



2019 Annual Report

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CHAIR'S MESSAGE TO SHAREHOLDERS

On behalf of the Board of Directors, I want to extend my appreciation to all our employees for delivering another year of excellent business performance.



At Morneau Shepell we believe improving the lives of employees is the most direct way to improve business performance – healthy, happy and engaged staff are present and productive. As organizations are faced with higher than ever healthcare costs, this translates into real value.

2019 was a pivotal year in helping our clients improve the lives of their employees. In addition to completing the integration of the LifeWorks acquisition, the Company acquired Mercer's standalone, large-market health and defined benefit pension plan administration business in the United States. At the same time, the Company

strengthened its portfolio of digital well-being solutions and its global talent base that together provide a differentiated advantage in the human resources sector.

Corporate social responsibility issues are becoming increasingly important in the world we live in today. Employee well-being is being increasingly recognized as a strategic social factor. As organizations adopt more progressive criteria and strategies concerning the well-being of their people, we are uniquely positioned to respond to this development. Morneau Shepell's CSR report documents its strategies and commitments related to sustainability in areas that include data security and privacy, environmental performance and contributions to community and employee well-being.

This year, at our annual meeting on May 8, Jack Mintz will resign from the Board after 10 years as a Director. Dr. Mintz, a world-renowned economist, academic and management consultant, has made distinguished contributions to Canadian governments, businesses, non-profit organizations and educational institutions. On behalf of the Board, I am honored to thank Jack for his contributions to Morneau Shepell and we all wish him well on his future endeavors.

At the time of writing, governments and businesses around the world are taking unprecedented action in response to COVID-19 in an effort to contain the spread of the virus. Daily lives and routines of people across the globe have been impacted to a degree that is almost unparalleled. Morneau Shepell is playing a leadership role in both how we are responding to ensuring our own workforce is well looked after, as well as helping clients around the globe help their employees.

In closing, the Board is confident in the Company's leadership and the capabilities of its employees in taking the company forward successfully.

On behalf of the Board, I'd like to thank our CEO, his dedicated team of employees, and shareholders, clients and partners for their contributions to the Company's success last year.

Gillian (Jill) Denham

Expanding strategically while delivering solidly profitable growth

In 2019, Morneau Shepell delivered growth in revenues and profitability that strengthened our competitive position as the power brand in the employee well-being space. Revenues grew 23.1 per cent to \$888.9 million, with Adjusted EBITDA increasing by 33.2 per cent to \$182.5 million. Adjusted EBITDA margins increased to 20.5 per cent from 19.0 per cent compared to the previous year.

The significant upswing in year-over-year annual financial results is attributed to revenue from the mid-year acquisition of Mercer's stand-alone, large market, health and defined benefit pension plan administration business in the United States, a full year of revenue from LifeWorks following its acquisition the previous year, and organic growth across the Company's core lines of business.



We are pleased by our ability in the past year to complete and continue integrating strategic acquisitions that expand our global market presence while deepening our technological capabilities and talent base. Today our global business is anchored by four strategic hubs – located in Canada, U.S., U.K and Australia – for delivering solutions to some 24,000 clients in 162 countries.

In 2019, we also continued to develop our cloud-based well-being platform that unifies solutions from all our lines of business, providing employees of our clients with an integrated experience for everything they need to support their mental, physical, financial and social well-being.

During a year of strategic expansion, we maintained strong client satisfaction levels, which is a key marker of success in driving our business forward.

Positioned today for profitable growth tomorrow

Looking ahead, we're confident Morneau Shepell is positioned to continue delivering profitable growth while driving ahead with our international expansion:

- We are the only organization today that integrates solutions for the four key pillars of employee well-being: mental, physical, financial and social.
- We are the world's largest solutions provider in converging markets for well-being solutions and employee and family assistance programs.
- We are the largest administrator of retirement and benefit plans in Canada with a fast-growing U.S. business, with some 8.5 million plan participants under administration at year-end 2019.
- We are the largest provider of integrated absence management solutions in Canada and are positioned to continue growing this business into the U.S., a significant market opportunity for us.

As we move forward, we are focused on three growth strategies for being the clear market leader in the businesses in which we operate.

1. Own the well-being space.

As the power brand in employee well-being, we will differentiate by providing our clients with access to the full continuum of care that address a broad spectrum of needs, ranging from the most severe or complex physical and mental health issues, to reward and recognition strategies to mitigate workforce stress, anxiety and absence while increasing engagement. This strategy directly reflects the intent of our purpose: improving lives, improving business. By helping our clients improve the mental, physical, financial and social well-being of their employees, we help them improve workforce engagement and productivity.

2. Accelerate growth through U.S. and global expansion

Through strategic acquisitions in the past two years, we have significantly expanded our geographic market space and solutions portfolio. The Company is better positioned today to provide solutions on a global basis, including support for multinational enterprises seeking consistent quality in their well-being strategies that cross borders and serve large workforce populations. We expect acquisitions and strategic partnerships to play a continuing role in our expansion, supplementing our focus on driving organic growth in all our core lines of business.

3. Drive world-class delivery through people and technology.

We have the opportunity to create a sustainable competitive advantage by combining our cloud-based well-being platform with the talents and skills of our people. Our focus is merging the innovation speed of a smaller company with the global talent platform – the people – of a much larger one. We believe this is a uniquely competitive profile in our market space.

COVID-19 response

We are committed to and prepared to address the evolving risk posed by COVID-19. Early on, we activated our comprehensive Business Continuity Pandemic Plan and have a very active executive and management group coordinating our response globally.

We have regular communications with employees, updating them as new information is available. We continually assess and update our approach based on the changing environment, including things like travel restrictions, self-isolation in certain situations, working from home and restrictions on gatherings of people. We are communicating best available information and advice to help protect our employees. We are in ongoing communication with our clients to let them know we are prepared, fully operational and we are here to help. This includes information on our global crisis response, our digital service delivery of clinical service and leveraging the communication opportunities on our LifeWorks app. With that our clients are able to maximize the value we offer when they need us the most.

I would like to thank our employees for their swift actions in response to COVID-19. They responded quickly including disrupting regular work patterns, practicing physical distancing for those who were in the office, avoiding travel, and self-isolating when required. Currently, more than 90 per cent of our employees are working from home, and that number continues to increase.

Through all of this, our people continue to serve our clients around the world. We have received client feedback on our ability to serve them seamlessly. One large pension administration client, in particular, cited us as a key enabler to the success of their COVID-19 Business Continuity Plan (BCP). They recognized our contribution as key to the speed and efficiency of their BCP deployment, which is unparalleled in their peer group.

Making a real difference in the world

On behalf of our entire leadership team, I would like to thank our employees, partners, clients and stakeholders for another successful year in taking our business forward. In bringing our strategy to life in the years ahead, we're excited by the opportunities in front of us to make a real difference in the world.



Stephen Liptrap

MANAGEMENT'S DISCUSSION AND ANALYSIS

Morneau Shepell Inc. ("Morneau Shepell" or the "Company") was incorporated pursuant to the laws of the Province of Ontario on October 19, 2010, and as of January 1, 2011, is the successor of Morneau Sobeco Income Fund (the "Fund").

This Management's Discussion and Analysis ("MD&A") covers the year ended December 31, 2019 and should be read in conjunction with the Consolidated Financial Statements of Morneau Shepell and notes thereto for the years ended December 31, 2019 and 2018. Unless otherwise noted, all financial information presented has been rounded to the nearest thousand.

All financial information is presented in Canadian dollars and in accordance with International Financial Reporting Standards ("IFRS"), unless otherwise noted. Certain totals, subtotals and percentages may not reconcile due to rounding.

This MD&A contains "forward-looking statements" within the meaning of applicable securities laws, such as statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. They are based on certain factors and assumptions, including expected growth, results of operations, business prospects and opportunities. Use of words such as "may", "will", "expect", "believe", or other words of similar effect may indicate a "forward-looking" statement. These statements are not guarantees of future performance and are subject to numerous risks and uncertainties, including those described in our publicly filed documents (available on SEDAR at sedar.com) and in this MD&A under the heading "Risks and Uncertainties". Those risks and uncertainties include the ability to maintain profitability and manage growth, ability to pay dividends, reliance on information systems and technology, reputational risk, dependence on key clients, reliance on key professionals, integration of an acquired business and related operations and general economic conditions. Many of these risks and uncertainties can affect our actual results and could cause our actual results to differ materially from those expressed or implied in any forward-looking statement made by us or on our behalf. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. All forward-looking statements in this MD&A are qualified by these cautionary statements. These statements are made as of the date of this MD&A and, except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Additionally, we undertake no obligation to comment on analyses, expectations or statements made by third parties in respect of us, our financial or operating results or our securities.

To assist investors in assessing our financial performance, this discussion also makes reference to certain non-IFRS measures such as EBITDA, adjusted EBITDA, adjusted EBITDA per share, EBITDA margin, adjusted EBITDA margin, Free Cash Flow, Normalized Free Cash Flow, twelve-month rolling Normalized Payout Ratio, and twelve-month rolling Normalized Payout Ratio including changes in adjusted non-cash operating working capital. EBITDA and adjusted EBITDA are intended to represent an indication of Morneau Shepell's capacity to generate profit from operations before taking into account management's financing decisions and costs of consuming intangible and tangible capital assets, which vary according to their vintage, technological currency, and management's estimate of their useful life. Accordingly, EBITDA comprises profit before finance costs, income tax expenses, depreciation and amortization, while Adjusted EBITDA represents EBITDA before taking into account certain unusual expenditures. EBITDA margin represents EBITDA as a percentage of revenue, and Adjusted EBITDA margin represents Adjusted EBITDA as a percentage of revenue. We believe both EBITDA and Adjusted EBITDA are useful measures in evaluating our performance and we utilize them to monitor compliance with debt covenants. We also believe that Free Cash Flow, Normalized Free Cash Flow, the twelve-month rolling Normalized Payout Ratio, and the twelve-month rolling Normalized Payout Ratio including changes in adjusted non-cash operating working capital, are useful supplemental measures of Morneau Shepell's ability to generate cash after deducting capital expenditures required to maintain or expand the business. We also utilize them to make decisions related to dividends to shareholders. Free Cash Flow is defined as cash provided by operating activities adjusted for capital expenditures. Normalized Free Cash Flow is defined as cash provided by operating activities, adjusted for changes in non-cash operating working capital, capital expenditures, current income taxes (net of income taxes paid) and certain unusual expenditures. These ratios, however, are non-IFRS measures and therefore, should not be seen as a substitute for profit or cash flow from operating activities.

Non-IFRS measures do not have any standard meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. Non-IFRS measures are reconciled to IFRS measures elsewhere in this MD&A.

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares and 10 million preferred shares. Each common share entitles the holder to one vote at all meetings of shareholders and represents an interest in dividends declared by the Company and an undivided interest in the net assets of the Company. As at March 10, 2020, Morneau Shepell had 68,103,599 common shares and nil preferred shares outstanding. The number of long-term incentive plan ("LTIP") units, including those that remain unvested, that are outstanding and may be converted to common shares is approximately 2,500,000.

BUSINESS OVERVIEW

Morneau Shepell is the leading provider of technology-enabled HR services that deliver an integrated approach to employee well-being through our cloud-based platform. Our focus is providing world class solutions to our clients to support the mental, physical, social and financial well-being of their people. By improving lives, we improve business. Our approach spans services in employee and family assistance, health and wellness, recognition, pension and benefits administration, retirement consulting, actuarial and investment services. Morneau Shepell employs approximately 6,000 employees who work with some 24,000 client organizations that use our services in Canada, the United States and around the globe.

In 2019, the Company realigned some responsibilities and people across its core lines of business following the LifeWorks Corporation Ltd. ("LifeWorks") acquisition and towards the goal of being more responsive to changing client needs. Today the company has four operating segments, consistent with our four core lines of business, named as follows: Well-Being Solutions, Administrative Solutions, Retirement Solutions, and Health and Productivity Solutions.

The Well-Being Solutions business integrates what was formerly Employee Support Solutions ("ESS") with the people, assets and capabilities of the LifeWorks organization, including its cloud-based user platform for deploying technology-enabled HR services. The business is focused on delivering an integrated employee experience for solutions that encompass the full continuum of care for achieving mental, physical, social and financial well-being. These solutions include a broad range of clinical services offered within employee and family assistance plans, along with corporate reward, recognition and perks programs focusing on driving engagement and productivity in workplace culture.

In the Administrative Solutions business, the Company provides a full range of user-friendly solutions from software to full outsourcing for the administration of employee pension and benefits plans, leveraging its Ariel software platform. The Company provides employees and organizations with self-serve portals, mobile applications and contact centre support to ensure they have the tools and resources to manage their benefits, save for retirement and ultimately ensure their financial long-term well-being.

The Retirement Solutions business helps organizations design, build and operate sustainable retirement programs that provide a strong return on investment while ensuring compliance with all governance and regulatory requirements. The Company leverages actuarial, recordkeeping and risk-management technology and data analytics across the entire defined-benefit to defined-contribution spectrum to provide strategic consulting support and innovative solutions to pension and asset management, minimizing risk and supporting the long-term financial security and well-being of employees.

In Health and Productivity Solutions, the Company serves as strategic advisors in helping organizations of all sizes design, develop and manage employee benefit plans and disability programs and policies with a focus on best-in-class employee experience, health prevention, measurable health outcomes, and helping people return to work using the tools and resources available on the state-of-the-art Abiliti platform. The business supports the complex end of the Company's continuum of care through its AbilitiCBT product and non-occupational absence management solutions. The Company also helps its clients communicate the value of their employee benefit plans and disability programs and policies to its employees.

In thousands of dollars, except per share amounts	Three months ended December 31, 2019	Three months ended December 31, 2018 ⁽¹⁾	Year ended December 31, 2019	Year ended December 31, 2018 ⁽¹⁾
Revenue	\$247,549	\$200,761	888,889	\$722,284
Adjusted EBITDA	48,041	35,652	182,453	136,960
Adjusted EBITDA margin	19.4%	17.8%	20.5%	19.0%
Adjusted EBITDA per share (basic)	0.72	0.54	2.76	2.28
Normalized Free Cash Flow	17,636	18,284	93,483	75,112
Profit	2,648	3,450	18,968	21,797
Earnings per share (basic)	0.04	0.05	0.29	0.36

(1) The Company has adopted IFRS 16, Leases ("IFRS 16") at January 1, 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognized in retained earnings at the date of initial application. Please refer to note 3 of the Company's Consolidated Financial Statements for the year ended December 31, 2019 for details.

Fourth quarter:

We had a solid fourth quarter of 2019 and continued to deliver revenue and adjusted EBITDA growth versus the comparative quarter in 2018. Highlights of the fourth quarter include:

- Revenue growth of 23.3%, or \$46.8 million to \$247.5 million versus the comparative period mainly due to revenue from the Mercer acquisition and organic growth from Administrative Solutions, Well-Being Solutions and Health and Productivity Solutions.
- Adjusted EBITDA increased by \$12.4 million, or 34.7% to \$48.0 million compared to \$35.7 million for the same period in 2018. The increase is primarily due to contributions from the Mercer acquisition, organic growth and adoption of IFRS 16.
- Adjusted EBITDA per share (basic) was \$0.72, a 33.3% increase compared to \$0.54 per share in Q4 2018, due to a higher adjusted EBITDA.
- Profit for the period was \$2.6 million compared to \$3.5 million in the same period last year. The decline is due to higher amortization charges related to acquired intangibles from acquisitions and higher finance costs.

Highlights of 2019:

- Revenue grew by 23.1%, or \$166.6 million to \$888.9 million versus last year due to revenue from the Mercer acquisition, a full year of revenue from LifeWorks and organic growth from Administrative Solutions, Well-Being Solutions and Health and Productivity Solutions.
- Adjusted EBITDA increased by \$45.5 million to \$182.5 million, or 33.2% versus the prior year with Adjusted EBITDA margin increasing to 20.5% from 19.0%. The increase in Adjusted EBITDA is due to the Mercer and LifeWorks acquisitions, organic growth, as well as the impact of adopting IFRS 16.
- Adjusted EBITDA per share (basic) was \$2.76, a 21.1% increase compared to \$2.28 per share in 2018, due to a higher adjusted EBITDA.
- Profit for the year was \$19.0 million compared to a profit of \$21.8 million last year. The decline is due to higher amortization charges related to acquired intangibles from acquisitions and higher finance costs.
- The Company completed its acquisition of the stand-alone, large market, health and defined benefit pension plan administration business of Mercer in the United States. The transaction closed on August 7, 2019 for a purchase price of US\$57.9 million (\$76.7 million). The acquisition accelerates the Company's growth strategy, notably in the U.S. corporate market, and increases the Company's global base of DB pension plan participants under administration by approximately two million.
- In Q4 2019, the Company increased its existing revolving Credit Facility ("Credit Facility") by \$100 million with the same terms and conditions.

- On December 11, 2019, the Company issued a redemption notice in respect of the outstanding \$80.7 million of convertible debentures. Of the principal amount, \$79.2 million was converted into a total of 3,156,248 common shares at a conversion price of \$25.10 per common share. The remaining \$1.5 million was redeemed through cash payout.
- On March 1, 2020, the Company sold its benefits consulting business to HUB International Limited for a purchase price of \$70,000 subject to working capital adjustments. \$67,535 was received on closing, with the remainder to be received over the next 24 months once all the working capital adjustments and holdback conditions have been satisfied. The divestiture aligns with the Company's growth strategy, which includes being a clear market leader in the businesses in which we operate, owning the total well-being space, accelerating growth through geographic expansion and leveraging technology to deliver a seamless experience for our clients and their employees. Please refer to note 31 of the Company's Consolidated Financial Statements for the year ended December 31, 2019 for further details on the transaction.

