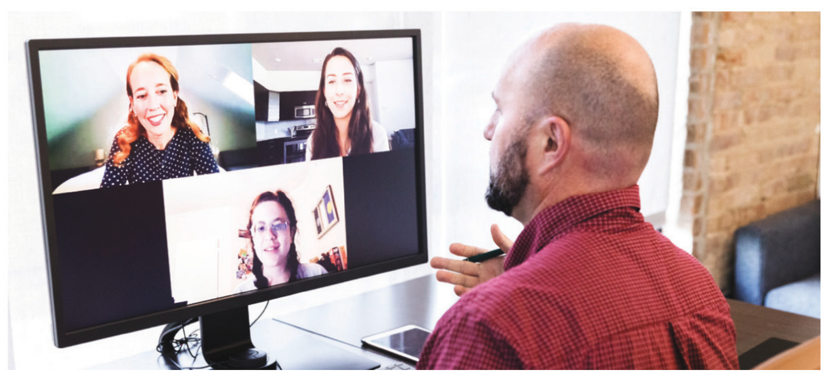
MORNEAU SHEPELL



2020 Annual Report

Improving lives. Improving business.

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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 impressive business performance for Morneau Shepell and for their resilience through an extraordinarily challenging period related to COVID-19.

The Board is pleased by the commitment of the Company's leadership team to ensuring that the health, safety and wellbeing of our employees continues to be our top priority. This is not only the right thing to do but, as the Company's record employee engagement and client satisfaction levels in 2020 indicate, very good for business. It is a source of pride that our clients have increasing confidence in our Company to support the wellbeing of their workforce during a difficult time for so many.

The Company's intention to change its name to LifeWorks is up for approval at our Annual Meeting of Shareholders this year. This proposed name change, fully endorsed by the Board, is timely given the growth of the Company and the evolution of wellbeing markets. The Company's LifeWorks total wellbeing platform is well-established today as a global market leader, continuing to innovate by offering services in fast-growing health areas such as telemedicine and iCBT. The Board believes that under the LifeWorks name the Company's brand has a greater potential to grow and evolve as the global power brand in wellbeing markets being transformed by integrated digital platforms that deliver high-quality, affordable health and wellbeing services.

2020 was pivotal on multiple strategic fronts for the Company. During the year there was continued progress in strengthening the company's presence in fast-growing wellbeing markets and expanding its portfolio of digital wellbeing solutions. The final integration phases of the LifeWorks and Mercer acquisitions were completed. The Company is well prepared strategically and operationally to build on its long track record of delivering sustainably profitable growth as a leader in its core businesses.

In recent years, environmental social and governance (ESG) issues have risen to the top of the agenda in public companies. At Morneau Shepell we are committed to ensuring our workplace culture and operating standards meet best practices. Given the context of COVID-19 and the prominence of the anti-racism fight that has rapidly expanded into a global civil rights movement, it's never been more urgent for companies to demonstrate a strong commitment to the principles of diversity, equity and inclusion. In addition to the Company publishing an annual ESG (previously CSR) report for the first time in 2020, the Board updated its Board Diversity Policy to better align it with the Board's diversity objectives.

This year, at our annual meeting, Kish Kapoor will step down from the Board after almost three years as a Director. As a distinguished business leader in the financial services sector, and an experienced corporate director, we will miss Kish's contributions to our deliberations and his high-spirited collegiality. On behalf of the Board, I would like to thank Kish for his contributions to Morneau Shepell and we all wish him well on his future endeavours.

Last fall, we were very pleased to welcome three new Board members – Robert Courteau, Brad Levy and Chitra Nayak – each recognized as leaders in their respective fields.

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 leadership team, our dedicated employees across the company, and our shareholders, clients and partners for their contributions to the Company's success last year.

Gillian (Jill) Denham

Moving Forward with Purpose

2020 was a uniquely challenging year. From our perspective at Morneau Shepell, given our presence in global wellbeing markets, we experienced 2020 through the eyes of our 24,000 clients on the front lines of what can justifiably be called a growing mental-health pandemic in the workplace that owes much to COVID-19.

The decline in the mental health of the global working population has inspired the best from our people and company. Daily we are fighting a different but powerful form of climate change – the impairment of our psychological climate. I've never been prouder of our own people who pushed their own limits to support the wellbeing of our clients and their people through difficult and uncertain times.

Today mental health – or employee wellbeing generally – is among the top business issues globally. In a positive sense it's an opportunity to act on the time-tested principle that happy, healthy and engaged people are essential to building a high-performing workforce and resilient organizations. It's an opportunity for us at Morneau Shepell to keep moving forward in the spirit of our purpose as a company: improving lives, improving business.

