Unaudited Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

MORNEAU SHEPELL INC.

Three months ended March 31, 2018 and 2017
(Unaudited)

MORNEAU SHEPELL INC.

Unaudited Condensed Consolidated Interim Statements of Financial Position
(In thousands of Canadian dollars)
March 31, 2018, December 31, 2017, and January 1, 2017

	March 31, 2018	December 31, 2017 (restated- note 3(i))	January 1, 2017 (restated- note 3(i))
Assets			
Current assets:			
Trade and other receivables	$ 82,669	$ 76,050	$ 67,291
Unbilled fees	69,862	70,434	58,798
Prepaid expenses and other	10,757	9,696	8,159
Cash and investments held in trust	12,260	18,102	17,211
Deferred implementation costs	12,541	11,788	8,858
Interest rate swaps (note 4)	47	–	–
Total current assets	188,136	186,070	160,317
Non-current assets:			
Unbilled fees	–	85	115
Deferred implementation costs	40,809	40,466	36,242
Interest rate swaps (note 4)	506	433	–
Capital assets	36,925	35,701	34,499
Intangible assets	222,778	227,061	230,572
Goodwill	324,422	324,100	320,757
Deferred tax asset	600	1,510	1,731
Investments in joint ventures	6,763	6,262	–
Total non-current assets	632,803	635,618	623,916
Total assets	$ 820,939	$ 821,688	$ 784,233

MORNEAU SHEPELL INC.

Unaudited Condensed Consolidated Interim Statements of Financial Position
(In thousands of Canadian dollars)
March 31, 2018, December 31, 2017, and January 1, 2017

	March 31, 2018	December 31, 2017 (restated- note 3(i))	January 1, 2017 (restated- note 3(i))
Liabilities and Equity			
Current liabilities:			
Bank indebtedness (note 4)	$ 5,284	$ 5,416	$ 3,056
Trade and other payables	70,167	72,581	59,157
Income taxes payable	3,255	5,540	2,200
Deferred revenue	13,442	10,381	7,916
Insurance premium liabilities	12,260	18,102	17,211
Future consideration related to acquisitions (note 9)	749	2,842	5,252
Dividends payable	3,460	3,463	3,460
Interest rate swaps (note 4)	–	–	1,625
Total current liabilities	108,617	118,325	99,877
Non-current liabilities:			
Deferred revenue	12,522	13,362	12,423
Long-term debt (note 4)	182,278	179,669	166,299
Convertible debenture payable	82,330	82,080	81,096
Future consideration related to acquisitions (note 9)	929	733	2,258
Other liabilities	18,300	18,280	12,838
Provisions	3,797	4,286	3,764
Deferred tax liability	49,725	48,682	47,201
Total non-current liabilities	349,881	347,092	325,879
Equity:			
Share capital	559,020	558,972	552,038
Contributed surplus	28,549	27,339	27,369
Equity component of convertible debenture	1,045	1,045	1,045
Accumulated other comprehensive loss	(1,625)	(2,806)	(2,451)
Deficit	(224,548)	(228,279)	(219,524)
Total equity	362,441	356,271	358,477
Total liabilities and equity	$ 820,939	$ 821,688	$ 784,233

Commitments and contingencies (note 9)

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 months ended March 31, 2018 and 2017

	Three months ended March 31, 2018	Three months ended March 31, 2017 (restated- note 3(i))
Operating revenue	$ 167,526	$ 156,582
Operating expenses:		
Salaries, benefits and contractors	109,306	107,418
Rent and occupancy	6,953	6,990
Office and administration	17,989	16,622
Depreciation and amortization	10,220	9,333
Total operating expenses	144,468	140,363
Finance costs (note 4)	3,155	3,273
Share of income of joint ventures	20	–
Profit before income taxes	19,923	12,946
Income taxes expense (recovery):		
Current	6,402	4,638
Deferred	(708)	28
Total income taxes	5,694	4,666
Profit for the period	14,229	8,280
Other comprehensive income (loss):		
Items that may be reclassified subsequently to profit:		
Effective portion of change in interest rate cash flow hedges	120	411
Foreign currency translation differences for foreign operations	1,090	(244)
Income taxes on the above items	(32)	(110)
	1,178	57
Items that will not be reclassified to profit:		
Actuarial gain on post-employment benefit plans	4	105
Income taxes on the above item	(1)	(28)
	3	77
Other comprehensive income, net of tax effect	1,181	134
Comprehensive income for the period	$ 15,410	$ 8,414
Earnings per share (note 6):		
Basic	$0.26	$ 0.15
Diluted	$0.25	$ 0.15