2019 OPERATING RESULTS SUMMARY

Results of Operations	Three months ended December 31,		Year ended December 31,	
Selected Consolidated Financial Information (In thousands of dollars, except per share amounts)	2019	2018 ⁽¹⁾	2019	2018 ⁽¹⁾
Revenue	\$ 247,549	\$ 200,761	\$ 888,889	\$ 722,284
Deduct:				
Salaries, benefits and contractor expenses	169,977	136,678	599,467	483,281
Other operating expenses	38,511	36,285	135,602	123,648
Finance costs	9,565	6,020	31,105	17,419
Transaction costs	-	-	719	9,924
Depreciation and amortization	25,525	17,026	94,138	54,138
Share of (income)/loss of joint venture	(209)	24	(608)	220
Income tax expenses	1,532	1,278	9,498	11,857
Profit	2,648	3,450	18,968	21,797
Add:				
Finance costs	9,565	6,020	31,105	17,419
Depreciation and amortization	25,525	17,026	94,138	54,138
Depreciation, amortization and income tax expense on share of (income)/loss of joint ventures	163	68	674	685
Income tax expenses	1,532	1,278	9,498	11,857
EBITDA⁽²⁾	39,433	27,842	154,383	105,896
Adjustments:				
Transformation project costs	4,037	6,245	13,348	18,523
LifeWorks integration	3,017	1,565	10,183	2,617
Mercer integration and transaction costs	1,554	-	4,539	-
LifeWorks transaction costs	-	-	-	9,924
Adjusted EBITDA	48,041	35,652	182,453	136,960
EBITDA margin⁽³⁾	15.9%	13.9%	17.4%	14.7%
Adjusted EBITDA margin⁽³⁾	19.4%	17.8%	20.5%	19.0%
Cash provided by operating activities	34,387	25,919	92,233	64,792
Deduct: Capital expenditures ⁽⁴⁾	(22,372)	(12,021)	(53,052)	(36,430)
Free Cash Flow⁽⁵⁾	12,015	13,898	39,181	28,362
Add (deduct):				
Changes in non-cash operating working capital	(2,659)	(6,468)	37,389	11,371
Current income taxes, net of income taxes paid	(328)	3,044	(11,157)	4,315
Adjustments to EBITDA	8,608	7,810	28,070	31,064
Normalized Free Cash Flow⁽⁶⁾	17,636	18,284	93,483	75,112
Earnings per Share (basic)	0.04	0.05	0.29	0.36
Earnings per Share (diluted)	0.04	0.05	0.28	0.36
EBITDA per share (basic)	0.59	0.42	2.33	1.76
Adjusted EBITDA per Share (basic)	0.72	0.54	2.76	2.28
Dividends declared	12,739	12,493	50,454	46,000
Twelve-month rolling Normalized Payout Ratio ⁽⁷⁾	54.0%	61.2%	54.0%	61.2%
Twelve-month rolling Normalized Payout Ratio, including changes in adjusted non-cash operating working capital ⁽⁸⁾	89.9%	71.0%	89.9%	71.0%

Footnotes:

- (1) The Company has adopted IFRS 16, Leases ("IFRS 16") at January 1, 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognized in retained earnings at the date of initial application. Please refer to note 3 of the Company's Consolidated Financial Statements for the year ended December 31, 2019 for details.
- (2) "EBITDA" is defined as profit before finance costs, income tax expenses, depreciation and amortization.
- (3) "EBITDA margin" represents EBITDA as a percentage of revenue, and "Adjusted EBITDA margin" represents Adjusted EBITDA as a percentage of revenue.
- (4) "Capital Expenditures" includes additions to capital assets and intangible assets but excludes additions to capital assets and intangible assets acquired through business acquisitions, and is presented net of disposals.
- (5) "Free Cash Flow" is defined as cash provided by operating activities adjusted for capital expenditures.
- (6) "Normalized Free Cash Flow" is defined as cash provided by operating activities, adjusted for changes in non-cash operating working capital, capital expenditures, current income taxes (net of income taxes paid) and certain unusual expenditures.
- (7) "Twelve-month rolling Normalized Payout Ratio" is defined as dividends declared divided by Normalized Free Cash Flow for the rolling twelve-month period.
- (8) "Twelve-month rolling Normalized Payout Ratio, including changes in adjusted non-cash operating working capital" is defined as dividends declared divided by the Twelve-month rolling Normalized Free Cash Flow, including changes in non-cash operating working capital adjusted for unusual fluctuations.

ANALYSIS OF FOURTH QUARTER 2019 OPERATING RESULTS

Revenue

Revenue for the three months ended December 31, 2019 increased by \$46.8 million, or 23.3%, to \$247.5 million compared to \$200.8 million for the same period in 2018. The increase is primarily due to the Mercer acquisition, representing 18.2%. The organic revenue growth for the period was 5.1% primarily due to growth in Administrative Solutions, Health and Productivity Solutions and Well-Being Solutions businesses.

Salaries, Benefits and Contractor Expenses

Salaries, benefits and contractor expenses for the three months ended December 31, 2019 increased by \$33.3 million or 24.4%, to \$170.0 million compared to \$136.7 million for the same period in 2018. The increase in compensation expense is mainly due to the Mercer acquisition and business growth.

Other Operating Expenses

Other operating expenses for the three months ended December 31, 2019 increased by \$2.2 million, or 6.1%, to \$38.5 million compared to \$36.3 million for the same period in 2018. The increase is mainly due to the Mercer acquisition, partially offset by lower Transformation project costs compared to the same quarter last year and the adoption of IFRS 16.

Finance Costs

Finance costs for the three months ended December 31, 2019 increased by \$3.6 million, or 58.9%, to \$9.6 million compared to \$6.0 million for the same period in 2018. The increase is due to increased borrowings under the Company's Credit Facility agreement to finance the Mercer acquisition, accelerated amortization of deferred debt issuance cost as a result of the redemption of convertible debentures, as well as finance costs recognized due to the adoption of IFRS 16 on January 1, 2019.

Depreciation and Amortization

Depreciation and amortization for the three months ended December 31, 2019 increased by \$8.5 million, or 49.9%, to \$25.5 million compared to \$17.0 million for the same period in 2018. The increase is primarily due to depreciation of right-of-use ("ROU") assets on the adoption of IFRS 16 and increased amortization charges related to acquired intangibles from the Mercer acquisition and internally developed software.

Income Tax Expense

Income tax expenses for the three months ended December 31, 2019 was \$1.5 million compared to \$1.3 million for the same period in 2018. The higher income tax expense was due to higher non-deductible items than the same period of last year.

Profit for the period

As a result of the changes noted above, the profit for the three months ended December 31, 2019 decreased by \$0.9 million to \$2.6 million compared to \$3.5 million for the same period in 2018.

Key Financial Measures: EBITDA, Adjusted EBITDA, Free Cash Flow and Normalized Free Cash Flow Adjusted EBITDA and EBITDA

Adjusted EBITDA increased by \$12.4 million, or 34.7%, to \$48.0 million compared to \$35.7 million for the same period in 2018. The increase is primarily due to the Mercer acquisition, a decrease in other operating expenses as a result of the adoption of IFRS 16 and organic growth. Adjusted EBITDA excludes adjusted items, which do not constitute a part of the Company's on-going operating expenses. Adjusted items include transformation project costs and acquisition related transaction and integration costs, which are described in the analysis of the year ended December 31, 2019 operating results section below.

EBITDA increased by \$11.6 million to \$39.4 million compared to \$27.8 million for the same period in 2018. The increase is primarily due to the same factors as noted above, partially offset by higher adjusted items compared to same quarter last year.

Free Cash Flow

Free Cash Flow for the three months ended December 31, 2019 decreased by \$1.9 million to \$12.0 million compared to \$13.9 million for the same period in 2018. The decrease is mainly due to higher capital expenditures of \$10.4 million (see Capital Expenditures section below) and partially offset by higher cash provided by operating activities of \$8.5 million.

Normalized Free Cash Flow

Normalized Free Cash Flow for the three months ended December 31, 2019 decreased by \$0.6 million to \$17.6 million compared to \$18.3 million for the same period in 2018. The decrease is mainly due to higher capital expenditures of \$10.4 million, finance costs paid of \$2.3 million and current income tax expense of \$0.9 million, partially offset by higher cash generated from operating activities before changes in non-cash operating working capital and EBITDA adjustments of \$12.9 million.

ANALYSIS OF YEAR ENDED DECEMBER 31, 2019 OPERATING RESULTS

Revenue

Revenue for the year ended December 31, 2019 increased by \$166.6 million, or 23.1%, to \$888.9 million compared to \$722.3 million in 2018. The increase is primarily due to Mercer and LifeWorks acquisition related revenue, representing 17.3%. The organic revenue growth for the year was 5.7% primarily due to growth in the Administrative Solutions, Health and Productivity Solutions and Well-Being Solutions businesses.

Salaries, Benefits and Contractor Expenses

Salaries, benefits and contractor expenses for the year ended December 31, 2019 increased by \$116.2 million, or 24.0%, to \$599.5 million compared to \$483.3 million in 2018. The increase in compensation expense is mainly due to the Mercer and LifeWorks acquisitions, and business growth.

Other Operating Expenses

Other operating expenses for the year ended December 31, 2019 increased by \$12.0 million, or 9.7%, to \$135.6 million compared to \$123.6 million in 2018. The increase is mainly due to the Mercer and LifeWorks acquisitions, and business growth, partially offset by lower transformation project costs, LifeWorks transaction costs in last year and the adoption of IFRS 16.

Finance Costs

Finance costs for the year ended December 31, 2019 increased by \$13.7 million, or 78.6% to \$31.1 million compared to \$17.4 million in 2018. The increase in finance costs is due to increased borrowings under the Company's credit facility agreement to finance the LifeWorks acquisition in July 2018 and the Mercer acquisition in August 2019,

accelerated amortization of deferred debt issuance costs as a result of the redemption of convertible debentures, as well as finance costs recognized due to the adoption of IFRS 16.

Depreciation and Amortization

Depreciation and amortization for the year ended December 31, 2019 increased by \$40.0 million, or 73.9%, to \$94.1 million compared to \$54.1 million in 2018. The increase is primarily due to depreciation of ROU assets on the adoption of IFRS 16 and increased amortization charges related to acquired intangibles from the Mercer and LifeWorks acquisitions as well as internally developed software.

Income Tax Expenses

Income tax expenses for the year ended December 31, 2019 decreased by \$2.4 million, or 19.9%, to \$9.5 million compared to \$11.9 million in 2018 due to lower profit from operations before tax for the year.

Profit for the year

As a result of the changes noted above, the profit for the year ended December 31, 2019 was \$19.0 million compared to \$21.8 million for 2018.

Key Financial Measures: Adjusted EBITDA, EBITDA, Free Cash Flow and Normalized Free Cash Flow Adjusted EBITDA and EBITDA

Adjusted EBITDA increased by \$45.5 million, or 33.2%, to \$182.5 million compared to \$137.0 million in 2018. The increase is primarily due to the Mercer acquisition, a decrease in other operating expenses as a result of the adoption of IFRS 16, a full year of LifeWorks EBITDA following its acquisition in the previous year and organic growth. Adjusted EBITDA excludes adjusted items, which do not constitute a part of the Company's on-going operating expenses. Below is a description of the adjustments for the years ended December 31, 2019 and December 31, 2018:

- Transformation project costs: To support the Company's growth strategy, we engaged a third-party firm in 2018 to drive long-term value in the form of earnings and cash flow improvement through changes in the way the Company operates. These costs represent fees payable to the third-party firm, severance and other transition costs. The fees payable to the third-party firm are contingent on the Company achieving the activities required to realize the value of the initiatives.
- LifeWorks integration represents costs to integrate the LifeWorks business with our existing Well-Being Solutions business to achieve the target synergies. The integration of LifeWorks' operations with our existing Well-Being Solutions practice remains on schedule and continues to realize the expected synergies.
- Mercer integration and transaction costs represents costs to integrate the clients, employees and operations with our existing Administrative Solutions business. The transaction costs represent external legal and other professional fees incurred with respect to the acquisition.
- LifeWorks transaction costs represent advisory, legal, as well as other professional and regulators fees incurred with respect to the LifeWorks acquisition, which was completed in July 2018.

EBITDA increased by \$48.5 million to \$154.4 million compared to \$105.9 million in 2018. The increase is primarily due to the same factors as noted above and lower adjusted items compared to last year.

Free Cash Flow

Free Cash Flow for the year ended December 31, 2019 increased by \$10.8 million to \$39.2 million compared to \$28.4 million in 2018. The increase is mainly due to higher cash provided by operating activities of \$27.4 million offset by higher capital expenditures of \$16.6 million (see Capital Expenditures section below) compared to 2018.

Normalized Free Cash Flow

Normalized Free Cash Flow for the year ended December 31, 2019 increased by \$18.4 million to \$93.5 million compared to \$75.1 million in 2018. The increase is mainly due to higher cash generated from operating activities before changes in non-cash operating working capital and EBITDA adjustments of \$45.8 million, partially offset by higher capital expenditures of \$16.6 million, increased current income tax expense of \$1.9 million, and higher finance costs paid of \$8.9 million.

Cash Flows

The following table provides an overview of the Company's cash flows for the years indicated:

Cash Flow Information

Selected Consolidated Financial Information:

(In thousands of dollars) Cash provided by (used in):	Year ended December 31, 2019	Year ended December 31, 2018
Operating activities	\$ 92,233	\$ 64,792
Financing activities	31,275	369,814
Investing activities	(110,716)	(438,331)
Increase (Decrease) in cash	\$ 12,792	\$ (3,725)

Cash provided by operating activities for the year ended December 31, 2019 increased by \$27.4 million to \$92.2 million compared to \$64.8 million in 2018. The increase is due to lower income taxes paid of \$13.6 million and higher cash generated from operating activities of \$22.7 million mainly due to the adoption of IFRS 16 as well as increased EBITDA, partially offset by higher finance costs paid of \$8.9 million.

Cash provided by financing activities for the year ended December 31, 2019 decreased by \$338.5 million to \$31.3 million compared to cash provided by financing activity of \$369.8 million in 2018. The decrease is due to lower net proceeds from the issuance of shares of \$220.7 million used to fund the LifeWorks acquisition in prior year, a net decrease in cash provided by the revolving facility of \$102.2 million, higher dividend payments of \$5.0 million as a result of an increase in the number of shares outstanding and principal payment of leases under IFRS 16 of \$13.5 million, partially offset by \$2.9 million of lower costs incurred to modify credit facilities.

Cash used in investing activities for the year ended December 31, 2019 decreased by \$327.6 million to \$110.7 million compared to \$438.3 million in 2018. This decrease was primarily due to a decline in cash used for business acquisitions of \$342.6 million due to the LifeWorks acquisition in prior year, net of the Mercer acquisition, and \$1.6 million cash received from principal payment of subleases, partially offset by higher capital expenditures of \$16.6 million due to the Mercer integration and business growth.

Dividends to Shareholders

Monthly dividends were declared for shareholders of record on the last business day of each month and were paid on approximately the 15th day of the following month. Monthly dividends were \$0.065 per share each month in 2019. The Company continued to declare the same monthly dividend amount in January and February 2020.

We consider the amount of cash generated by the business in determining the amount of dividends to pay to shareholders. We do not generally consider profit or loss in setting the level of dividends as this is a non-cash metric and is not reflective of the level of cash flow that we generate.

The twelve-month rolling Normalized Payout Ratio at December 31, 2019 was 54.0% compared to 61.2% for the same period in 2018. The decrease in the ratio is mainly due to higher cash generated from operating activities before changes in non-cash operating working capital and EBITDA adjustments. The twelve-month rolling Normalized Payout Ratio, including changes in adjusted non-cash operating working capital at December 31, 2019 was 89.9% compared to 71.0% for the same period in 2018. The increase in the ratio is mainly due to change in non-cash operating working capital primarily as a result of the increase in net working capital post the Mercer acquisition.

Capital Expenditures

Our capital expenditures typically include information technology hardware and software (external and internally developed), leasehold improvements, and office furniture. Such amounts are expected to be funded from our operating cash flow. Additional capital expenditure requirements may result from significant business expansion. Capital expenditures for the three months ended December 31, 2019 increased by \$10.4 million to \$22.4 million compared to \$12.0 million for the same period in 2018. The increase is mainly due to \$12.0 million of Mercer

integration related expenditures partially offset by lower expenditures for hardware and purchased software. For the year ended December 31, 2019, our capital expenditures increased by \$16.7 million to \$53.1 million from \$36.4 million in 2018; \$13.9 million of the increase is related to Mercer integration and the remaining increase is due to internally developed software, hardware and purchased software. The increase in capital expenditures was required to support ongoing business growth and needs as well as investing in new technologies that will benefit the business in the long term.

Contractual Obligations

The Company manages and continually monitors its commitments and contractual obligations to ensure that these can be met with funding provided by operations and capital resources available.

Commitments

We lease office space and selected equipment under lease agreements as well as software licenses with terms ranging from one to fifteen years. We also have revolving loans under the Credit Facility and convertible debentures described under the "Capital Resources" section.

We are a party to various subleases to which we would be liable for the rental payment in the case of a default by the subtenants. The minimum payments and the aggregate sublease income related to these premises have been presented on a "net" basis below for the purpose of the Commitments disclosure. A summary of contractual obligations, which outlines the year the payments are due is as follows:

(In thousands of dollars)	Total	2020	2021	2022	2023	2024	2025 and thereafter
Long-term debt	\$473,200	\$ -	\$ -	\$ -	\$ 473,200	\$ -	\$ -
Convertible debentures	40,699	40,699	-	-	-	-	-
Guaranteed future consideration related to acquisitions	9,074	9,074	-	-	-	-	-
Leases (net) and software licenses	128,784	22,200	21,663	20,278	16,844	12,584	35,215
Total	\$ 651,757	\$ 71,973	\$21,663	\$20,278	\$490,044	\$12,584	\$35,215

Subsequent to December 31, 2019, the Company entered into a lease agreement for office premises with a total commitment of \$84.6 million over a fifteen year term commencing in 2021. The minimum payments due in each of the next five years and thereafter are expected to be: \$2.7 million in 2021, \$5.4 million per year in 2022, 2023, and 2024, and \$65.7 million thereafter.

Future Consideration Related to Acquisitions

Future consideration related to acquisitions includes a guaranteed portion, which has been included in the Commitments table above, and an amount that is contingent on future business results. The total undiscounted future consideration remaining to be paid is \$25.2 million due from 2020 through 2022. These contingent future installments have been recognized as future consideration related to acquisitions on the statement of financial position at their estimated discounted amounts as at December 31, 2019.

We have no material contractual obligations other than those described in this MD&A and have no off-balance sheet financing arrangements.

Capital Resources

The following table provides an overview of our capital resources:

(In thousands of dollars)	As at December 31, 2019	As at December 31, 2018
Cash (Bank indebtedness, net of cash)	\$ 3,651	\$ (9,141)
Long-term debt, net of debt issuance costs	470,456	374,381
Convertible debentures, net of issuance costs	40,699	83,117
Shareholders' equity	618,388	606,404

Long-term debt

The long-term debt, net of debt issuance costs, increased by \$96.1 million from \$374.4 million as at December 31, 2018 to \$470.5 million as at December 31, 2019. This increase is the result of an increase in borrowings under the Company's credit facility agreement to finance business growth and acquisition related payments.

As at December 31, 2019, the Company had a revolving facility of \$600 million (including a swing line of \$14.0 million) under its existing Credit Facility Agreement ("Agreement") which has a maturity date on July 27, 2023. At December 31, 2019 the Company had \$235.0 million borrowed in Canadian dollars, \$238.2 million (US\$ 183.4 million) borrowed in US dollars and utilized \$2.9 million of the swing line available.

The interest rates for the 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 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 twelve-month period immediately following the completion of a permitted acquisition, as defined in the Agreement, with a purchase price of \$50 million or more), and an EBITDA to interest expense ratio of not less than 2.0:1.0.

The Company was in compliance with all of the required financial covenants as at December 31, 2019.

The Company entered into interest rate swap agreements to hedge against the variable interest rate component borrowed under the Agreement. The interest rate swaps have been designated as cash flow hedges and their terms are as follows:

- \$50 million for the period from November 29, 2017 up to and ending December 20, 2020 at an interest rate of 1.79%, before the applicable margin, for the duration of this period
- \$130 million for the period from September 4, 2018 up to and ending July 27, 2023 at an interest rate of 2.59%, before the applicable margin, for the duration of this period

The Company periodically enters into short term cross-currency interest rate swap agreements with one of the syndicated banks under the Credit Facility Agreement to help manage interest costs. Under this agreement, the Company would borrow in US\$ and swap the amount for Canadian borrowings for approximately one month enabling the Company to save on interest while protecting the Company from any foreign exchange exposure on settlement. As at December 31, 2019, the Company had US\$131.4 million of debt under this arrangement which was settled on January 5, 2020 with no net foreign exchange gain or loss.

