Consolidated Financial Statements
(In Canadian dollars)

MORNEAU SHEPELL INC.

Years ended December 31, 2013 and 2012

KPMG LLP
Chartered Accountants
Bay Adelaide Centre
333 Bay Street Suite 4600
Toronto ON M5H 2S5
Canada

Telephone (416) 777-8500
Fax (416) 777-8818
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Morneau Shepell Inc.

We have audited the accompanying consolidated financial statements of Morneau Shepell Inc., which comprise the consolidated statements of financial position as at December 31, 2013 and 2012 and January 1, 2012, the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years ended December 31, 2013 and 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Morneau Shepell Inc. as at December 31, 2013 and 2012 and January 1, 2012, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2013 and 2012 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

March 5, 2014
Toronto, Canada

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

MORNEAU SHEPELL INC.

Consolidated Statements of Financial Position
(In thousands of Canadian dollars)
December 31, 2013, December 31, 2012 and January 1, 2012

	December 31, 2013	December 31, 2012 (note 3)	January 1, 2012 (note 3)
Assets			
Current assets:			
Trade and other receivables (note 5)	$ 67,194	$ 55,576	$ 50,779
Unbilled fees (note 6)	57,185	44,812	34,862
Prepaid expenses and other (note 7)	3,761	2,532	3,105
Cash and investments held in trust	16,016	14,174	12,248
Deferred implementation costs (note 8)	4,134	2,668	2,121
Total current assets	148,290	119,762	103,115
Non-current assets:			
Unbilled fees (note 6)	1,251	1,649	1,505
Deferred implementation costs (note 8)	10,693	10,360	7,000
Capital assets (note 9)	22,858	21,273	23,961
Intangible assets (note 10)	221,957	228,325	230,716
Goodwill (note 11)	295,067	304,988	301,792
Total non-current assets	551,826	566,595	564,974
Total assets	$ 700,116	$ 686,357	$ 668,089

MORNEAU SHEPELL INC.

Consolidated Statements of Financial Position
(In thousands of Canadian dollars)
December 31, 2013, December 31, 2012 and January 1, 2012

	December 31, 2013	December 31, 2012 (note 3)	January 1, 2012 (note 3)
Liabilities and Equity			
Current liabilities:			
Bank indebtedness (note 15)	$ 5,195	$ 134	$ 807
Trade and other payables (note 12)	50,194	47,181	47,092
Income taxes payable	3,675	3,949	213
Deferred revenue	2,126	2,786	2,250
Insurance premium liabilities	16,016	14,174	12,248
Future consideration related to acquisitions (note 28)	821	2,858	500
Dividends payable	3,116	3,116	3,116
Total current liabilities	81,143	74,198	66,226
Non-current liabilities:			
Long-term debt (note 15)	175,647	153,073	207,121
Convertible debenture payable (note 16)	72,021	71,104	–
Interest rate swap (note 15)	1,789	3,101	5,389
Future consideration related to acquisitions (note 28)	859	451	1,653
Other liabilities (note 13)	9,899	8,526	8,307
Provisions (note 14)	3,326	1,419	1,887
Deferred tax liability (note 18)	30,185	27,867	20,391
Total non-current liabilities	293,726	265,541	244,748
Equity:			
Share capital (note 21)	474,088	473,838	473,838
Contributed surplus (note 21)	16,514	12,674	8,721
Equity component of convertible debenture (note 16)	757	757	–
Accumulated other comprehensive loss (note 21)	(1,839)	(3,329)	(5,116)
Deficit	(164,273)	(137,322)	(120,328)
Total equity	325,247	346,618	357,115
Total liabilities and equity	$ 700,116	$ 686,357	$ 668,089

Commitments, contingencies and subsequent event (notes 4, 27, 28 and 30)
See accompanying notes to the consolidated financial statements.

On behalf of the Board:

"Robert Chisholm"
Audit Committee Chair

"Alan Torrie"
President & CEO

MORNEAU SHEPELL INC.

Consolidated Statements of Income and Comprehensive Income
(In thousands of Canadian dollars, except per share amounts)
Years ended December 31, 2013 and 2012

	2013	2012 (note 3)
Operating revenue	$ 471,154	$ 419,346
Operating expenses:		
Salary, benefits and contractor (note 26)	320,525	287,485
Depreciation, amortization and impairment losses (notes 9, 10 and 11)	44,385	24,689
Rent and occupancy	23,786	18,747
Office and administration	50,560	46,010
Total operating expenses	439,256	376,931
Finance costs (note 15)	14,098	14,036
Bargain purchase gain on business acquisition (note 4)	–	(3,500)
Profit from operations before income taxes	17,800	31,879
Income taxes (note 18):		
Current	5,548	4,516
Deferred	1,807	6,329
Total income taxes	7,355	10,845
Profit for the year	10,445	21,034
Other comprehensive income (loss):		
Items that may be reclassified subsequently to profit:		
Effective portion of change in interest rate cash flow hedge	1,312	2,288
Transfer to profit due to termination of interest rate cash flow hedges	–	667
Foreign currency translation differences for foreign operations	587	(169)
Income taxes on the above items	(345)	(761)
	1,554	2,025
Items that will not be reclassified to profit:		
Actuarial loss on post-employment benefit plans	(88)	(324)
Income taxes on the above item	24	86
	(64)	(238)
Other comprehensive income, net of tax effect	1,490	1,787
Comprehensive income for the year	$ 11,935	$ 22,821
Earnings per share (note 22):		
Basic	$ 0.21	$ 0.43
Diluted	$ 0.21	$ 0.43

See accompanying notes to the consolidated financial statements.

MORNEAU SHEPELL INC.

Consolidated Statements of Changes in Equity
(In thousands of Canadian dollars)
Years ended December 31, 2013 and 2012

2013	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive loss	Equity component of convertible debenture	Total equity
Balance, January 1, 2013, as previously reported	$ 473,838	$ 12,674	$ (137,322)	$ (2,623)	$ 757	$ 347,324
IAS 19 opening adjustment (note 3)	–	–	–	(706)	–	(706)
Balance, January 1, 2013, restated	$ 473,838	$ 12,674	$ (137,322)	$ (3,329)	$ 757	$ 346,618
Long-term incentive plan	–	4,090	–	–	–	4,090
Long-term incentive plan – shares issued on redemption	250	(250)	–	–	–	–
Profit for the year	–	–	10,445	–	–	10,445
Dividends	–	–	(37,396)	–	–	(37,396)
Other comprehensive income (note 21)	–	–	–	1,490	–	1,490
Balance, December 31, 2013	$ 474,088	$ 16,514	$ (164,273)	$ (1,839)	$ 757	$ 325,247

2012	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive loss	Equity component of convertible debenture	Total equity
Balance, January 1, 2012, as previously reported	$ 473,838	$ 8,721	$ (120,328)	$ (4,648)	$ –	$ 357,583
IAS 19 opening adjustment (note 3)	–	–	–	(468)	–	(468)
Balance, January 1, 2012, restated	$ 473,838	$ 8,721	$ (120,328)	$ (5,116)	$ –	$ 357,115
Long-term incentive plan	–	3,319	–	–	–	3,319
Long-term incentive plan - DRIP	–	634	(634)	–	–	–
Profit for the year	–	–	21,034	–	–	21,034
Dividends	–	–	(37,394)	–	–	(37,394)
Other comprehensive income (notes 3 and 21)	–	–	–	1,787	–	1,787
Equity component of convertible debenture	–	–	–	–	757	757
Balance, December 31, 2012	$ 473,838	$ 12,674	$ (137,322)	$ (3,329)	$ 757	$ 346,618

See accompanying notes to the consolidated financial statements.

MORNEAU SHEPELL INC.

Consolidated Statements of Cash Flows
(In thousands of Canadian dollars)
Years ended December 31, 2013 and 2012

	2013	2012
Operating activities:		
Profit for the year	$ 10,445	$ 21,034
Items not involving cash:		
Depreciation, amortization and impairment losses (notes 9, 10 and 11)	44,385	24,689
Finance costs (note 15)	14,098	14,036
Long-term incentive plan (note 20)	3,653	3,319
Income taxes (note 18)	7,355	10,845
Change in provisions	1,907	(468)
Bargain purchase gain on business acquisition (note 4)	–	(3,500)
Other	(199)	(11)
	81,644	69,944
Change in non-cash operating working capital (note 24)	(23,920)	(21,554)
Cash generated from operating activities	57,724	48,390
Finance costs paid	(12,441)	(10,822)
Income taxes paid	(5,805)	(779)
Cash provided by operating activities	39,478	36,789
Financing activities:		
Credit facility agreement amendment fees (note 15)	(609)	–
Change in revolving loan (net)	22,740	(54,515)
Proceeds from convertible debentures offering (note 16)	–	75,000
Expenses related to the issuance of convertible debentures (note 16)	–	(3,568)
Dividends paid	(37,396)	(37,394)
Cash used in financing activities	(15,265)	(20,477)
Investing activities:		
Business acquisitions (note 4)	(7,495)	(1,167)
Additions to intangible assets	(12,125)	(10,125)
Additions to capital assets	(9,654)	(4,347)
Cash used in investing activities	(29,274)	(15,639)
Increase/ (decrease) in cash for the year	(5,061)	673
Bank indebtedness, beginning of year	(134)	(807)
Bank indebtedness, end of year	$ (5,195)	$ (134)

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

These consolidated financial statements were approved by the Company's Board of Directors on March 5, 2014.

2. Basis of preparation:

(a) Statement of compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

(b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the consolidated statements of financial positions:

(i) interest rate swap is measured at fair value;

(ii) future consideration related to acquisitions is measured at fair value; and

(iii) net pension benefit liability measured in accordance with employee benefit policy

(c) Functional currency:

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency. Unless otherwise noted, all financial information presented has been rounded to the nearest thousand.

(d) Use of estimates and judgments:

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting year.