Solidly profitable global growth during a challenging 2020

Morneau Shepell delivered a solid year in 2020, despite considerable economic headwinds. Revenue grew 10.2 per cent to $979.2 million and Adjusted EBITDA by 9.6 per cent to $200.0 million. Our performance met our expectations for 2020 that we had prior to the pandemic. While in-person services were impacted by the COVID-19 lockdowns, there was a strong increase in sales of technology-enabled solutions delivered virtually, especially in fast-growing wellbeing markets for telemedicine and digital health care. We continued to see growth in retirement solutions, disability management and pension administration – all core businesses with strong recurring revenues.

During the year we added nearly four million lives through new client wins to our wellbeing business. We now cover 13.8 million direct lives through our EFAP programs, up from just over 10 million at the beginning of the year. We also saw the continued adoption of our LifeWorks platform, a key part of our technology and innovation strategy. We increased lives on the platform to 5.1 million, an improvement of 125 per cent. This migration sets the stage for upselling clients to additional technology modules. At the beginning of the year, we had been upselling at 10 per cent and, by year-end, we increased to 15 per cent, even with a large increase in the base of total lives available.

In 2020 our solid business results owed much to the ability of our people and systems to pivot quickly to working from home. Our priority at all times was the health and wellbeing of our people, a contributing factor to our record levels of employee engagement last year. Similarly, by ensuring business continuity early in the pandemic, we were a great source of stability for our clients. Last year we achieved record client satisfaction scores with our Top 100 clients (representing 50 per cent of revenue) and our Top 400 clients (representing 75 per cent of revenue) by providing wellbeing services to their people and their families during an especially stressful time.

Environment, social and corporate governance (ESG)

Our business has a strong ESG orientation by definition, given our total wellbeing focus. In 2020 we made meaningful contributions to supporting our communities. We rolled out new technology-enabled solutions and community programs designed to address the wellbeing challenges surfacing in the pandemic. Usage of AbilitiCBT, our iCBT solution, grew significantly in the year, providing online therapy to some 35,000 Canadians to help manage their anxiety and depression symptoms, with over one million sessions. We also rolled out our unified telemedicine portfolio across North America.

In April we launched our monthly Mental Health Index (MHI), a new global benchmark for measuring the mental health of the working population in the four key jurisdictions (United States, Canada, the United Kingdom, and Australia) where we operate. The Index is positioned to support mental health strategies on a larger scale for the greater community good, providing insights to help formulate policy decisions about public health and helping organizations with their employee wellbeing strategies. By year-end, the Index had been mentioned in the media some 2,600 + times. Also in April, we launched the Wellcan app and website that provides free mental health resources to more than 6,500 Canadians today. In a similar vein, our Living Well podcast, launched in July, has some 8,000 downloads and continues to build an audience for its thought leadership content on total wellbeing.

From an ESG perspective, and consistent with our growth aspirations, we became a signatory to the United Nations Global Compact. This involves a commitment to its "Ten Principles" that cover key areas of ethical conduct, human rights, labour rights and the environment. Last year we focused on issues with respect to inclusion, diversity and systemic racism and discrimination. To that end we comprehensively expanded our internal action plans in this area of workforce culture.

Changing our name to LifeWorks to support our global strategy

On March 10, 2021, we announced our intention to change our company name from Morneau Shepell Inc. to LifeWorks Inc.

Several factors came together to present an opportunity to refresh our brand to better reflect where we are going as a company.

For many years, the Morneau Shepell name has served our business exceptionally well. It is a solid brand in our Canadian markets that speaks to the reputation of our people as trusted client partners and to the quality of our solutions. That said, over the last 10 years alone, we have grown to where almost half of our revenue comes from outside Canada. Our growth presents an opportunity to refresh our brand to reinforce our purpose of improving lives and improving business, while reflecting our position as leaders in delivering total wellbeing through technology and deep expertise.