Convertible debentures

In June 2016, the Company issued \$86.0 million principal amount of 4.75% Convertible Unsecured Subordinated Debentures (the "4.75% Convertible Debentures") for net proceeds of \$82.0 million. The 4.75% Convertible Debentures pay interest semi-annually on June 30 and December 31, commencing with the initial interest payment on December 31, 2016 and have a maturity date of June 30, 2021.

These debentures are convertible at the option of the holder to common shares at a conversion price of \$25.10 per common share. The Company has the option to redeem the 4.75% Convertible Debentures on and after June 30, 2019 and at any time prior to June 30, 2020 at a redemption price equal to 100% of their principal plus accrued and unpaid interest provided that the weighted average trading price for the 20 consecutive trading days ending five days preceding the date on which the notice of redemption is given is at least 125% of the conversion price of \$25.10. On and after June 30, 2020, but prior to the maturity date, the 4.75% Convertible Debentures are redeemable at a redemption price equal to 100% of their principal amount plus accrued and unpaid interest. On redemption or maturity, the Company may elect to repay the principal and satisfy its interest obligations by issuing common shares.

On December 11, 2019, the Company issued a redemption notice to redeem all the 4.75% Convertible Debentures issued and outstanding on January 10, 2020 in respect of the aggregate outstanding principal amount of \$80.7 million of the Debentures as of the notice date. As at December 31, 2019, a total of \$45.3 million of the 4.75% Convertible Debentures was converted at the holders' request into 1.8 million Common Shares of the Company at a conversion price of \$25.10 per Common Share, of which \$40.0 million of the Convertible Debentures was converted to 1.6 million Common Shares of the Company from the effective date of the redemption notice to December 31, 2019.

As at January 9, 2020, an additional \$39.2 million of the 4.75% Convertible Debentures was converted at the holder's request into 1.6 million Common Shares of the Company at a conversion price of \$25.10 per Common Share. The remaining \$1.6 million principal amount was redeemed for cash at a price of one thousand dollar per 4.75% Convertible Debenture, plus accrued and unpaid interest.

SELECTED STATEMENT OF FINANCIAL POSITION DATA

The following table provides an overview of our selected statement of financial position data:

(in thousands of dollars)	As at December 31, 2019	As at December 31, 2018
Current assets	\$ 270,633	\$ 212,539
Non-current assets	1,259,585	1,135,803
Current liabilities	227,471	142,886
Non-current liabilities	684,359	599,052

Current Assets

Current assets as at December 31, 2019 increased by \$58.1 million to \$270.6 million from \$212.5 million as at December 31, 2018. The increase is primarily attributable to higher trade and other receivables and unbilled fees by \$46.9 million due to the Mercer acquisition and growth in the business. The remaining increase relates to increases in the following balances: \$6.6 million of cash, \$4.7 million of prepaid expenses, and \$1.6 million of finance lease receivables on the adoption of IFRS 16. These increases are partially offset by decreases of \$1.2 million in cash and investment held in trust and \$0.5 million in deferred implementation costs.

Non-current Assets

Non-current assets as at December 31, 2019 increased by \$123.8 million to \$1,259.6 million from \$1,135.8 million as at December 31, 2018. Capital assets increased by \$78.1 million due to \$72.8 million of ROU assets recognized on the adoption of IFRS 16 and additions during the year, net of depreciation, and the remaining increase is due to higher computer hardware, net of depreciation. Intangible assets increased by \$25.4 million due to the Mercer acquisition and additions to internally developed and purchased software, net of amortization. Goodwill increased by \$12.8 million due to \$23.0 million of additions from the Mercer acquisition, partially offset by a LifeWorks acquisition adjustment and foreign exchange movement. Other increases include \$3.4 million of finance lease receivables relating to the adoption of IFRS 16 and the non-current portion of deferred implementation costs of \$4.5 million.

Current Liabilities

Current liabilities as at December 31, 2019 increased by \$84.6 million to \$227.5 million from \$142.9 million as at December 31, 2018. The increase is primarily due to convertible debentures of \$40.7 million classified as current liabilities following the redemption announcement in December 2019 and an increase in future consideration related to acquisitions of \$22.7 million due to the Mercer acquisition. Lease liabilities of \$18.6 million were recognized in 2019 due to the adoption of IFRS 16 and new leases during the year. An increase in trade and other payables of \$4.7 million is mainly due to the addition of Mercer related expense accruals, an increase in the cross currency and interest rate swap liabilities of \$4.2 million and an increase in income taxes payable of \$3.9 million. These increases were partially offset by decreases of \$2.9 million in deferred revenue, a decrease in bank indebtedness of \$6.2 million and a decrease in insurance premium liabilities of \$1.2 million.

Non-current Liabilities

Non-current liabilities as at December 31, 2019 increased by \$85.3 million to \$684.4 million from \$599.1 million as at December 31, 2018. The increase is mainly due to an increase in long-term debt of \$96.1 million to fund the Mercer acquisition and business growth and the long-term portion of lease liabilities of \$80.6 million recognized on the adoption of IFRS 16 and new leases during the year. Deferred revenue also increased by \$12.9 million. These increases were partially offset by a decrease in the convertible debenture payable by \$83.1 million due to its re-classification from non-current liabilities to current liabilities and a decrease of \$19.7 million in other liabilities due to the adoption of IFRS 16.

As a result of the changes in current assets and current liabilities discussed above, working capital decreased by \$26.5 million from \$69.7 million as at December 31, 2018 to \$43.2 million as at December 31, 2019.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires us to make estimates and assumptions that affect the reported values of assets and liabilities as well as disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.

These estimates are reviewed periodically and, as adjustments become necessary, they are reported in profit or loss in the periods in which they become known. Accordingly, actual results could differ from these estimates. The Company's significant accounting policies are presented in note 3 of the Consolidated Financial Statements and notes thereto for the years ended December 31, 2019 and 2018. The accounting estimates that are critical to our business relate to the following items:

Revenue recognition

Where an Administrative Solutions contract requires the delivery of multiple components, the Company is required to assess the criteria for the recognition of revenue related to each component. These assessments require judgment by management to determine whether a component is a separate performance obligation, and where applicable, the allocation of the transaction price to the separate performance obligations. Amongst other factors, management considers whether the customer can benefit from the implementation services on their own, and considers budgeted salary costs associated with each phase of the service contract to derive fair value estimates.

Unbilled fees

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

Intangible assets

(a) Internally-developed software

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

(b) Other intangible assets

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

Goodwill

The Company's annual goodwill impairment review involves significant estimates and assumptions regarding cash flow projections, growth projections, economic risk, and cost of capital. If future events or results differ adversely from these estimates and assumptions, the Company could incur impairment charges in future periods.

Trade receivables (expected credit losses)

The Company is required to assess whether accounts receivables are collectible from customers. Accordingly, management establishes an allowance for expected credit losses for non-payment and delinquent accounts based on

historic trends of the probability of default timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. If future collections differ from estimates, future profits could be adversely affected.

Corporate income taxes

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

Deferred income tax assets are recognized for all unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary differences can be utilized. Management interprets the tax legislation for each jurisdiction in which the Company operates and makes assumptions about the expected timing of the reversal of deferred income tax assets and liabilities. If management's interpretations of the legislation differ from those of the tax authorities or if the actual timing of the reversals of the deferred income tax assets and liabilities is not as anticipated, the provision for income taxes could increase or decrease in future periods.

Provisions

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

Future consideration related to acquisitions

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

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 16

The Company adopted IFRS 16 effective January 1, 2019. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Company, as a lessee, has recognized ROU assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Company has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

A. As a lessee

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not

assessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after January 1, 2019.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at January 1, 2019. In accordance with IFRS 16, the Company has elected to measure its ROU assets at an amount equal to the lease liability, adjusted by any prepaid or accrued lease payments.

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Apply a single discount rate to a portfolio of leases with similar characteristics;
- Account for leases with a remaining term of less than twelve months as at January 1, 2019 as short-term leases; and
- The use of hindsight in assessing the lease term.

B. As a lessor

The Company reassessed the classification of its sublease contracts previously classified as operating leases under IAS 17 and concluded that its subleases were finance leases under IFRS 16. As a result, the Company recognized a finance lease receivable for each sublease and a lease liability under the head lease on transition to IFRS 16. An adjustment to opening retained earnings reflected the difference between the finance lease receivables and lease liabilities, after considering any amounts previously recognized under IAS 17 or IAS 37.

Please refer to note 3(u)(a) of the Company's Consolidated Financial Statements for the year ended December 31, 2019 for details of the IFRS 16 impacts of the financial statements.

(b) IFRIC Interpretation 23, Uncertainty over Income Tax Treatments ("The Interpretation")

The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Company adopted the interpretation effective January 1, 2019.

The Interpretation requires the Company to: a) contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution; and b) determine if it is probable that the tax authorities will accept the uncertain tax treatment or if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. The adoption of IFRIC 23 did not have a material impact on the Company's Consolidated Financial Statements for the year ended December 31, 2019.

Future Accounting Changes

(a) Definition of a business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 – Business Combinations. The objective of the amendments is to assist entities in determining whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments apply prospectively to acquisitions that occur in annual periods beginning on or after January 1, 2020, with earlier application permitted. The Company does not expect any significant impact from the adoption of these amendments.

(b) Definition of material

In October 2018, the IASB issued amendments to IAS 1 – *Presentation of Financial Statements* and IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of "material" across the standards and to clarify certain aspects of the definition. The objective of this amendment is to improve disclosure effectiveness in the financial statements by improving the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements. The amendments apply prospectively to annual periods beginning on or after January 1, 2020, with earlier application permitted. The Company does not expect any significant impact from the adoption of these amendments.

(c) Conceptual framework for financial reporting

In March 2018, the IASB issued a comprehensive set of concepts for financial reporting: the revised Conceptual Framework for Financial Reporting ("Conceptual Framework"), which replaces its previous version. It assists companies in developing accounting policies when no IFRS standard applies to a particular transaction and it helps stakeholders more broadly to better understand the standards.

The revised Conceptual Framework's effective date is January 1, 2020, with earlier application permitted. The Company does not expect any impact upon its adoption.

(d) Interest rate benchmark reform

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 – *Financial Instruments: Disclosures*. The objective of these amendments is to support the provision of useful financial information during the period of uncertainty arising from the phasing out of interest-rate benchmarks such as interbank offered rates. The amendments enable entities to use hedge accounting despite the uncertainties surrounding the use of interbank offered rates and require entities to provide additional information about their hedging relationships which are directly affected by these uncertainties.

The amendments apply retrospectively to annual periods beginning on or after January 1, 2020, with earlier application permitted. The Company does not expect a significant impact on its Consolidated Financial Statements.

RISKS AND UNCERTAINTIES

The results of operations, business prospects and financial considerations of Morneau Shepell remain subject to a number of risks and uncertainties and are affected by a number of factors outside of our control.

Ability to Maintain Profitability and Manage Growth

There can be no assurance that Morneau Shepell will be able to sustain profitability in future periods. Morneau Shepell's future operating results will depend on a number of factors, including its ability to continue to successfully execute its strategic initiatives.

There can be no assurance that Morneau Shepell will be successful in achieving its strategic plan or that its strategic plan will enable the firm to maintain its historical revenue growth rates or to sustain profitability. Failure to successfully execute any material part of Morneau Shepell's strategic plan could have a material adverse effect on its business, financial condition and operating results.

There can be no assurance that Morneau Shepell will be able to effectively manage its growth, and any failure to do so could have a material adverse effect on the firm's business, financial condition and operating results.

Competition

Morneau Shepell operates in a highly competitive international market. As a result, Morneau Shepell competes with many domestic and international firms. Some of its competitors have achieved substantially more market penetration in certain of the areas in which Morneau Shepell competes. In addition, some of Morneau Shepell's competitors may have more financial resources and/or financial flexibility than Morneau Shepell. Furthermore, Morneau Shepell's business relies, in part, upon its ability to develop and implement technology solutions, in a cost effective manner that anticipates and keeps pace with rapid and continuing changes in technology, industry standards and client preferences.

Morneau Shepell's competitors may offer new technologies more efficiently or cost effectively than Morneau Shepell. Competitive forces could result in reduced market share and thus have a material adverse effect on Morneau Shepell's business, financial condition and operating results.

Reliance on Information Systems and Technology and Confidentiality of Client Information

Information systems are an integral part of Morneau Shepell's business and the products and services offered to its clients. Morneau Shepell relies on these systems to maintain accurate, accessible and secure records.

In the course of delivering its products and services, Morneau Shepell collects and uses sensitive personal and financial information pertaining to its corporate, institutional and government clients as well as individual users. This information includes personal identification such as date of birth, social insurance numbers and driver's license numbers as well as health, benefits and financial information. The collection, use and protection of such information is governed by data privacy laws in multiple jurisdictions, including the Health Insurance Portability and Accountability Act in the US, and the General Data Protection Regulation in the U.K.

Due to the nature of the information involved in its products and services, Morneau Shepell is subject to cybersecurity risks and consequences of disclosure. These risks can range from internal human error to uncoordinated individual attempts to gain unauthorized access to its information technology systems, to sophisticated and targeted measures directed at Morneau Shepell and its systems, clients or service providers. Any such disruptions in Morneau Shepell's systems or the failure of the systems to operate as expected could, depending on the magnitude of the problem, result in the loss of client information (including personal information), a loss of current or future business, reputational harm and/or potential claims against Morneau Shepell, all of which could have a material adverse effect on Morneau Shepell's business, financial condition and operating results.

Morneau Shepell continues to enhance its efforts to mitigate these risks.

It invests in technology security initiatives to better identify and address any vulnerabilities. This includes measures such as annual third party internal and external vulnerability assessments and third party code reviews, systems monitoring, data monitoring and assessments. Morneau Shepell has also improved the security testing capabilities of its internal teams. Morneau Shepell also invests in technology to remain current and effective in terms of security controls. In addition, Morneau Shepell continues to increase the awareness its employees have of security policies and procedures through ongoing communications and privacy and security training. Morneau Shepell ensures that its service providers adopt similar measures through the use of security agreements.

From a systems and infrastructure perspective, Morneau Shepell uses a third party co-location sites and the cloud for data storage to decrease the probability of loss in the event of a business interruption or disaster. Internally, it maintains a complete inventory of all servers and infrastructure components and uses data loss prevention features to reduce the likelihood of improper disclosure of personal and confidential information.

Morneau Shepell's Chief Data and Technology Officer and Senior Director, Security are responsible for establishing, monitoring and maintaining the enterprise technology and security processes and policies with support from third party consultants and the Company's internal information technology, legal and audit departments.

The Company maintains privacy and network liability insurance coverage in the event of a loss arising from a network security failure, privacy event or social engineering fraud commonly referred to a "phishing attack".

The above referenced insurance policy, technology security initiatives and employee awareness measures are assessed on an annual basis as part of Morneau Shepell's comprehensive enterprise risk management process.

While Morneau Shepell has invested and continues to invest in technology security initiatives, information technology risk management and disaster recovery plans, these measures cannot fully insulate it from cybersecurity incidents, technology disruptions or data loss, which could adversely impact its competitiveness and result of operations.

Reputational Risk

Morneau Shepell depends to a large extent upon its relationships with its clients and its reputation for high-quality services. As a result, the impact of client dissatisfaction with Morneau Shepell's services or products may be more damaging in Morneau Shepell's business than in other businesses. Moreover, if the firm fails to meet its contractual or regulatory obligations, Morneau Shepell could be subject to legal liability and a loss of client relationships.

Satisfactory Performance of Obligations

In its contracts with clients, Morneau Shepell is sometimes committed to meeting identified service levels and/or timelines. If the service levels/timelines are not met, Morneau Shepell may experience reduced revenue, incur significant additional costs or be held responsible for the costs incurred by the client for failure to meet the service level/timeline. Morneau Shepell's success depends in large part upon whether it fulfills these and other contractual obligations with clients and maintains client satisfaction. If Morneau Shepell fails to satisfactorily perform its

contractual obligations, its clients could terminate contracts and/or take legal action against Morneau Shepell. Such occurrences could result in a loss of its professional reputation and in extra costs needed to defend or rectify the situation and thus have a material adverse effect on Morneau Shepell's business, financial condition and operating results.

Economic Conditions

An economic slowdown could cause a decline in demand for Morneau Shepell's services. Growth in its clients' businesses may be affected by economic slowdowns and could therefore potentially have an impact on Morneau Shepell's operating results. During an economic downturn, Morneau Shepell clients and potential clients may reduce their employee populations, delay services or projects, or defer contracts currently underway. This situation could also lead to greater delays and defaults in payments or debt collection, resulting in lower operating results. Because of lower revenue during an economic slowdown, competition may increase and prices may be reduced by certain competitors to maintain or expand their market share. Pricing and profitability could be adversely affected as a result.

Pandemics, Natural Disasters or Other Unanticipated Events

The occurrence of pandemics, natural disasters, or other unanticipated events, in any of the areas in which the Company, its clients or its suppliers operate could cause disruptions in the Company's operations. In addition, pandemics, natural disasters or other unanticipated events could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Potential Risks Associated with Acquisitions

In connection with acquisitions completed by Morneau Shepell, there may be undisclosed or unknown claims against, liabilities of, or issues concerning an acquired business that Morneau Shepell failed to discover or was unable to quantify in its due diligence which it conducted prior to the execution of an acquisition. Morneau Shepell may not be indemnified for some or all of these claims, liabilities or issues. The existence of any material claims, liabilities or issues could have a material adverse effect on Morneau Shepell's business, financial condition, liquidity and results of operations.

Acquisition transactions involve risks that could materially and adversely affect Morneau Shepell's business plan, including the failure of Morneau Shepell to realize the results expected from an acquisition. In order to achieve the benefits of a completed acquisition, Morneau Shepell will rely upon its ability to successfully retain staff, consolidate functions and integrate operations, procedures and personnel in a timely and efficient manner, as well as the ability to realize growth opportunities and potential synergies from combining an acquired business and related operations with those of Morneau Shepell. There is a risk that some or all of the expected benefits will fail to materialize, or may not occur within the time periods anticipated by management. The integration of an acquired business and related operations require the dedication of management effort, time and resources, which may divert management's focus and resources from other strategic opportunities and from operational matters during the integration process.

Dependence on Key Clients and Key Channel Partners

As clients may terminate engagements with minimum notice, there can be no assurance that Morneau Shepell will be able to retain relationships with its largest clients. Moreover, there can be no assurance that such clients will continue to use Morneau Shepell's services in the future. Any negative change involving any of Morneau Shepell's largest clients, including but not limited to a client's financial condition or desire to continue using Morneau Shepell's services, could result in a significant reduction in revenue which could have a material adverse effect on Morneau Shepell's business, financial condition and operating results. No one Morneau Shepell client makes up more than 10% of Morneau Shepell's total revenue for the years ended December 31, 2019 and 2018.

Morneau Shepell markets its services directly to end-user employers, associations and universities as well as through certain channel partners, primarily insurance companies (many of which compete amongst themselves directly). There can be no assurance that Morneau Shepell will be able to maintain its existing relationships with all these channel partners, which could have a material adverse effect on Morneau Shepell's business, financial condition and operating results.

Reliance on Key Professionals

Morneau Shepell's operations are dependent upon the abilities, experience and efforts of its professionals, many of whom have excellent reputations and a significant number of contacts in the industries in which Morneau Shepell operates. Morneau Shepell's business depends, in part, on its professionals' abilities to develop and maintain client relationships and alliances with businesses such as financial services companies, healthcare organizations, insurance companies, business process outsourcing organizations and other companies, in order to develop, market and deliver its services. Profitability could be negatively impacted if Morneau Shepell's client relationships or business alliances are discontinued due to the loss of professional staff or if the firm has difficulty developing new alliances.