Estimated values of the reported amounts of assets and liabilities on the consolidated financial statements usually depend upon estimates of the profitability of the related business which, in turn, depend upon assumptions regarding future conditions in the general or specific industry, including the effects of economic cycles, and other factors that affect the operating revenue. These assumptions are limited by the availability of reliable comparable data, economic uncertainty and the uncertainty of predictions concerning future events. Accordingly, by their nature, estimates of fair value are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the estimated value could change by a material amount, and actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed by management on an ongoing basis, and revisions to accounting estimates are recognized in the period giving rise to the change.

Information about the most significant estimates and judgments that the Company is required to make is included in the following notes:

(i) Revenue recognition (outsourcing contracts) (note 3(c)):

Where a singular outsourcing contract requires the delivery of multiple components, the Company is required to assess the criteria for the recognition of revenue related to each component. These assessments require judgment by management to determine whether separately identifiable components exist, and where applicable, the appropriate fair value allocations to each. Amongst other factors, management considers whether implementation services are sold separately in the normal course of business, have stand-alone value to the customer, and look to budgeted salary costs associated with each phase of the service contract to derive fair value estimates.

Additional discussion on the Company's revenue recognition policies can be found in note 3(c). Changes in management's estimates could affect the timing of recognizing the revenues and expenses associated with these contracts.

(ii) Unbilled fees (note 6):

The Company is required to assess the recoverability of fees on services provided but not yet billed. This assessment requires judgment by management to determine whether fees will be less than fully recoverable through invoicing. Amongst other factors, management considers the solvency of the client, the age of the outstanding unbilled fees balance and historic client experience. If future billings differ from estimates, future profits could be materially affected.

(iii) Intangible assets (note 10):

(a) Internally-developed software:

The Company is required to estimate the expected period of benefit over which costs should be amortized. Management considers the anticipated rate and timing of technological obsolescence and competitive pressures, historical usage patterns, and internal business plans for the projected use of the software in deriving its useful life. Due to the rapidly changing technological environment and the uncertainty of the development processes themselves, future results could be affected if management's current assessment of future benefits materially differs from actual performance.

(b) Other intangible assets:

Other intangible assets consist of those acquired through business acquisitions. Purchase price allocations involve significant estimates and assumptions regarding cash flow projections, growth projections, economic risk, and weighted cost of capital. If future events or results differ adversely from these estimates and assumptions, the Company could incur increased amortization or impairment charges in future periods.

(iv) Goodwill (note 11):

Goodwill impairment review involves significant estimates and assumptions regarding cash flow projections, growth projections, economic risk, and weighted cost of capital. If future events or results differ adversely from these estimates and assumptions, the Company could incur impairment charges in future periods. Additional discussion on impairment of long-lived assets can be found in note 10.

(v) Trade receivables (allowance for doubtful accounts) (note 5):

The Company is required to assess whether accounts receivables are collectible from customers. Accordingly, management establishes an allowance for estimated losses arising from non-payment and delinquent accounts, current economic trends, and past experience. If future collections differ from estimates, future profits could be adversely affected.

(vi) Deferred income tax assets and liabilities (utilization of tax losses) (note 18):

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

(vii) Provisions (note 14):

In identifying required provisions, the Company has to assess the probability of the future outflows of resources. Estimates must subsequently be made by management to approximate the timing and amount of these liabilities. If future events or results differ adversely from these estimates, future profits could be adversely affected.

(viii) Future consideration related to acquisitions (note 28):

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

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation:

(i) Business combinations:

Acquisitions of businesses are accounted for using the acquisition method. The acquisition cost is measured at the acquisition date at the fair value of the consideration transferred, including all contingent consideration. Subsequent changes in contingent consideration are accounted for through the statement of income and comprehensive income in accordance with the applicable standards.

Goodwill arising on acquisition is initially measured at cost, being the difference between the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree and the net recognized amount (generally fair value) of the identifiable assets and liabilities assumed at the acquisition date. If the net of the amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

For each business combination with ownership interest below 100%, non-controlling interests are measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. This determination is made on an acquisition by acquisition basis.

Acquisition-related costs, other than those that are associated with the issue of debt or equity securities that the Company incurs in connection with a business combination are expensed as incurred.

(ii) Subsidiaries:

These consolidated financial statements include the assets, liabilities, revenue and expenses of all the Company's subsidiaries. Subsidiaries are entities that the Company controls either when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date control is transferred to the Company, and de-consolidated from the date control ceases.

These consolidated financial statements include the assets, liabilities, revenue and expenses of all the Company's subsidiaries including the following operating entities:

	% Ownership
Morneau Shepell Ltd.	100.0
Morneau Shepell Limited	100.0
Morneau Shepell SBC Limited	100.0
Morneau Sobeco IT Solutions Inc.	100.0
FGI World New Caledonia	70.0
1137273 Ontario Limited	100.0
Morneau Shepell Asset & Risk Management Ltd.	100.0
Collage Pediatric Therapy Centre Inc.	100.0
Innu-Med Inc.	48.0

Although the Company holds a 48.0% equity interest in Innu-Med Inc., the Company consolidates Innu-Med Inc. as it has the ability to affect returns from this entity through its power over it.

All intercompany transactions and balances between subsidiaries have been eliminated upon consolidation.

(b) Foreign currency translation:

Transactions denominated in currencies other than the functional currency are recorded at the exchange rates prevailing at the date of the transaction. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing as at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Assets and liabilities of subsidiaries with functional currencies other than the Canadian dollar are translated at period-end rates of exchange, and operating results are translated at average rates of exchange for the period. The resulting translation adjustments are included in accumulated other comprehensive income in shareholders' equity.

(c) Revenue recognition and unbilled fees:

Revenues include fees generated from outsourcing, consulting services, Employee Support Solutions ("ESS"), and organizational health solutions contracts.

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

(i) the amount of revenue can be reliably measured;

(ii) the stage of completion can be reliably measured;

(iii) the receipt of economic benefits is probable; and

(iv) costs incurred and to be incurred can be reliably measured.

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

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

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

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

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

(i) the delivered item has value to the customer on a stand-alone basis; and

(ii) the fair value of the undelivered item can be reliably measured.

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

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

Other sources of operating revenue include the following:

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

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

(d) Deferred implementation costs and deferred outsourcing revenues:

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

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

(e) Cash and bank indebtedness:

Cash is comprised of bank balances and banker's deposit notes with an original maturity of three months or less, and are primarily held in Canadian and U.S. dollars. Where the cash is in a net overdraft position, it has been presented as bank indebtedness.

(f) Trade and other receivables:

Trade receivables are fees due from customers from the rendering of services in the ordinary course of business. Trade receivables are classified as current if payment is due within one year of the reporting period date, and are initially recognized at fair value and subsequently measured at amortized cost.

The Company maintains an allowance for doubtful accounts to provide for impairment of trade receivables. An impairment loss is recognized when there is evidence that the Company will not be able to collect the amount due under the original terms of the invoice. Expenses related to doubtful accounts are reported as office and administration expenses.

Other receivables are those amounts incidental to the Company's normal business operations and are classified as current when they are expected to be settled within one year of the reporting period date. Other receivables are initially recognized at fair value, and are subsequently measured at amortized cost, less impairment.

(g) Capital assets:

Capital assets are recognized at initial cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset, including those attributable to bringing the asset to its intended working condition. Where significant parts of a capital asset have different useful lives, they are accounted for and depreciated as separate components. Software, to the extent that it is integral to the operation of the related computer equipment, has been included as part of the cost of computer equipment.

Gains and losses on disposals of a capital asset item are determined by comparing the proceeds from disposal with its carrying amount, and is recognized as a gain (loss) on disposal in the consolidated statement of income and comprehensive income.

Depreciation is calculated over the depreciable amount, which is the cost of the asset less its residual value. Depreciation is recognized on a straight-line basis, over the assets' estimated useful lives, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives of the Company's capital assets are as follows:

Computer hardware	3 - 5 years
Furniture and fixtures	5 years
Leasehold improvements	Over the term of the lease

Residual values, useful lives, and depreciation methods are reviewed at the end of each reporting period and adjusted prospectively as required.

(h) Intangible assets:

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

Internally-developed software is recognized at the aggregate cost of all eligible development costs, when all the following criteria are met:

(i) it is technically feasible to complete the software so that it will be available for use;

(ii) management intends to complete the software and use or sell it;

(iii) the Company is able to use or sell the software;

(iv) future benefits associated with the software can be demonstrated;

(v) adequate technical, financial, and other resources to complete the development and to use or sell the software are available; and

(vi) the expenditures attributable to the software during its development can be reliably measured.

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

Purchased software is recognized at initial cost.

Other intangible assets acquired as part of business acquisitions are measured initially at fair value.

Intangible assets with a finite life are amortized on a straight-line basis over their estimated useful lives. Amortization is recognized over the assets' estimated useful lives as follows:

Customer relationships	15 - 20 years
Customer contracts	1 - 2 years
Proprietary software	5 - 10 years
Clawback agreements	10 years
Trade names	Indefinite
Internally-developed software	3 -10 years
Purchased software	3 years

Intangible assets with an indefinite life are not amortized, but are subject to impairment tests annually or whenever impairment indicators are identified. Trade names have been determined to have an indefinite life based on their strength, history, and expected future use.

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

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

(i) Goodwill:

Goodwill represents the excess of the cost of the Company's business acquisitions over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is carried at cost less accumulated impairment charges, and is not amortized but is subject to an impairment test annually or whenever impairment indicators are identified.

(j) Impairment of non-financial assets:

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

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

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

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

(k) Provisions:

Provisions are recognized when the Company has a present obligation to a third-party and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The obligation may be legal, regulatory or contractual or it may represent a constructive obligation deriving from the Company's actions where, by an established pattern of past practice or published policies, the Company creates a valid expectation on the part of other parties that the Company will discharge certain responsibilities.

(l) Deferred revenue:

Deferred revenue represents the excess of retainer amounts billed over costs incurred and revenue earned on service contracts. The amount is amortized in profit or loss as services are rendered, in accordance with the revenue recognition policies described above.