Strategic Direction: The Global Leader in Total Wellbeing

Our global growth is reflected in part by the fact that we now deliver wellbeing solutions in over 160 countries. Our full solutions portfolio also keeps expanding and now includes employee and family assistance plans, absence management, digital health, unified telemedicine, pension and benefits administration and retirement planning. At year end, we are well-positioned to continue delivering profitable growth while accelerating our global expansion:

- We are the only organization today that integrates solutions for the four key pillars of total wellbeing: mental, physical, financial and social.
- We are the world's largest solutions provider in the converging markets for wellbeing solutions and employee and family assistance programs.
- We are the largest administrator of pension, retirement and benefit plans in Canada with a fast-growing U.S. business, with some nine million plan participants under administration at year-end 2020. We continue to help clients enhance employee productivity through technology.
- We are the largest provider of integrated absence management solutions in Canada and we are continuing to grow this business internationally. We help our clients reduce the incidence and duration of employee absences while improving their financial performance,

Going forward, we are focused on a growth strategy with three pillars:

1. Leadership in the total wellbeing market

We differentiate by supporting the whole person across the four key pillars of wellbeing – mental, physical, social and financial. In doing so we provide our clients with access to the full continuum of care that addresses 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.

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

We are focused on U.S. market growth with growing emphasis on global expansion through strategic acquisitions and partnerships to attract new clients, expand our solutions set and develop new wellbeing businesses. We are positioned today to provide solutions on a global basis, including support for multinational enterprises seeking consistent quality in their wellbeing strategies that cross borders and serve large workforce populations.

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

We are creating a sustainable competitive advantage by combining our cloud-based wellbeing platform and technology depth with a strong talent base. Our focus is merging the innovation speed and agility of a smaller company with the global talent platform – the people – of a much larger one. Our data-driven, technology-derived insights and innovations will in future, we believe, drive the development of new revenue streams while improving the client experience and delivering best-in-class operational efficiencies.

Committed to making a real difference in the world

Morneau Shepell has a long track record of responsible and sustainable growth. It's that long-term, consistent approach to delivering results that gives us the confidence that in the future we can touch and improve the lives of many more people and make a real difference in the world.

During a time of crisis such as our communities are experiencing today, companies like ours have a responsibility to step forward for the greater good.

On behalf of our entire leadership team, I would like to thank our employees, partners, clients and stakeholders for their support and resilience through an incredibly challenging year for so many.

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, 2020 and should be read in conjunction with the Consolidated Financial Statements of Morneau Shepell and notes thereto for the years ended December 31, 2020 and 2019. Unless otherwise noted, all financial information presented has been rounded to the nearest thousand, and all financial information is presented in Canadian dollars, in accordance with International Financial Reporting Standards ("IFRS"), unless otherwise noted. Certain totals, subtotals and percentages may not reconcile due to rounding.

FORWARD-LOOKING STATEMENTS AND DEFINITIONS

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. The 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, the ability to pay dividends, reliance on information systems and technology, reputational risk, dependence on key clients, reliance on key professionals, the ability to successfully integrate acquisitions, general economic conditions and pandemics, natural disasters or other unanticipated events (including the novel coronavirus ("COVID-19") pandemic). 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 operating working capital. EBITDA and adjusted EBITDA are intended to indicate 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 or gains. 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 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 these measures 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 operating working capital, capital expenditures, and certain unusual expenditures.

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, 2021, Morneau Shepell had 68,784,513 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 2,000,000.

BUSINESS OVERVIEW

Morneau Shepell is the leading provider of technology-enabled HR services delivering an integrated approach to employee wellbeing through our cloud-based platform. Our focus is to provide world-class solutions to our clients to support the mental, physical, social and financial wellbeing 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, and 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.

The Company has four operating segments, consistent with our four core lines of business, as follows: Wellbeing Solutions, Administrative Solutions, Retirement Solutions, and Health and Productivity Solutions.

The Wellbeing 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 with solutions that encompass the full continuum of care for achieving mental, physical, social and financial wellbeing. 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.

Through 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 long-term financial wellbeing.

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 wellbeing of employees.

In Health and Productivity Solutions, the Company serves as strategic advisor to help organizations of all sizes design, develop and manage 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.

2020 SUMMARY AND OUTLOOK

In thousands of dollars, except per share amounts	Three months ended December 31, 2020	Three months ended December 31, 2019	Year ended December 31, 2020	Year ended December 31, 2019
Revenue	$249,644	$247,549	$ 979,162	$888,889
Adjusted EBITDA(1)	50,998	48,041	200,025	182,453
Adjusted EBITDA margin(1)	20.4%	19.4%	20.4%	20.5%
Adjusted EBITDA per share (basic)(1)	0.73	0.72	2.87	2.76
Normalized Free Cash Flow(1)	22,964	17,964	101,154	104,640
Profit	10,828	2,648	55,924	18,968
Earnings per share (basic)	0.15	0.04	0.80	0.29

(1) These items are non-GAAP measures and should not be considered a substitute or alternative for GAAP measures. Refer to the 2020 Operating Results Summary for a reconciliation of these non-GAAP measures to IFRS measures.