Should any member of its professional staff be unable or unwilling to continue his or her relationship with Morneau Shepell, this change could have a material adverse effect on Morneau Shepell's business, financial condition and operating results.

Risk of Future Legal Proceedings

Morneau Shepell may be threatened with, or may be named as a defendant in, or may become subject to, various legal proceedings in the ordinary course of conducting its business, including lawsuits based upon professional errors and omissions. For example, Pension consulting services involves assumptions and estimates concerning future events, the actual outcome of which cannot be known with certainty in advance. In addition, computational, software programming or data management errors could occur, including security or privacy breaches. The well-being and health and productivity services involve confidential counseling, occupational health activities and disability case management. Each of these activities could potentially put Morneau Shepell in conflict with its customers, their employees, or both. Possible legal proceedings could also result from matters such as an employee claiming for breach of confidence, failure to provide adequate counsel, or denial of benefits or employment as a result of Morneau Shepell's actions.

Defending lawsuits of this nature could require much management attention, which could divert its focus from operations. Such claims could produce negative publicity that could harm Morneau Shepell's reputation and business. A significant judgment against Morneau Shepell, or the imposition of a significant fine or penalty as a result of a finding that Morneau Shepell failed to comply with laws or regulations, could have a material adverse effect on Morneau Shepell's business, financial condition and operating results.

Protection of Intellectual Property

Morneau Shepell continually develops and improves its proprietary technology solutions for the delivery of its services. No assurance can be given that Morneau Shepell's competitors will not develop substantially similar technology.

Morneau Shepell relies on one or more of the following to protect its proprietary rights: trademarks, copyrights, trade secrets, confidentiality procedures and contractual provisions. Despite Morneau Shepell's efforts to protect its proprietary rights, unauthorized parties may attempt to obtain and use information that Morneau Shepell regards as proprietary. Stopping unauthorized use of Morneau Shepell's intellectual property may be difficult, time-consuming and costly. There can be no assurance that Morneau Shepell will be successful in protecting its proprietary rights and, if it is not, this could have a material adverse effect on Morneau Shepell's business, financial condition and operating results.

Insurance

Morneau Shepell believes that its insurance coverage, including professional errors and omissions insurance, cyber liability insurance, crime insurance, director and officer liability insurance, and commercial general liability insurance coverage address all material insurable risks, provides coverage that is similar to that which would be maintained by a prudent operator of a similar business and is subject to deductibles, limits and exclusions which are customary or reasonable given the cost of procuring insurance and current operating conditions.

However, there can be no assurance that such insurance will continue to be offered on economically feasible terms, that all events that could give rise to a loss or liability are insurable, or that the amounts of insurance will at all times be sufficient to cover each and every loss or claim that may occur involving Morneau Shepell's assets or operations.

Foreign Exchange Risk

The Company realizes a portion of sales and related expenses (net revenue) in foreign currency including U.S. dollars, Australian dollars and British Pounds and is exposed to fluctuations in the value of these currencies relative to the Canadian dollar.

The net revenue exposure denominated in foreign currencies was \$97.6 million for the year ended December 31, 2019. An increase in foreign revenue would expose Morneau Shepell to fluctuations in exchange rates which may have a material adverse effect on Morneau Shepell's business, financial condition, and operating results.

Indebtedness and Interest Rates

The ability of Morneau Shepell to pay dividends or make other payments or advances will be subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness of Morneau Shepell.

The degree to which Morneau Shepell is leveraged could have important consequences including: Morneau Shepell's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited; a significant portion of Morneau Shepell's cash flow from operations may be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for future operations; certain borrowings will be at variable rates of interest, which exposes Morneau Shepell to the risk of increased interest rates; and Morneau Shepell may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures.

These factors may increase the sensitivity of free cash flow to interest rate variations. Interest rate swap agreements are used as part of Morneau Shepell's program to manage the floating interest rate of Morneau Shepell's Credit Facility.

The Credit Facility contains numerous restrictive covenants that limit the discretion of management with respect to certain business matters. These covenants place significant restrictions on, among other things, the ability of Morneau Shepell to create liens or other encumbrances, to pay dividends or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity.

In addition, the Credit Facility contains financial covenants that require Morneau Shepell to meet certain financial ratios and financial condition tests. A failure to comply with the obligations in the Credit Facility could result in a default which, if not cured or waived, could result in a reduction or termination of dividends by Morneau Shepell and permit acceleration of the relevant indebtedness. If the indebtedness under the Credit Facility was to be accelerated, there can be no assurance that the assets of Morneau Shepell would be sufficient to repay in full that indebtedness. In addition, the Credit Facility matures on July 27, 2023. There can be no assurance that future borrowings or equity financing will be available to Morneau Shepell or available on acceptable terms, in an amount sufficient to fund Morneau Shepell's needs.

Credit Risk

If a counterparty to a financial instrument held by Morneau Shepell fails to discharge their obligation, this could lead to a financial loss for the Company. As at December 31, 2019, the Company's credit risk was limited to the carrying amount of the cash, investments held in trust, unbilled fees (which are contract assets), and accounts receivable as at this date. The Company believes that the credit risk of accounts receivable and unbilled fees is limited for the following reasons:

- (a) Risk associated with concentration of credit risk with respect to accounts receivable is limited due to the credit rating of the Company's top 10 clients.
- (b) Management regularly reviews and assesses customer accounts and credit risk. Historically, bad debt as a percentage of revenue has been minimal.

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

Cash Dividends are not Guaranteed and will Fluctuate with the Business Performance

As a corporation, Morneau Shepell's dividend policy is at the discretion of its Board of Directors. The ability of Morneau Shepell to make dividend payments, and the actual amount paid is entirely dependent on the operations and assets of its subsidiaries and is subject to various factors applicable to Morneau Shepell and its subsidiaries including financial performance, obligations under credit facilities, fluctuations in working capital, the sustainability of margin and capital expenditure requirements, and applicable laws and regulations.

Market Price and Dilution of Common Shares

The market price of Morneau Shepell's common shares may be subject to wide fluctuations in response to many factors, including variations in operating results of Morneau Shepell, divergence in financial results from expectations, changes in business prospects for Morneau Shepell, general economic conditions, legislative changes, and other events and factors outside Morneau Shepell's control.

Sales of a substantial number of common shares by a significant shareholder in the public market or otherwise could adversely affect the prevailing market prices of the common shares and could impair the Company's ability to raise additional capital through an offering of common shares. The possible perception among the public that these sales will occur could also produce the same effect.

Pursuant to its articles of incorporation, Morneau Shepell is authorized to issue an unlimited number of common shares and 10 million preferred shares for the consideration and on such terms established by the Board of Directors without the approval of any shareholders. Any further issuance of common shares may dilute the interests of existing shareholders. Furthermore, Morneau Shepell may make future acquisitions or enter into financings or other transactions involving the issuance of securities of Morneau Shepell which may be dilutive. In addition, Morneau Shepell may issue shares upon the conversion, redemption or maturity of payment of interest on its convertible debentures. Accordingly, if the debentures are converted this may have a dilutive impact on the Company's earnings per share.

SELECTED ANNUAL INFORMATION

(In thousands of dollars, except per share amounts)	Year ended December 31, 2019 ⁽⁴⁾	Year ended December 31, 2018 ⁽²⁾⁽³⁾	Year ended December 31, 2017 ⁽¹⁾⁽²⁾⁽³⁾
Revenue	\$ 888,889	\$ 722,284	\$625,089
Profit for the year	18,968	21,797	33,024
Earnings per share (basic)	0.29	0.36	0.60
Earnings per share (diluted)	0.28	0.36	0.59
Dividends declared per share	0.78	0.78	0.78
Total assets	1,530,218	1,348,342	821,688
Long-term debt ⁽⁵⁾	470,456	374,381	179,669

Footnotes:

- (1) Certain figures have been restated as a result of the Company's adoption of IFRS 15 on January 1, 2018.
- (2) The Company has applied IFRS 16 using the modified retrospective approach. The figures presented have not been restated. Please refer to note 3 of the Consolidated Financial Statements for the year ended December 31, 2019 for further details.
- (3) The Company acquired LifeWorks in Q3 2018 for approximately \$434.8 million, which resulted in the increase in total assets. Total long-term debt also increased as the acquisition was partially financed by a draw down from the Company's Credit Facility. Profit for the year decreased due to higher amortization on acquired intangibles.
- (4) The Company acquired Mercer in Q3 2019 for approximately \$76.7 million, which resulted in the increase in total assets. Total long-term debt also increased as the acquisition was financed by a draw down from the Company's Credit Facility. Profit for the year decreased due to higher amortization on acquired intangibles.
- (5) Long-term debt excludes convertible debt due to its reclassification to current liabilities as at December 31, 2019.

SUPPLEMENTARY SUMMARY OF QUARTERLY RESULTS

Selected Unaudited Consolidated Financial information:

(in thousands of dollars except per share amounts)

Quarter ended	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018 ⁽⁴⁾	September 30, 2018 ⁽⁴⁾	June 30, 2018 ⁽⁴⁾	March 31, 2018 ⁽⁴⁾
Revenue	247,549	223,980	212,666	204,695	200,761	182,805	171,191	167,526
Profit (loss) ⁽³⁾	2,648	1,332	6,329	8,659	3,450	(9,556)	13,672	14,229
EBITDA ⁽³⁾	39,433	34,459	39,032	41,460	27,842	11,684	32,785	33,584
Adjusted EBITDA	48,041	43,811	45,882	44,718	35,652	33,989	33,734	33,584
EBITDA margin	15.9%	15.4%	18.4%	20.3%	13.9%	6.4%	19.2%	20.0%
Adjusted EBITDA margin	19.4%	19.6%	21.6%	21.8%	17.8%	18.6%	19.7%	20.0%
Earnings(loss) per share (basic)	0.04	0.02	0.10	0.13	0.05	(0.15)	0.25	0.26
Earnings(loss) per share (diluted)	0.04	0.02	0.10	0.13	0.05	(0.15)	0.24	0.25
Normalized Free Cash Flow	17,636	24,212	27,618	24,013	18,284	23,075	16,922	16,832
Dividends declared	12,739	12,596	12,586	12,533	12,493	12,505	10,504	10,498
Twelve-month rolling normalized payout ratio	54.0%	53.3%	53.9%	58.4%	61.2%	58.0%	60.0%	61.2%
Twelve-month rolling normalized payout ratio, including changes in adjusted non-cash operating working capital	89.9%	82.9%	66.5%	64.2%	71.0%	54.2%	80.2%	74.0%
Total assets ⁽²⁾	1,530,218	1,483,878	1,397,115	1,409,850	1,348,342	1,331,245	833,815	820,939
Long-term debt ⁽¹⁾⁽²⁾	470,456	460,474	408,715	374,752	374,381	384,471	205,538	182,278

Footnotes:

1. Long-term debt excludes convertible debt due to its reclassification as current as at December 31, 2019.
2. The Company acquired LifeWorks in Q3 2018 for approximately \$434.8 million, which resulted in the increase in total assets. Total long-term debt also increased as the acquisition was partially financed by a draw down from the Company's Credit Facility.
3. The decline in EBITDA for the quarter ended September 30, 2018 is due to transaction costs of \$9.0 million incurred to complete the LifeWorks acquisition.
4. The Company has applied IFRS 16 using the modified retrospective approach. The figures presented have not been restated. Please refer to note 3 of the Consolidated Financial Statements for the year ended December 31, 2019 for further details.

Disclosure Controls and Procedures

Our disclosure controls and procedures have been designed to provide reasonable assurance that all relevant information is identified to our Disclosure Committee to ensure appropriate and timely decisions are made regarding public disclosure.

The Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures are appropriately designed and operating effectively as at December 31, 2019.

Internal Control over Financial Reporting

Management is responsible for designing internal controls over financial reporting, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. In designing these controls, Management used the *Internal Control – Integrated Framework* (COSO 2013 Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission.

The Chief Executive Officer and the Chief Financial Officer have concluded that the internal controls over financial reporting are appropriately designed and operating effectively to provide this assurance based on the evaluation of these controls conducted as of December 31, 2019. No changes were made in our internal controls over financial reporting during the fourth quarter or year-ended December 31, 2019, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Additional Information

Morneau Shepell's shares and convertible debentures currently trade on the Toronto Stock Exchange under the symbols MSI and MSI.DB.A, respectively. Additional information relating to us, including all public filings and our Annual Information Form, is available on the SEDAR website (sedar.com) and on our own website at morneaushepell.com.

The content of this MD&A reflects information known as of March 10, 2020.



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Morneau Shepell Inc.

We have audited the consolidated financial statements of Morneau Shepell Inc. (the "Company"), which comprise:

- the consolidated statements of financial position as at December 31, 2019, and December 31, 2018;
- the consolidated statements of income and comprehensive income for the years ended December 31, 2019 and December 31, 2018;
- the consolidated statements of changes in equity for the years ended December 31, 2019 and December 31, 2018;
- the consolidated statements of cash flows for the years ended December 31, 2019 and December 31, 2018;
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019, and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2019 and December 31, 2018 in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Emphasis of Matter

We draw attention to note 3(u)(a) to the financial statements which indicates that the Company has changed its accounting policy for leases effective January 1, 2019 due to the adoption of IFRS 16 Leases and has applied that change using a modified retrospective approach.

Our opinion is not modified in respect of this matter.

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Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2019 Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2019 Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

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We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Heather Baker.

Toronto, Canada

March 10, 2020

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MORNEAU SHEPELL INC.

Consolidated Statements of Financial Position

(In thousands of Canadian dollars)

December 31, 2019 and December 31, 2018

	December 31, 2019	December 31, 2018 note 3(u)(a)
Assets		
Current assets:		
Cash	\$ 9,469	\$ 2,876
Trade and other receivables (note 5)	112,484	101,973
Unbilled fees	104,993	68,635
Finance lease receivables (note 17)	1,641	–
Prepaid expenses and other	16,334	11,610
Cash and investments held in trust	11,984	13,166
Income taxes receivable	–	89
Deferred implementation costs (note 6)	13,633	14,190
Interest rate swaps (note 14)	95	–
Total current assets	270,633	212,539
Non-current assets:		
Deferred implementation costs (note 6)	49,145	44,675
Finance lease receivables (note 17)	3,375	–
Capital assets (note 7)	116,288	38,213
Intangible assets (note 8)	477,892	452,473
Interest rate swaps (note 14)	–	403
Goodwill (note 9)	607,151	594,316
Investments in joint ventures (note 25)	5,734	5,723
Total non-current assets	1,259,585	1,135,803
Total assets	\$1,530,218	\$1,348,342

See accompanying notes to the consolidated financial statements.

MORNEAU SHEPELL INC.

Consolidated Statements of Financial Position

(In thousands of Canadian dollars)

December 31, 2019 and December 31, 2018

	December 31, 2019	December 31, 2018 note 3(u)(a)
Liabilities and Equity		
Current liabilities:		
Bank indebtedness	\$ 5,818	\$ 12,017
Trade and other payables (note 10)	101,365	96,702
Income taxes payable	3,927	–
Deferred revenue (note 11)	12,487	15,404
Insurance premium liabilities	11,984	13,166
Interest rate and currency swaps (note 14)	4,683	504
Future consideration related to acquisitions (note 16)	23,611	920
Dividends payable	4,325	4,173
Convertible debenture payable (note 15)	40,699	–
Lease liabilities (note 17)	18,572	–
Total current liabilities	227,471	142,886
Non-current liabilities:		
Deferred revenue (note 11)	25,409	12,534
Long-term debt (note 14)	470,456	374,381
Convertible debenture payable (note 15)	–	83,117
Future consideration related to acquisitions (note 16)	255	863
Interest rate swaps (note 14)	1,920	1,601
Other liabilities (note 12)	–	19,700
Provisions (note 13)	2,873	3,534
Deferred tax liability (note 18)	102,891	103,322
Lease liabilities (note 17)	80,555	–
Total non-current liabilities	684,359	599,052
Equity:		
Share capital (note 21)	872,981	820,792
Contributed surplus (note 21)	27,667	27,141
Equity component of convertible debenture (note 15, 21)	495	1,045
Accumulated other comprehensive income (note 21)	796	9,908
Deficit	(283,551)	(252,482)
Total equity	618,388	606,404
Total liabilities and equity	\$1,530,218	\$1,348,342

Commitments, contingencies and subsequent events (note 4, note 15, note 17, note 28, note 29 and note 31)

On behalf of the Board:

Audit Committee Chair

President & CEO

See accompanying notes to the consolidated financial statements.

MORNEAU SHEPELL INC.

Consolidated Statements of Income and Comprehensive Income

(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2019 and 2018

	2019	2018 note 3(u)(a)
Operating revenue (note 26)	\$888,889	\$722,284
Operating expenses:		
Salaries, benefits and contractors (note 27)	599,467	483,281
Other operating expenses	135,602	123,648
Depreciation and amortization	94,138	54,138
Total operating expenses	829,207	661,067
Finance costs (note 14)	31,105	17,419
Transaction costs (note 4)	719	9,924
Share of income (loss) of joint ventures (note 25)	608	(220)
Profit before income taxes	28,466	33,654
Income taxes (note 18):		
Current	15,202	13,280
Deferred	(5,704)	(1,423)
Total income taxes	9,498	11,857
Profit for the year	18,968	21,797
Other comprehensive income (loss):		
Items that may be reclassified subsequently to profit:		
Effective portion of change in interest rate cash flow hedges	(927)	(1,415)
Foreign currency translation differences for foreign operations	(8,149)	13,639
Income taxes on the above items	243	378
	(8,833)	12,602
Items that will not be reclassified to profit:		
Actuarial gain (loss) on post-employment benefit plans	(380)	143
Income taxes on the above item	101	(31)
	(279)	112
Other comprehensive income (loss), net of tax effect	(9,112)	12,714
Comprehensive income for the year	\$ 9,856	\$ 34,511
Earnings per share (note 22):		
Basic	\$ 0.29	\$ 0.36
Diluted	\$ 0.28	\$ 0.36

See accompanying notes to the consolidated financial statements.

MORNEAU SHEPELL INC.

Consolidated Statements of Changes in Equity

(In thousands of Canadian dollars)

Years ended December 31, 2019 and 2018

2019	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive income	Equity component of convertible debenture	Total equity
Balance, December 31, 2018 (note 3 (u)(a))	\$820,792	\$27,141	\$(252,482)	\$ 9,908	\$1,045	\$606,404
Adjustment on initial application of IFRS 16 (note 3 (u)(a))	—	—	417	—	—	417
Balance, January 1, 2019	820,792	27,141	(252,065)	9,908	1,045	606,821
Long-term incentive plan - issuance (note 20 and 21)	—	6,925	—	—	—	6,925
Long-term incentive plan - redemption (note 20 and 21)	6,399	(6,399)	—	—	—	—
Shares issued upon conversion of convertible debentures (note 21)	45,790	—	—	—	(550)	45,240
Profit for the year	—	—	18,968	—	—	18,968
Dividends	—	—	(50,454)	—	—	(50,454)
Other comprehensive loss (note 21)	—	—	—	(9,112)	—	(9,112)
Balance, December 31, 2019	\$872,981	\$27,667	\$(283,551)	\$ 796	\$ 495	\$618,388
2018	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Equity component of convertible debenture	Total equity
Balance, December 31, 2017 (note 3 (u)(a))	\$558,972	\$27,339	\$(223,491)	\$(2,806)	\$1,045	\$ 361,059
IFRS 15 implementation adjustment	—	—	(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 (note 20 and 21)	—	5,761	—	—	—	5,761
Long-term incentive plan - redemption (note 20 and 21)	5,959	(5,959)	—	—	—	—
Share issued - public offering (note 4 and 21)	231,012	—	—	—	—	231,012
Share issuance cost, net of future income tax benefit (note 4 and 21)	(7,494)	—	—	—	—	(7,494)
Shares issued - part of acquisition consideration (note 4 and 21)	32,343	—	—	—	—	32,343
Profit for the year	—	—	21,797	—	—	21,797
Dividends	—	—	(46,000)	—	—	(46,000)
Other comprehensive income (note 21)	—	—	—	12,714	—	12,714
Balance, December 31, 2018 (note 3 (u)(a))	\$820,792	\$ 27,141	\$(252,482)	\$ 9,908	\$1,045	\$606,404

See accompanying notes to the consolidated financial statements.