(m) Convertible debentures:

Compound financial instruments issued by the Company comprise convertible debentures that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest rate method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest, losses and gains relating to the financial liability are recognized in profit or loss.

(n) Share capital:

Common shares are classified as an equity instrument. Incremental costs directly attributable to the issuance of common shares are recognized as a reduction of equity, net of the related tax effect.

(o) Insurance premium liabilities and related cash and investments:

In its capacity as consultants, the Company collects premiums from insurers and remits premiums, net of agreed deductions, such as taxes, administrative fees and commissions, to insurance underwriters. The cash and investment balances and the related liabilities have been presented separately in the Company's consolidated statements of financial position.

(p) Employee benefits:

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

The Company also offers a pension benefit plan for its eligible employees, which includes a defined benefit option and a defined contribution option.

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The Company matches member contributions and is required to make additional contributions at the option of the member, up to the limits defined in the plan text. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company accrues its obligations under the defined benefit option of the plan as the employees render the services necessary to earn the pension.

(i) Defined benefit plan:

The liability recognized in the consolidated statements of financial position in respect of the defined benefit option is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated using the projected benefit method pro-rated on service. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension obligation. Past service costs are recognized immediately in profit or loss. Interest is recognized on the net defined benefit liability using market yields on high quality bonds.

The defined benefit option was closed effective January 1, 1998 and included 57 members as at December 31, 2013, comprising of active employees, retirees, and deferred vested members. All other employees are covered by the defined contribution option of the plan.

(ii) Defined contribution plan:

Under the defined contribution option, each member is required to contribute a percentage of earnings. The Company matches this required contribution. Each member may elect to make an optional contribution in addition to the required contribution. The Company contributes 50% of the optional contributions.

For members who had completed at least 10 years of service on December 31, 2010, their contributions follow the grandfathered provisions. Each member is required to contribute a specific dollar amount based on the member's job level classification. Each member may elect to make an optional contribution up to 300% of the member's required contribution. The Company matches required contributions and contributes 75% of optional contributions for grandfathered members and 50% for all other members.

The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

(q) Share-based compensation plan:

The Company offers an equity-settled compensation plan under which it receives services from employees as consideration for equity instruments of the Company. Under the long-term incentive plan ("LTIP"), the Company may grant participants restricted share units ("RSUs"), retirement deferred share units ("Retirement DSUs"), or post-retirement deferred share units ("Post-Retirement DSUs"), collectively referred to as "LTIP Units".

Expense related to LTIP Units is measured based on the fair value of the awards at grant date. The expense is recognized as salary, benefit and contractor expense over the vesting period, which is the period over which all of the specified vesting conditions are satisfied. As LTIP Units vest, they are transferred or issued to the participant and are recorded as share capital. Holders of LTIP Units are entitled to additional LTIP Units as determined based on the fair market value of those LTIP Units on the date credited or cash bonuses equivalent to the dividends payable had those Units been common shares. LTIP Units credited under the dividend reinvestment policy ("DRIP") vest at the same rate as the LTIP Units to which they are determined. Cash bonuses are recorded as salary, benefit, and contractor expense as dividends are declared. Units issued under DRIP are accounted for as a credit to contributed surplus, with a corresponding charge to deficit.

At the end of each reporting period, the Company reassesses its estimates of the number of awards that are expected to vest and be forfeited, and recognizes the impact of any revisions into profit or loss.

(r) Income taxes:

Income tax expense comprises current and deferred taxes. Current taxes and deferred taxes are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current taxes are the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred taxes are not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

In determining the amount of current and deferred taxes, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Deferred taxes are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(s) Financial instruments:

Financial assets and liabilities are recognized initially at fair value, defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In certain circumstances, however, the initial fair value may be based on other observable current market transactions in the same instrument, without modification or on a valuation technique using market based inputs. Subsequent measurement of the Company's financial assets and liabilities is dependent on their classification as held for trading, loans and receivables, other financial liabilities or derivative instruments.

The Company initially recognizes loans and receivables on the date that they originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date or when the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the consolidated statements of financial position, when and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company assesses as at each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. When an impairment has occurred, the cumulative loss is recognized into profit or loss. The cumulative loss is measured as the difference between the trade date cost and the current fair value, less any impairment loss previously recognized in profit or loss.

(i) Non-derivative financial assets:

(a) Financial assets at fair value through profit and loss:

Financial assets at fair value through profit and loss are comprised of cash and investments held in trust. A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if it is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit-taking, or it is a derivative that is not accounted for as a hedging instrument. Upon initial recognition attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value at each reporting date, and any unrealized gains or losses from market fluctuations are recognized in profit or loss.

(b) Loans and receivables:

Loans and receivables comprise trade and other receivables. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less any impairment losses.

(ii) Non-derivative financial liabilities:

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they originated. All other financial liabilities are recognized initially on the trade date at which time the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities are derecognized when the contractual obligations are discharged, cancelled or expire.

Non-derivative financial liabilities of the Company include long-term debt, convertible debenture payable, bank indebtedness, trade and other payables and insurance premium liabilities.

(iii) Derivative financial instruments:

Derivative financial instruments are used by the Company in the management of its interest rate risk exposure on debt financing. Derivatives that have been designated and function effectively as hedges are accounted for using hedge accounting principles (see note 3(t) below).

(iv) Fair value of financial instruments:

Fair values of financial instruments are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in 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.

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement.

(t) Cash flow hedge - derivative instruments:

Derivative instruments are initially recognized at fair value on the date the contract is entered into and are subsequently re-measured to fair value at each reporting date. The Company holds derivative instruments for hedging purposes only, and does not enter into derivative contracts for speculative purposes.

The Company prepares formal documentation at the inception of the transaction to detail the relationship between derivative hedging instruments and hedged items, as well as its risk management objectives and strategy in partaking in the hedging transaction. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivative used in hedging transactions is highly effective in offsetting the changes in cash flows of the hedged items.

Non-performance risk, inclusive of the Company's credit risk, is considered in determining the fair value of the financial instruments.

The Company has designated its derivative instruments as cash flow hedges. Cash flow hedges are hedges against highly probable forecasted transactions. The effective portion of changes in the fair value of derivatives that are designated as a cash flow hedge is recognized as a component of other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately into profit or loss. Amounts accumulated in other comprehensive income are recycled into profit or loss in the period in which the hedged item will affect profit or loss. When a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss in other comprehensive income remains in other comprehensive income and is recognized when the original forecasted transaction is ultimately recognized into profit or loss. If a forecasted transaction is no longer expected to occur, the cumulative gain or loss in other comprehensive income is immediately recognized into profit or loss.

(u) Changes in accounting policies:

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

(i) IAS 1 Amendment, Presentation of Items of Other Comprehensive Income (“IAS 1”):

The Company has adopted the amendments to IAS 1 effective January 1, 2013. These amendments required the Company to group other comprehensive income items by those that may be reclassified subsequently to profit or loss and those that will not be reclassified. The Company has reclassified comprehensive income items of the comparative period. These changes did not result in any adjustments to other comprehensive income or comprehensive income.

(ii) IFRS 10, Consolidated Financial Statements (“IFRS 10”):

IFRS 10 replaces International Accounting Standard ("IAS") 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation - Special Purpose Entities. This new standard contains a single consolidation model that identifies control as the basis for consolidation for all types of entities, sets forth factors to consider in assessing control, and requires control to be assessed on a continuous basis. The Company has assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.

(iii) IAS 19, Employee Benefits ("IAS 19")

IAS 19, Employee Benefits (amended in 2011), amends certain accounting requirements for defined benefit plans.

IAS 19 (revised 2011) requires the net defined benefit liability (asset) to be recognized on the balance sheet without any deferral of actuarial gains and losses and past service costs as previously allowed. Past service costs are recognized in profit or loss when incurred. Expected returns on plan assets are no longer included in post-employment benefits' expense. Instead, post-employment benefits' expense includes market yields on high quality bonds on the net defined benefit liability. Re-measurements consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest component) and any change in the asset ceiling are recognized in other comprehensive income.

The Company adopted these amendments retrospectively and adjusted its opening equity as at January 1, 2012 to recognize previously unrecognized past service costs and adjustments to the asset ceiling for post-employment plans. The adjustments for each financial statement line item affected are presented in the tables below.

Adjustments to the consolidated statements of financial position as at January 1, 2012 and December 31, 2012

	Deferred tax liability	Other liabilities	Trade and other payables	Accumulated other comprehensive income
Balance at January 1, 2012 as previously reported	$ 20,560	$ 7,670	$ 47,092	$ (4,648)
Actuarial loss on post-employment benefit plans	(169)	637	–	(468)
Balance at January 1, 2012 after accounting change	$ 20,391	$ 8,307	$ 47,092	$ (5,116)

	Deferred tax liability	Other liabilities	Trade and other payables	Accumulated other comprehensive income
Balance at December 31, 2012 as previously reported	$ 28,122	$ 7,656	$ 47,090	$ (2,623)
Actuarial loss on post-employment benefit plans	(255)	870	91	(706)
Balance at December 31, 2012 after accounting change	$ 27,867	$ 8,526	$ 47,181	$ (3,329)

Adjustments to the consolidated statement of income and comprehensive income for the year ended December 31, 2012

	2012
Other comprehensive income, net of tax effect as previously reported	$ 2,025
Actuarial loss on post-employment benefit plans	(324)
Income tax on the above item	86
Other comprehensive income, net of tax effect after accounting change	$ 1,787

(iv) IFRS 13, Fair Value Measurement ("IFRS 13")

IFRS 13 provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

There was no impact on earnings per share or the statement of cash flows for the year ended December 31, 2012 as a result of the Company's adoption of these new and revised accounting standards. The total impact on other comprehensive income for the year ended December 31, 2012 as a result of the adoption of these new and revised accounting standards is $(238).