Fourth quarter highlights:

We had a solid 2020 fourth quarter versus the comparative quarter in 2019. Highlights of the fourth quarter include:

- Organic revenue growth was 4.4%. Overall, revenue growth of $2.1 million, or 0.8% versus the comparative period, is primarily due to organic growth, partially offset by the divestiture of our benefits consulting business in the first quarter of 2020.
- Adjusted EBITDA increased by $3.0 million, or 6.2% to $51.0 million, compared to $48.0 million for the same period in 2019. The increase is primarily due to organic revenue growth and lower operating expenses, partially offset by the divestiture of our benefits consulting business.
- Adjusted EBITDA margin was 20.4% versus 19.4% in the comparative period. The increase in margin is due to lower operating expenses during the quarter compared to the same period in the prior year.
- Adjusted EBITDA per share (basic) was $0.73 compared to $0.72 per share in Q4 2019.
- Profit for the period increased by $8.2 million to $10.8 million, compared to $2.6 million in the same period last year. The increase is primarily due to higher adjusted EBITDA, lower finance costs and reduction in expenses related to adjusted items. Basic earnings per share for the period was $0.15 compared to $0.04 in the comparative period.

Highlights of 2020:

- Revenue grew by 10.2%, or $90.3 million to $979.2 million versus the comparative period, primarily due to the mid-year 2019 acquisition of Mercer's standalone, large market, health and defined benefit pension plan administration business in the U.S. and strong organic growth in the U.S and International regions of 6.9%, offset by the divestiture of our benefits consulting business.
- Adjusted EBITDA increased by $17.5 million to $200.0 million, or 9.6% versus the prior year. Adjusted EBITDA margin was 20.4% and is comparable to prior year. The increase in adjusted EBITDA is due to the Mercer acquisition and organic growth, partially offset by the divestiture of our benefits consulting business.
- Adjusted EBITDA per share (basic) was $2.87, a 4.0% increase compared to $2.76 per share in 2019, due to a higher adjusted EBITDA noted above.
- On March 1, 2020, the Company sold its benefits consulting business to HUB International Limited for a purchase price of $70.0 million subject to working capital adjustments and holdback conditions being satisfied; the gain on the sale was $39.8 million. The divestiture aligns with the Company's growth strategy, which includes being a clear market leader in the businesses in which the Company operates, owning the total wellbeing space, accelerating growth through geographic expansion, and leveraging technology to deliver a seamless experience for the Company's clients and their employees.

- Profit for the year was $55.9 million compared to $19.0 million last year. The increase is primarily due to higher adjusted EBITDA and the gain on business divestiture, partially offset by the sublease loss provision of $10.3 million recorded in the third quarter of 2020 related to the Company's planned relocation of its offices in the Greater Toronto Area to a new head office at the end of 2021.
- Subsequent to year-end, the Company acquired all of the outstanding shares of SMG Health Pty Ltd ("SMG") through its LifeWorks business in Australia. SMG's services combine mental health services, physical wellbeing checks and social health programs to deliver improved individual and organizational performance and productivity. Together, we bring an unmatched range of services to achieve complete mental, physical, social and financial wellbeing for people in Australia.

