Unaudited Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

MORNEAU SHEPELL INC.

Three and nine months ended September 30, 2018 and 2017
(Unaudited)

MORNEAU SHEPELL INC.

Unaudited Condensed Consolidated Interim Statements of Financial Position
(In thousands of Canadian dollars)
September 30, 2018, and December 31, 2017

	September 30, 2018	December 31, 2017 (restated- note 3(i))
Assets		
Current assets:		
Cash	$ 3,918	$ –
Trade and other receivables	100,993	76,050
Unbilled fees	72,341	70,434
Prepaid expenses and other	14,355	9,696
Cash and investments held in trust	11,653	18,102
Deferred implementation costs	13,683	11,788
Total current assets	216,943	186,070
Non-current assets:		
Unbilled fees	–	85
Deferred implementation costs	42,469	40,466
Interest rate swaps (note 5)	1,188	433
Capital assets	37,458	35,701
Intangible assets	423,271	227,061
Goodwill	603,892	324,100
Deferred tax asset	–	1,510
Investments in joint ventures	6,024	6,262
Total non-current assets	1,114,302	635,618
Total assets	$ 1,331,245	$ 821,688

MORNEAU SHEPELL INC.

Unaudited Condensed Consolidated Interim Statements of Financial Position
(In thousands of Canadian dollars)
September 30, 2018, and December 31, 2017

	September 30, 2018	December 31, 2017 (restated- note 3(i))
Liabilities and Equity		
Current liabilities:		
Bank indebtedness (note 5)	$ 7,956	$ 5,416
Trade and other payables	78,129	72,581
Income taxes payable	1,296	5,540
Deferred revenue	22,280	10,381
Insurance premium liabilities	11,653	18,102
Interest rate swaps (note 5)	203	–
Future consideration related to acquisitions (note 10)	882	2,842
Dividends payable	4,159	3,463
Total current liabilities	126,558	118,325
Non-current liabilities:		
Deferred revenue	5,546	13,362
Long-term debt (note 5)	384,471	179,669
Convertible debenture payable	82,850	82,080
Future consideration related to acquisitions (note 10)	864	733
Other liabilities	19,526	18,280
Provisions	4,041	4,286
Deferred tax liability	108,574	48,682
Total non-current liabilities	605,872	347,092
Equity:		
Share capital	817,739	558,972
Contributed surplus	28,964	27,339
Equity component of convertible debenture	1,045	1,045
Accumulated other comprehensive loss	(5,493)	(2,806)
Deficit	(243,440)	(228,279)
Total equity	598,815	356,271
Total liabilities and equity	$ 1,331,245	$ 821,688

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

MORNEAU SHEPELL INC.

Unaudited Condensed Consolidated Interim Statements of Income and Comprehensive Income
(In thousands of Canadian dollars, except per share amounts)
For the three and nine months ended September 30, 2018 and 2017

	Three months ended September 30, 2018	Three months ended September 30, 2017 (restated- note 3(i))	Nine months ended September 30, 2018	Nine months ended September 30, 2017 (restated- note 3(i))
Operating revenue	$ 182,805	$ 152,528	$ 521,522	$ 468,303
Operating expenses:				
Salaries, benefits and contractors	126,175	102,097	346,602	314,365
Rent and occupancy	7,581	6,859	21,379	20,805
Office and administration	28,399	17,247	65,983	52,162
Depreciation and amortization	16,743	9,603	37,112	28,392
Total operating expenses	178,898	135,806	471,076	415,724
Finance costs	4,948	3,450	11,399	9,888
Transaction Costs	8,975	–	9,924	–
Share of loss of joint ventures	173	–	198	–
Profit (loss) before income taxes	(10,189)	13,272	28,925	42,691
Income taxes expense (recovery):				
Current	(967)	3,560	12,311	12,628
Deferred	334	534	(1,732)	488
Total income taxes	(633)	4,094	10,579	13,116
Profit (loss) for the period	(9,556)	9,178	18,346	29,575
Other comprehensive income (loss):				
Items that may be reclassified subsequently to profit:				
Effective portion of change in interest rate cash flow hedges	410	772	553	1,677
Foreign currency translation differences for foreign operations	(4,620)	(1,106)	(3,135)	(2,049)
Income taxes on the above items	(109)	(208)	(148)	(450)
	(4,319)	(542)	(2,730)	(822)
Items that will not be reclassified to profit:				
Actuarial gain/(loss) on post-employment benefit plans	60	78	58	132
Income taxes on the above item	(16)	(20)	(15)	(34)
	44	58	43	98
Other comprehensive income (loss), net of tax effect	(4,275)	(484)	(2,687)	(724)
Comprehensive income (loss) for the period	(13,831)	8,694	15,659	28,851
Earnings per share (note 7):				
Basic	$ (0.15)	$ 0.17	$ 0.32	$ 0.54
Diluted	$ (0.15)	$ 0.16	$ 0.31	$ 0.53

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

MORNEAU SHEPELL INC.