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 three months ended March 31, 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	–	1,258	–	–	–	1,258
Long-term incentive plan – redemption	48	(48)	–	–	–	–
Profit for the period	–	–	14,229	–	–	14,229
Dividends	–	–	(10,498)	–	–	(10,498)
Other comprehensive income	–	–	–	1,181	–	1,181
Balance, March 31, 2018	$ 559,020	$28,549	$ (224,548)	$ (1,625)	$ 1,045	$ 362,441

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 (note 3(i))	–	–	(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	–	3,244	–	–	–	3,244
Long-term incentive plan – redemption	22	(22)	–	–	–	–
Profit for the period	–	–	8,280	–	–	8,280
Dividends	–	–	(10,380)	–	–	(10,380)
Other comprehensive income	–	–	–	134	–	134
Balance, March 31, 2017	$ 552,060	$ 30,591	$ (221,624)	$ (2,317)	$ 1,045	$ 359,755

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 three months ended March 31, 2018 and 2017

	Three months ended March 31, 2018	Three months ended March 31, 2017 (restated- note 3(i))
Operating activities		
Profit for the period	$ 14,229	$ 8,280
Items not involving cash:		
Depreciation and amortization	10,220	9,333
Finance costs (note 4)	3,155	3,273
Long-term incentive plan expense	1,051	3,244
Income taxes	5,694	4,666
Change in provisions	(489)	(113)
Share of income of joint ventures	(20)	–
Other	(51)	(314)
	33,789	28,369
Change in non-cash operating working capital (note 8)	(7,046)	(6,205)
Cash generated from operating activities	26,743	22,164
Finance costs paid	(3,705)	(4,015)
Income taxes paid	(6,122)	(4,033)
Cash provided by operating activities	16,916	14,116
Financing activities:		
Change in revolving loan (net)	2,541	(71)
Dividends paid	(10,501)	(10,380)
Cash used in financing activities	(7,960)	(10,451)
Investing activities:		
Business acquisitions	(1,974)	(1,696)
Additions to intangible assets	(2,659)	(1,894)
Additions to capital assets	(4,191)	(3,178)
Cash used in investing activities	(8,824)	(6,768)
Increase (decrease) in cash for the period	132	(3,103)
Bank indebtedness, beginning of period	(5,416)	(3,056)
Bank indebtedness, end of period	(5,284)	$ (6,159)

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 May 7, 2018.

2. Basis of preparation:

These unaudited condensed consolidated interim financial statements for the three months ended March 31, 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

January 1, 2017	As previously reported	Adjustments	As restated
Unbilled fees, current and non-current	$ 66,259	$ (7,346)	$ 58,913
Deferred implementation costs, current and non-current	26,552	18,548	45,100
Deferred tax asset	2,326	(595)	1,731
Total assets	$ 95,137	$ 10,607	$ 105,744
Deferred revenue	5,121	15,218	20,339
Deferred tax liability	48,582	(1,381)	47,201
Total liabilities	$ 53,703	$ 13,837	$ 67,540
Deficit	$ (216,294)	$ (3,230)	$ (219,524)
Equity	$ (216,294)	$ (3,230)	$ (219,524)

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)

(In thousands of Canadian dollars)

(ii) Consolidated Statement of Income and Comprehensive Income

For the three months ended March 31, 2017	As previously reported	Adjustments	As restated
Operating revenue	$ 157,837	$ (1,255)	$ 156,582
Total operating expenses [1]	141,868	(1,505)	140,363
Finance costs	3,273	–	3,273
Current income taxes	4,638	–	4,638
Deferred income taxes	(106)	134	28
Profit	$ 8,164	$ 116	$ 8,280
Comprehensive income	$ 8,298	$ 116	$ 8,414
Earnings per share:			
Basic	$ 0.15	$ –	$ 0.15
Diluted	$ 0.15	$ –	$ 0.15

(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 three months ended March 31, 2017	As previously reported	Adjustments	As restated
Profit	$ 8,164	$ 116	$ 8,280
Items not involving cash	19,955	134	20,089
Change in non-cash operating working capital	(5,955)	(250)	(6,205)
Cash generated from operating activities	22,164	–	22,164
Finance costs paid	(4,015)	–	(4,015)
Income taxes paid	(4,033)	–	(4,033)
Cash provided by operating activities	$ 14,116	$ –	$ 14,116

(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

* Designated as FVOCI as part of a hedging relationship.