MORNEAU SHEPELL INC.

Consolidated Statements of Cash Flows

(In thousands of Canadian dollars)

Years ended December 31, 2019 and 2018

	2019	2018 (note 3 (u)(a))
Operating activities		
Profit for the year	\$ 18,968	\$ 21,797
Items not involving cash:		
Depreciation and amortization	94,138	54,138
Finance costs (note 14)	31,105	17,419
Long-term incentive plan expense (note 20)	6,925	5,761
Income taxes (note 18)	9,498	11,857
Change in provisions	(617)	(752)
Share of (income) loss of joint ventures	(608)	220
Other	870	1,037
	160,279	111,477
Change in non-cash operating working capital (note 24)	(37,389)	(11,371)
Cash generated from operating activities	122,890	100,106
Finance costs paid	(26,612)	(17,719)
Income taxes paid	(4,045)	(17,595)
Cash provided by operating activities	92,233	64,792
Financing activities:		
Change in revolving loan	95,277	197,478
Proceeds from issuance of shares	–	231,012
Cost incurred to issue shares	–	(10,238)
Cost incurred to modify credit facilities	(223)	(3,148)
Principal payment of lease liabilities	(13,477)	–
Dividends paid	(50,302)	(45,290)
Cash provided by financing activities	31,275	369,814
Investing activities:		
Business acquisitions (notes 4 & 16(b))	(59,242)	(401,901)
Principal payment received from finance leases	1,578	–
Additions to intangible assets	(33,654)	(22,487)
Additions to capital assets	(19,398)	(13,943)
Cash used in investing activities	(110,716)	(438,331)
Increase (decrease) in cash for the year	12,792	(3,725)
Bank indebtedness, net of cash, beginning of year	(9,141)	(5,416)
Cash (Bank indebtedness, net of cash), end of year (note 24)	\$ 3,651	\$ (9,141)

See accompanying notes to the consolidated financial statements.

MORNEAU SHEPELL INC.

Notes to Consolidated Financial Statements

(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2019 and 2018

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 an integrated approach to employee well-being through its cloud-based platform. The Company provides services in employee and family assistance, health and wellness, recognition, pension and benefits administration, retirement consulting, actuarial and investment services. 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 consolidated financial statements were approved by the Company's Board of Directors on March 10, 2020.

2. Basis of preparation:

(a) Statement of compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

(b) Basis of measurement:

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

- (i) financial derivatives such as interest rate and cross currency swaps are measured at fair value;
- (ii) future consideration related to acquisitions is measured at fair value; and
- (iii) net pension benefit asset is measured in accordance with the employee benefit policy (see note 18).

(c) Functional currency:

These consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency and the functional currency of Morneau Shepell Inc. Items included in the financial statements of each of Morneau Shepell Inc.'s subsidiaries are measured using their functional currency, which is the currency of the primary economic environment in which they operate in. Unless otherwise noted, all financial information presented herein is in thousands of Canadian dollars.

MORNEAU SHEPELL INC.

Notes to Consolidated Financial Statements

(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2019 and 2018

(d) Use of estimates and judgments:

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

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

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

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

(i) Revenue recognition (Administrative Solutions contracts) (note 3(c)):

Where an Administrative Solutions contract requires the delivery of multiple components, the Company is required to assess the criteria for the recognition of revenue related to each component. These assessments require judgment by management to determine whether a component is a separate performance obligation, and where applicable, the allocation of the transaction price to the separate performance obligations. Amongst other factors, management considers whether the customer can benefit from the implementation services on their own, and considers budgeted salary costs associated with each phase of the service contract to derive fair value estimates.

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

(ii) Unbilled fees:

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

MORNEAU SHEPELL INC.

Notes to Consolidated Financial Statements

(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2019 and 2018

(iii) Intangible assets (note 8):

(a) Internally-developed software:

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

(b) Other intangible assets:

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

(iv) Goodwill (note 9):

The Company's annual goodwill impairment review involves significant estimates and assumptions regarding cash flow projections, growth projections, economic risk, and cost of capital. If future events or results differ adversely from these estimates and assumptions, the Company could incur impairment charges in future periods.

(v) Trade receivables (expected credit losses) (note 5):

The Company is required to assess whether accounts receivables are collectible from customers. Accordingly, management establishes an allowance for expected credit losses ("ECLs") for non-payment and delinquent accounts based on historic trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. If future collections differ from estimates, future profits could be adversely affected.

(vi) Corporate income taxes (note 18):

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

MORNEAU SHEPELL INC.

Notes to Consolidated Financial Statements

(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2019 and 2018

Deferred income tax assets are recognized for all unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary differences can be utilized. Management interprets the tax legislation for each jurisdiction in which the Company operates and makes assumptions about the expected timing of the reversal of deferred income tax assets and liabilities. If management's interpretations of the legislation differ from those of the tax authorities or if the actual timing of the reversals of the deferred income tax assets and liabilities is not as anticipated, the provision for income taxes could increase or decrease in future periods.

(vii) Provisions (note 13):

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

(viii) Future consideration related to acquisitions (note 16):

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

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements with the exception of accounting for leases (note 3(u)(a)).

(a) Basis of consolidation:

(i) Business combinations:

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

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

MORNEAU SHEPELL INC.

Notes to Consolidated Financial Statements

(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2019 and 2018

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

(ii) Subsidiaries:

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

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

	% Ownership
Morneau Shepell Ltd.	100
Morneau Shepell Limited	100
Morneau Shepell Asset & Risk Management Ltd.	100
Morneau Shepell (Bahamas) Ltd.	100
Chestnut Global Partners, LLC	100
LifeWorks Canada Ltd.	100
LifeWorks.com Pty Ltd.	100
LifeWorks US Inc.	100
Work Angel Technology Ltd.	100
Morneau Shepell India LLP	100

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

(iii) Joint ventures:

Joint ventures are those entities over which the Company exercises joint control, requiring unanimous consent of the parties sharing control of relevant activities such as strategic, financial and operating decision-making. Investments in joint ventures are accounted for using the equity method. They are initially recognized at cost and subsequent to initial recognition, the consolidated financial statements include the Company's share of the joint ventures' profit or loss and other comprehensive income.

(b) Foreign currency translation:

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

Assets and liabilities of subsidiaries with applicable functional currencies other than the Canadian dollar are translated at period-end rates of exchange, and operating results are translated at average rates of

MORNEAU SHEPELL INC.

Notes to Consolidated Financial Statements

(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2019 and 2018

exchange for the period. The resulting translation adjustments are included in accumulated other comprehensive income in equity.

(c) Revenue recognition and unbilled fees:

Revenue includes fees generated from Well-Being Solutions, Administrative Solutions, Retirement Solutions and Health and Productivity Solutions contracts.

The Company records revenue from contracts with customers in accordance with the five steps in IFRS 15, Revenue from Contracts with Customers ("IFRS 15") as follows:

- i) Identify the contract with a customer;
- ii) Identify the performance obligation in the contract;
- iii) Determine the transaction price, which is the total consideration provided by the customer;
- iv) Allocate the transaction price among the performance obligations in the contract based on their relative fair values; and
- v) Recognize revenue when (or as) the Company satisfies a performance obligation.

Well-Being Solutions offers counselling and educational services, and targeted health and wellness programs, to support employee and family work, financial, personal and family needs. Most Well-Being Solutions agreements may be terminated by the client upon 30 to 60 days' notice to us. It is typical, however, for these agreements to continue for multiple years and many automatically renew on an annual basis. Well-Being Solutions revenue is recognized through a combination of the minimum contracted amount and incremental usage above the minimum thresholds. The minimum contracted amount is recognized on a basis consistent with the provision of well-being services. Incremental usage is accrued when the minimum usage threshold is exceeded and subsequently billed.

Administrative Solutions manages all aspects of the administration of clients' pension and benefit plans on an outsourced basis, as well as providing administration support through software as a service ("SaaS") and application service provider ("ASP"). Administrative Solutions engagements typically involve both an implementation and an ongoing services component. Where a single contract requires the delivery of multiple components, revenue recognition criteria are applied to determine whether each component is distinct and a separate performance obligation. A component is distinct and a separate performance obligation if the component is separately identifiable from the other promised goods and services in the bundled package, and if the customer can benefit from it on its own or with other readily available resources. For a single contract with multiple performance obligations, the consideration is allocated to the separate performance obligations based on their observable price when the Company customarily provides such goods or services on a stand-alone basis. Where the Company does not provide such goods or

MORNEAU SHEPELL INC.

Notes to Consolidated Financial Statements

(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2019 and 2018

services on a stand-alone basis, the adjusted market assessment approach or expected cost plus margin approach is then used to allocate the consideration. Revenue is recognized as follows:

(i) Implementation

The provision of implementation services in a contract that involves both an implementation component and an ongoing services component, where the implementation component is considered distinct and a separate performance obligation, is recognized as revenue based on the percentage of implementation work completed. The percentage of implementation work completed is estimated based on hours incurred to date relative to the total estimated hours to complete the implementation work. Where the implementation services in a contract are not considered distinct, revenue is deferred and recognized as revenue on a basis consistent with the ongoing services component of the contract (see below).

(ii) Ongoing services

Ongoing services can include record-keeping and managing employee information, processing transactions that are required to administer employee pension and benefit plans, hosting client benefits websites, and responding to employee inquiries through call centres. Depending on the nature of the arrangement with the client, the Company can manage all aspects of the administration of clients' pension and benefit plans on an outsourced basis, or provide administration support through SaaS and ASP. Revenue from ongoing services are accrued as revenue as these services are provided and subsequently billed.

Administrative Solutions clients typically sign three-to-five year contracts. There may be an upfront fee charged for implementation services, with ongoing services generally billed on a monthly basis. In estimating the transaction price in a contract, the Company adjusts the transaction price for the time value of money if the contract contains a significant financing component. In making this assessment, the Company considers amongst other factors the difference, if any, between the amount of promised consideration and the cash selling price of the promised goods or services, the combined effect of the length of time between when the Company transfers the goods or services to the client and when it receives payment for these goods or services, and the prevailing market interest rates. For contracts that contain a significant financing component, the financing component is recognized as interest expense when the customer pays in advance or as interest income when the customer pays in arrears.

Retirement Solutions services entails assisting organizations with the design, determination of funding requirements, management, and financial control of pension and benefit plans. Fees for actuarial and consulting services are billed either on a time-and-material basis or on a fixed-fee basis. Revenue is accrued as services are rendered and expenditures are incurred and subsequently billed.

Health and Productivity Solutions provides administration and support services to organizations in the area of attendance, disability, and workers' compensation. Health and Productivity Solutions revenue is recognized on a fixed-fee or time-and-material basis. Most Health and Productivity Solutions agreements may be terminated by the client upon 30 to 60 days' notice to us. It is typical, however, for these agreements to continue for multiple years and many automatically renew on an annual basis. On fixed-fee basis arrangements, where the provision of service is characterized by an indeterminate number of acts, revenue is recognized on a straight-line basis over the term of the contract. On time-and-material basis arrangements, revenue is accrued as services are rendered and expenditures are incurred and subsequently billed.

MORNEAU SHEPELL INC.

Notes to Consolidated Financial Statements

(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2019 and 2018

Unbilled fees represent contract assets for fees earned for services rendered but not yet invoiced as at the reporting date; upon billing, this balance will be transferred to trade receivables. Unbilled fees are generally billed in the following month and have been classified as current, as they are billed within the following year. Unbilled fees on time and material basis arrangements are recorded at the lower of unbilled hours worked at normal billing rates and at the amount which is estimated to be recoverable upon invoicing. The Company maintains an allowance for amounts expected to be unrecoverable.

Other sources of operating revenue include the following:

- (i) Investment income earned in the course of normal business operations, and is recorded on the accrual basis.
 - (ii) Commissions income is recognized when earned, which is at the later of the billing or the effective date of the policy, net of a provision for return commissions due to policy cancellations or change of brokers.
- (d) Deferred implementation costs:

Implementation costs incurred in connection with Administrative Solutions contracts, depending on the nature of the arrangement with the client, either relate to those costs necessary to set up clients and their human resource or benefit programs onto the Company's systems and operating processes, or for costs necessary to set up clients so they can administer their human resource or benefit programs using the Company's proprietary pension and benefits software solutions. Such costs may include internal and external costs for coding and customizing systems, client data conversion costs, and contract negotiation costs. Implementation costs are deferred only to the extent recovery is expected. For Administrative Solutions contracts where the implementation component is not distinct and a separate performance obligation, specific, incremental, and direct costs, are deferred and amortized over the term of the service contract plus any expected renewal period.

The Company is required to assess the recoverability of unamortized deferred implementation costs. This assessment requires judgment by management to determine whether costs will be less than fully recoverable based on the future cash flow for each respective client. If a client terminates a contract prior to its end, a loss on the contract may be recorded (if necessary), and any remaining deferred implementation revenue and costs would be recognized into income over the remaining implementation period through to the date of termination.

- (e) Cash and bank indebtedness:

Cash is comprised of bank balances and banker's deposit notes with an original maturity of three months or less, and are primarily held in Canadian dollars, U.S. dollars and British Pounds.

- (f) Trade and other receivables:

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

MORNEAU SHEPELL INC.

Notes to Consolidated Financial Statements

(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2019 and 2018

The Company is required to assess whether accounts receivables are collectible from customers. Accordingly, management establishes an allowance for ECLs for non-payment and delinquent accounts based on historic trends of the probability of default, timing of recoveries, and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. If future collections differ from estimates, future profits could be adversely affected.

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

(g) Capital assets:

Capital assets are comprised of computer hardware, furniture and fixtures, leasehold improvements and right-of-use assets. Refer to note 3(t) for the accounting policy for right-of-use assets.

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

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

A gain or loss on disposal of a capital asset is determined by comparing the proceeds from disposal with its carrying amount, and is recognized as a gain (loss) on disposal in the consolidated statements of income and comprehensive income.

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

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

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

(h) Intangible assets:

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

MORNEAU SHEPELL INC.

Notes to Consolidated Financial Statements

(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2019 and 2018

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

- (i) it is technically feasible to complete the software so that it will be available for use;
- (ii) management intends to complete the software and use or sell it;
- (iii) the Company is able to use or sell the software;
- (iv) future benefits associated with the software can be demonstrated;
- (v) adequate technical, financial, and other resources to complete the development and to use or sell the software are available; and
- (vi) the expenditures attributable to the software during its development can be reliably measured.

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

Purchased software is recognized at initial cost.

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

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

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

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

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

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

MORNEAU SHEPELL INC.

Notes to Consolidated Financial Statements

(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2019 and 2018

(i) Goodwill:

Goodwill represents the excess of the cost of the Company's business acquisitions over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

Goodwill is carried at cost less accumulated impairment charges, and is not amortized but is subject to an impairment test annually and whenever impairment indicators are identified.

(j) Impairment of non-financial assets:

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

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

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

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

(k) Provisions:

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

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(l) Deferred revenue:

Deferred revenue represents the excess of retainer amounts billed over revenue earned on service contracts, and prepayments from Administrative Solutions clients for implementation services yet to be recognized. The amount is recognized as revenue in profit or loss as services are rendered, in accordance with the revenue recognition policies described above.

(m) Convertible debentures:

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

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

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

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

(n) Share capital:

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

(o) Insurance premium liabilities and related cash and investments held in trust:

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

(p) Employee benefits:

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

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

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A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

(i) Defined benefit plan:

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

(ii) Defined contribution plan:

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

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

The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

(q) Share-based compensation plan:

Under the Company's long-term incentive plan ("LTIP") the Company may grant participants restricted share units ("RSUs"), performance share units ("PSUs") and deferred share units ("DSUs"). Under the Company's Director DSU plan, the Company may grant non-employee directors director deferred share units ("Director DSUs"). RSUs, DSUs, PSUs and Director DSUs are collectively referred to as "LTIP Units." The characteristics of each are as follows:

(i) DSUs:

DSUs generally vest three years after the date of grant and become redeemable only on the participant's termination of employment. DSUs are redeemable either for one common share or for an amount in cash equal to the fair market value of one common share (at the option of the Company).

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(ii) Director DSUs:

Director DSUs have the same characteristics of DSUs under the LTIP except they vest immediately on grant date.

(iii) RSUs:

RSUs vest over a three year period after the date of grant. RSUs are redeemable either for one common share or for an amount in cash equal to the fair market value of one common share (at the option of the Company).

The expense related to DSUs, Directors DSUs and RSUs is measured based on the fair value of the awards at the grant date. The expense is recognized as salaries, benefits and contractors expense over the vesting period, which is the period over which all of the specified vesting conditions are satisfied. When LTIP Units are redeemed, they are issued to the participant and are recorded as share capital. At the end of each reporting period, the Company reassesses its estimates of the number of DSUs that are expected to vest and forfeitures, and recognizes the impact of any revisions into profit or loss. Holders of DSUs, Directors DSUs and RSUs are entitled to receive additional LTIP Units equivalent to the dividend payable, had those Units been common shares. Units credited under the dividend reinvestment policy ("DRIP") vest at the same rate as the LTIP units to which they are determined

(iv) PSUs:

PSUs vest over a three year period after the date of grant and the final amount is based on market-based financial performance targets being met, with the conversion ratio for vested PSUs being from 0% to 200%. PSUs are redeemable for common shares or for an amount in cash equal to the fair value of the common shares (at the option of the Company).

The expense related to PSUs is measured based on the fair value of the awards at the grant date which has been measured using a Monte Carlo simulation. The expense is recognized as salaries, benefits and contractors expense over the vesting period, which is the period over which all of the specified vesting conditions are satisfied. When PSUs are redeemed, they are issued to the participant and are recorded as share capital. Anticipated forfeitures are factored into the determination of the fair value of the awards.

(r) Income taxes:

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

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

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

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

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

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

(s) Financial instruments:

(i) Recognition and initial measurement of financial assets

The Company initially recognizes trade receivables on the date that they originated. All other financial assets are recognized initially on the trade date or when the Company becomes a party to the contractual provisions of the instrument.

Financial assets, other than trade receivables without a significant financing component, for an item not at fair value through profit or loss (FVTPL), are measured at amortized cost using the effective interest rate method including transaction costs that are directly attributable to its acquisition or issue. The amortized cost is subsequently reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

(ii) Classification and subsequent measurement of financial assets

On initial recognition, a financial asset is classified and measured at amortized cost, fair value through other comprehensive income (FVOCI), or FVTPL.