Unaudited Condensed Consolidated Interim Statements of Changes in Equity
(In thousands of Canadian dollars)
For the nine months ended September 30, 2018 and 2017

2018	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive loss	Equity component of convertible debenture	Total equity
Balance, December 31, 2017	$ 558,972	$ 27,339	$ (223,491)	$ (2,806)	$ 1,045	$ 361,059
IFRS 15 implementation adjustment (note 3(i))	–	–	(4,788)	–	–	(4,788)
Balance, January 1, 2018, restated	558,972	27,339	(228,279)	(2,806)	1,045	356,271
Long-term incentive plan – issuance	–	4,531	–	–	–	4,531
Long-term incentive plan – redemption	2,906	(2,906)	–	–	–	–
Shares issued – public offering	231,012	–	–	–	–	231,012
Share issuance cost, net of future income tax benefit	(7,494)	–	–	–	–	(7,494)
Shares issued – part of acquisition consideration	32,343	–	–	–	–	32,343
Profit for the period	–	–	18,346	–	–	18,346
Dividends	–	–	(33,507)	–	–	(33,507)
Other comprehensive loss	–	–	–	(2,687)	–	(2,687)
Balance, September 30, 2018	817,739	28,964	(243,440)	(5,493)	1,045	598,815

2017	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive loss	Equity component of convertible debenture	Total equity
Balance, December 31, 2016	$ 552,038	$ 27,369	$ (216,294)	$ (2,451)	$ 1,045	$ 361,707
IFRS 15 opening adjustment	–	–	(3,230)	–	–	(3,230)
Balance, January 1, 2017, restated	552,038	27,369	(219,524)	(2,451)	1,045	358,477
Long-term incentive plan – issuance	–	5,662	–	–	–	5,662
Long-term incentive plan – redemption	6,212	(6,212)	–	–	–	–
Profit for the period	–	–	29,575	–	–	29,575
Dividends	–	–	(31,322)	–	–	(31,322)
Other comprehensive loss	–	–	–	(724)	–	(724)
Balance, September 30, 2017	$ 558,250	$ 26,819	$ (221,271)	$ (3,175)	$ 1,045	$ 361,668

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

MORNEAU SHEPELL INC.

Unaudited Condensed Consolidated Interim Statements of Cash Flows
(In thousands of Canadian dollars)
For the nine months ended September 30, 2018 and 2017

	Nine months ended September 30, 2018	Nine months ended September 30, 2017 (restated- note 3(i))
Operating activities		
Profit for the period	$ 18,346	$ 29,575
Items not involving cash:		
Depreciation and amortization	37,112	28,392
Finance costs	11,399	9,888
Long-term incentive plan expense	3,912	5,662
Income taxes	10,579	13,116
Change in provisions	(263)	(482)
Share of loss of joint ventures	198	–
Other	1,309	(397)
	82,592	85,754
Change in non-cash operating working capital (note 9)	(17,839)	(34,089)
Cash generated from operating activities	64,753	51,665
Finance costs paid	(12,159)	(9,642)
Income taxes paid	(13,722)	(8,440)
Cash provided by operating activities	38,872	33,583
Financing activities:		
Change in revolving loan	207,654	17,719
Proceeds from issuance of shares	231,012	–
Cost incurred to issue shares	(10,238)	–
Cost incurred to modify credit facilities	(3,101)	–
Dividends paid	(32,811)	(31,284)
Cash provided by (used in) financing activities	392,516	(13,565)
Investing activities:		
Business acquisitions	(405,602)	(4,941)
Additions to intangible assets	(12,947)	(8,445)
Additions to capital assets	(11,461)	(11,293)
Cash used in investing activities	(430,010)	(24,679)
Increase (decrease) in cash for the period	1,378	(4,661)
Bank indebtedness, beginning of period	(5,416)	(3,056)
Bank indebtedness (net of Cash), end of period	$ (4,038)	$ (7,717)

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

1. Organization and nature of the business:

Morneau Shepell Inc. was incorporated pursuant to the laws of the Province of Ontario on October 19, 2010 and is a continuation of Morneau Sobeco Income Fund, which was converted from an income trust structure into Morneau Shepell Inc., effective January 1, 2011.