(v) Future accounting changes:

(i) IFRS 9, Financial Instruments ("IFRS 9")

IFRS 9 introduces new requirements for classifying and measuring financial assets and may affect the Company's accounting for its financial assets. Specifically, IFRS 9 requires financial assets to be classified into two measurement categories, those measured at fair value and those measured at amortized cost. There is no mandatory effective date for IFRS 9, although it may be adopted immediately. The Company has not early adopted IFRS 9 for the year ended December 31, 2013, and the extent of its impact has not been determined.

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

An amendment to IAS 39 makes 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. This amendment to IAS 39 is effective for fiscal years beginning on or after January 1, 2014. The Company does not expect this amendment to have a material impact on its consolidated financial statements.

(iii) 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 amendments are effective for fiscal years beginning on or after January 1, 2014. The Company does not expect this amendment to have a material impact on its consolidated financial statements.

4. Business acquisitions:

(a) Dion, Durrell + Associates Inc. workers' compensation practice:

On July 5, 2013, the Company completed the acquisition of Dion, Durrell + Associates Inc. workers' compensation practice ("Dion Durrell Workers' Compensation"). This acquisition complements the Company's existing Organizational Health Solutions line of business, and expands the Company's market presence.

The consideration for this acquisition included an initial payment of $3,754 that was settled on closing, and future payments of cash and LTIP units totaling $1,589 and $250, respectively, due within 45 days of June 30 over the next three years. The future payments of LTIP units will be settled in equal instalments of $83, and the future instalments to be settled in cash are dependent on achieving certain revenue targets. The Company expects to pay cash consideration of $333 in year one, $613 in year two, and $643 in year three, based on revenues for Dion Durrell that are projected to grow in the range of 3.0% to 5.0% over the next three years. At December 31, 2013, $1,156 has been recognized as an acquisition liability on the statement of financial position, representing the three future cash instalments discounted. Future payments of $250 to be settled through the issuance of LTIP units of the Company have been recognized in contributed surplus on the statement of financial position.

This acquisition has been accounted for using the acquisition method of accounting. The allocation of the $5,041 purchase consideration is final and is as follows:

Customer relationships	$ 4,587
Clawback agreements	155
Goodwill	668
Trade and other payables	(72)
Deferred tax liability	(297)
	$ 5,041

The goodwill acquired is attributable primarily to the Dion Durrell workforce, and the synergies expected to be achieved from integrating the workers' compensation practice into the Company's Organizational Health Solutions business. For the purpose of impairment testing, the goodwill amount has been included under the Organization Health Solutions CGU.

From the date of acquisition up to and including December 31, 2013, Dion Durrell Workers' Compensation has contributed revenues of $1,368 and profit of $456. Had this acquisition occurred on January 1, 2013, the Company estimates that the consolidated revenues and consolidated profit of the Company would have been higher by $1,422 and $474, respectively. In determining these amounts, the Company has assumed that the fair value adjustments that arose on the acquisition date of Dion Durrell Workers Compensation would have been the same had the acquisition occurred on January 1, 2013.

(b) Collage Pediatric Therapy Centre Inc.:

On August 30, 2013, the Company completed the acquisition of Collage Pediatric Therapy Centre Inc. ("Collage Pediatric Therapy") which specializes in providing multidisciplinary health services to children. This acquisition complements the Company's existing Children's Support Solutions portfolio, and will expand the Company's market presence. The consideration for this acquisition consisted of a cash payment of $948 that was settled on closing.

This acquisition has been accounted for using the purchase method of accounting. The final purchase price allocation is as follows:

Prepaid expenses and other	$	31
Capital assets and intangibles		311
Goodwill		632
Deferred tax asset		128
Trade and other payables		(154)
	$	948

The goodwill is attributable primarily to the workforce and the synergies expected to be achieved from the ability to expand the Company's existing ESS Children's Support Solutions portfolio services across Canada. For the purpose of impairment testing the goodwill amount has been included under the ESS CGU.

(c) Mercer Canada's pension and benefits outsourcing business:

On November 1, 2012, the Company completed the acquisition of Mercer Canada's pension and benefits outsourcing business ("Mercer Canada Outsourcing"). This acquisition complements the Company's existing Administrative Solutions service offering and expands the Company's market presence in Canada. Through this acquisition, the Company gained approximately 60 clients which represents an estimated $25 million in additional annual revenue to the Company.

The net assets of Mercer Canada Outsourcing were acquired for nil cash consideration. This acquisition has been accounted for using the acquisition method of accounting and is final. In the purchase price allocation presented below, the Company has calculated that the identifiable assets acquired and liabilities assumed exceed the consideration transferred by $3,500, resulting in the recognition of a bargain purchase gain in the consolidated statements of income and comprehensive income for the year ended December 31, 2012.

The transaction was a bargain purchase due to the net working capital payment received as part of the acquisition and to fund the investments required to continue to service the clients gained.

Cash	$ 3,513
Prepaid expenses and other	121
Capital assets	952
Intangible assets	286
Trade and other payables	(1,372)
Bargain purchase gain	(3,500)
	$ –

(d) SBC Systems Company Inc.:

On January 31, 2012, the Company completed the acquisition of SBC Systems Company Inc. ("SBC Systems Company"), a company specializing in providing employee benefits administration systems in the United States. This acquisition provides the Company with a suite of flexible administration products and a technology platform that will allow it to further build its Administrative Solutions business, broadening its distribution channel to reach more U.S. clients. The purchase price is contingent on future business results and is expected to approximate U.S. $6,000 payable in three instalments.

The first instalment of approximately $5,014 (U.S. $5,000) was satisfied on closing through cash consideration. The second instalment of approximately $501 (U.S. $500) was satisfied in March 2013. The third and final instalment estimated at U.S. $500, is subject to adjustments, dependent on achieving certain revenue targets, and will be settled in March 2014. The Company expects that the revenue targets will be achieved, therefore, the full amount of the future consideration has been recognized. At December 31, 2013, $524 (2012- $940) has been recognized as an acquisition liability on the statement of financial position, representing the (2012 – two) U.S. $500 final instalment discounted and translated to Canadian dollars.

This acquisition has been accounted for using the acquisition method of accounting. The final purchase price allocation is as follows:

Cash	$ 334
Trade and other receivables	180
Prepaid expenses and other	165
Capital assets	188
Intangible assets	3,316
Goodwill	2,442
Trade and other payables	(104)
Deferred revenue	(639)
	$ 5,882

The goodwill is attributable mainly to the workforce and the synergies expected to be achieved from the integration of SBC Systems Company as well as the ability to expand the Company's existing Administrative Solutions business in the US. For the purpose of impairment testing the additional goodwill amount has been included under the Administrative Solution CGU.

(e) Jacques Lamarre & Associates and Parcours d'enfant:

On September 30, 2011, the Company completed the acquisition of Jacques Lamarre & Associates and Parcours d'enfant ("Jacques Lamarre & Associates"). During 2013, the Company released the first instalment held and settled the second and final instalment, which was subject to revenue adjustments, for $2,292. This resulted in a gain of $207, being the difference between the acquisition liability of $2,500 at the settlement date and the amount paid, which was recorded in profit or loss. As at December 31, 2012, $2,369 had been recognised as an acquisition liability on the statement of financial position, representing $500 of the first instalment remaining to be released and the $2,000 final instalment discounted.

5. Trade and other receivables:

The Company's trade and other receivables are as follows:

	December 31, 2013	December 31 2012
Trade receivables	$ 66,671	$ 54,328
Less allowance for doubtful accounts	728	418
Net trade receivables	65,943	53,910
Other receivables	1,251	1,666
	$ 67,194	$ 55,576

The aging of trade receivables at each reporting date was as follows:

	December 31, 2013	December 31, 2012
Current	$ 30,601	$ 26,335
Past due 1 - 30 days	16,241	13,471
Past due 31 - 90 days	8,308	6,055
Past due > 90 days	11,521	8,467
	$ 66,671	$ 54,328

The change in allowance for doubtful accounts was as follows:

Balance, January 1, 2012	$ 246
Additions	229
Amounts written off as uncollectible	(57)
Balance, December 31, 2012	418
Additions	415
Amounts written off as uncollectible	(105)
Balance, December 31, 2013	$ 728

6. Unbilled fees:

The Company's unbilled fees are as follows:

	December 31, 2013	December 31, 2012
Total unbilled fees	$ 57,185	$ 46,461
Less non-current portion	1,251	1,649
Current portion	$ 58,436	$ 44,812

7. Prepaid expenses and other:

The Company's prepaid expenses and other comprise the following:

	December 31, 2013	December 31, 2012
Vendor prepayments and prepaid insurance	$ 2,744	$ 1,631
Prepaid deposits	690	657
Prepaid supplies	327	244
	$ 3,761	$ 2,532

8. Deferred implementation costs:

The Company's deferred implementation costs comprise the following:

	Cost	Accumulated amortization	Net book value
Balance, January 1, 2012	$ 10,605	$ (1,484)	$ 9,121
Deferred implementation costs for the year, net of revenue	6,132	–	6,132
Amortization for the year	–	(2,225)	(2,225)
Balance, December 31, 2012	16,737	(3,709)	13,028
Deferred implementation costs for the year, net of revenue	5,427	–	5,427
Amortization for the year	–	(3,628)	(3,628)
Balance, December 31, 2013	$ 22,164	$ (7,337)	$ 14,827
Less current portion			4,134
Non-current portion			$ 10,693

9. Capital assets:

The Company's capital assets comprise the following:

	Computer hardware	Furniture and fixtures	Leasehold improvements	Total
Cost				
Balance, January 1, 2012	$ 16,531	$ 8,921	$ 20,617	$ 46,069
Additions	3,045	919	383	4,347
Acquired through business acquisitions (note 4)	256	251	633	1,140
Balance, December 31, 2012	19,832	10,091	21,633	51,556
Additions	6,706	976	3,324	11,006
Acquired through business acquisitions (note 4)	21	81	201	303
Disposals	(3,594)	(3,096)	(2,607)	(9,297)
Balance, December 31, 2013	$ 22,965	$ 8,052	$ 22,551	$ 53,568
Accumulated depreciation				
Balance, January 1, 2012	$ 7,982	$ 5,074	$ 9,052	$ 22,108
Depreciation	4,291	1,328	2,556	8,175
Balance, December 31, 2012	12,273	6,402	11,608	30,283
Depreciation	4,879	1,488	2,869	9,236
Impairment charges (note 11)	–	100	388	488
Disposals	(3,594)	(3,096)	(2,607)	(9,297)
Balance, December 31, 2013	$ 13,558	$ 4,894	$ 12,258	$ 30,710
Carrying amount				
December 31, 2012	$ 7,559	$ 3,689	$ 10,025	$ 21,273
December 31, 2013	$ 9,407	$ 3,158	$ 10,293	$ 22,858