Financial assets are not subsequently reclassified except if and in the period the Company changes its business model for managing its financial assets. The amortized cost is subsequently reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

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- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

All financial assets not classified and measured at amortized cost or FVOCI are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that would otherwise meet the requirements to be measured at amortized cost or FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

a) Non-derivative financial assets

Financial assets at FVTPL are subsequently measured at fair value. Net gains and losses, including any interest income, are recognized in profit or loss. Financial assets at amortized cost are subsequently measured at amortized cost using the effective interest rate method. The amortized cost is reduced by any impairment losses. Interest income, foreign exchange gains and losses, and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

b) Derivative financial instruments

Derivative financial instruments are used by the Company in the management of its interest rate risk and foreign currency risk exposure on debt financing. Derivatives that have been designated and function effectively as hedges are accounted for using hedge accounting principles under IFRS 9. Derivative financial instruments that are not accounted for as hedging instruments are measured at FVTPL.

(iii) Financial liabilities: Classification, subsequent measurement, and gains and losses

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

Financial liabilities are classified and measured at amortized cost or FVTPL. A financial liability is classified as FVTPL if it is held-for-trading, it is a derivative or it is designated as such on initial recognition.

Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Financial liabilities are derecognized when the contractual obligations are discharged, cancelled or expire. Any gain or loss on derecognition is also recognized in profit or loss.

Non-derivative financial liabilities of the Company include long-term debt, convertible debenture payable (see note 3(m) above), bank indebtedness, trade and other payables, dividends payable, future consideration related to acquisitions and insurance premium liabilities.

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(iv) Cash flow hedge – derivative instruments:

The Company has variable rate borrowings which gives rise to a risk that finance expense related cash flows may be adversely affected by fluctuations in the underlying interest rates. The Company is primarily exposed to the BA-CDOR. The Company uses interest rate swaps as derivative instruments to reduce its exposure to interest rate fluctuations, and cross currency swaps as derivative instruments to manage interest rate and foreign currency exposure.

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

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

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

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

(v) Derecognition

Financial assets

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

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Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

(vi) Offsetting

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

(vii) Impairment of financial instruments and contract assets

The Company recognizes loss allowances for ECLs on financial assets measured at amortized cost, and unbilled fees, which are contract assets as defined in IFRS 15.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls, being the difference between the contractually stated cash flows versus what the Company expects to collect, and is recognized into profit or loss.

Presentation of allowance for ECLs in the statement of financial position

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

(viii) Fair value of financial instruments:

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

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - inputs for the asset or liability that are not based on observable market data.

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

(t) Leases:

The Company adopted IFRS 16 - *Leases* ("IFRS 16") using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and related interpretations. The details of accounting policies under IAS 17 are disclosed separately if they are different from those under IFRS 16 and the impact of the adoption of IFRS 16 is disclosed in note 3(u)(a).

At the inception of a contract, the Company assesses whether a contract is or contains a lease based on whether the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

(i) As a lessee

The Company leases office premises and equipment. Under IFRS 16, the Company recognizes a right-of-use asset and a lease liability at lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized cost using the effective interest method. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Company has applied judgment to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

The Company presents right-of-use assets in "capital assets," whereas lease liabilities are separately presented in the statement of financial position.

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Under IAS 17

Leases conveying the right to use assets and classified as operating leases were not recognized in the Company's statement of financial position. Payments made under operating leases were recognized in the consolidated statements of income and comprehensive income on a straight-line basis over the term of the lease. Lease incentives received were recognized as an integral part of the total lease expense, over the term of the lease.

(ii) As a lessor

The Company subleases some of its properties. As a lessor, the Company assesses at inception whether a lease is a finance or operating lease. Leases where the Company transfers substantially all of the risks and rewards incidental to ownership of the underlying asset are classified as finance leases. Under a finance lease, the Company recognizes a receivable at an amount equal to the net investment in the lease which is the present value of the aggregate of lease payments receivable by the lessor. If substantially all the risks and rewards of ownership of an asset are not transferred, the lease is classified as an operating lease. The Company recognizes lease payments received under operating leases as income on a straight-line basis over the lease term.

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sublease separately. It assesses the lease classification of a sublease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

(u) 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 16

The Company adopted IFRS 16 effective January 1, 2019. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Company, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Company has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

A. As a lessee

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not

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assessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after January 1, 2019.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at January 1, 2019. In accordance with IFRS 16, the Company has elected to measure its right-of-use assets at an amount equal to the lease liability, adjusted by any prepaid or accrued lease payments.

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Apply a single discount rate to a portfolio of leases with similar characteristics;
- Account for leases with a remaining term of less than twelve months as at January 1, 2019 as short-term leases; and
- The use of hindsight in assessing the lease term.

B. As a lessor

The Company reassessed the classification of its sublease contracts previously classified as operating leases under IAS 17 and concluded that its subleases were finance leases under IFRS 16. As a result, the Company recognized a finance lease receivable for each sublease and a lease liability under the head lease on transition to IFRS 16. An adjustment to opening retained earnings reflected the difference between the finance lease receivables and lease liabilities, after considering any amounts previously recognized under IAS 17 or IAS 37.

C. Impacts on transition

The impact on transition is summarized below.

	Increase (decrease) January 1, 2019
Finance lease receivables	\$ 6,612
Right-of-use assets presented in capital assets	70,822
Lease liabilities	97,198
Other liabilities	(20,082)
Provisions	(99)
Deficit	(417)

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When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted average rate applied was 4.8%.

	January 1, 2019
Operating lease commitment (gross) at December 31, 2018 as disclosed in the Company's consolidated financial statements	\$124,224
Discounted using the incremental borrowing rate at January 1, 2019	(22,454)
Recognition exemptions and other	(4,572)
Lease liabilities recognized at January 1, 2019	\$ 97,198

(b) IFRIC Interpretation 23, Uncertainty over Income Tax Treatments ("The Interpretation")

The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Company adopted the interpretation effective January 1, 2019.

The Interpretation requires the Company to: a) contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution; and b) determine if it is probable that the tax authorities will accept the uncertain tax treatment or if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. The adoption of IFRIC 23 did not have a material impact on the Company's consolidated financial statements.

(v) Future accounting changes:

(a) Definition of a business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 – *Business Combinations*. The objective of the amendments is to assist entities in determining whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments apply prospectively to acquisitions that occur in annual periods beginning on or after January 1, 2020, with earlier application permitted. The Company does not expect any significant impact from the adoption of these amendments.

(b) Definition of material

In October 2018, the IASB issued amendments to IAS 1 – *Presentation of Financial Statements* and IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of "material" across the standards and to clarify certain aspects of the definition. The objective of this amendment is to improve disclosure effectiveness in the financial statements by improving the understanding of the existing requirements rather than to significantly impact an entity's materiality judgments. The amendments apply prospectively to annual periods beginning on or after January 1, 2020, with earlier application permitted. The Company does not expect any significant impact from the adoption of these amendments.

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(c) Conceptual framework for financial reporting

In March 2018, the IASB issued a comprehensive set of concepts for financial reporting: the revised Conceptual Framework for Financial Reporting ("Conceptual Framework"), which replaces its previous version. It assists companies in developing accounting policies when no IFRS standard applies to a particular transaction and it helps stakeholders more broadly to better understand the standards.

The revised Conceptual Framework's effective date is January 1, 2020, with earlier application permitted. The Company does not expect any impact upon its adoption.

(d) Interest rate benchmark reform

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 – *Financial Instruments: Disclosures*. The objective of these amendments is to support the provision of useful financial information during the period of uncertainty arising from the phasing out of interest-rate benchmarks such as interbank offered rates. The amendments enable entities to use hedge accounting despite the uncertainties surrounding the use of interbank offered rates and require entities to provide additional information about their hedging relationships which are directly affected by these uncertainties.

The amendments apply retrospectively to annual periods beginning on or after January 1, 2020, with earlier application permitted. The Company does not expect a significant impact on its consolidated financial statements.

4. Business acquisitions:

(a) Mercer health and defined benefit pension plan administration business

On August 7, 2019, the Company completed the acquisition of the stand-alone, large market, health and defined benefit pension plan administration business of Mercer in the United States for a purchase price of \$76,749 (US\$57,911) subject to certain post-closing adjustments. The cash payment consists of \$52,581 (US\$39,675) paid on closing, with the remainder to be paid during 2020, of which \$14,910 (US\$11,250) is contingent on achieving certain revenue targets. At the date of acquisition, \$22,091 (US\$16,669) was recognized as an acquisition liability representing the estimated future cash payments discounted. The purchase was financed through a draw down from our existing revolving credit facility.

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

Proprietary software	\$ 6,361
Customer contracts	3,843
Customer relationships	41,482
Goodwill	22,986
	<u>\$74,672</u>

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The goodwill is primarily attributable to the ability to expand the Company's presence in the United States and strengthen its competitive position. The goodwill acquired was allocated to the Administrative Solutions CGU for the purposes of impairment testing. The goodwill is deductible for tax purposes.

Acquisition related costs of \$719 had been incurred and are included in the consolidated statements of income and comprehensive income for the year ended December 31, 2019.

From the date of acquisition up to and including December 31, 2019, the acquisition has contributed operating revenue of \$56,889 and profit of \$506. Had this acquisition occurred on January 1, 2019, the Company estimates that the consolidated revenue of the Company would have been higher by approximately \$85,000 and the consolidated profit would be higher by approximately \$760. 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, 2019.

(b) MorningStar Health Inc.

On September 11, 2019, the Company completed the asset acquisition of MorningStar Health Inc. which complements the Health and Productivity Solutions line of business for total cash consideration of \$6,722 (US\$5,100), of which \$6,063 (US\$4,600) was settled on closing and estimated future cash consideration of \$659 (US\$500) is due in September 2020. At the date of acquisition, \$540 was recognized as an acquisition liability representing the estimated future cash payments discounted.

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

Net working capital	\$ 152
Capital assets	84
Intangibles assets	3,342
Goodwill	3,025
	<u>\$6,603</u>

The goodwill is attributable primarily to the ability to expand the Company's Health and Productivity Solutions practice. The goodwill was allocated to the Health and Productivity Solutions CGU for the purposes of impairment testing. The goodwill is deductible for tax purposes.

The pro forma operating revenue and profit related to the acquisition is immaterial for the year ended December 31, 2019.

(c) LifeWorks

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 \$434,836 (US\$332,164), after finalization of the working capital adjustments of \$2,728 (US\$ 2,000). 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).

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The acquisition has been accounted for using the acquisition method of accounting. During 2019 the Company finalized the purchase price allocation, making changes primarily to goodwill, intangible assets and net working capital. The allocation of the purchase consideration for LifeWorks is as follows:

	Preliminary	Adjustments	Final
Cash and cash equivalent	\$ 5,215	\$ -	\$ 5,215
Current assets	15,088	(980)	14,108
Capital and other assets	765	(21)	744
Intangible assets	233,549	5,355	238,904
Goodwill	260,250	(7,534)	252,716
Current liabilities	(22,063)	3,452	(18,611)
Deferred tax liability	(57,968)	(272)	(58,240)
	\$434,836	\$ -	\$434,836

The goodwill is primarily attributable to the Company's ability to expand its Well-Being 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 was allocated to the Well-Being Solutions CGU for the purposes of impairment testing. The goodwill is not deductible for tax purposes.

(d) Other acquisitions and adjustments in 2018

In May 2018, the Company completed a small strategic acquisition which complements the Administrative Solutions line of business for total cash consideration of \$2,547 (US\$1,978) which was settled on closing.

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

Net working capital	\$ (157)
Intangible assets	2,704
	\$2,547

In addition, in 2018 the Company finalized the purchase price allocation of the Chestnut Global Partners Group of Companies, an acquisition made on December 1, 2017, which resulted in a decrease to net working capital of \$434, a decrease in investment in joint ventures of \$1,773, an increase in intangible assets of \$1,270 and an increase in goodwill of \$937.

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5. Trade and other receivables:

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

	December 31, 2019	December 31, 2018
Trade receivables	\$110,595	\$ 98,950
Less: loss allowance	(381)	(286)
Net trade receivables	110,214	98,664
Other receivables	2,270	3,309
	\$112,484	\$101,973

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

	December 31, 2019	December 31, 2018
Current	\$ 40,230	\$47,646
Past due 1 - 30 days	25,764	21,169
Past due 31 - 90 days	26,309	17,312
Past due > 90 days	18,292	12,823
	\$110,595	\$98,950

The change in the allowance for ECLs in respect of trade receivables was as follows:

Balance, January 1, 2018	\$ 362
Additions	774
Amounts written off as uncollectible	(850)
Balance, December 31, 2018	286
Additions	834
Amounts written off as uncollectible	(739)
Balance, December 31, 2019	\$ 381

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6. Deferred implementation costs:

The Company's deferred implementation costs comprise the following:

	Cost	Accumulated amortization	Net book value
Balance, January 1, 2018	\$102,723	\$(50,469)	\$ 52,254
Deferred implementation costs for the year	17,215	-	17,215
Amortization for the year	-	(13,438)	(13,438)
Effect of movements in exchange rates	3,215	(381)	2,834
Balance, December 31, 2018	123,153	(64,288)	58,865
Deferred implementation costs for the year	20,133	-	20,133
Amortization for the year	-	(14,259)	(14,259)
Effect of movements in exchange rates	(2,124)	163	(1,961)
Balance, December 31, 2019	\$141,162	\$(78,384)	\$ 62,778
Less current portion			13,633
Non-current portion			\$ 49,145

7. Capital assets:

The Company's capital assets comprise the following:

	Computer hardware	Furniture and fixtures	Leasehold improvements	Right-of-use assets	Total
Cost					
Balance, January 1, 2018	\$ 27,471	\$ 8,931	\$ 27,324	\$ -	\$ 63,726
Additions	8,464	1,183	4,296	-	13,943
Acquired through business acquisitions	90	236	428	-	754
Disposals of fully depreciated assets	(8,097)	(901)	(1,519)	-	(10,517)
Effect of movements in exchange rates	74	125	370	-	569
Balance, December 31, 2018	28,002	9,574	30,899	-	68,475
Recognition of right-of-use assets on adoption of IFRS 16 (note 3(u)(a))	-	-	-	70,822	70,822
Balance, January 1, 2019	28,002	9,574	30,899	70,822	139,297
Additions	16,303	805	2,290	16,064	35,462
Acquired through business acquisitions	84	-	-	-	84
Disposals of fully depreciated assets	(6,918)	(3,209)	(86)	-	(10,213)
Impairment due to subleases	-	-	-	(765)	(765)
Effect of movements in exchange rates	(77)	(94)	(224)	(475)	(870)
Balance December 31, 2019	\$ 37,394	\$ 7,076	\$ 32,879	\$85,646	\$162,995

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	Computer hardware	Furniture and fixtures	Leasehold improvements	Right-of-use assets	Total
Accumulated Depreciation					
Balance, January 1, 2018	\$ 13,364	\$ 4,761	\$ 9,900	\$ -	\$ 28,025
Depreciation	7,669	1,551	3,084	-	12,304
Disposals of fully depreciated assets	(8,097)	(901)	(1,519)	-	(10,517)
Effect of movement in exchange rates	224	80	146	-	450
Balance, December 31, 2018	13,160	5,491	11,611	-	30,262
Depreciation	9,173	1,542	3,250	12,935	26,900
Disposals of fully depreciated assets	(6,918)	(3,209)	(86)	-	(10,213)
Impairment due to subleases	-	-	-	57	57
Effect of movement in exchange rates	(23)	(68)	(110)	(98)	(299)
Balance December 31, 2019	\$ 15,392	\$ 3,756	\$14,665	\$12,894	\$ 46,707
Carrying amount					
December 31, 2018	\$ 14,842	\$ 4,083	\$19,288	\$ -	\$ 38,213
December 31, 2019	\$22,002	\$ 3,320	\$ 18,214	\$72,752	\$116,288

8. Intangible assets:

The Company's intangible assets comprise the following:

	Indefinite useful life	Finite useful life						Total
	Trade names	Customer relationships	Customer contracts	Proprietary software	Internally-developed software	Purchased software	Other	
Cost								
Balance, January 1, 2018	\$ 70,000	\$246,249	\$ 5,756	\$ 4,179	\$ 68,153	\$ 5,832	\$155	\$400,324
Internally Developed	-	-	-	-	20,069	-	-	20,069
Purchased	-	-	-	-	-	2,418	-	2,418
Acquired through business acquisitions	30,826	161,255	31,480	13,976	-	-	-	237,537
Disposals of fully depreciated assets	-	-	-	-	(1,177)	(1,866)	-	(3,043)
Effects of movements in exchange rates	582	5,585	947	-	264	87	-	7,465
Balance, December 31, 2018	101,408	413,089	38,183	18,155	87,309	6,471	155	664,770
Internally Developed	-	-	-	-	25,313	-	-	25,313
Purchased	-	-	-	-	-	8,341	-	8,341
Acquired through business acquisitions (note 4)	4,833	48,816	4,174	2,051	-	509	-	60,383
Disposals of fully depreciated assets	-	-	-	-	(15,835)	(2,069)	-	(17,904)
Effects of movements in exchange rates	(502)	(962)	(206)	(53)	(10)	(59)	-	(1,792)
Balance, December 31, 2019	\$105,739	\$460,943	\$ 42,151	\$20,153	\$ 96,777	\$ 13,193	\$155	\$ 739,111

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	Indefinite useful life		Finite useful life						
	Trade names	Customer relationships	Customer contracts	Proprietary software	Internally- developed software	Purchased software	Other	Total	
Accumulated amortization									
Balance, January 1, 2018	\$ -	\$138,205	\$ 4,735	\$ 1,949	\$ 25,582	\$ 2,723	\$ 69	\$ 173,263	
Amortization	-	20,415	6,936	1,590	10,598	2,279	16	41,834	
Disposals of fully depreciated assets	-	-	-	-	(1,177)	(1,866)	-	(3,043)	
Effects of movements in exchange rates	-	54	112	34	-	43	-	243	
Balance, December 31, 2018	-	158,674	11,783	3,573	35,003	3,179	85	212,297	
Amortization	-	27,340	16,040	3,824	17,886	2,132	16	67,238	
Disposals of fully depreciated assets	-	-	-	-	(15,835)	(2,069)	-	(17,904)	
Effects of movements in exchange rates	-	(172)	(189)	(23)	(3)	(25)	-	(412)	
Balance, December 31, 2019	\$ -	\$185,842	\$ 27,634	\$ 7,374	\$ 37,051	\$ 3,217	\$101	\$ 261,219	
Carrying amount									
Balance December 31, 2018	\$101,408	\$254,415	\$26,400	\$14,582	\$52,306	\$ 3,292	\$ 70	\$452,473	
Balance December 31, 2019	\$105,739	\$ 275,101	\$ 14,517	\$12,779	\$59,726	\$ 9,976	\$ 54	\$477,892	

As at December 31, 2019, \$11,580 (2018 - \$5,780) of internally-developed software remained under development and had not been put into use.

Impairment test of indefinite-lived intangible assets:

For the purposes of impairment testing, the cash flows associated with the Company's trade names (Shepell & LifeWorks) have been allocated to the Well-Being Solutions CGU. In accordance with our policy described in note 3, an impairment test for the trade name was performed as part of the impairment testing of goodwill included in the Well-Being Solutions CGU (see note 9), and no impairment charge was required.

