to acquisitions (notes 4 and 10)	953	859
Promissory notes (note 4)	2,314	–
Other liabilities	14,345	9,899
Provisions	3,318	3,326
Deferred tax liability	36,354	30,185
Total liabilities	442,486	374,869
Equity:		
Share capital	474,367	474,088
Contributed surplus	18,495	16,514
Equity component of convertible debenture	757	757
Accumulated other comprehensive loss	(2,133)	(1,839)
Deficit	(164,389)	(164,273)
Total liabilities and equity	$ 769,583	$ 700,116

Contingencies (note 10)

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 six months ended June 30, 2014 and 2013

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Operating revenue	$ 140,877	$ 118,328	$ 271,968	$ 234,058
Operating expenses:				
Salary, benefits and contractor	94,478	78,592	183,376	156,997
Office and administration	14,934	12,915	28,838	24,686
Rent and occupancy	6,439	5,409	12,281	10,775
Depreciation and amortization	7,309	6,888	14,203	13,495
Total operating expenses	123,160	103,804	238,698	205,953
Finance costs (note 5)	3,723	3,455	7,107	6,885
Profit from operations before income taxes	13,994	11,069	26,163	21,220
Income tax expense (recovery):				
Current	4,118	1,684	7,371	5,177
Deferred	(229)	1,550	203	1,257
Total income taxes	3,889	3,234	7,574	6,434
Profit for the period	10,105	7,835	18,589	14,786
Other comprehensive income (loss):				
Items that may be reclassified subsequently to net income:				
Effective portion of change in interest rate cash flow hedges	(23)	672	(327)	952
Foreign currency translation differences for foreign operations	(327)	238	80	391
Income taxes on the above items	5	(175)	88	(249)
	(345)	735	(159)	1,094
Items that will not be reclassified to net income:				
Actuarial gain (loss) on post-employment benefit plans	(42)	193	(187)	477
Income taxes on the above item	13	(52)	52	(126)
	(29)	141	(135)	351
Other comprehensive income (loss), net of tax effect	(374)	876	(294)	1,445
Comprehensive income for the period	$ 9,731	$ 8,711	$ 18,295	$ 16,231
Earnings per share (note 7):				
Basic	$ 0.21	$ 0.16	$ 0.38	$ 0.30
Diluted	$ 0.20	$ 0.16	$ 0.37	$ 0.30

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 six months ended June 30, 2014 and 2013

Six months ended June 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	–	2,226	–	–	–	2,226
Long-term incentive plan – Shares issued upon redemption	245	(245)	–	–	–	–
Shares issued upon conversion of convertible debentures	34	–	–	–	–	34
Profit for the period	–	–	18,589	–	–	18,589
Dividends	–	–	(18,705)	–	–	(18,705)
Other comprehensive income	–	–	–	(294)	–	(294)
Balance, June 30, 2014	$ 474,367	$ 18,495	$ (164,389)	$ (2,133)	$ 757	$ 327,097

Six months ended June 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
Long-term incentive plan	–	1,852	–	–	–	1,852
Profit for the period	–	–	14,786	–	–	14,786
Dividends	–	–	(18,697)	–	–	(18,697)
Other comprehensive income	–	–	–	1,445	–	1,445
Balance, June 30, 2013	$ 473,838	$ 14,526	$ (141,233)	$ (1,884)	$ 757	$ 346,004

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 six months ended June 30, 2014 and 2013

	Six months ended June 30, 2014	Six months ended June 30, 2013
Operating activities:		
Profit for the period	$ 18,589	$ 14,786
Items not involving cash:		
Depreciation and amortization	14,203	13,495
Finance costs (note 5)	7,107	6,885
Long-term incentive plan	2,190	1,663
Income taxes	7,574	6,434
Change in other liabilities	4,076	(96)
Other	(5)	(97)
	53,734	43,070
Change in non-cash operating working capital (note 9)	(27,453)	(25,496)
Cash generated from operating activities	26,281	17,574
Finance costs paid	(6,318)	(6,095)
Income taxes paid	(9,063)	(6,154)
Cash provided by operating activities	10,900	5,325
Financing activities:		
Change in revolving loan (net)	52,222	20,199
Dividends paid	(18,705)	(18,697)
Cash provided by financing activities	33,517	1,502
Investing activities:		
Business acquisitions (note 4)	(28,492)	(500)
Additions to intangible assets	(5,527)	(4,452)
Additions to capital assets	(11,502)	(4,888)
Cash used in investing activities	(45,521)	(9,840)
Decrease in cash for the period	(1,104)	(3,013)
Bank indebtedness, beginning of period	(5,195)	(134)
Bank indebtedness, end of period	$ (6,299)	$ (3,147)

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 August 7, 2014.

