Unaudited Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

MORNEAU SHEPELL INC.

Three and six months ended June 30, 2018 and 2017
(Unaudited)

MORNEAU SHEPELL INC.

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

	June 30, 2018	December 31, 2017 (restated- note 3(i))
Assets		
Current assets:		
Trade and other receivables	$ 86,211	$ 76,050
Unbilled fees	73,893	70,434
Prepaid expenses and other	15,076	9,696
Cash and investments held in trust	11,963	18,102
Deferred implementation costs	13,192	11,788
Interest rate swaps (note 4)	89	–
Total current assets	200,424	186,070
Non-current assets:		
Unbilled fees	–	85
Deferred implementation costs	41,100	40,466
Interest rate swaps (note 4)	487	433
Capital assets	36,131	35,701
Intangible assets	223,609	227,061
Goodwill	324,781	324,100
Deferred tax asset	950	1,510
Investments in joint ventures	6,333	6,262
Total non-current assets	633,391	635,618
Total assets	$ 833,815	$ 821,688

MORNEAU SHEPELL INC.

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

	June 30, 2018	December 31, 2017 (restated- note 3(i))
Liabilities and Equity		
Current liabilities:		
Bank indebtedness (note 4)	$ 4,437	$ 5,416
Trade and other payables	53,247	72,581
Income taxes payable	8,585	5,540
Deferred revenue	15,087	10,381
Insurance premium liabilities	11,963	18,102
Future consideration related to acquisitions (note 9)	867	2,842
Dividends payable	3,462	3,463
Total current liabilities	97,648	118,325
Non-current liabilities:		
Deferred revenue	10,674	13,362
Long-term debt (note 4)	205,538	179,669
Convertible debenture payable	82,586	82,080
Future consideration related to acquisitions (note 9)	858	733
Other liabilities	18,900	18,280
Provisions	3,481	4,286
Deferred tax liability	46,880	48,682
Total non-current liabilities	368,917	347,092
Equity:		
Share capital	559,421	558,972
Contributed surplus	29,380	27,339
Equity component of convertible debenture	1,045	1,045
Accumulated other comprehensive loss	(1,217)	(2,806)
Deficit	(221,379)	(228,279)
Total equity	367,250	356,271
Total liabilities and equity	$ 833,815	$ 821,688

Commitments and contingencies, and subsequent events (notes 9 and 11)

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

MORNEAU SHEPELL INC.

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017 (restated- note 3(i))	2018	2017 (restated- note 3(i))
Operating revenue	171,191	$ 159,193	338,717	$ 315,775
Operating expenses:				
Salaries, benefits and contractors	111,122	104,850	220,428	212,269
Rent and occupancy	6,846	6,958	13,798	13,946
Office and administration	20,544	18,291	38,533	34,915
Depreciation and amortization	10,149	9,456	20,368	18,789
Total operating expenses	148,661	139,555	293,127	279,919
Finance costs	3,297	3,165	6,452	6,438
Share of loss of joint ventures	(44)	–	(25)	–
Profit before income taxes	19,189	16,473	39,113	29,418
Income taxes expense (recovery):				
Current	6,875	4,915	13,277	9,552
Deferred	(1,358)	(559)	(2,066)	(531)
Total income taxes	5,517	4,356	11,211	9,021
Profit for the period	13,672	12,117	27,902	20,397
Other comprehensive income (loss):				
Items that may be reclassified subsequently to profit:				
Effective portion of change in interest rate cash flow hedges	23	494	143	905
Foreign currency translation differences for foreign operations	395	(699)	1,485	(943)
Income taxes on the above items	(6)	(132)	(38)	(242)
	412	(337)	1,590	(280)
Items that will not be reclassified to profit:				
Actuarial gain/(loss) on post-employment benefit plans	(6)	(51)	(2)	54
Income taxes on the above item	2	13	1	(14)
	(4)	(38)	(1)	40
Other comprehensive income (loss), net of tax effect	408	(375)	1,589	(240)
Comprehensive income for the period	$ 14,080	$ 11,742	$ 29,491	$ 20,157
Earnings per share (note 6):				
Basic	$ 0.25	$ 0.22	$ 0.50	$ 0.37
Diluted	$ 0.24	$ 0.22	$ 0.50	$ 0.37

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

MORNEAU SHEPELL INC.