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

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

These unaudited condensed consolidated interim financial statements were approved by the Company's Board of Directors on November 6, 2018.

2. Basis of preparation:

These unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2018 and 2017 have been prepared in accordance with International Accounting Standards 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB").

These interim financial statements do not include all the disclosures required by International Financial Reporting Standards ("IFRS") for annual consolidated financial statements and accordingly should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2017 prepared in accordance with IFRS as issued by the IASB.

3. Significant accounting policies:

(i) Changes in accounting policies:

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

(a) IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

On January 1, 2018 the Company adopted IFRS 15 and as a result, changed its accounting policy for revenue recognition.

The Company applied IFRS 15 retrospectively using the practical expedient in paragraph C5(c) of IFRS 15, under which the Company does not disclose the amount of consideration allocated to remaining performance obligations or an explanation of when the Company expects to recognize that amount as revenue for all reporting periods presented before the initial date of application of January 1, 2018. A description of the changes and the quantitative impact of the adoption of IFRS 15 are presented below.

Administrative Solutions contracts

IFRS 15 impacted the timing of revenue recognition and accounting for deferred implementation costs for certain groups of clients within our Administrative Solutions line of business. Namely, the implementation component and ongoing services components of Administrative Solutions application service provider ("ASP") and software as a service ("SaaS") contracts that provide the customer with a right to access a license to the Company's proprietary pension and benefits software for the term of the contract are now considered a single performance obligation. Previously, the Company considered the implementation component to be a separate unit of accounting, resulting in the recognition of implementation revenue upon delivery of the implementation component. In addition, for implementation costs incurred in connection with Administrative Solutions contracts where the implementation was not considered a separate performance obligation, implementation costs were previously deferred and amortized over the initial term of the service contract. Under IFRS 15, the Company considers the renewal period in the contract in addition to the initial term of the service contract when renewal is highly probable, in determining the amortization period of these deferred costs.

The following tables summarize the impact of adopting IFRS 15 on the Company's consolidated financial statements.

(In thousands of Canadian dollars)

(i) Consolidated Statement of Financial Position

December 31, 2017	As previously reported	Adjustments	As restated
Unbilled fees, current and non-current	$ 80,567	$ (10,048)	$ 70,519
Deferred implementation costs, current and non-current	30,504	21,750	52,254
Deferred tax asset	1,794	(284)	1,510
Total assets	$ 112,865	$ 11,418	$ 124,283
Deferred revenue	5,632	18,111	23,743
Deferred tax liability	50,587	(1,905)	48,682
Total liabilities	$ 56,219	$ 16,206	$ 72,425
Deficit	$ (223,491)	$ (4,788)	$ (228,279)
Equity	$ (223,491)	$ (4,788)	$ (228,279)

(ii) Consolidated Statement of Income and Comprehensive Income

For the three months ended September 30, 2017	As previously reported	Adjustments	As restated
Operating revenue	$ 153,782	$ (1,254)	$ 152,528
Total operating expenses [(1)]	136,425	(619)	135,806
Finance costs	3,450	–	3,450
Current income tax expense	3,776	(216)	3,560
Deferred income tax recovery	477	57	534
Profit	$ 9,654	$ (476)	$ 9,178
Comprehensive income	$ 9,170	$ (476)	$ 8,694
Earnings per share:			
Basic	$ 0.17	$ –	$ 0.17
Diluted	$ 0.17	$ (0.01)	$ 0.16

(1) IFRS 15 adjustment recognized through salaries, benefits and contractors expense within total operating expenses on the statement of income and comprehensive income.

(In thousands of Canadian dollars)

For the nine months ended September 30, 2017	As previously reported	Adjustments	As restated
Operating revenue	$ 472,433	$ (4,130)	$ 468,303
Total operating expenses (1)	418,978	(3,254)	415,724
Finance costs	9,888	–	9,888
Current income tax expense	13,327	(699)	12,628
Deferred income tax recovery	(53)	541	488
Profit	$ 30,293	$ (718)	$ 29,575
Comprehensive income	$ 29,569	$ (718)	$ 28,851
Earnings per share:			
Basic	$ 0.55	$ (0.01)	$ 0.54
Diluted	$ 0.54	$ (0.01)	$ 0.53

(1) IFRS 15 adjustment recognized through salaries, benefits and contractors expense within total operating expenses on the statement of income and comprehensive income.