10. Intangible assets:

The Company's intangible assets comprise the following:

	Indefinite useful life	Finite useful life						
	Trade Names	Customer relationships	Customer contracts	Proprietary software	Internally-developed software	Purchased software	Other	Total
Cost								
Balance, January 1, 2012	$ 70,000	$ 202,507	$ 27,900	$ 41,000	$ 11,759	$ 6,768	$ –	$ 359,934
Internally Developed	–	–	–	–	7,176	–	–	7,176
Purchased	–	–	–	–	–	2,949	–	2,949
Acquired through business acquisitions	–	1,032	–	2,497	–	469	–	3,998
Balance, December 31, 2012	70,000	203,539	27,900	43,497	18,935	10,186	–	374,057
Internally Developed	–	–	–	–	8,747	–	–	8,747
Purchased	–	–	–	–	–	3,378	–	3,378
Acquired through business acquisitions	–	4,587	–	–	–	-	155	4,742
Disposals	–	–	(27,900)	(41,000)	(865)	(2,974)	–	(72,739)
Balance, December 31, 2013	70,000	208,126	–	2,497	26,817	10,598	155	318,193
Accumulated amortization								
Balance, January 1, 2012	$ –	$ 55,676	$ 27,900	$ 40,718	$ 930	$ 3,994	–	$ 129,218
Amortization	–	12,110	–	429	1,890	2,085	–	16,514
Balance, December 31, 2012	–	67,786	27,900	41,147	2,820	6,079	–	145,732
Amortization	–	12,220	–	333	3,271	2,617	8	18,449
Impairment charges (note 11)	–	4,794	–	–	–	–	–	4,794
Disposals	–	–	(27,900)	(41,000)	(865)	(2,974)	–	(72,739)
Balance, December 31, 2013	$ –	$ 84,800	$ –	$ 480	$ 5,226	$ 5,722	$ 8	$ 96,236
Carrying amount								
Balance, December 31, 2012	$ 70,000	$ 135,753	$ –	$ 2,350	$ 16,115	$ 4,107	–	$ 228,325
Balance, December 31, 2013	$ 70,000	$ 123,326	$ –	$ 2,017	$ 21,591	$ 4,876	$ 147	$ 221,957

As at December 31, 2013, $8,659 (2012 - $4,841) of internally-developed software remained under development and had not been put into use.

Impairment test of indefinite-lived intangible assets:

The Company has determined, in accordance with IAS 36, that it has the following seven CGUs: Retirement Solutions and Health and Benefits Consulting ("Consulting") - East, Consulting - Ontario, Consulting - West, Consulting - Québec, Administrative Solutions, ESS, and Organizational Health Solutions.

The fair value of the trade name was based on the relief-from-royalty method. This method recognizes that the Company does not have to pay a royalty fee as a result of owning the trade name. The fair value of the trade name is then calculated as the present value of the after-tax savings from not having to pay a royalty.

Based on this method, the recoverable amount of the trade name was calculated as $86,470 (2012- $78,870). As the recoverable amount of the trade name exceeded its carrying amount for the years ended December 31, 2013 and December 31, 2012 no impairment charges were recorded. Significant assumptions used in the trade name impairment test include the projected revenues to which to apply the royalty rate, the royalty rate, the projected royalty revenue growth rates and the discount rate, which are all Level 3 inputs in the fair value hierarchy.

The details of the significant assumptions used were as follows:

	December 31, 2013	December 31, 2012
Royalty revenue rate	3.9%	3.0%
Discount rate	10.1%	9.8%
Perpetuity growth rate	3.0%	2.5%

The projected revenues to which to apply the royalty rate were based on internal revenue forecasts for the Company's CGUs that used the trade name. The royalty revenue rate was then derived based on the internal projected pre-tax profitability rate of the CGUs that use the trade name, adjusted for an estimate of the percentage that an assumed licensor and licensee of the trade name would be willing to share.

The Company has also performed a sensitivity analysis on the perpetuity growth rate and discount rate in assessing the recoverable amounts of the trade name as at December 31, 2013 and 2012. Sensitivity analysis indicates reasonable changes to key assumptions will not result in an impairment loss for the trade name.

11. Goodwill:

(i) The change in goodwill was as follows:

Balance, January 1, 2012	$ 301,792
Acquired through business combination – SBC Systems Company Inc.	2,422
Acquired through business combination – Jacques Lamarre & Associates	774
Balance, December 31, 2012	304,988
Acquired through business combination – Dion, Durrell Workers' Compensation	668
Acquired through business combination – Collage Pediatric Therapy	632
Impairment loss – Organizational Health Solutions	(11,418)
Effect of movement in exchange rates	197
Balance, December 31, 2013	$ 295,067

(ii) Impairment test of goodwill

For the purposes of impairment testing, goodwill has been allocated to the Company's lines of business, which represent the Company's operating segments and the lowest level within the Company at which goodwill is monitored for internal management purposes, as defined in IAS 36. The aggregate carrying amount of goodwill allocated to each prior to the recognition of any impairment charges was as follows:

	December 31, 2013	December 31, 2012
Consulting	$ 113,536	$ 113,536
Administrative Solutions	64,247	64,050
ESS	117,284	116,652
Organizational Health Solutions	11,418	10,750
	$ 306,485	$ 304,988

Goodwill impairment is assessed on an annual basis or whenever there is an indication that the asset may be impaired. The valuation techniques, significant assumptions and sensitivities applied in the goodwill impairment test as at December 31, 2013 and December 31, 2012 are described below.

(a) Valuation technique:

The recoverable amount of each CGU was calculated based on its fair value less costs to sell, using an income approach to estimate its fair value. The recoverable amount of each CGU was as follows:

	December 31, 2013	December 31, 2012
Consulting	$ 322,000	$ 303,700
Administrative Solutions	238,600	231,800
ESS	378,000	289,400
Organizational Health Solutions	18,500	32,600
	$ 957,100	$ 857,500

The income approach is predicated upon the value of the future cash flows that the business is expected to generate going forward. The discounted cash flow ("DCF") method was used which involved projecting cash flows and converting them into a present value equivalent through discounting. The discounting process uses a rate of return that will commensurate with the risks associated with the business and the time value of money. This approach requires assumptions about revenue growth rates, operating margins, prevailing tax rates, and discount rates, which are Level 3 inputs based on the fair value hierarchy.

The significant assumptions and sensitivities of this methodology considered are described below.

(b) Growth and EBITDA margins

The assumptions used were based on the Company's internal forecasts. The Company projected revenue, EBITDA margins, working capital, and capital expenditures for a period of five years, and applied a perpetual long-term growth rate thereafter. Customer retention rates, past experience, economic trends (i.e. GDP, CPI, interest rate, and unemployment rate projections), and human resource industry and market trends were also considered in deriving these forecasts. A perpetuity growth rate of 3.0% (2012: 2.5%) was applied in determining the recoverable amount of the CGUs.

(c) Discount rate:

A discount rate was required in order to calculate the present value of projected cash flows. The discount rate represented a weighted average cost of capital ("WACC") applicable to each CGU. The WACC is an estimate of the overall required after-tax rate of return on investment required by all investors of capital and serves as the basis for developing the appropriate discount rate. Determination of the discount rate requires separate analysis of the cost of equity and debt, and considers a market risk premium based on an assessment of specific risks related to the projected cash flows of each CGU. Discount rates represent the volatility assessment of expected cash flows based on past performance, competition, market conditions, and other factors.

The following discount rates were applied in determining the recoverable amount of the CGU:

	December 31, 2013	December 31, 2012
Consulting	9.8%	9.4%
Administrative Solutions	9.8%	9.4%
ESS	10.1%	9.6%
Organizational Health Solutions	12.1%	12.8%

The recoverable amounts of the Consulting, Administrative Solutions, and ESS CGUs assessed as at December 31, 2013 and 2012, were in excess of their respective carrying amounts.

As at December 31, 2013, the carrying amount of the Organizational Health Solutions CGU was higher than its recoverable amount of $18,500 and an impairment loss of $16,700 (2012- $nil) was recognized.

The impairment loss was first allocated to reduce the goodwill of this CGU by $11,418 to $nil, and then to the non-current assets of this CGU as follows:

	December 31, 2013	December 31, 2012
Capital assets (note 9)	$ 488	$ –
Intangible assets (note 10)	4,794	–
	$ 5,282	$ –

The impairment loss is included in depreciation, amortization and impairment losses on the consolidated statement of income and comprehensive income.

The impairment loss is primarily related to the Health Clinics sub-service line within the Organizational Health Solutions CGU and is due to the reduced expectations for increasing the operating profit. The Company's long-term plan is to focus on the more profitable Absence Management Services sub-service line within the Organizational Health Solutions CGU. After recognition of the impairment loss in 2013, the carrying amount of the Organizational Health Solutions CGU is equal to its recoverable amount. As a result, any further deterioration in key assumptions could result in an additional impairment charge to the non-current assets of this CGU.

The Company has also performed a sensitivity analysis on the perpetuity growth rate and discount rate in assessing the recoverable amounts of each of the other CGUs of the Company at December 31, 2013 and 2012. Sensitivity analysis indicates reasonable changes to key assumptions will not result in an impairment loss for these other CGUs.