Unaudited Condensed Consolidated Interim Statements of Changes in Equity
(In thousands of Canadian dollars)
For the six months ended June 30, 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	–	2,490	–	–	–	2,490
Long-term incentive plan – redemption	449	(449)	–	–	–	–
Profit for the period	–	–	27,902	–	–	27,902
Dividends	–	–	(21,002)	–	–	(21,002)
Other comprehensive income	–	–	–	1,589	–	1,589
Balance, June 30, 2018	$ 559,421	$ 29,380	$ (221,379)	$ (1,217)	$ 1,045	$ 367,250

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	–	4,313	–	–	–	4,313
Long-term incentive plan – redemption	6,024	(6,024)	–	–	–	–
Profit for the period	–	–	20,397	–	–	20,397
Dividends	–	–	(20,798)	–	–	(20,798)
Other comprehensive loss	–	–	–	(240)	–	(240)
Balance, June 30, 2017	$ 558,062	$ 25,658	$ (219,925)	$ (2,691)	$ 1,045	$ 362,149

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

MORNEAU SHEPELL INC.

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

	Six months ended June 30, 2018	Six months ended June 30, 2017 (restated- note 3(i))
Operating activities		
Profit for the period	$ 27,902	$ 20,397
Items not involving cash:		
Depreciation and amortization	20,368	18,789
Finance costs (note 4)	6,452	6,438
Long-term incentive plan expense	2,077	4,313
Income taxes	11,211	9,021
Change in provisions	(805)	(217)
Share of loss of joint ventures	25	–
Other	546	(70)
	67,776	58,671
Change in non-cash operating working capital (note 8)	(35,839)	(29,144)
Cash generated from operating activities	31,937	29,527
Finance costs paid	(7,648)	(7,699)
Income taxes paid	(9,464)	(6,633)
Cash provided by operating activities	14,825	15,195
Financing activities:		
Change in revolving loan (net)	25,733	19,241
Dividends paid	(21,003)	(20,794)
Cash provided by (used in) financing activities	4,730	(1,553)
Investing activities:		
Business acquisitions	(4,530)	(4,917)
Additions to intangible assets	(7,638)	(4,911)
Additions to capital assets	(6,408)	(8,682)
Cash used in investing activities	(18,576)	(18,510)
Increase (decrease) in cash for the period	979	(4,868)
Bank indebtedness, beginning of period	(5,416)	(3,056)
Bank indebtedness, end of period	$ (4,437)	$ (7,924)

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 August 9, 2018.

2. Basis of preparation:

These unaudited condensed consolidated interim financial statements for the three and six months ended June 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 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 June 30, 2017	As previously reported	Adjustments	As restated
Operating revenue	$ 160,814	$ (1,621)	$ 159,193
Total operating expenses (1)	140,685	(1,130)	139,555
Finance costs	3,165	–	3,165
Current income tax expense	4,915	–	4,915
Deferred income tax recovery	(426)	(133)	(559)
Profit	$ 12,475	$ (358)	$ 12,117
Comprehensive income	$ 12,100	$ (358)	$ 11,742
Earnings per share:			
Basic	$ 0.23	$ (0.01)	$ 0.22
Diluted	$ 0.22	$ –	$ 0.22

(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 six months ended June 30, 2017	As previously reported	Adjustments	As restated
Operating revenue	$ 318,651	$ (2,876)	$ 315,775
Total operating expenses [1]	282,553	$ (2,634)	279,919
Finance costs	6,438	–	6,438
Current income tax expense	9,552	–	9,552
Deferred income tax recovery	(531)	–	(531)
Profit	$ 20,639	$ (242)	$ 20,397
Comprehensive income	$ 20,399	$ (242)	$ 20,157
Earnings per share:			
Basic	$ 0.37	$ –	$ 0.37
Diluted	$ 0.37	$ –	$ 0.37

(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 six months ended June 30, 2017	As previously reported	Adjustments	As restated
Profit	$ 20,639	$ (242)	$ 20,397
Items not involving cash	38,274	–	38,274
Change in non-cash operating working capital	(29,386)	242	(29,144)
Cash generated from operating activities	29,527	–	29,527
Finance costs paid	(7,699)	–	(7,699)
Income taxes paid	(6,633)	–	(6,633)
Cash provided by operating activities	$ 15,195	$ –	$ 15,195

(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(v) and note 9.