2020 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)	**2020**	**2019**	**2020**	**2019**
Revenue	$249,644	$247,549	$ 979,162	$888,889
Deduct:				
Salaries, benefits and contractor expenses	172,147	169,977	668,260	599,467
Other operating expenses	31,029	38,511	135,404	135,602
Depreciation and amortization	27,322	25,525	108,714	94,138
Sublease loss provision	–	–	10,300	–
Finance costs	5,934	9,565	26,896	31,105
Gain on business divestiture	–	–	39,843	–
Transaction costs	–	–	–	719
Share of income of joint venture	478	209	947	608
Income tax expenses	2,862	1,532	14,454	9,498
Profit	**10,828**	**2,648**	**55,924**	**18,968**
Add:				
Finance costs	5,934	9,565	26,896	31,105
Depreciation and amortization	27,322	25,525	108,714	94,138
Depreciation, amortization and income tax expense on share of income of joint ventures	176	163	685	674
Income tax expenses	2,862	1,532	14,454	9,498
EBITDA(1)	**47,122**	**39,433**	**206,673**	**154,383**
Add/(Deduct) adjustments:				
LifeWorks integration	–	3,017	2,508	10,183
Mercer integration and transaction costs	651	1,554	11,782	4,539
ERP implementation costs	3,225	–	8,605	–
Gain on business divestiture	–	–	(39,843)	–
Sublease loss provision	–	–	10,300	–
Transformation project costs	–	4,037	–	13,348
Adjusted EBITDA(2)	**50,998**	**48,041**	**200,025**	**182,453**
EBITDA margin(3)	18.9%	15.9%	21.1%	17.4%
Adjusted EBITDA margin(3)	20.4%	19.4%	20.4%	20.5%
Cash provided by operating activities	57,194	34,387	153,925	92,233
Deduct: Capital expenditures(4)	(23,092)	(22,372)	(73,686)	(53,052)
Free Cash Flow(5)	**34,102**	**12,015**	**80,239**	**39,181**
Add (deduct):				
Changes in operating working capital	(15,014)	(2,659)	(2,681)	37,389
Adjustments to EBITDA(6)	3,876	8,608	23,596	28,070
Normalized Free Cash Flow(7)(8)	**22,964**	**17,964**	**101,154**	**104,640**
Earnings per Share (basic)	0.15	0.04	0.80	0.29
Earnings per Share (diluted)	0.15	0.04	0.80	0.28
EBITDA per Share (basic)	0.67	0.59	2.96	2.33
Adjusted EBITDA per Share (basic)	0.73	0.72	2.87	2.76
Dividends declared	13,388	12,739	53,359	50,454
Twelve-month rolling Normalized Payout Ratio(8)(9)	52.8%	48.2%	52.8%	48.2%
Twelve-month rolling Normalized Payout Ratio, including changes in adjusted operating working capital(8)(10)	51.4%	75.0%	51.4%	75.0%

Footnotes:
(1) "EBITDA" is defined as profit before finance costs, income taxes, depreciation and amortization.
(2) "Adjusted EBITDA" is defined as "EBITDA" before adjusted items, which do not constitute a part of the Company's ongoing operating expenses.
(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) "Adjustments to EBITDA" for the purpose of calculating normalized free cash flow do not include non-cash portion of sublease loss provisions. The amount has been excluded as it has already been added back in cash from operating activities before the change in operating working capital.
(7) "Normalized Free Cash Flow" is defined as cash provided by operating activities, adjusted for changes in operating working capital, capital expenditures and certain unusual expenditures.
(8) "Normalized Free Cash Flow" was previously defined as cash provided by operating activities, adjusted for changes in operating working capital, capital expenditures, current income taxes (net of income taxes paid) and certain unusual expenditures. The comparative normalized free cash flow amounts and twelve-month rolling normalized payout ratio and twelve-month rolling normalized payout, including changes in adjusted operating working capital ratio have been restated to align with the revised definition of normalized free cash flow.
(9) "Twelve-month rolling Normalized Payout Ratio" is defined as dividends declared divided by Normalized Free Cash Flow for the rolling twelve-month period.
(10) "Twelve-month rolling Normalized Payout Ratio, including changes in adjusted operating working capital" is defined as dividends declared divided by the Twelve-month rolling Normalized Free Cash Flow, including changes in operating working capital.

ANALYSIS OF FOURTH QUARTER 2020 OPERATING RESULTS

Revenue

Revenue for the three months ended December 31, 2020 increased by $2.1 million, or 0.8%, to $249.6 million compared to $247.5 million for the same period in 2019. The increase is primarily due to organic growth of 4.4%, partially offset by the divestiture of our benefits consulting business.

Salaries, Benefits and Contractor Expenses

Salaries, benefits and contractor expenses for the three months ended December 31, 2020 increased by $2.1 million or 1.2%, to $172.1 million compared to $170.0 million for the same period in 2019. The increase is mainly due to business growth and general merit increases. The increases were partially offset by a reduction in salaries expense related to the benefits consulting business sold in the first quarter of 2020.

Other Operating Expenses

Other operating expenses for the three months ended December 31, 2020 decreased by $7.5 million, or 19.5%, to $31.0 million compared to $38.5 million for the same period in 2019. The decrease is mainly due to lower operating and integration costs related to acquired businesses and a reduction in operating expenses related to the benefits consulting business sold in the first quarter of 2020. The decrease was partially offset by implementation costs related to the new ERP system.

Depreciation and Amortization

Depreciation and amortization for the three months ended December 31, 2020 increased by $1.8 million, or 7.1%, to $27.3 million compared to $25.5 million for the same period in 2019. The increase is primarily due to accelerated depreciation of right-of-use assets and capital assets due to the planned office relocation as well as amortization of internally developed and purchased software. The increases were partially offset by a reduction in amortization due to fully amortized acquired intangible assets.