(iii) Consolidated Statement of Cash Flows

For the nine months ended September 30, 2017	As previously reported	Adjustments	As restated
Profit	$ 30,293	$ (718)	$ 29,575
Items not involving cash	56,337	(158)	56,179
Change in non-cash operating working capital	(34,965)	876	(34,089)
Cash generated from operating activities	51,665	–	51,665
Finance costs paid	(9,642)	–	(9,642)
Income taxes paid	(8,440)	–	(8,440)
Cash provided by operating activities	$ 33,583	$ –	$ 33,583

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

The Company adopted IFRS 9 on January 1, 2018, which replaces IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39").

(i) Classification of financial assets and liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI"), and fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard replaces the previous classification categories of held to maturity, loans and receivables, and available for sale under IAS 39. The two principal classification categories for financial liabilities under IFRS 9 are amortized cost and FVTPL.

For the Company's classification and measurement of financial assets and liabilities, please refer to note 3(i)(b)(v) and note 10.

The adoption of IFRS 9 has not had a significant impact on the Company's classification and measurement of financial assets and financial liabilities.

(ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an expected credit loss ("ECL") model. The new impairment model applies to financial assets carried at amortized cost and contract assets. The adoption of the new ECL impairment model has not had a significant impact on the Company's measurement of impairment losses on its financial assets carried at amortized cost and contract assets.

(iii) Hedge Accounting

The Company elected to adopt the new general hedge accounting model in IFRS 9. This requires the Company to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. The adoption of the new general hedge accounting model under IFRS 9 has not had a significant impact on the Company's hedge accounting.

(iv) Transition

As a result of the adoption of IFRS 9, there was no impact on retained earnings as at the date of adoption of January 1, 2018. In making this determination, we note that changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, and all hedging relationships designated under IAS 39 as at December 31, 2017 met the criteria for hedge accounting under IFRS 9 as at January 1, 2018 and are therefore regarded as continuing hedging relationships.

(In thousands of Canadian dollars)

(v) Classification of financial assets and liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and liabilities as at January 1, 2018.

			Carrying amount	
	Original classification under IAS 39	New classification under IFRS 9	Original under IAS 39	New under IFRS 9
Financial assets:				
Trade and other receivables	Loans and receivables	Amortized cost	$ 76,050	$ 76,050
Cash and investments held in trust	Designated as FVTPL	Amortized cost	18,102	18,102
Interest rate swaps	Designated as FVOCI*	Designated as FVOCI*	433	433
Financial liabilities:				
Bank indebtedness	Designated as FVTPL	Amortized cost	5,416	5,416
Trade and other payables	Amortized cost	Amortized cost	72,581	72,581
Insurance premium liabilities	Amortized cost	Amortized cost	18,102	18,102
Future consideration related to acquisitions	Designated as FVTPL	Designated as FVTPL	3,575	3,575
Dividends payable	Amortized cost	Amortized cost	3,463	3,463
Long-term debt	Amortized cost	Amortized cost	179,669	179,669
Convertible debenture payable	Amortized cost	Amortized cost	82,080	82,080

* Designated as FVOCI as part of a hedging relationship.

(ii) Future accounting changes:

IFRS 16, Leases ("IFRS 16")

In January 2016, the IASB issued IFRS 16. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted for those entities that have also adopted IFRS 15. The new standard provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements. IFRS 16 supersedes IAS 17, Leases, and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, differentiating between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. Among other significant changes, the distinction between operating and finance leases is removed and assets and liabilities are recognized in respect of all leases (except those that meet limited exception criteria). Furthermore, IFRS 16 requires a front-loaded pattern for the recognition of lease expense over the life of the lease.

(In thousands of Canadian dollars)

As the Company has significant contractual obligations classified as operating leases under the existing standard, there will be an increase to both assets and liabilities upon adoption of IFRS 16, and changes to the timing of recognition and presentation of expenses associated with the lease arrangements. We are working through our project plan and have made progress in our implementation of IFRS 16, but it is not yet possible to make a final determination of the impact of the new standard on our financial statements. We expect to report more detailed information, including estimated quantitative financial effects, in our 2018 annual consolidated financial statements.