2. Basis of preparation:

These unaudited condensed consolidated interim financial statements for the three and six months ended June 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 $558 in cash consideration for working capital adjustments which was settled in the second 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. The allocation of the $32,222 fair value purchase consideration is preliminary pending the finalization of adjustments for income taxes receivable acquired and the finalization of the valuation of intangible assets acquired and is as follows:

Cash	$ 107
Trade and other receivables	1,518
Prepaid expenses and other	65
Income taxes receivable	362
Capital assets	671
Intangible assets	24,612
Goodwill	14,766
Trade and other payables	(1,254)
Deferred revenue	(2,287)
Deferred tax liability	(6,338)
	$ 32,222

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 Services sub-service line within the Organizational Health Solutions line of business.

During the measurement period, any excess of the purchase price over the net assets acquired will result in an addition to goodwill.

(In thousands of Canadian dollars)

From the date of acquisition up to and including June 30, 2014, Groupe AST has contributed revenues of $8,620 and profit of $2,778. Had this acquisition occurred on January 1, 2014, the Company estimates that the consolidated revenues and consolidated profit of the Company would have been higher by $3,505 and $532, respectively. 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) Pacific Risk Management Corp.:

On March 31, 2014, the Company completed the acquisition of Pacific Risk Management Corp. ("PRM"), a workers' compensation provider in British Columbia. This acquisition further solidifies the Company's position as a leading provider of workers' compensation services and Absence Management within the Organizational Health Solutions line of business.

The consideration for this acquisition included an initial payment of $450 that was settled on closing, an additional $39 of cash consideration which was settled in April 2014, and $100 in future cash consideration due within 60 days of March 31, 2015 which is dependent on achieving certain revenue targets. The future cash consideration of $100 has been recognized as an acquisition liability on the statement of financial position as at June 30, 2014.

This acquisition has been accounted for using the acquisition method of accounting. The allocation of the $589 purchase consideration is preliminary pending the finalization of the valuation of the net assets acquired, and is as follows:

Trade and other receivables	$	79
Intangible assets		510
	$	589

During the measurement period, any excess of the purchase price over the net assets acquired will result in an addition to goodwill.

5. Long- term debt:

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

		June 30, 2014		December 31, 2013
Revolving loans	$	228,950	$	176,720
Less: debt issuance costs, net of accumulated amortization		943		1,073
	$	228,007	$	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 June 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%.

- $7,000 of prime loans under the revolving loan. The prime loans bear interest at the prime rate plus an applicable margin of 0.875%.

- $5,450 (U.S. $5,100) 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%.

- $5,696 of the swing line available. The swing line carries interest at prime plus an applicable margin of 0.875%.

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

(In thousands of Canadian dollars)

(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 June 30, 2014 was a liability of $959 (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 June 30, 2014 was a liability of $1,157.

(b) Finance costs:

The Company's finance costs comprise the following:

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Interest on term loan, revolving loan, bank indebtedness and other charges	$ 2,223	$ 1,941	$ 4,154	$ 3,889
Interest on convertible debenture	1,129	1,129	2,246	2,246
Amortization of debt issuance costs	244	290	488	579
Other	127	95	219	171
	$ 3,723	$ 3,455	$ 7,107	$ 6,885

6. Dividends:

The monthly dividend rate, approved by the Board of Directors, was $0.065 for the three and six months ended June 30, 2014 (2013 - $0.065). Dividends declared for the three and six months ended June 30, 2014 were $9,352 and $18,705, respectively. The Company continued to declare the same monthly dividend amount in July 2014.