12. Trade and other payables:

The Company's trade and other payables comprise the following:

	December 31, 2013	December 31, 2012 (note 3)
Trade payables and accrued liabilities	$ 23,181	$ 23,235
Accrued salaries and compensation	24,577	20,804
Other current liabilities	2,436	3,142
	$ 50,194	$ 47,181

13. Other liabilities:

The Company's other liabilities were as follows:

	December 31, 2013	December 31, 2012 (note 3)
Acquired above-market leases	$ 2,887	$ 3,471
Deferred lease obligations	6,130	4,185
Net pension benefit liability (note 19)	882	870
	$ 9,899	$ 8,526

14. Provisions:

The Company has recognized sublease loss provisions associated with the lease of excess office space, and for expenditures related to contingency reserves on legal matters that the Company may become privy to in the normal course of operations. The sublease loss provision has been initially measured at the discounted present value of the minimum rental payments liable on the subleased properties and related commissions, net of sublease income related to these premises, and subsequently measured at best estimate. The estimate of the contingency reserve corresponds to the expenditure likely to be incurred by the Company to settle its obligation.

	December 31, 2013	December 31, 2012
Contingency reserve	$ 449	$ 391
Sublease loss provisions	2,877	1,028
	$ 3,326	$ 1,419

The following tables present the movement in provisions for the years ended December 31, 2013 and 2012:

	Sublease loss provisions	Contingency reserve	Total provisions
Balance, January 1, 2012	$ 1,443	$ 444	$ 1,887
Accrual	–	31	31
Utilization and amortization	(198)	(84)	(282)
Commission and other payments	(217)	–	(217)
Balance, December 31, 2012	$ 1,028	$ 391	$ 1,419
Accrual	2,000	189	2,189
Utilization and amortization	(151)	(131)	(282)
Balance, December 31, 2013	$ 2,877	$ 449	$ 3,326

15. Long- term debt:

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

	December 31, 2013	December 31, 2012
Non-revolving (term) loans	$ –	$ 130,000
Revolving loans	176,720	23,985
	176,720	153,985
Less: debt issuance costs, net of accumulated amortization	1,073	912
	$ 175,647	$ 153,073

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).

Under IAS 39, the amendments to the Original Credit Facility Arrangement were not substantive and therefore, amounts owing under the Original Credit Facility at the date of amendment were not deemed to be extinguished.

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 December 31, 2013, the Company had utilized the following amounts under the Amended Credit Facility:

- $169,500 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%.

- $3,500 of prime loans under the revolving loan. The prime loan bears interest at the prime rate plus an applicable margin of 0.875%.

- $3,720 (U.S. $3,500) of Libor loans under the revolving loan. The Libor loan is renewed on a monthly basis, bearing interest at the one- month Libor rate plus an applicable margin of 1.875%.

- $4,479 of the swing line available. The swing line carries interest at prime plus an applicable margin of 0.875%.

As at December 31, 2013, the Company complied with all 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. 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 the interest rate swap at December 31, 2013 was a liability of $1,789 (December 31, 2012 - $3,101).

On November 29, 2013 the term loan was converted into a revolving loan under the Amended Credit Facility. As detailed above, 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 Arrangement.

(b) Finance costs:

The Company's finance costs comprise the following:

	2013	2012
Interest on term loan, revolving loan, bank indebtedness and other charges	$ 8,065	$ 8,543
Interest on convertible debenture	4,528	3,473
Amortization of debt issuance costs	1,143	1,002
Immediate recognition and amortization of terminated interest rate swap	–	972
Other	362	46
	$ 14,098	$ 14,036

16. Convertible debentures:

On March 27, 2012, the Company issued $75,000 principal amount of 5.75% Convertible Unsecured Subordinated Debentures for net proceeds of $71,432. The debentures pay interest semi-annually on March 31 and September 30, commencing with the initial interest payment on September 30, 2012 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 common shares.

Upon issuance of the debentures, the liability component of the convertible debentures was recognized initially at the fair value of a similar liability that does not have an equity conversion option, using an effective interest rate of 6.1%. The difference between these two amounts of $1,079 has been recorded as equity with the remaining $73,921 allocated to long-term debt.

The discount on the debentures is being accreted such that the liability at maturity will equal the face value of $75,000. The transaction costs of $3,568 were proportionally allocated to the liability and equity components.

The convertible debenture has been allocated as follows:

	March 27, 2012
Long-term liability, net of transaction costs	$ 70,404
Equity component, net of transaction costs and deferred tax	757
Deferred tax on equity component of convertible debentures	271
Transaction costs	3,568
Face value	$ 75,000

The following table indicates the changes in the convertible debentures during the years ended December 31, 2013 and December 31, 2012:

	Debt component	Equity component
Balance at March 27, 2012	$ 70,404	$ 757
Accretion and amortization on convertible debentures	700	–
Balance, December 31, 2012	71,104	757
Accretion and amortization on convertible debentures	917	–
Balance, December 31, 2013	$ 72,021	$ 757

17. Financial instruments:

(a) Financial risk management:

The Company's financial instruments are exposed to certain financial risks, including interest rate risk, credit risk, currency risk and liquidity risk. The Company's exposure to these risks and its methods of managing the risks remain consistent.

(i) Interest rate risk:

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations with floating interest rates. Specifically, the Company is subject to interest rate risk as its long-term debt bears interest at market rates. Interest rate swap agreements are used as part of the Company's program to manage the floating interest rate mix of the Company's total debt outstanding and related overall cost of borrowing.

The interest-rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based.

Interest rate sensitivity analysis:

A sensitivity analysis that assumes interest rates increased or decreased by 50 basis points with all other variables held constant would result in an increase or decrease of the Company's interest expense, excluding the interest subjected to interest rate swap agreements, by $214 (2012 - $224).

(ii) Credit risk:

The Company's exposure to credit risk is limited to the carrying amount of cash and accounts receivable recognized at the reporting date.

No allowance for credit losses on financial assets was required as of December 31, 2013, other than the allowance for doubtful accounts (note 5). The Company determines its allowance for doubtful accounts based on its best estimate of the net recoverable amount by customer account. Accounts that are considered uncollectible are written off. The Company's bad debt expense for the year ended December 31, 2013 was $415 (2012 - $229).

The Company believes that the credit risk of accounts receivable is limited for the following reasons:

(a) Risk associated with concentration of credit risk with respect to accounts receivable is limited due to the credit rating of the Company's top 10 clients.

(b) Management regularly reviews and assesses customer accounts and credit risk. Historically, bad debt as a percentage of revenue has been minimal.

The credit risk on cash and investments held in trust is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

(iii) Currency risk:

The Company realizes a portion of sales in U.S. dollars and has operations in the United States and thus is exposed to fluctuations in the value of the U.S. dollar relative to the Canadian dollar. The net revenue exposure after accounting for related expenses denominated in U.S. dollars for the year ended December 31, 2013 was $16,669 (2012 - $15,111).

Foreign exchange sensitivity analysis:

As at December 31, 2013, the Company's net exposure to currency risk through its current assets and liabilities denominated in U.S. dollars was U.S. $7,569. An appreciation (depreciation) of the Canadian dollar against the U.S. dollar would have resulted in an increase (decrease) of $402 in the Company's profit and other comprehensive income as a result of the Company's net exposure to currency risk through its current assets and liabilities denominated in U.S. dollars. This analysis is based on a foreign currency exchange rate variance of 5% which the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

(iv) Liquidity risk:

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. The Company manages liquidity risk through regular monitoring of financial results and actual cash flows, and also the management of its capital structure and financial leverage as outlined in note 29.

The Company's principal liquidity needs arise from working capital requirements, debt servicing and repayment obligations, capital expenditures, dividends to shareholders and acquisition funding requirements. The Company has historically utilized cash from operations to satisfy the above needs, with the exception of acquisition funding requirements.

The tables below set forth non-derivative and derivative financial liabilities by maturity based on the remaining period from December 31 to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

2013	<1 year	1 - 2 years	3 -5 years
Non-derivative financial liabilities:			
Bank indebtedness	$ 5,195	$ –	$ –
Trade and other payables	50,194	–	–
Dividends payable	3,116	–	–
Insurance premium liabilities	16,016	–	–
Future consideration related to acquisitions	821	457	402
Long-term debt	–	–	176,720
Convertible debentures	–	–	75,000
Derivative financial liabilities:			
Cash flow hedges - interest rate swaps	–	1,789	–
	$ 75,342	$ 2,246	$ 252,122

2012	<1 year	1 - 2 years	3 -5 years
Non-derivative financial liabilities:			
Bank indebtedness	$ 134	$ –	$ –
Trade and other payables	47,181	–	–
Dividends payable	3,116	–	–
Insurance premium liabilities	14,174	–	–
Future consideration related to acquisitions	2,858	451	–
Long-term debt	–	–	153,985
Convertible debentures	–	–	75,000
Derivative financial liabilities:			
Cash flow hedges - interest rate swaps	–	–	3,101
	$ 67,463	$ 451	$ 232,086

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(b) Fair values:

Fair value represents management's estimates of the market value at a given point in time. The fair value of the Company's financial assets and liabilities, with the exception of convertible debentures and long-term debt, approximate their carrying values due to their short-term nature, or in relation to long-term debt instruments, because they bear interest at market rates.

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		Fair Value		
	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012	Level
Assets carried at fair value:					
Cash and investments held in trust	$16,016	$ 14,174	$ 16,016	$ 14,174	2
	$ 16,016	$ 14,174	$ 16,016	$ 14,174	
Liabilities carried at fair value:					
Cash flow hedges - interest rate swaps	$ 1,789	$ 3,101	$ 1,789	$ 3,101	2
Bank indebtedness	5,195	134	5,195	134	2
Future consideration related to acquisitions	1,680	3,309	1,680	3,309	3
	$ 8,664	$ 6,544	$ 8,664	$ 6,544	

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 year ended December 31, 2013, there were no transfers between any levels.

The interest rate swap is a financial instrument carried at fair value. The liability is measured at fair value through other comprehensive income. For the year ended December 31, 2013, the liability was $1,789 (December 31, 2012 - $3,101).

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. For the year ended December 31, 2013, the liability was $1,680 (December 31, 2012 - $3,309). Contingent consideration arose on the acquisitions of Jacques Lamarre & Associates, SBC Systems Company and Dion Durrell Workers' Compensation.