4. Business acquisitions:

On July 27, 2018, the Company completed the acquisition of all of the issued and outstanding shares of LifeWorks Corporation Limited ("LifeWorks") for a purchase price of approximately $437,564 (US$334,164), subject to final working capital adjustments. The purchase price on Closing was satisfied by delivering cash in the amount of $405,221 (US$309,403) and issuing approximately 1.2 million common shares of the Company equivalent to $32,343 (US$24,761). LifeWorks is a global employee assistance program ("EAP") provider, offering employee assistance, wellness, recognition and incentive programs in Canada, the United States, the UK and Australia. This acquisition allows the Company's existing employee support solutions line of business to deliver an expanded set of well-being services in a more integrated way to our clients as well as bolster the Company's geographic footprint through LifeWorks' established presence in the U.S., U.K., Australia and Canada.

The acquisition will be accounted for using the acquisition method of accounting. The allocation of the purchase consideration for this acquisition is preliminary and is as follows:

Cash and cash equivalent	$	4,208
Net working capital		6,615
Capital and other assets		785
Intangible assets		208,526
Goodwill		282,069
Deferred tax liability		(64,639)
	$	437,564

The goodwill is primarily attributable to the ability to expand the Company's existing employee support solutions practice, the expected synergies from combining LifeWorks' operations with the Company, and the network of providers acquired. Therefore, the goodwill acquired through the LifeWorks acquisition will be allocated to the existing employee support solutions and LifeWorks combined CGU for the purposes of impairment testing. The goodwill is not deductible for tax purposes.

As at September 30, 2018, $9,924 of acquisition-related costs had been incurred and are included in the unaudited condensed consolidated interim statements of income and comprehensive income for the nine months ended September 30, 2018.

(In thousands of Canadian dollars)

From the date of acquisition up to and including September 30, 2018, the acquisition has contributed operating revenues of $22,011 and a loss of $3,206 (which include a pre-tax amortization charge of $5,302 for acquisition related intangibles). Had this acquisition occurred on January 1, 2018, the Company estimates that the consolidated revenues of the Company would have been higher by $62,909 and the consolidated profit would be lower by $18,924, including additional pre-tax amortization of acquired intangibles of $18,000 and interest expense of $3,200 on incremental debt to finance the acquisition. In determining these amounts, the Company has assumed that the fair value adjustments that arose on the acquisition date would have been the same had the acquisition occurred on January 1, 2018.

In order to finance this acquisition, the Company amended and restated the Company's existing Credit Facility Agreement (see note 5), and raised $231,012 of gross proceeds through the issuance of 8.7 million common shares of the Company through a public share offering.

As the cash portion of the consideration was payable in U.S. dollars, on July 9, 2018 the Company also entered into a forward exchange contract and a currency exchange option contract to purchase in aggregate US$310,500 to reduce the variability in the Canadian dollar equivalent of the cash portion of the purchase price due at the date of closing of this acquisition.

5. Long-term debt:

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

	September 30, 2018	December 31, 2017
Revolving loans	$ 388,099	$ 180,445
Less: debt issuance costs, net of accumulated amortization	(3,628)	(776)
	$ 384,471	$ 179,669

On July 27, 2018, as part of the LifeWorks acquisition, the Company amended and restated the Company's existing Credit Facility Agreement (the "Amended and Restated Credit Facility Agreement"). Under the Amended and Restated Credit Facility Agreement, the Company's revolving facility increases from $300,000 to $500,000 (including a swing line of $14.0 million), and the agreement has a maturity date five years from closing. At September 30, 2018, the Company had utilized the following amounts under the Credit Facility Agreement:

At September 30, 2018, the Company had utilized the following amounts under the Credit Facility Agreement:

- $347,500 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 1.45%.

- $5,000 of Prime loans under the revolving loan. The Prime loans are renewed on a monthly basis, bearing interest at the one-month Prime rate plus an applicable margin of 0.45%.

- $31,715 (US$24,500) of U.S. Libor loans under the revolving loan. The US Libor loans are renewed on a monthly basis, bearing interest at the one- month U.S. Libor rate plus an applicable margin of 1.45%.

- $3,884 (US$3,000) of U.S. Base Rate loans under the revolving loan. The U.S. Base Rate loans are renewed on a monthly basis, bearing interest at the one- month U.S. Base Rate plus an applicable margin of 0.45%.