Finance Costs

Finance costs for the three months ended December 31, 2020 decreased by $3.7 million, or 38.5%, to $5.9 million compared to $9.6 million for the same period in 2019 primarily due to higher finance costs in the comparative period as a result of accelerated amortization of deferred debt issuance costs and interest expense related to the convertible debenture. The Company also had lower borrowings under the credit facility compared to same quarter last year.

Income Tax Expense

Income tax expenses for the three months ended December 31, 2020 was $2.9 million compared to $1.5 million for the same period in 2019 due to higher profit from operations before tax for the quarter.

Profit for the period

As a result of the changes noted above, profit for the three months ended December 31, 2020 increased by $8.2 million to $10.8 million compared to $2.6 million for the same period in 2019.

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

Adjusted EBITDA and EBITDA

Adjusted EBITDA for the three months ended December 31, 2020 increased by $3.0 million, or 6.2%, to $51.0 million compared to $48.0 million for the same period in 2019.

EBITDA for the three months ended December 31, 2020 increased by $7.7 million to $47.1 million compared to $39.4 million for the same period in 2019.

The increase in adjusted EBITDA and EBITDA is primarily due to organic revenue growth and lower operating expenses, partially offset by the divestiture of our benefits consulting business.

Free Cash Flow

Free Cash Flow for the three months ended December 31, 2020 increased by $22.1 million to $34.1 million compared to $12.0 million for the same period in 2019. The increase is due to higher cash generated from operating activities including changes in operating working capital of $17.9 million, lower finance costs paid of $4.0 million, lower income taxes paid of $0.9 million, partially offset by higher capital expenditures of $0.7 million.

Normalized Free Cash Flow

Normalized Free Cash Flow for the three months ended December 31, 2020 increased by $5.0 million to $23.0 million compared to $18.0 million for the same period in 2019. The increase is due to higher cash generated by operating activities before changes in operating working capital and EBITDA adjustments of $0.8 million, lower finance costs paid of $4.0 million, and lower income taxes paid of $0.9 million, partially offset by higher capital expenditures of $0.7 million.

ANALYSIS OF YEAR ENDED DECEMBER 31, 2020 OPERATING RESULTS

Revenue

Revenue for the year ended December 31, 2020 increased by $90.3 million, or 10.2%, to $979.2 million compared to $888.9 million in 2019. The increase is primarily due to the Mercer acquisition, net of the divestiture of our benefits consulting business in the first quarter of 2020, and organic growth of 3.1%, including strong organic growth of 6.9% in the U.S. and International regions.

Salaries, Benefits and Contractor Expenses

Salaries, benefits and contractor expenses for the year ended December 31, 2020 increased by $68.8 million, or 11.5%, to $668.3 million compared to $599.5 million in 2019. The increase is mainly due to the Mercer acquisition, business growth and general merit increases. The increases were partially offset by a reduction in salaries expense related to the benefits consulting business sold in the first quarter of 2020 and lower integration and transformation project costs.

Other Operating Expenses

Other operating expenses for the year ended December 31, 2020 decreased by $0.2 million, or 0.1%, to $135.4 million compared to $135.6 million in 2019. The decrease is mainly due to a reduction in operating expenses related to the benefits consulting business sold in the first quarter of 2020. The decrease was partially offset by implementation costs related to a new ERP system.

Depreciation and Amortization

Depreciation and amortization for the year ended December 31, 2020 increased by $14.6 million, or 15.5%, to $108.7 million compared to $94.1 million in 2019. The increase is primarily due to accelerated depreciation of right-of-use assets and capital assets due to the planned office relocation, acquired intangible assets and capital asset additions due to the Mercer acquisition, as well as amortization of internally developed and purchased software. The increases are partially offset by lower amortization due to fully amortized acquired intangible assets.

Sublease loss

The Company signed a lease agreement for a new Toronto head office location, which became effective in July 2020. The new location will replace the current head office and two other offices in the Greater Toronto Area. As a result, the Company incurred a penalty to terminate one lease early and plans to exit the other leases prior to the end of their respective lease terms. Due to the planned relocation, the Company recognized a loss provision for the year ended December 31, 2020, net of estimated sublease income, of $10.3 million associated with leases of excess office space and other related lease exit costs.

Finance Costs

Finance costs for the year ended December 31, 2020 decreased by $4.2 million, or 13.5% to $26.9 million compared to $31.1 million in 2019. The decrease in finance costs is primarily due to accelerated amortization of deferred debt issuance costs, decreased borrowings under the Company's credit facility and interest expense related to the convertible debentures in 2019.