In the acquisitions of SBC Systems Company and Dion Durrell Workers' Compensation, 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:

	December 31, 2013	December 31, 2012
SBC Systems Company	$ 532	$ 995
Dion Durrell Workers' Compensation	2,146	–
	$ 2,678	$ 995

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 included 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 SBC Systems Company and Dion Durrell Workers' Compensation 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 year ended December 31, 2013:

	Future consideration related to acquisitions
Balance at January 1, 2013	$ 3,309
First instalment contingent payment to SBC Systems Company	(501)
Release of first instalment payment for Jacques Lamarre & Associates	(500)
Settlement of final contingent consideration for Jacques Lamarre & Associates	(2,000)
Fair value of contingent consideration for Dion Durrell Workers' Compensation	1,036
Accretion on future consideration related to acquisitions	298
Foreign exchange on future consideration related to acquisitions	38
	$ 1,680

Financial instruments carried at amortized cost:

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

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 $72,021 (December 31, 2012 - $71,104) and a fair value of $81,930 (December 31, 2012 - $79,875). 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 $175,647 (December 31, 2012 - $153,073) and a fair value of $176,720 (December 31, 2012 - $153,985). The fair value is determined based on the cost of borrowing for a company with a similar risk profile (Level 2).

18. Income taxes:

The income taxes recognized in profit or loss comprise the following:

	2013	2012
Current tax expense:	$ 5,548	$ 4,516
Deferred tax expense:		
Origination and reversal of temporary differences	1,648	5,536
Effect of changes in tax rates	159	742
Interest rate swaps	–	(177)
Other	–	228
	1,807	6,329
Total income tax expense	$ 7,355	$ 10,845

The difference between income taxes calculated using the Company's effective income tax rates and the amounts that would result from the application of the statutory income tax rates arises from the following:

	2013	2012
Income taxes at statutory rates:		
Federal	15.00%	15.00%
Provincial	11.66%	11.53%

The increase in the statutory rate is due to an increase in British Columbia and New Brunswick provincial income tax rates.

	2013	2012
Income tax provision applied to profit before income taxes:		
Combined basic federal and provincial income taxes at statutory rates	$ 4,745	$ 8,468
Non-deductible expenses	1,342	1,184
Adjustment to deferred income taxes and liabilities for change in income tax rate	159	742
Non-deductible portion of goodwill impairment	760	–
Other	349	451
	$ 7,355	$ 10,845

The income taxes recognized on components of other comprehensive income are as follows:

	Before taxes	Tax expense (benefits)	2013 Net of taxes
Change in fair value of interest rates swaps	$ 1,312	$ (345)	$ 967
Actuarial gain on post-employment benefit plans	(88)	24	(64)
	$ 1,224	$ (321)	$ 903

	Before taxes	Tax expense (benefits)	2012 Net of taxes
Change in fair value of interest rates swaps	$ (2,288)	$ 607	$ (1,681)
Transfer to profit due to termination of interest rates swaps	(667)	177	(490)
Actuarial loss on post-employment benefit plans	324	(86)	238
Change in effective tax rate	–	(23)	(23)
	$ (2,631)	$ 675	$ (1,956)

The approximate tax effect of each item that gives rise to the Company's deferred tax assets and liabilities are as follows:

	December 31, 2013	December 31, 2012
Deferred tax assets:		
Financing costs	$ –	$ 186
Capital assets	386	393
Loss carry forwards	315	115
Interest rate swaps	476	821
Post-employment benefit plans (note 3)	279	255
Other assets	1,198	279
	2,654	2,049
Deferred tax liabilities:		
Deferred implementation costs	1,926	–
Intangible assets	29,725	29,431
Other liabilities	1,188	485
	32,839	29,916
	$ (30,185)	$ (27,867)

Movement in temporary differences during the year 2013:

	Balance at January 1, 2013	Recognized in profit or loss	Recognized in other comprehensive income	Acquisition & other	Balance at December 31 2013
Financing costs	$ 186	$ (186)	$ -	$ -	$ -
Capital assets	393	(7)	-	-	386
Intangible assets	(29,431)	246	-	(540)	(29,725)
Tax value – losses carried forward	115	73	-	127	315
Interest rate swap	821	-	(345)	-	476
Post-employment benefit plans (note 3)	255	-	24	-	279
Deferred implementation	-	(1,926)	-	-	(1,926)
Other	(206)	(7)	-	223	10
	$ (27,867)	$ (1,807)	$ (321)	$ (190)	$ (30,185)

19. Employee future benefits:

The Company offers a pension benefit plan for its employees, which includes a defined benefit option and a defined contribution option. The defined benefit option was closed to new members effective January 1, 1998. Under the defined contribution option, each member is required to contribute a percentage of earnings. The Company matches this required contribution. Each member may elect to make an optional contribution in addition to the required contribution. The Company contributes 50% of the optional contributions. For members who had completed at least 10 years of service on December 31, 2010, their contributions follow the grandfathered provisions. Each member is required to contribute a specific dollar amount based on the member's job level classification.

The defined benefit option was closed effective January 1, 1998 and included 57 members as at December 31, 2013, comprising active employees, retirees, and deferred vested members. All other employees are covered by the defined contribution option of the plan.

The pension benefit plan is administered by Morneau Shepell Ltd. and is registered under the Pension Benefits Act (Ontario).

(a) Funding

The defined benefit option is funded by the Company based on the pension plan's actuaries' calculation. The members are not required to contribute to the defined benefit option.

The Company expects to contribute $198 to the defined benefit option during the upcoming fiscal year.

(b) Amounts recognized in the consolidated financial statements

The amounts recognized in the consolidated statements of financial position in respect of the defined benefit option are determined as follows:

	December 31, 2013	December 31, 2012 (note 3)
Present value of funded obligations	$ 3,980	$ 4,631
Fair value of plan assets	(3,998)	(3,761)
Impact of minimum funding requirement/asset ceiling	900	–
Liability in the consolidated statements of financial position	$ 882	$ 870

The movement in the defined benefit obligation over the year is as follows:

	2013	2012
Defined benefit obligations at January 1	$ 4,631	$ 4,273
Included in profit or loss:		
Current service cost	40	72
Interest cost	167	215
	207	287
Included in other comprehensive income:		
Actuarial losses (gains) arising from experience adjustments	(98)	–
Changes in financial assumptions	(534)	247
	(632)	247
Other:		
Benefits paid by the plan	(226)	(176)
Defined benefit obligations at December 31	$ 3,980	$ 4,631

The movement in the fair value of plan assets during the year is as follows:

	2013	2012
Fair value of plan assets at January 1	$ 3,761	$ 3,531
Included in profit or loss:		
Estimated interest income on plan assets	140	249
Included in other comprehensive income:		
Return on plan assets in excess of estimated interest income	180	(77)
Other:		
Employer contributions	143	234
Benefits paid	(226)	(176)
	(83)	58
Fair value of plans assets at December 31	$ 3,998	$ 3,761

The movement in the impact of the minimum funding requirement/asset ceiling is as follows:

	2013	2012
Minimum funding requirement/ asset ceiling at January 1	$ –	$ –
Included in other comprehensive income:		
Change in asset ceiling, excluding amounts recognized in interest expense	900	–
Minimum funding requirement/ asset ceiling at December 31	$ 900	$ –

(c) Plan Assets

The allocation of fair value of plan assets as a percentage of total plan assets was as follows:

	December 31, 2013	December 31, 2012
Pooled Equities Fund	48%	50%
Pooled Bond Fund	42%	50%
Pooled Low Volatility Fund	10%	0%
	100%	100%

Pooled funds are valued at the unit values supplied by the pooled fund administrator, which represent the pension plan's proportionate share of the fair value of the underlying net assets.

The strategic investment policy of the defined benefit option of the pension plan, implemented in 2013, can be summarized as follows:

- A strategic asset mix comprising 29% to 63% equity securities (return and yield funds), 30% to 50% fixed income investments, and 0% to 18% low volatility investments (mortgages, real estate and infrastructure), with a target asset mix of 44% equity securities, 45% fixed income investments and 11% low volatility investments.

(d) Actuarial assumptions:

The principal actuarial assumptions were as follows:

	2013	2012
Discount rate at the end of the current fiscal period used to determine the accrued benefit obligation	4.75%	3.75%
Discount rate at the end of preceding period used to determine the benefit cost	3.75%	4.25%
Rate of compensation increase used to determine the accrued benefit obligation	3.50%	3.50%
Rate of compensation increase used to determine the benefit cost	3.50%	3.50%

(e) Mortality assumptions:

Assumptions regarding future mortality experience are based on published statistics and mortality tables.

The calculation of the defined benefit obligation is sensitive to mortality assumptions. For the Company, an increase in life expectancy of one year across all age groups would result in a $90 increase in the defined benefit obligation as of December 31, 2013.

20. Long-term incentive plan:

Under the LTIP, the Company may grant participants restricted share units, retirement deferred share units, or post-retirement deferred share units, collectively referred to as LTIP Units. The characteristics of each are as follows:

(a) Retirement DSU:

Retirement DSUs generally vest three years after the date of grant and become redeemable only on the participant's termination of employment. Retirement DSUs are redeemable either for one common share or for an amount in cash equal to the fair market value of one common share (at the option of the Company). The value of the award is determined at grant date, and the related salary expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are satisfied. Participants are entitled to receive cash bonuses or additional Units equivalent to the dividends payable had those Units been common shares. The number of DSUs awarded as bonus is determined based on the fair market value of those DSUs on the date credited.

(b) Post-Retirement DSU:

Post-Retirement DSUs vest at such times as determined by the Company, with each being redeemable for one Common Share issued from treasury of the Company. Except in certain circumstances or in the retirement of a participant, any unvested LTIP Units will terminate on their termination date.

The value of the award is determined as at grant date, and related salary expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are satisfied.