- $4,670 of the swing line available. The swing line carries interest at prime plus an applicable margin of 0.45%.

The interest rates for the Amended and Restated Credit Facility Agreement 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 defined in the agreement. The Amended and Restated Credit Facility Agreement 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 3.5:1.0 (or not more than 4.0:1.0 for the 12-month period immediately following the completion of a permitted acquisition, as defined in the agreement, with a purchase price of $50,000 or more), and an EBITDA to interest expense ratio of not less than 2.0:1.0.

As at September 30, 2018, the Company complied with all the required financial covenants.

(a) Interest rate swaps:

In July 2017, the Company entered into a forward-starting interest rate swap agreement to hedge against the variable interest rate component on $50,000 notional amount borrowed under the Credit Facility Agreement for the period from November 29, 2017 up to and ending December 20, 2020. The notional amount of this swap is $50,000 and is used to fix the variable component of the interest rate at 1.79%, before the applicable margin, for the duration of this period. In August 2018, the Company entered into a syndicated forward-starting interest rate swap agreement to hedge against the variable interest rate component on $130,000 notional amount borrowed under the Credit Facility Agreement for the period from September 4, 2018 up to and ending July 27, 2023. The notional amount of this syndicated swap is $130,000 and is used to fix the variable component of the interest rate at 2.59%, before the applicable margin, for the duration of this period. The two swaps have been designated as cash flow hedges. The fair value of these interest rate swaps at September 30, 2018 was an asset of $985 (December 31, 2017 - $433).

(In thousands of Canadian dollars)

6. Equity:

(a) Share capital:

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

2018	Number of common shares		Share capital		Contributed surplus
Balance, December 31, 2017	53,853,225	$	558,972	$	27,339
Long-term incentive plan – issuance	–		–		4,531
Long-term incentive plan – redemption	242,971		2,906		(2,906)
Shares issued – part of acquisition consideration (note 4)	1,194,847		32,343		–
Shares issued – public offering	8,701,000		223,518		–
Balance, September 30, 2018	63,992,043	$	817,739	$	28,964

2017	Number of common shares		Share capital		Contributed surplus
Balance, December 31, 2016	53,228,470	$	552,038	$	27,369
Long-term incentive plan – issuance	–		–		5,662
Long-term incentive plan – redemption	576,401		6,212		(6,212)
Balance, September 30, 2017	53,804,871	$	558,250	$	26,819

The Company raised $231,012 of gross proceeds through the issuance of 8.7 million common shares of the Company at $26.55 per share through a public share offering to finance the acquisition of LifeWorks. Share issuance costs of $10,238 were incurred, offset by a deferred tax benefit of $2,744, which reduced the share capital amount.

(b) Dividends:

The monthly dividend rate, approved by the Board of Directors, was $0.065 for the nine months ended September 30, 2018 (2017 - $0.065). Dividends declared for the nine months ended September 30, 2018 were $33,507. The Company continued to declare the same monthly dividend amount in October 2018.

(In thousands of Canadian dollars)

7. Earnings per share:

Basic earnings per share was calculated by dividing profit attributable to common shareholders 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 conversion of the convertible debentures.

The following details the earnings per share, basic and diluted, calculations for the three and nine months ended September 30, 2018 and 2017:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017 (Restated)	2018	2017 (Restated)
Profit (loss) attributable to common shareholders (basic and diluted)	(9,556)	9,178	18,346	29,575
Weighted average number of common shares (in number of shares):				
January 1			53,853,225	53,228,470
July 1	53,883,907	53,792,312		
Issued on redemption of LTIP[1]	103,420	5,159	48,874	270,219
Issued as part of acquisition and public offering (note 6)	6,991,631		2,356,154	
Vested LTIP awards	1,736,028	1,670,954	1,799,214	1,757,988
Basic	62,714,986	55,468,425	58,057,467	55,256,677
Dilutive effect of unvested LTIP awards	–	573,258	605,238	570,909
Diluted	62,714,986	56,041,683	58,662,705	55,827,586
Earnings per share:				
Basic	$ (0.15)	$ 0.17	$ 0.32	$ 0.54
Diluted	$ (0.15)	$ 0.16	$ 0.31	$ 0.53

[1] During the three months ended September 30, 2018, 212,289 shares (2017 – 12,559 shares) were issued on redemption of LTIP units. During the nine months ended September 30, 2018, 242,971 shares (2017 – 576,401 shares) were issued on redemption of LTIP units.