Gain on Business Divestiture

On March 1, 2020, the Company sold its benefits consulting business to HUB International Limited for a purchase price of $70.0 million subject to working capital adjustments, which were finalized during the third quarter. The gain recognized on the sale was $39.8 million before tax. Refer to note 4 of the consolidated financial statements for the years ended December 31, 2020 and 2019 for further details.

Income Tax Expenses

Income tax expenses for the year ended December 31, 2020 increased by $5.0 million, or 52.6%, to $14.5 million compared to $9.5 million in 2019 due to higher profit from operations before tax for the year.

Profit for the year

As a result of the changes noted above, profit for the twelve months ended December 31, 2020 was $55.9 million compared to a profit of $19.0 million for the same period in 2019.

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

Adjusted EBITDA and EBITDA Free Cash Flow and Normalized Free Cash Flow

Adjusted EBITDA for the year increased by $17.5 million, or 9.6%, to $200.0 million compared to $182.5 million in 2019. The increase in adjusted EBITDA is due to the Mercer acquisition and organic growth, partially offset by the divestiture of our benefits consulting business. Adjusted EBITDA excludes adjusted items, which do not constitute a part of the Company's ongoing operating expenses.

Below is a description of the adjustments for the years ended December 31, 2020 and December 31, 2019, except for the sublease loss provision and gain on business divestiture (explained above):

- Mercer and LifeWorks integration costs represent the expenses incurred to integrate the clients, employees and operations acquired with our existing businesses. The LifeWorks integration was completed during the third quarter of 2020. The Mercer integration was completed during the fourth quarter of 2020.
- ERP implementation costs represent expenses incurred by the Company to implement a new comprehensive enterprise resource planning solution. The new solution will help with the Company's growth, realize efficiencies, streamline integrations of acquisitions and eliminate redundancies.
- Transformation project costs relate to initiatives that increase long-term value in the form of earnings and cash flow improvement through operational efficiency. These expenses represent fees payable to a third-party firm, severance and other transition costs. The transformation project was completed in the fourth quarter of 2019.

EBITDA for the year increased by $52.3 million to $206.7 million compared to $154.4 million in 2019 mainly due to the Mercer acquisition and gain on business divestiture, partially offset by the sublease loss provision.

Free Cash Flow

Free Cash Flow for the year ended December 31, 2020 increased by $41.0 million to $80.2 million compared to $39.2 million for the same period in 2019. The increase is due to higher cash generated from operating activities, including change in operating working capital of $60.9 million, lower finance costs paid of $4.2 million, partially offset by higher capital expenditures of $20.6 million and income taxes paid of $3.5 million.

Normalized Free Cash Flow

Normalized Free Cash Flow for the year ended December 31, 2020 decreased by $3.4 million to $101.2 million compared to $104.6 million for the same period in 2019. The decrease is due to higher capital expenditures of $20.6 million and higher income taxes paid of $3.5 million, partially offset by higher cash generated by operating activities before changes in operating working capital and EBITDA adjustments of $16.5 million, and lower finance costs paid of $4.2 million.

LIQUIDITY AND CAPITAL RESOURCES

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, 2020	Year ended December 31, 2019
Operating activities	$ 153,925	$ 92,233
Financing activities	(134,993)	31,275
Investing activities	(26,631)	(110,716)
(Decrease) Increase in cash	$ (7,699)	$ 12,792

Cash provided by operating activities for the year ended December 31, 2020 increased by $61.7 million to $153.9 million compared to $92.2 million in 2019. The increase is due to higher cash generated from operating activities of $20.9 million, a decrease in operating working capital of $40.1 million due to improved collections, and lower finance costs paid of $4.2 million, partially offset by higher income taxes paid of $3.5 million.

Cash used in financing activities for the year ended December 31, 2020 increased by $166.3 million compared to the year ended December 31, 2019. The increase is due to a net change in the revolving loan of $158.4 million, higher principal payment of lease liabilities of $3.3 million, higher dividend payments of $2.9 million, and a $1.5 million payment related to the redemption of convertible debentures.

Cash used in investing activities for the year ended December 31, 2020 decreased by $84.1 million to $26.6 million compared to $110.7 million in 2019. This decrease was due to $68.8 million received from the sale of the benefits consulting business and lower business acquisition payments of $35.9 million, partially offset by higher capital expenditures of $20.6 million due to 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 2020. The Company continued to declare the same monthly dividend amount in January and February 2021.