The adoption of the 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.

	Original classification under IAS 39	New classification under IFRS 9	Carrying amount Original under IAS 39	Carrying amount 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. Furthermore, IFRS 16 requires a front-loaded pattern for the recognition of lease expense over the life of the lease. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

(In thousands of Canadian dollars)

4. Long-term debt:

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

	June 30, 2018	December 31, 2017
Revolving loans	$ 206,178	$ 180,445
Less: debt issuance costs, net of accumulated amortization	(640)	(776)
	$ 205,538	$ 179,669

The Company has a credit facility agreement (the "Credit Facility Agreement") that matures on December 20, 2020 and provides for a revolving facility of $300.0 million (including a swing line of $14.0 million).

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

- $168,000 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%.
- $12,500 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%.
- $13,168 (US$10,000) 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%.
- $12,510 (US$9,500) 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%.
- $3,471 of the swing line available. The swing line carries interest at prime plus an applicable margin of 0.45%.

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

On July 27, 2018, subsequent to the period covered by these financial statements, 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, and the agreement has a maturity date five years from closing.

The interest rates for the Amended and Restated 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 defined in the agreement. The Amended and Restated 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 3.5:1.0 (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.

(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 and has been designated as a cash flow hedge. The fair value of this interest rate swap at June 30, 2018 was an asset of $576 (December 31, 2017 - $433).

5. Dividends:

The monthly dividend rate, approved by the Board of Directors, was $0.065 for the six months ended June 30, 2018 (2017 - $0.065). Dividends declared for the six months ended June 30, 2018 were $21,002. The Company continued to declare the same monthly dividend amount in July 2018.

6. 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 six months ended June 30, 2018 and 2017:

(In thousands of Canadian dollars)

	Three months ended June 30, 2018	Three months ended June 30, 2017 (Restated)	Six months ended June 30, 2018	Six months ended June 30, 2017 (Restated)
Profit attributable to common shareholders (basic and diluted)	$ 13,672	$ 12,117	$ 27,902	$ 20,397
Weighted average number of common shares (in number of shares):				
January 1	–	–	53,853,225	53,228,470
April 1	53,854,077	53,230,064	–	–
Issued on redemption of LTIP[1]	10,056	232,443	5,555	118,352
Vested LTIP awards	1,915,306	1,675,037	1,830,806	1,801,506
Basic	55,779,439	55,137,544	55,689,586	55,148,328
Dilutive effect of unvested LTIP awards	543,232	526,884	603,488	569,734
Diluted	56,322,671	55,664,428	56,293,074	55,718,062
Earnings per share:				
Basic	$ 0.25	$ 0.22	$ 0.50	$ 0.37
Diluted	$ 0.24	$ 0.22	$ 0.50	$ 0.37

[1] During the three months ended June 30, 2018, 29,830 shares (2017 – 562,248 shares) were issued on redemption of LTIP units. During the six months ended June 30, 2018, 30,682 shares (2017 – 563,842 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.

7. Segmented information:

The Company provides health and productivity, administrative and retirement solutions to assist employers in managing the financial security, health and productivity of their employees. As at June 30, 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:

(In thousands of Canadian dollars)

	Three months ended June 30, 2018	Three months ended June 30, 2017 (Restated)	Six months ended June 30, 2018	Six months ended June 30, 2017 (Restated)
Revenue:				
Canada	$ 144,652	$ 139,376	$ 286,562	$ 273,092
United States	$ 26,539	$ 19,817	$ 52,155	$ 42,683
Consolidated Total	$ 171,191	$ 159,193	$ 338,717	$ 315,775