(In thousands of Canadian dollars)

7. 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 six months ended June 30, 2014 and 2013:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Profit attributable to common shares (basic and diluted)	$ 10,105	$ 7,835	$ 18,589	$ 14,786
Weighted average number of common shares:				
January 1	47,962,793	47,940,409	47,962,793	47,940,409
Vested LTIP awards	1,231,520	899,161	1,069,002	735,948
Shares issued on redemption of LTIP[1]	4,460	–	2,242	–
Shares issued upon conversion of convertible debentures[1]	791	–	398	–
Basic	49,199,564	48,839,570	49,034,435	48,676,357
Dilutive effect of unvested LTIP awards	503,174	373,381	578,566	489,239
Diluted	49,702,738	49,212,951	49,613,001	49,165,596
Earnings per share:				
Basic	$ 0.21	$ 0.16	$ 0.38	$ 0.30
Diluted	$ 0.20	$ 0.16	$ 0.37	$ 0.30

[1] During the three and six months ended June 30, 2014, 23,873 shares (2013- nil 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.

(In thousands of Canadian dollars)

8. 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 June 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:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Revenue:				
Canada	$ 129,615	$ 109,540	$ 250,675	$ 218,530
United States	11,262	8,788	21,293	15,528
Consolidated total	$ 140,877	$ 118,328	$ 271,968	$ 234,058

	June 30, 2014	December 31, 2013
Total assets:		
Canada	$ 744,261	$ 680,360
United States	25,322	19,756
Consolidated total	$ 769,583	$ 700,116

(In thousands of Canadian dollars)

9. Supplementary cash flow information:

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

	2014	2013
Trade and other receivables	$ (12,009)	$ (5,758)
Unbilled fees, current and non-current	(11,181)	(8,084)
Prepaid expenses and other	(3,294)	(3,602)
Deferred implementation costs, current and non-current	(548)	(993)
Trade and other payables	(1,487)	(7,740)
Deferred revenue	1,066	681
	$ (27,453)	$ (25,496)

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).

10. 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		
	June 30, 2014	Dec. 31, 2013	Level
Assets carried at fair value:			
Cash and investments held in trust	$ 13,333	$ 16,016	2
	$ 13,333	$ 16,016	
Liabilities carried at fair value:			
Interest rate swaps	$ 2,116	$ 1,789	2
Bank indebtedness	6,299	5,195	2
Future consideration related to acquisitions	1,196	1,680	3
	$ 9,611	$ 8,664	

(In thousands of Canadian dollars)

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 six months ended June 30, 2014, there were no transfers between any levels.

The interest rate swaps are financial instruments carried at fair value. The liability is measured at fair value through other comprehensive income. As at June 30, 2014, the liability was $2,116 (December 31, 2013 - $1,789).

The future consideration related to acquisitions is a financial instrument carried at fair value. The liability is measured at fair value through profit or loss. As at June 30, 2014, the liability was $1,196 (December 31, 2013- $1,680). Contingent consideration arose on the acquisitions of Dion Durrell Workers' Compensation and PRM.

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.

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:

	June 30, 2014	December 31, 2013
SBC Systems Company	$ –	$ 532
Dion Durrell Workers' Compensation	2,146	2,146
PRM	100	–
	$ 2,246	$ 2,678

(In thousands of Canadian dollars)

The estimated payment is calculated considering different scenarios of projected revenue and the amount to be paid under each scenario, weighted by the probability of each scenario. The key unobservable inputs include anticipated revenue and the discount rate. The estimated fair value increases the higher the annual revenue and the lower the discount rate, with estimated payments being limited to a contractual maximum for each of the Dion Durrell Workers' Compensation and PRM 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 six months ended June 30, 2014:

		Future consideration related to acquisitions
Balance at January 1, 2014	$	1,680
Fair value of future consideration for PRM		100
Settlement of final contingent consideration for SBC Systems Company		(552)
Accretion on future consideration related to acquisitions		131
Foreign exchange on future consideration related to acquisitions		21
Re-measurement of future consideration related to acquisitions		(184)
	$	1,196

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 $72,445 (December 31, 2013 - $72,021) and a fair value of $87,477 (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 $228,007 (December 31, 2013 - $175,647) and a fair value of $228,950 (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).