(c) RSU:

RSUs generally vest three years after the date of grant. RSUs are redeemable either for one common share or for an amount in cash equal to the fair market value of one common share (at the option of the Company). The value of the award is determined at grant date, and the related salary expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are satisfied. Participants are entitled to receive cash bonuses or additional Units equivalent to the dividends payable had those Units been common shares. The number of RSUs awarded as bonus is determined based on the fair market value of those RSUs on the date credited.

The fair value at grant date is calculated with reference to the closing price of the Company's common shares on the Toronto Stock Exchange ("TSX") for the five business days preceding grant date.

The change in the number of awards outstanding, and their related weighted average grant prices for the years ended December 31, 2013 and 2012 were as follows:

	RSU	Retirement DSU	Post-retirement DSU	Total
Awards outstanding, January 1, 2012	–	1,126,252	24,819	1,151,071
Granted (at $11.62 per unit)	–	306,631	24,071	330,702
Exercised	–	–	–	–
Forfeited	–	(10,796)	–	(10,796)
Awards outstanding, December 31, 2012	–	1,422,087	48,890	1,470,977
Granted (at $13.61 per unit)	30,442	521,536	23,417	575,395
Exercised	–	(63,033)	–	(63,033)
Forfeited	–	(37,633)	–	(37,633)
Awards outstanding, December 31, 2013	30,442	1,842,957	72,307	1,945,706
Total vested awards, December 31, 2012	–	522,132	48,890	571,022
Total vested awards, December 31, 2013	–	789,545	72,307	861,852

Share-based compensation expense, year ended December 31, 2012	$ 3,403
Share-based compensation expense, year ended December 31, 2013	$ 3,614

21. Equity:

(a) Share capital

(i) Common shares:

The Company is authorized to issue an unlimited number of common shares, with no par value.

(ii) Preferred shares:

The Company is authorized to issue 10 million preferred shares, with no limit on their value. As of December 31, 2013 and 2012, no preferred shares were issued or outstanding.

(iii) Dividends:

Dividends are declared in Canadian dollars. The monthly dividend rate was $0.065 for the year ended December 31, 2013 (2012 - $0.065). The Company continued to declare the same monthly dividend amount in January and February of 2014.

The change in share capital, including contributed surplus was as follows:

	Number of common shares	Share capital	Contributed surplus
Balance, January 1, 2012	47,940,409	$ 473,838	$ 8,721
LTIP non-cash expense and DRIP - current year	–	–	3,953
Balance, December 31, 2012	47,940,409	473,838	12,674
LTIP expense	–	–	3,653
LTIP issued	–	–	437
Shares issued on redemption of LTIP	22,384	250	(250)
Balance, December 31, 2013	47,962,793	$ 474,088	$ 16,514

(b) Accumulated other comprehensive income

The changes in the components of accumulated other comprehensive income, net of tax, are as follows:

	Cash flow hedge reserve	Post-employment benefit plans	Foreign exchange translation reserve	Total
Balance, January 1, 2012 (note 3)	$ (4,456)	$ (468)	$ (192)	$ (5,116)
Actuarial loss on post-employment benefit plans	–	(238)	–	(238)
Effective portion of change in interest rate cash flow hedges	1,681	–	–	1,681
Transfer to profit due to termination of interest rate cash flow hedges	513	–	–	513
Foreign currency translation differences for foreign operations	–	–	(169)	(169)
Balance, December 31, 2012 (note 3)	(2,262)	(706)	(361)	(3,329)
Actuarial loss on post-employment benefit plans	–	(64)	–	(64)
Effective portion of change in interest rate cash flow hedges	967	–	–	967
Foreign currency translation differences for foreign operations	–	–	587	587
Balance, December 31, 2013	$ (1,295)	$ (770)	$ 226	$ (1,839)

22. 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 debenture.

The following details the earnings per share, basic and diluted, calculations for the years ended December 31, 2013 and 2012:

	2013	2012
Profit attributable to common shares (basic and diluted)	$ 10,445	$ 21,034
Weighted average number of common shares (in actual number of shares):		
January 1	47,940,409	47,940,409
Shares issued on redemption of LTIP[1]	7,059	–
Vested LTIP awards	796,546	526,678
Basic	48,744,014	48,467,087
Dilutive effect of unvested LTIP awards	573,039	447,711
Diluted	49,317,053	48,914,798
Earnings per share:		
Basic	$ 0.21	$ 0.43
Diluted	$ 0.21	$ 0.43

[1] During the year ended December 31, 2013, 22,384 shares (2012- nil shares) were issued on redemption of LTIP units.

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

23. 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 December 31, 2013, 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 consolidated financial statements:

	2013	2012
Revenue:		
Canada	$ 436,346	$ 396,250
United States	34,808	23,096
Consolidated total	$ 471,154	$ 419,346

	2013	2012
Total assets:		
Canada	$ 680,360	$ 674,038
United States	19,756	12,319
Consolidated total	$ 700,116	$ 686,357

24. Supplementary cash flow information:

Change in non-cash operating working capital for the years ended December 31, 2013 and 2012 was as follows:

	2013	2012
Trade and other receivables	$ (11,618)	$ (4,847)
Unbilled fees, current and non-current	(11,975)	(11,003)
Prepaid expenses and other	(1,198)	835
Deferred implementation costs, current and non-current	(1,799)	(3,907)
Trade and other payables	3,330	(2,530)
Deferred revenue	(660)	(102)
	$ (23,920)	$ (21,554)

Excluded from the consolidated statement of cash flows were non-cash accruals of $1,352 related to leasehold improvement additions that will be fully recovered from the Company's landlord.

25. Related parties:

These consolidated financial statements include the assets, liabilities, revenue and expenses of the Company's subsidiaries; all intercompany balances and transactions have been eliminated upon consolidation and therefore are not disclosed in this note.

(a) Compensation of key management personnel:

Key management personnel include the Company's executive officers and directors; remuneration related to this group was as follows:

		2013		2012
Salaries and other benefits	$	4,395	$	5,075
Share-based payments		2,505		2,105
	$	6,900	$	7,180

(b) Unconsolidated structured entities:

The Company's wholly owned subsidiary, Morneau Shepell Asset & Risk Management Ltd. is the sponsor and manages the financial and operating activities of the Company's funds. In exchange, each fund pays an administrative fee of 0.08% of the fund's net asset value to cover regulatory filing fees and other day-to-day operating expenses. The Company does not hold any units of the funds.

26. Salary, benefit and contractor:

The Company's salary, benefit and contractor expenses is comprised of the following:

		2013		2012
Salaries and other benefits	$	268,516	$	239,037
Contractors		52,009		48,448
	$	320,525	$	287,485

27. Commitments:

The Company has lease commitments for office premises and equipment with options for renewal. As at December 31, 2013 the minimum payments not including operating expenses, due in each of the next five years and thereafter, are expected to be as follows for each year ending December 31:

	Gross commitment	Sublease income	Net commitment
2014	$ 14,329	$ (717)	$ 13,612
2015	13,710	(717)	12,993
2016	12,843	(729)	12,114
2017	12,032	(648)	11,384
2018	11,268	(464)	10,804
Thereafter	56,087	(1,661)	54,426
Total	$ 120,269	$ (4,936)	$ 115,333

The Company is party to various subleases to which the Company would be liable for the rental payment in the case of a default by the subtenants. The minimal payments and the aggregate sublease income related to these premises have been included above. The Company considers the risk of default by the subtenants to be low therefore no accrual has been setup.

28. Contingencies:

(a) Lawsuits and legal claims:

From time to time, the Company is involved in routine litigation incidental to the Company's business. Management believes that adequate provisions have been made where required and the ultimate resolution with respect to any claim will not have a material adverse effect on the financial position or results of operations of the Company.

(b) Business combinations:

The Company has obligations to pay additional consideration for prior acquisitions, typically based upon performance measures contractually agreed at the time of purchase.

In the acquisition of SBC Systems Company (note 4), contingent consideration based on financial performance was agreed at the time of purchase with payment expected to be finalized in March 2014.

For the acquisition of Dion Durrell Workers’ Compensation, contingent consideration based on financial performance was agreed at the time of purchase and is expected to be settled through future payments of cash and LTIP units within 45 days of June 30 over the next three years.

As at December 31, 2013, the total contingent consideration of $1,680 has been recognized as future consideration related to acquisitions on the consolidated statements of financial position at the estimated discounted value plus accretion.

29. Management of capital:

The Company views its capital as the combination of its cash (bank indebtedness), long-term debt, convertible debentures and shareholders' equity. As at December 31, 2013 the Company's capital is $578,110 (2012 - $570,929), comprised of $252,863 (2012- $224,311) debt and $325,247 (2012- $346,618) equity. The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern while maintaining dividends to its shareholders and the growth of the Company's business through organic growth and new acquisitions.

The Company manages the capital structure and makes adjustments to it in accordance with the aforementioned objectives, as well as taking into consideration changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new or repurchase existing shares and assume new or repay existing debt.

No changes were made in the objectives, policies or processes for managing capital during the year.

The credit facilities require the Company to maintain certain financial covenants. Management also uses these ratios as key indicators in managing the Company's capital. Dividends are made to shareholders monthly. Ratios of dividends to free cash flow, cash from operating activities, and EBITDA are used by management to assist with the determination of dividends.

The Company is subject to externally imposed capital requirements to maintain certain financial covenants as mentioned above. The Company complied with all the required financial covenants at December 31, 2013.

30. Subsequent event:

On March 3, 2014, the Company completed the acquisition 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 OHS CGU. Acquiring Groupe AST will expand the Company's client base and market share nationally and in Quebec.

The assets of Groupe AST were acquired for cash consideration of $27,000 and $5,000 in vendor take-back notes. This acquisition will be accounted for using the purchase method of accounting. A preliminary valuation of the assets acquired and liabilities assumed has not been completed as a result of the proximity of the acquisition date to the release date of these consolidated financial statements.

Through this acquisition the Company gains an estimated $20,000 in additional annual revenue. These consolidated financial statements do not include the results of Groupe AST given the acquisition date of March 3, 2014.