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

(In thousands of Canadian dollars)

8. Segmented information:

The Company provides health and productivity, administrative and retirement solutions to assist employers in managing the financial security, health and productivity of their employees. As at September 30, 2018, aggregation of operating segments was applied to determine that the Company had only one reportable segment.

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

	Three months ended September 30, 2018	Three months ended September 30, 2017 (Restated)	Nine months ended September 30, 2018	Nine months ended September 30, 2017 (Restated)
Revenue:				
Canada	$ 141,816	$ 131,584	$ 428,378	$ 404,676
United States and International	40,989	20,944	93,144	63,627
Consolidated Total	$ 182,805	$ 152,528	$ 521,522	$ 468,303

	September 30, 2018	December 31, 2017 (Restated)
Total assets:		
Canada	$ 870,113	$ 724,880
United States and International	461,132	96,808
Consolidated Total	$ 1,331,245	$ 821,688

(In thousands of Canadian dollars)

9. Supplementary cash flow information:

Change in non-cash operating working capital for the nine months ended September 30, 2018 and 2017 was as follows:

	2018	2017 (Restated)
Trade and other receivables	$ (3,720)	$ (10,912)
Unbilled fees, current and non-current	81	(7,723)
Prepaid expenses and other	(1,908)	(3,526)
Deferred implementation costs, current and non-current	(2,919)	(7,528)
Trade and other payables	(6,598)	(7,597)
Deferred revenue	(2,775)	3,197
	$ (17,839)	$ (34,089)

10. Financial instruments:

Financial instruments carried at fair value:

Fair value represents management's estimates 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.

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

	Carrying Value and Fair Value		
	September 30, 2018	December 31, 2017	Level
Assets carried at fair value:			
Interest rate swaps	$ 985	$ 433	2
	$ 985	$ 433	
Liabilities carried at fair value:			
Future consideration related to acquisitions	$ 1,746	$ 3,575	3
	$ 1,746	$ 3,575	

(In thousands of Canadian dollars)

During the nine months ended September 30, 2018, there were no transfers between any levels.

The future consideration related to acquisitions is a financial instrument carried at fair value through profit or loss. The fair value of the future consideration related to these acquisitions is determined considering the estimated payment, discounted to present value. The total aggregate contingent consideration remaining to be paid for these acquisitions ranges from a contractual amount of $nil to maximum of $1,746.

The following table indicates the changes in the future consideration related to acquisitions during the nine months ended September 30, 2018:

	Future consideration related to acquisitions
Balance at January 1, 2018	$ 3,575
Settlements of contingent consideration	(2,042)
Accretion	280
Re-measurement and other	(67)
	$1,746

Financial instruments carried at amortized cost:

The carrying values of trade and other receivables, cash and investments held in trust, bank indebtedness, trade and other payables, insurance premium liabilities, and dividends payable are amortized cost and approximate their fair value 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 $82,850 (December 31, 2017 - $82,080) and a fair value of $98,298 (December 31, 2017 - $93,740). 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 $384,471 (December 31, 2017 - $179,669) and a fair value of $388,099 (December 31, 2017 - $180,445). The fair value is determined based on the cost of borrowing for a company with a similar risk profile (Level 2).

Credit Risk:

As at September 30, 2018, one U.S. public sector customer comprised $12,767 (December 31, 2017- $14,134) of the trade and other receivables balance, of which $9,162 (December 31, 2017- $10,599) is greater than ninety days past due. Subsequent to September 30, 2018, the Company has collected $1,796 of the $12,767 trade and other receivables balance owed by this U.S. public sector customer.

(In thousands of Canadian dollars)

11. Revenue:

The following shows the disaggregation of revenue by the Company's lines of business:

	Three months ended September 30, 2018	Three months ended September 30, 2017 (Restated)	Nine months ended September 30, 2018	Nine months ended September 30, 2017 (Restated)
Employee Support Solutions and LifeWorks combined	$ 76,896	$ 52,014	$ 195,438	$ 160,773
Administrative Solutions	57,465	55,766	175,445	165,970
Consulting	31,159	28,276	97,103	91,261
Absence Management Solutions	17,285	16,472	53,536	50,299
	$ 182,805	$ 152,528	$ 521,522	$ 468,303