9. Goodwill:

(i) The change in goodwill was as follows:

Balance January 1, 2018	\$ 324,100
Acquired through business acquisition - Chestnut (note 4(d))	937
Acquired through business acquisition - LifeWorks (note 4(c))	260,250
Effects of movements in exchange rates	9,029
Balance December 31, 2018	594,316
Acquired through business acquisition - Mercer (note 4(a))	22,986
Acquired through business acquisition - Morningstar (note 4(b))	3,025
Acquired through business acquisition - LifeWorks adjustment (note 4(c))	(7,534)
Effects of movements in exchange rates	(5,642)
Balance December 31, 2019	\$ 607,151

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(ii) Impairment test of goodwill

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

	December 31, 2019	December 31, 2018 (restated)
Well-Being Solutions	\$387,554	\$399,936
Administrative Solutions	78,445	56,222
Retirement Solutions	101,370	101,370
Health and Productivity Solutions	39,782	36,788
	\$607,151	\$594,316

On January 1, 2019, the Company realigned its core lines of business towards the goal of being more responsive to changing client needs. The Company has four core lines of business, consisting of Well-Being Solutions, Administrative Solutions, Retirement Solutions, and Health and Productivity Solutions. The Company restated its comparative period goodwill allocation to align the comparative period.

Goodwill impairment is assessed on an annual basis and whenever there is an indication that the asset may be impaired. The valuation techniques, significant assumptions and sensitivities applied in the goodwill impairment test as at December 31, 2019 are described below.

(a) Valuation technique:

As at December 31, 2019, the recoverable amount of each CGU was calculated based on value-in-use ("VIU") using an income approach to estimate its fair value.

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

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

(b) Growth and EBITDA margins:

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

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(c) Discount rate:

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

The following discount rates were applied in determining the recoverable amount of the CGUs at December 31, 2019:

Well-Being Solutions	8.1%
Administrative Solutions	8.3%
Retirement Solutions	8.1%
Health and Productivity Solutions	8.6%

The recoverable amounts of the Retirement Solutions, Administrative Solutions, Well-Being Solutions, and Health and Productivity Solutions CGUs assessed as at December 31, 2019 and 2018 were all in excess of their respective carrying amounts.

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

10. Trade and other payables:

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

	December 31, 2019	December 31, 2018
Trade payables and accrued liabilities	\$ 60,125	\$59,823
Accrued salaries and compensation	36,461	32,523
Other current liabilities	4,779	4,356
	\$101,365	\$96,702

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11. Deferred revenue:

The Company's deferred revenue comprises the following:

	December 31, 2019	December 31, 2018
Balance at January 1	\$ 27,938	\$ 23,743
Additions	21,703	16,962
Revenue Recognized	(10,988)	(13,236)
Effects of movements in exchange rates	(757)	469
Balance at December 31	37,896	27,938
Less current portion	12,487	15,404
Non-current portion	\$ 25,409	\$ 12,534

Deferred revenue represents the excess of retainer amounts billed over revenue earned on service contracts, and prepayments from Administrative Solutions clients for implementation services yet to be recognized. The amount is recognized as revenue in profit over time as services are rendered, which is expected to occur over the next year for the current portion and over the next six years for the majority of the non-current portion.

12. Other liabilities:

The Company's other liabilities are as follows:

	December 31, 2019	December 31, 2018
Acquired above-market leases	\$—	\$ 763
Deferred lease obligations	—	19,330
Net pension benefit (asset) (note 18)	—	(393)
	\$—	\$19,700

The acquired above-market leases and deferred lease obligations were recorded as a reduction of the right-of-use asset on January 1, 2019 on the adoption of IFRS 16 (note 3(u)(a)).

13. Provisions:

The Company has recognized sublease loss provisions associated with the lease of excess office space, which has been initially measured at the discounted present value of the minimum rental payments liable on the subleased properties and related commissions, net of sublease income related to these premises, and subsequently measured at best estimate. The rental payments and sublease income included in the measurement of the sublease loss provisions relate to the non-lease components of the Company's real estate leases such as operating costs.

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The Company has also recognized provisions for expenditures related to contingency reserves on legal matters that the Company may become aware of in the normal course of operations. The estimate of the contingency reserve corresponds to the expenditure likely to be incurred by the Company to settle its obligation.

	December 31, 2019	December 31, 2018
Contingency reserve	\$ 491	\$ 640
Sublease loss provisions	2,382	2,894
	\$2,873	\$3,534

The following tables present the movement in provisions for the years ended December 31, 2019 and 2018:

	Sublease loss provisions	Contingency reserve	Total provisions
Balance, January 1, 2018	\$ 3,969	\$ 317	\$ 4,286
Accrual and accretion	970	440	1,410
Utilization	(2,045)	(117)	(2,162)
Balance, December 31, 2018	2,894	640	3,534
Adjustment for change in accounting policy (note 3(u)(a))	(99)	—	(99)
Accrual and accretion	390	(252)	138
Utilization	(803)	103	(700)
Balance, December 31, 2019	\$ 2,382	\$ 491	\$ 2,873

14. Long-term debt:

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

	December 31, 2019	December 31, 2018
Revolving loans	\$473,200	\$377,923
Less: debt issuance costs, net of accumulated amortization	(2,744)	(3,542)
	\$470,456	\$374,381

As at December 31, 2019 the Company has a revolving facility of \$600,000 (including a swing line of \$14,000) under its existing Credit Facility Agreement (the "Credit Facility Agreement") which matures on July 27, 2023. The revolving facility was increased from \$500,000 to \$600,000 in November 2019.

The interest rates under the 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 Credit Facility Agreement. The 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 twelve-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.

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In the calculation of the consolidated Debt to Adjusted EBITDA financial covenant under the Credit Facility Agreement, Debt excludes the Convertible Debentures. EBITDA in the Credit Facility Agreement is defined as profit before finance costs, income taxes, depreciation, amortization, non-controlling interest, non-recurring gains, and limited non-recurring losses. Adjusted EBITDA is defined as EBITDA plus the pro-forma EBITDA from permitted acquisitions' entities. In addition, the covenants are calculated throughout the term in accordance with IAS 17, the lease guidance applicable at the date the credit agreement was amended in 2018.

As at December 31, 2019, the Company had \$235,000 borrowed in Canadian dollars, \$238,200 (US\$ 183,400) borrowed in US dollars, and utilized \$2,860 of the swing line available. Borrowings under the Credit Facility Agreement bear interest at CDOR or Canadian Prime plus a specified margin for borrowings in Canadian dollars. Borrowings in US dollars under the Credit Facility Agreement bear interest at US Base Rate or LIBOR.

As at December 31, 2019, the Company complied with all of the required financial covenants.

(a) Interest rate swaps:

As at December 31, 2019 the Company has the following interest rate swap agreements to hedge against the variable interest rate component on amounts borrowed under the Credit Facility Agreement

- A swap agreement for a notional amount of \$50,000 to fix the variable component of the interest rate at 1.79%, before the applicable margin, for the period from November 29, 2017 up to and ending December 20, 2020.
- Syndicated swap agreements for an aggregated notional amount of \$130,000 to fix the variable component of the interest rate at 2.59%, before the applicable margin, for the period from September 4, 2018 up to and ending July 27, 2023

These swaps have been designated as cash flow hedges for hedge accounting treatment under IFRS 9. The fair value of these interest rate swaps at December 31, 2019 was a net liability of \$2,629 (December 31, 2018 net liability - \$1,702).

The changes in fair value of interest rate swaps designated as cash flow hedges are recognized in other comprehensive income, except for any ineffective portion, which is recognized immediately in the foreign exchange gain or loss. As at December 31, 2019 and 2018, all hedges related to interest rate swaps were considered effective.

(b) Cross currency interest rate swap:

The Company periodically enters into short term cross-currency interest rate swap agreements with one of the syndicated banks under the Credit Facility Agreement to help manage interest costs. Under this agreement, the Company would borrow in US\$ and swap the amount for Canadian borrowings for approximately one month enabling the Company to reduce interest costs while protecting the Company from any foreign exchange exposure on settlement. As at December 31, 2019 the Company had US\$131,400 of debt under this arrangement. The fair value of the swap was a liability of \$3,879 at December 31, 2019 (December 31, 2018 - nil). These were settled on January 5, 2020 with no net foreign exchange gain or loss.

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The change in fair value of the cross currency interest rate swap is recognized immediately in foreign exchange gain or loss and is offset by the corresponding unrealized gain on the US borrowing under this arrangement.

(c) Finance costs:

The Company's finance costs comprise the following:

	2019	2018
Interest on term loan, revolving loan, bank indebtedness and other charges	\$18,120	\$11,284
Interest and accretion on convertible debenture	4,823	4,370
Amortization of debt issuance costs	2,808	1,135
Accretion of future consideration related to acquisitions (note 16)	895	339
Net finance costs on leases (note 17)	4,367	—
Other	92	291
	\$31,105	\$17,419

15. Convertible Debentures:

In June 2016, the Company issued \$86,000 principal amount of 4.75% Convertible Unsecured Subordinated Debentures (the "4.75% Convertible Debentures") for net proceeds of \$81,982. The 4.75% Convertible Debentures pay interest semi-annually on June 30 and December 31, commencing with the initial interest payment on December 31, 2016 and have a maturity date of June 30, 2021. These debentures are convertible at the option of the holder to common shares at a conversion price of \$25.10 per common share.

Upon issuance of the 4.75% Convertible Debentures, the liability component of the 4.75% Convertible Debentures was recognized initially at the fair value of a similar liability that does not have an equity conversion option, using an effective interest rate of 5.2%. The fair value of \$84,504 was allocated to the long-term debt component and the difference of \$1,496 versus the principal amount has been recorded as the equity component, before allocation of the transaction costs. The discount on the 4.75% Convertible Debentures is being accreted such that the liability at maturity will equal the face value of \$86,000. The transaction costs of \$4,018 were proportionally allocated to the liability and equity components.

The Company has the option to redeem the 4.75% Convertible Debentures on and after June 30, 2019 and at any time prior to June 30, 2020 at a redemption price equal to 100% of their principal plus accrued and unpaid interest provided that the weighted average trading price for the 20 consecutive trading days ending five days preceding the date on which the notice of redemption is given is at least 125% of the conversion price of \$25.10.

On December 11, 2019, the Company issued a redemption notice to redeem all of the 4.75% Convertible Debentures issued and outstanding on January 10, 2020 in respect of the aggregate outstanding principal amount of \$80,743 of the Debentures as of the notice date. As at December 31, 2019, a total of \$45,301 of the 4.75% Convertible Debentures was converted at the holders' request into 1.8 million Common Shares of the Company at a conversion price of \$25.10 per Common Share, of which \$40,044 of the Convertible Debentures was converted to 1.6 million Common Shares of the Company from the effective date of the redemption notice to December 31, 2019.

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The following table indicates the changes in the 4.75% Convertible Debentures during the year:

	Debt component	Equity component
Balance, January 1, 2018	\$ 82,080	\$1,045
Accretion and amortization on convertible debentures	1,037	-
Balance, December 31, 2018	83,117	1,045
Accretion and amortization on convertible debentures	2,883	-
Conversions	(45,301)	(550)
Balance, December 31, 2019	\$ 40,699	\$ 495

As at January 9, 2020, an additional \$39,178 of the Convertible Debentures was converted at the holders' request into 1.6 million Common Shares of the Company at a conversion price of \$25.10 per Common Share. The remaining \$1,521 principal amount was redeemed for cash at a price of one thousand dollars per Debenture, plus accrued and unpaid interest.

16. Financial instruments:

(a) Financial risk management:

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

(i) Interest rate risk:

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

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

Interest rate sensitivity analysis:

A sensitivity analysis that assumes interest rates increased or decreased by 50 basis points with all other variables held constant would result in an increase or decrease of the Company's interest expense, excluding the interest subjected to interest-rate swap agreements, by approximately \$1,300 (2018 - \$930).

(ii) Credit risk:

The Company's exposure to credit risk is limited to the carrying amount of cash, investments held in trust, unbilled fees (which are contract assets), and accounts receivable recognized at the reporting date.

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An allowance for ECLs was required on accounts receivable (note 5); however, no allowance was required on unbilled fees as of December 31, 2019. The Company determines its allowance for ECLs for non-payment and delinquent accounts based on historic trends of the probability of default timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be great or less than suggested by historical trends. If future collections differ from estimates, future profits could be adversely affected. The Company's bad debt expense for the year ended December 31, 2019 was \$834 (2018 - \$774).

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

- (a) Risk associated with concentration of credit risk with respect to accounts receivable and unbilled fees is limited due to the credit rating of the Company's top 10 clients.
- (b) Management regularly reviews and assesses customer accounts and credit risk. Historically, bad debt as a percentage of revenue has been minimal.

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

(iii) Currency risk:

The Company realizes a portion of sales and related expenses in foreign currency including U.S. dollars, Australian dollars and British Pounds and is exposed to fluctuations in the value of these currencies relative to the Canadian dollar. Each of the Company's foreign operations have functional currencies that differ from the Canadian dollar and thus any fluctuations in the value of these currencies relative to the Canadian dollar on the Company's foreign operations' net assets will result in a change in other comprehensive income for the year. The net revenue exposure after accounting for related expenses denominated in foreign currencies for the year ended December 31, 2019 was approximately \$97,600 (2018 - \$46,900).

Foreign exchange sensitivity analysis:

As at December 31, 2019, the Company's net exposure to currency risk through its current assets and liabilities denominated in U.S. dollars was US\$35,113 (December 31, 2018 - US\$24,960). An appreciation (depreciation) of the Canadian dollar against the U.S. dollar would have resulted in an increase (decrease) of approximately \$2,280 (2018 - \$1,700) in the Company's other comprehensive income as a result of the Company's net exposure to currency risk through its current assets and liabilities denominated in U.S. dollars. This analysis is based on a foreign currency exchange rate variance of 5% which the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

(iv) Liquidity risk:

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. The Company manages liquidity risk through regular monitoring of financial results and actual cash flows, and also the management of its capital structure and financial leverage as outlined in note 30.

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

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

2019	< 1 year	1 - 2 years	3 - 5 years
Non-derivative financial liabilities:			
Bank indebtedness	\$ 5,818	\$ -	\$ -
Trade and other payables	101,365	-	-
Dividends payable	4,325	-	-
Insurance premium liabilities	11,984	-	-
Future consideration related to acquisitions	24,968	249	-
Long-term debt	-	-	473,200
Convertible debentures	40,699	-	-
Derivative financial liabilities:			
Interest rate and currency swaps	4,683	1,552	368
	\$193,842	\$1,801	\$473,568
2018	< 1 year	1 - 2 years	3 - 5 years
Non-derivative financial liabilities:			
Bank indebtedness	\$ 12,017	\$ -	\$ -
Trade and other payables	96,702	-	-
Dividends payable	4,173	-	-
Insurance premium liabilities	13,166	-	-
Future consideration related to acquisitions	632	182	249
Long-term debt	-	-	377,923
Convertible debentures	-	-	86,000
Derivative financial liabilities:			
Interest rate swaps	504	515	1,086
	\$127,194	\$697	\$ 465,258

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

(b) Fair values:

Fair value represents management's estimates 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.

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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		
	December 31, 2019	December 31, 2018	Level
Assets carried at fair value:			
Interest rate swaps	\$ 95	\$ 403	2
	\$ 95	\$ 403	
Liabilities carried at fair value:			
Interest rate and currency swaps	\$ 6,603	\$2,105	2
Future consideration related to acquisitions (contingent portion)	14,912	1,783	3
	\$21,515	\$3,888	

During the year ended December 31, 2019, there were no transfers between any levels.

The interest rate swaps and currency swaps are financial instruments designated as cash flow hedges. The fair values of the interest rate swaps and currency swaps are based on valuations received from the derivative counterparties, which management evaluates for reasonability. The Company maximizes the use of observable inputs within the valuation model, and the valuation is classified as Level 2. Fair values reflect the credit risks of the instruments and include adjustments to take account of the credit risk of the Company and the derivative counterparties when appropriate.

The future consideration related to acquisitions is a financial instrument carried at fair value through profit or loss. Contingent consideration arose on the acquisitions of Pro-Santé, Longpré, Mercer and MorningStar. The Mercer acquisition had two unconditional deferred payments and one contingent consideration. In these acquisitions, there is a clause that entitles the seller to an amount based on exceeding revenue targets. The fair value of the future consideration related to these acquisitions is determined considering the estimated payment, discounted to present value (Level 3). The undiscounted deferred payments and contingent consideration remaining to be paid for these acquisitions range from a contractual amount of \$nil to a contractual maximum as follows:

	December 31, 2019	December 31, 2018
Mercer	\$23,685	\$ –
MorningStar	650	–
Other acquisitions	881	1,800
	\$25,216	\$1,800

The estimated payments for contingent consideration are calculated considering different scenarios of projected revenue and EBITDA, and the amount to be paid under each scenario, weighted by the probability of each scenario. The key unobservable inputs include anticipated revenue and EBITDA, and the discount rate. The estimated fair value increases the higher the annual revenue and EBITDA, and the lower the discount rate, with estimated payments being limited to a contractual maximum for each of the acquisitions.

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Management considers that changing the above mentioned unobservable inputs to reflect other reasonably possible alternative assumptions would not result in a significant change in the estimated fair value.

The following tables indicate the changes in the future consideration related to acquisitions during the year ended December 31, 2019 and December 31, 2018:

Future consideration related to acquisitions	2019	2018
Balance at January 1	\$ 1,783	\$ 3,575
Additions	22,634	–
Settlements of contingent consideration	(598)	(2,077)
Accretion	895	339
Foreign exchange	(477)	–
Re-measurement and other	(371)	(54)
Balance at December 31	\$23,866	\$ 1,783

Financial instruments carried at amortized cost:

The carrying values of cash, bank indebtedness, trade and other receivables, 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 Debentures and long-term debt are financial instruments carried at amortized cost whose carrying values do not equal their fair market values. The Convertible Debentures has a carrying value of \$40,699 (December 31, 2018 - \$83,117) and a fair value of \$54,605 (December 31, 2018 - \$95,021). The fair value is determined using quoted market values (Level 1) for the convertible debentures at the end of the year. The long-term debt has a carrying value of \$470,456 (December 31, 2018 - \$374,381) and a fair value of \$473,200 (December 31, 2018 - \$377,923). The fair value is determined based on the cost of borrowing for a company with a similar risk profile (Level 2).

17. Leases:

As a result of IFRS 16, the Company recognized \$72,752 of right-of-use assets (refer to note 7 for the movement in right-of-use assets) and \$99,127 of lease liabilities as at December 31, 2019. The Company also recognized \$5,016 of finance lease receivables related to its subleases as at December 31, 2019.

The following table sets out a maturity analysis of lease liabilities, showing the undiscounted lease payments to be made after the reporting date.

	2019
< 1 year	\$ 21,012
1-2 years	20,259
3 - 5 years	33,388
> 5 years	44,773
Total	\$ 119,432
Discounting	(20,305)
Lease liabilities	\$ 99,127

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The Company's lease liabilities comprise the following:

	2019
Balance at January 1	\$ -
IFRS 16 implementation adjustment (note 3(u)(a))	97,198
Additions	16,312
Payments	(18,133)
Interest expense	4,657
Effect of movements in exchange rates	(907)
Balance at December 31	\$ 99,127
Less current portion	18,572
Non-current portion	\$80,555

The following table sets out a maturity analysis of finance lease receivables, showing the undiscounted lease payments to be received after the reporting date.