	June 30, 2018	December 31, 2017 (Restated)
Total assets:		
Canada	$ 718,551	$ 724,880
United States	115,264	96,808
Consolidated Total	$ 833,815	$ 821,688

8. Supplementary cash flow information:

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

	2018	2017 (Restated)
Trade and other receivables	$ (10,234)	$ (8,522)
Unbilled fees, current and non-current	(3,374)	(10,377)
Prepaid expenses and other	(5,380)	(5,967)
Deferred implementation costs, current and non-current	(485)	(5,426)
Trade and other payables	(17,765)	(2,156)
Deferred revenue	1,399	3,304
	$ (35,839)	$ (29,144)

(In thousands of Canadian dollars)

9. 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		
	June 30, 2018	December 31, 2017	Level
Assets carried at fair value:			
Interest rate swaps	$ 576	$ 433	2
	$ 576	$ 433	
Liabilities carried at fair value:			
Future consideration related to acquisitions	$ 1,725	$ 3,575	3
	$ 1,725	$ 3,575	

During the six months ended June 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 $1,682.

(In thousands of Canadian dollars)

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

	Future consideration related to acquisitions
Balance at January 1, 2018	$ 3,575
Settlements of contingent consideration	(1,974)
Foreign exchange	(22)
Accretion	221
Re-measurement	(75)
	$ 1,725

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 $82,586 (December 31, 2017 - $82,080) and a fair value of $99,330 (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 $205,538 (December 31, 2017 - $179,669) and a fair value of $206,178 (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 June 30, 2018, one U.S. public sector customer comprised $14,184 (December 31, 2017- $14,134) of the trade and other receivables balance, of which $10,592 (December 31, 2017- $10,599) is greater than ninety days past due. Subsequent to June 30, 2018, the Company has collected $2,017 of the $14,184 trade and other receivables balance owed by this U.S. public sector customer.

(In thousands of Canadian dollars)

10. Revenue:

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

	Three months ended June 30, 2018	Three months ended June 30, 2017 (Restated)	Six months ended June 30, 2018	Six months ended June 30, 2017 (Restated)
Employee Support Solutions	$ 58,431	$ 53,137	$ 118,542	$ 108,759
Administrative Solutions	60,083	55,776	118,247	109,812
Consulting	34,325	33,010	65,676	63,377
Absence Management Solutions	18,352	17,270	36,252	33,827
	$ 171,191	$ 159,193	$ 338,717	$ 315,775

11. Subsequent events:

On July 9, 2018, the Company announced that it had entered into an agreement of purchase and sale (the "Purchase Agreement") to acquire all of the issued and outstanding shares of Lifeworks Corporation Limited ("Lifeworks") for a purchase price of approximately $426,000 (US$325,000), subject to working capital adjustments including for cash acquired. The acquisition closed on July 27, 2018. The purchase price of US$325,000 plus estimated working capital adjustments of US$6,071 and cash acquired of US$3,093, which aggregates to approximately $438,000 (US$334,164), was satisfied by delivering cash in the amount US$309,403 and issuance of approximately 1.1 million common shares of the Company equivalent to 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:

Net working capital, including cash acquired	$ 12,439
Capital and other assets	2,947
Intangible assets	206,154
Goodwill	267,502
Deferred tax liability	(51,042)
	$ 438,000

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. The goodwill is not deductible for tax purposes.

Acquisition-related costs for Lifeworks are estimated to be $7,670. As at June 30, 2018, $949 of acquisition-related costs had been incurred and are included in the statement of income and comprehensive income for the three and six months ended June 30, 2018.

As the acquisition closed subsequent to June 30, 2018, the unaudited condensed consolidated financial statements of the Company for the three and six months ended June 30, 2018 do not include the fair value of the net assets acquired, including goodwill, and operating results of Lifeworks.

Had this acquisition occurred on January 1, 2018, the Company estimates that the consolidated revenues of the Company would have been higher by $54,772 and the consolidated profit would be lower by $22,841, including additional amortization of acquired intangibles of $26,531. 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, subsequent to June 30, 2018, the Company amended and restated the Company's existing Credit Facility Agreement (see note 4), 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 is 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.