(In thousands of Canadian dollars)

(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.

4. Long-term debt:

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

	March 31, 2018	December 31, 2017
Revolving loans	$ 182,986	$ 180,445
Less: debt issuance costs, net of accumulated amortization	(708)	(776)
	$ 182,278	$ 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 March 31, 2018, the Company had utilized the following amounts under the Credit Facility Agreement:

- $150,000 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%.

- $13,000 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%.

- $12,894 (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%.

- $7,092 (US $5,500) 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%.

- $8,404 of the swing line available. The swing line carries interest at prime plus an applicable margin of 0.45%.

As at March 31, 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 and has been designated as a cash flow hedge. The fair value of this interest rate swap at March 31, 2018 was an asset of $553 (December 31, 2017 - $433).

5. Dividends:

The monthly dividend rate, approved by the Board of Directors, was $0.065 for the three months ended March 31, 2018 (2017 - $0.065). Dividends declared for the three months ended March 31, 2018 were $10,498. The Company continued to declare the same monthly dividend amount in April 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.

(In thousands of Canadian dollars)

The following details the earnings per share, basic and diluted, calculations for the three months ended March 31, 2018 and 2017:

	Three months ended March 31 2018	Three months ended March 31 2017 (Restated)
Profit attributable to common shareholders (basic and diluted)	$ 14,229	$ 8,280
Weighted average number of common shares (in number of shares):		
January 1	53,853,225	53,228,470
Shares issued on redemption of LTIP[1]	539	1,381
Vested LTIP awards	1,746,307	1,927,975
Basic	55,600,071	55,157,826
Dilutive effect of unvested LTIP awards	670,524	612,584
Diluted	56,270,595	55,770,410
Earnings per share:		
Basic	$ 0.26	$ 0.15
Diluted	$ 0.25	$ 0.15

[1] During the three months ended March 31, 2018, 852 shares (2017 – 1,594 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 March 31, 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 March 31, 2018	Three months ended March 31, 2017 (Restated)
Revenue:		
Canada	$ 141,910	$ 135,019
United States	25,616	21,563
Consolidated total	$ 167,526	$ 156,582

	March 31, 2018	December 31, 2017 (Restated)
Total assets:		
Canada	$ 717,614	$ 724,880
United States	103,325	96,808
Consolidated total	$ 820,939	$ 821,688

8. Supplementary cash flow information:

Change in non-cash operating working capital for the three months ended March 31, 2018 and 2017 was as follows:

	2018	2017 (Restated)
Trade and other receivables	$ (6,619)	$ 4,460
Unbilled fees, current and non-current	657	(10,284)
Prepaid expenses and other	(1,061)	(3,773)
Deferred implementation costs, current and non-current	(231)	(3,554)
Trade and other payables	(1,758)	4,592
Deferred revenue	1,966	2,354
	$ (7,046)	$ (6,205)

(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		
	March 31, 2018	December 31, 2017	Level
Assets carried at fair value:			
Interest rate swaps	$ 553	$ 433	2
	$ 553	$ 433	
Liabilities carried at fair value:			
Future consideration related to acquisitions	$ 1,678	$ 3,575	3
	$ 1,678	$ 3,575	

During the three months ended March 31, 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 $1,700.

(In thousands of Canadian dollars)

The following table indicates the changes in the future consideration related to acquisitions during the three months ended March 31, 2018:

		Future consideration related to acquisitions
Balance at January 1, 2018	$	3,575
Settlements of contingent consideration		(1,974)
Foreign exchange		(3)
Accretion		155
Re-measurement		(75)
	$	$1,678

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 $82,330 (December 31, 2017 - $82,080) and a fair value of $97,051 (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 $182,278 (December 31, 2017 - $179,669) and a fair value of $182,986 (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 March 31, 2018, one U.S. public sector customer comprised $15,185 (December 31, 2017- $14,134) of the trade and other receivables balance, of which $10,375 (December 31, 2017- $10,599) is greater than ninety days past due. Subsequent to March 31, 2018, the Company has collected $3,859 of the $15,185 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 March 31, 2018	Three months ended March 31, 2017 (Restated)
Employee Support Solutions	$ 60,111	$ 55,622
Administrative Solutions	58,164	54,036
Consulting	31,351	30,367
Absence Management Solutions	17,900	16,557
	$ 167,526	$ 156,582