	2019
< 1 year	\$ 1,759
1-2 years	1,767
3 - 5 years	1,894
> 5 years	-
Total	\$5,420
Discounting	(404)
Finance lease receivables	\$ 5,016

The Company's finance lease receivables comprise the following:

	2019
Balance at January 1	\$ -
IFRS 16 implementation adjustment (note 3(u)(a))	6,612
Additions	150
Receipts	(1,867)
Interest income	290
Effect of movements in exchange rates	(169)
Balance at December 31	\$ 5,016
Less current portion	1,641
Non-current portion	\$ 3,375

Subsequent to December 31, 2019, the Company entered into a lease agreement for office premises with a total commitment of \$84,598 over a fifteen year term commencing in 2021. The minimum payments due in each of the next five years and thereafter are expected to be: \$2,702 in 2021, \$5,404 per year in 2022, 2023, and 2024, and \$65,684 thereafter.

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18. Income taxes:

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

	2019	2018
Current tax expense:	\$15,202	\$13,280
Deferred tax benefit:		
Origination and reversal of temporary differences	(5,227)	(1,399)
Effect of changes in tax rates	(477)	(24)
	(5,704)	(1,423)
Total income tax expense	\$ 9,498	\$11,857

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

	2019	2018
Income taxes statutory rates:		
Federal	15.00%	15.00%
Provincial	11.75%	11.81%

	2019	2018
Income tax provision applied to profit before income taxes:		
Combined basic federal and provincial income taxes at statutory rates	\$7,615	\$ 9,023
Non-deductible expenses	2,180	2,905
Adjustment to deferred income tax liabilities for change in income tax rate	(477)	(24)
Other	180	(47)
	\$9,498	\$11,857

The income taxes recognized on components of other comprehensive income (loss) for the years ended December 31, 2019 and 2018 are as follows:

	Before taxes	Tax recovery	2019 Net of taxes
Change in fair value of interest rates swaps	\$ (927)	\$243	\$(684)
Actuarial loss on post-employment benefit plans	(380)	101	(279)
	\$(1,307)	\$344	\$(963)

	Before taxes	Tax (expense) recovery	2018 Net of taxes
Change in fair value of interest rates swaps	\$(1,415)	\$378	\$(1,037)
Actuarial gain on post-employment benefit plans	143	(31)	112
	\$(1,272)	\$ 347	\$(925)

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

	December 31, 2019	December 31, 2018
Loss carry forward	\$ 5,745	\$ 5,609
Work in progress	1,874	2,752
Deferred lease obligations	5,713	5,291
Deferred revenue	6,815	5,529
Share issuance cost	1,633	2,191
Other assets	4,087	3,469
Deferred implementation cost	(16,641)	(15,615)
Capital assets	(2,758)	(588)
Intangible assets	(99,129)	(105,736)
Other liabilities	(10,230)	(6,224)
	\$(102,891)	\$(103,322)

Recorded on the consolidated statement of financial position as follows:

Deferred income tax liability - Canada	\$ (65,129)	\$ (62,225)
Deferred income tax liability - US	(29,564)	(30,425)
Deferred income tax liability - UK	(8,198)	(10,672)
	\$(102,891)	\$(103,322)

The Company has other tax losses available to offset future taxable income of \$50,906 (December 31, 2018 - \$24,058) that expires commencing from 2035, per below:

	December 31, 2019	Expire date	December 31, 2018	Expire date
Expire	\$ 19,827	2035-2037	\$ 15,376	2035-2037
Never expire	31,079		8,682	
	\$50,906		\$24,058	

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Movement in temporary differences during the year 2019:

	Balance January 1, 2019	Recognized in profit or loss	Recognized in other comprehensive income	Recognized directly in equity	Acquisition & other	Balance at December 31, 2019
Loss carry forward	\$ 5,609	\$ 136	\$ –	\$–	\$ –	5,745
Work in progress	2,752	(878)	–	–	–	1,874
Deferred lease obligations	5,291	422	–	–	–	5,713
Deferred revenue	5,529	1,286	–	–	–	6,815
Share issuance cost	2,191	(558)	–	–	–	1,633
Other assets	3,469	274	344	–	–	4,087
Deferred implementation cost	(15,615)	(1,026)	–	–	–	(16,641)
Capital assets	(588)	(2,170)	–	–	–	(2,758)
Intangible assets	(105,736)	6,607	–	–	–	(99,129)
Other liabilities	(6,224)	1,611	–	–	(5,617)	(10,230)
	\$(103,322)	\$ 5,704	\$344	\$–	\$(5,617)	\$(102,891)

Movement in temporary differences during the year 2018:

	Balance January 1, 2018	Recognized in profit or loss	Recognized in other comprehensive income	Recognized directly in equity	Acquisition & other	Balance at December 31, 2018
Loss carry forward	\$ 4,188	\$ 450	\$ –	\$ –	\$ 971	\$ 5,609
Work in progress	2,677	75	–	–	–	2,752
Deferred lease obligations	5,089	191	–	–	11	5,291
Deferred revenue	4,840	680	–	–	9	5,529
Share issuance cost	–	(553)	–	2,744	–	2,191
Other assets	2,170	348	347	–	604	3,469
Deferred implementation cost	(13,897)	(1,718)	–	–	–	(15,615)
Capital assets	(2,312)	1,737	–	–	(13)	(588)
Intangible assets	(47,409)	2,579	–	–	(60,906)	(105,736)
Other liabilities	(2,518)	(2,366)	–	–	(1,340)	(6,224)
	\$(47,172)	\$ 1,423	\$347	\$2,744	\$(60,664)	\$(103,322)

19. Employee future benefits:

For the year ended December 31, 2019, the Company's contributions to the defined contribution option of the plan were \$8,886 (2018 - \$11,133), which are included in salary, benefits and contractor expenses in the consolidated statements of income and comprehensive income.

The defined benefit option was closed effective January 1, 1998 and included 51 members as at December 31, 2019 (December 31, 2018 - 51 members), comprising active employees, retirees, and deferred vested members. All other employees are covered by the defined contribution option of the plan.

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

(a) Funding:

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

The Company expects to contribute approximately \$8 to the defined benefit option during the upcoming fiscal year.

(b) Amounts recognized in the consolidated financial statements:

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

	December 31, 2019	December 31, 2018
Present value of funded obligations	\$(4,813)	\$(4,225)
Fair value of plan assets	4,845	4,618
Asset in the consolidated statements of financial position	\$ 32	\$ 393

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

	2019	2018
Defined benefit obligations at January 1	\$4,225	\$4,665
Included in profit or loss:		
Current service cost	8	8
Interest cost	157	115
	165	123
Included in other comprehensive income:		
Actuarial gains arising from experience adjustments	190	(127)
Changes in financial assumptions	479	(158)
	669	(285)
Other:		
Benefits paid by the plan	(246)	(278)
Defined benefit obligations at December 31	\$4,813	\$4,225

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

	2019	2018
Fair value of plan assets at January 1	\$4,618	\$4,863
Included in profit or loss:		
Estimated interest income on plan assets	168	163
Included in other comprehensive income:		
Return on plan assets in excess of estimated interest income	226	(243)
Other:		
Employer contributions	79	113
Benefits paid	(246)	(278)
	227	(245)
Fair value of plans assets at December 31	\$4,845	\$4,618

The movement in the impact of the minimum funding requirement/asset is not material.

(a) Plan Assets:

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

	December 31, 2019	December 31, 2018
Pooled Equities Fund	0%	56%
Pooled Bond Fund	100%	44%
	100%	100%

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

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

A strategic asset mix comprising 26% to 47% equity securities (return and yield funds), 30% to 50% fixed income investments, 7% to 40% low volatility investments (mortgages, real estate and infrastructure) and 0% to 5% in Cash changes, with a target asset mix of 33% equity securities, 42% fixed income investments, 22% low volatility investments and 3% in Money Market.

(d) Actuarial assumptions:

The principal actuarial assumptions were as follows:

	2019	2018
Discount rate at the end of the current fiscal period used to determine the accrued benefit obligation	3.1%	3.70%
Discount rate at the end of preceding period used to determine the benefit cost	3.7%	3.40%
Rate of compensation increase used to determine the accrued benefit obligation	3.5%	3.50%
Rate of compensation increase used to determine the benefit cost	3.5%	3.50%

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(e) Mortality assumptions:

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

The calculation of the defined benefit obligation is sensitive to mortality assumptions. For the Company, an increase in life expectancy of one year across all age groups would result in a \$143 increase in the defined benefit obligation as of December 31, 2019.

20. Long-term incentive plan:

Under the Company's LTIP the Company may grant participants RSUs, PSUs and DSUs. Under the Company's Director DSU plan, the Company may grant non-employee directors Director DSUs. RSUs, DSUs, PSUs and Director DSUs are collectively referred to as "LTIP Units".

The change in the number of awards outstanding, and their related weighted average grant prices for the years ended December 31, 2019 and 2018 were as follows:

	RSU	PSU	DSU	Director DSU	Total
Awards outstanding, January 1, 2018	336,591	30,680	2,137,973	115,083	2,620,327
Granted (at \$24.88 per unit)	168,646	31,846	139,983	31,817	372,292
Exercised	(13,603)	(2,847)	(417,701)	(22,107)	(456,258)
Forfeited	(53,159)	(7,306)	(11,044)	–	(71,509)
Awards outstanding, December 31, 2018	438,475	52,373	1,849,211	124,793	2,464,852
Granted (at \$28.19 per unit)	319,516	64,954	19,091	36,576	440,137
Exercised	(239,839)	(55,540)	(237,203)	–	(532,582)
Forfeited	(18,622)	–	(57,894)	–	(76,516)
Awards outstanding, December 31, 2019	499,530	61,787	1,573,205	161,369	2,295,891
Total vested awards, December 31, 2018	–	–	1,659,739	124,793	1,784,532
Total vested awards, December 31, 2019	–	–	1,520,125	161,369	1,681,494
Share-based compensation expense, year ended December 31, 2018					\$ 5,761
Share-based compensation expense, year ended December 31, 2019					\$ 6,925

21. Equity:

(a) Share capital:

(i) Common shares:

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

(ii) Preferred shares:

The Company is authorized to issue 10 million preferred shares, with no limit on their value. As of December 31, 2019 and 2018, no preferred shares were issued or outstanding.

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(iii) Dividends:

Dividends are declared in Canadian dollars. The monthly dividend rate was \$0.065 for the year ended December 31, 2019 (2018 - \$0.065). The Company continued to declare the same monthly dividend amount in January and February of 2020.

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

	Number of common shares	Share capital	Contributed surplus
2019			
Balance, January 1, 2019	64,205,330	\$820,792	\$ 27,141
Long-term incentive plan - issuance	-	-	6,925
Long-term incentive plan - redemption (note 20)	532,582	6,399	(6,399)
Shares issued upon conversion of convertible debentures (note 15)	1,804,813	45,790	-
Balance, December 31, 2019	66,542,725	\$ 872,981	\$27,667
	Number of common shares	Share capital	Contributed surplus
2018			
Balance, January 1, 2018	53,853,225	\$558,972	\$27,339
Long-term incentive plan - issuance	-	-	5,761
Long-term incentive plan - redemption	456,258	5,959	(5,959)
Shares issued - part of acquisition consideration (note 4)	1,194,847	32,343	-
Shares issued - public offering	8,701,000	223,518	-
Balance, December 31, 2018	64,205,330	\$ 820,792	\$27,141

During fiscal year 2018, 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) Accumulated other comprehensive income:

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

	Cash flow hedge reserve	Post- employment benefit plans	Foreign exchange translation reserve	Total
Balance, January 1, 2018	\$ 335	\$(303)	\$(2,838)	\$(2,806)
Actuarial gain on post-employment benefit plans	-	112	-	112
Effective portion of change in interest rate cash flow hedges	(1,037)	-	-	(1,037)
Foreign currency translation differences for foreign operations	-	-	13,639	13,639
Balance, December 31, 2018	(702)	(191)	10,801	9,908
Actuarial loss on post-employment benefit plans	-	(279)	-	(279)
Effective portion of change in interest rate cash flow hedges	(684)	-	-	(684)
Foreign currency translation differences for foreign operations	-	-	(8,149)	(8,149)
Balance, December 31, 2019	\$(1,386)	\$(470)	\$ 2,652	\$ 796

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22. Earnings per share:

Basic earnings per share was calculated by dividing profit attributable to common shares by the sum of the weighted average number of common shares outstanding during the period, plus vested LTIP awards.

Diluted earnings per share was calculated using the basic calculation described above, and adjusting for the potentially dilutive effect of total number of additional common shares that would have been issued by the Company on unvested LTIP awards and the redemption of convertible debentures.

The following details the earnings per share, basic and diluted, calculations for the years ended December 31, 2019 and 2018:

	2019	2018
Profit attributable to common shareholders (basic and diluted)	\$ 18,968	\$ 21,797
Weighted average number of common shares (in number of shares):		
January 1	64,205,330	53,853,225
Issued on redemption of LTIP	284,955	109,516
Issued on conversion of convertible debenture	36,864	—
Issued as part of acquisition and public offering	—	4,256,570
Vested LTIP awards	1,633,397	1,795,544
Basic	66,160,546	60,014,855
Dilutive effect of unvested LTIP awards	448,933	565,235
Diluted	66,609,479	60,580,090
Earnings per share:		
Basic	\$ 0.29	\$ 0.36
Diluted	\$ 0.28	\$ 0.36

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

23. Segmented information:

The Company provides health and productivity, administrative and retirement solutions to assist employers in managing the financial security, health and productivity of their employees. The Company has four operating segments, consistent with the Company's four lines of business. As at December 31, 2019, aggregation of operating segments was applied to determine that the Company had only one reportable segment. The primary factors considered in the application of the aggregation criteria included that the long-term average gross margins and growth rates across the segments are similar, the nature of the services provided by the segments are all related to helping employers with their human resources needs, and the similarity in the regulatory environments that the segments operate in.

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

	2019	2018
Revenue:		
Canada	\$593,502	\$574,214
United States	251,174	129,119
International	44,213	18,951
Consolidated total	\$888,889	\$722,284
	2019	2018
Total assets:		
Canada	\$ 857,455	\$ 841,657
United States	565,701	409,986
International	107,062	96,699
Consolidated total	\$1,530,218	\$1,348,342

24. Supplementary cash flow information:

Change in non-cash operating working capital for the years ended December 31, 2019 and 2018 was as follows:

	2019	2018
Trade and other receivables	\$(10,300)	\$(15,362)
Unbilled fees, current and non-current	(36,358)	3,476
Prepaid expenses and other	(4,951)	848
Deferred implementation costs, current and non-current	(5,833)	(7,347)
Trade and other payables	10,738	6,250
Deferred revenue, current and non-current	9,315	764
	\$(37,389)	\$(11,371)

Significant non-cash transactions for the year ended December 31, 2019 included the conversion of the 4.75% convertible debentures (see note 15) and new leases under IFRS 16 (see note 7 and note 17).

Cash (bank indebtedness) reconciliation for the years ended December 31, 2019 and 2018 was as follows:

	2019	2018
Bank indebtedness	\$(5,818)	\$(12,017)
Cash	9,469	2,876
Cash (bank indebtedness, net of cash)	\$ 3,651	\$ (9,141)

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25. Related parties

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

(a) Compensation of key management personnel:

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

	2019	2018
Salaries and other benefits	\$ 8,847	\$ 8,307
Share-based payments	4,179	3,311
	\$13,026	\$11,618

(b) Unconsolidated structured entities:

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

The Company is considered to sponsor the funds as it was significantly involved in their design and formation, and has continuing involvement as described above. The Company does not control the funds and therefore, does not consolidate them. The Company has no interests in the funds apart from the agreements outlined above. The Company did not transfer any assets to the funds during the reporting periods.

(c) Joint Ventures:

As part of the acquisition of Chestnut on December 1, 2017, the Company acquired ownership interests in joint ventures who provide employee assistance programs. The Company holds more than half of the ownership interest in certain CGP entities; however, it does not control these entities due to the Company's limited involvement in daily operations of the joint ventures. The Company has accounted for these investments in joint ventures using the equity method. The following table summarizes the financial information of this joint venture as included in its own financial statements, adjusted for fair value adjustments at acquisition and differences in accounting policies, as at December 31, 2019.

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The table also reconciles the summarized financial information to the carrying amount of the Company's interest in these joint ventures:

	2019	2018
Current assets	\$4,041	\$ 3,675
Non-current assets	428	418
Current liabilities	(631)	(447)
Non-current liabilities	(34)	(35)
Net assets (100%)	3,804	3,611
Company's share of net assets	2,908	2,210
Intangible assets	3,818	4,688
Deferred tax liabilities	(992)	(1,175)
Carrying amount of interest in joint venture	\$5,734	\$ 5,723
	2019	2018
Revenue	\$10,695	\$ 6,899
Expense	(8,934)	(5,928)
Profit (100%)	1,761	971
Company's share of profit	1,282	465
Amortization	(674)	(685)
Share of income (loss)	\$ 608	\$ (220)

The Company has no significant balances with any of the joint ventures as at December 31, 2019.

26. Revenue:

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

	2019	2018 (restated)
Well-Being Solutions	\$362,633	\$284,871
Administrative Solutions	303,603	218,243
Retirement Solutions	114,573	113,502
Health and Productivity Solutions	108,080	105,668
	\$888,889	\$722,284

As discussed in note 9, the Company realigned its core lines of business. The Company restated its comparative period revenue to align the comparative period.

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27. Salary, benefits and contractors:

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

	2019	2018
Salaries and other benefits	\$490,892	\$394,646
Contractors	108,575	88,635
	\$599,467	\$483,281

28. Commitments:

The Company has entered into contracts for software licenses that will give rise to annual commitments of approximately \$2,200 over the next five years.

29. Contingencies:

(a) Lawsuits and legal claims:

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

(b) Business combinations:

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

As at December 31, 2019, the fair value of the contingent consideration has been recognized as future consideration related to acquisitions on the consolidated statements of financial position.

30. Management of capital:

The Company views its capital as the combination of its cash (bank indebtedness), long-term debt, Convertible Debentures and equity attributable to equity holders of Morneau Shepell Inc. As at December 31, 2019 the Company's capital is \$1,125,892 (December 31, 2018 - \$1,073,043), comprised of \$507,504 (December 31, 2018 - \$466,639) bank indebtedness and debt, net of cash, and \$618,388 (December 31, 2018 - \$606,404) equity. The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern while maintaining dividends to its shareholders and the growth of the Company's business through organic growth and new acquisitions.

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

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

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

The Company is subject to externally imposed capital requirements to maintain certain financial covenants as mentioned above. The Company complied with all the required financial covenants at December 31, 2019.

31. Subsequent events:

On March 1, 2020, the Company sold its benefits consulting business to HUB International Limited for a purchase price of \$70,000 subject to working capital adjustments. \$67,535 was received on closing, with the remainder to be received over the next 24 months once all the working capital adjustments and holdback conditions have been satisfied.

The benefits consulting business represented approximately 3% of the Company's consolidated revenue for the year ended December 31, 2019. The exited business was considered to be part of the Health & Productivity Solutions line of business and consisted of working capital, capital assets, intangible assets, and goodwill.

The Company has determined that the proceeds from the sale exceed the carrying value of the transferred assets and the resulting gain on sale will be recorded on closing.

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