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, 2020 was 52.8% compared to 48.2% for the same period in 2019. The increase in the ratio is mainly due to higher capital expenditures. The twelve-month rolling Normalized Payout Ratio, including changes in adjusted operating working capital at December 31, 2020 was 51.4% compared to 75.0% for the same period in 2019. The decrease in the ratio is primarily due to the favourable change in operating working capital over the comparative period.

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, 2020 increased by $0.7 million to $23.1 million compared to $22.4 million for the same period in 2019. For the year ended December 31, 2020, our capital expenditures increased by $20.6 million to $73.7 million from $53.1 million in 2019. The increase is mainly due to capital expenditures related to Mercer integration, internally developed software additions, and development costs related to the new ERP system, partially offset by lower expenditures on hardware and software purchases.

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 licences, with terms ranging from one to 15 years. We also have revolving loans under the credit facility.

We are 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	2021	2022	2023	2024	2025	2026 and thereafter
Long-term debt	$ 413,967	$ –	$ –	$ 413,967	$ –	$ –	$ –
Leases (net) and software licenses	196,969	25,873	27,070	22,676	18,035	11,361	91,954
Total	**$610,936**	**$25,873**	**$27,070**	**$436,643**	**$18,035**	**$11,361**	**$91,954**

Future Consideration Related to Acquisitions

The total undiscounted future consideration remaining to be paid is $0.6 million, due from 2021 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, 2020.

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, 2020	As at December 31, 2019
(Bank indebtedness, net of cash) Cash	$ (4,048)	$ 3,651
Long-term debt, net of debt issuance and financing costs	411,924	470,456
Convertible debentures, net of issuance costs	–	40,699
Shareholders' equity	656,707	618,388

Long-term debt

The long-term debt, net of debt issuance and financing costs, decreased by $58.6 million from $470.5 million as at December 31, 2019 to $411.9 million as at December 31, 2020.

On April 17, 2020, the Company entered into an Amended and Restated Credit Facility Agreement (the "Credit Facility Agreement"), which amended the Company's previous arrangement (the "Prior Agreement"), the key changes, which include:

- The Company obtained an incremental $100.0 million of committed capacity ("Incremental Facility"), which matures 364 days from closing.
- The consolidated debt to Adjusted EBITDA financial covenant will remain at a level not to exceed 4.0:1.0 until maturity of the Credit Facility Agreement.

As a result of the above amendment, as at December 31, 2020, the Company had a revolving facility of $600.0 million (including a swing line of $14 million), which matures on July 27, 2023 and the $100.0 million Incremental Facility that matures on April 16, 2021.

As at December 31, 2020, the Company had $314.7 million borrowed in Canadian dollars and $99.3 million (US$78.0 million) borrowed in U.S. dollars, and utilized $6.6 million of the swing line available. The consolidated debt to Adjusted EBITDA financial covenant as at December 31, 2020 was at 2.65.

The interest rates for 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, which is secured by a general assignment of all the assets of the Company.

The Company was in compliance with all of the required financial covenants of the Credit Facility Agreement as at December 31, 2020 (2019 – compliance with all terms of the Prior Agreement).

As at December 31, 2020 the Company has syndicated interest rate swap agreements for an aggregate notional amount of $130 million to hedge against the variable interest rate component on amounts borrowed under the Credit Facility Agreement. The swap agreements have a fixed interest rate of 2.59% before the applicable margin for the period from December 5, 2018 to July 27, 2023. These swaps have been designated as cash flow hedges for hedge accounting treatment under IFRS 9. 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 other operating expenses.

The Company periodically enters into short-term cross-currency interest rate swap agreements to optimize interest costs. Under these agreements, the Company borrows in U.S. dollars and swaps the amount for Canadian dollar borrowings for approximately one month, enabling the Company to reduce interest costs while protecting it from any foreign exchange exposure on settlement. As at December 31, 2020, the Company did not have any borrowings under the swap agreements.

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 debentures were convertible at the option of the holder to common shares at a conversion price of $25.10 per common share.

The Company had 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 was 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 $80.7 million of the Debentures as of the notice date. From the effective date of the redemption notice to December 31, 2019, a total of $40.0 million of the Debentures was converted to 1.6 million Common Shares of the Company at the holders' request. On January 9, 2020, the Company converted an additional $39.2 million of the Debentures, at the holders' request, into 1.6 million Common Shares of the Company. The remaining $1.5 million principal amount was redeemed for cash at a price of one thousand dollars per 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, 2020	As at December 31, 2019
Current assets	$ 250,445	$ 270,633
Non-current assets	1,264,061	1,259,585
Current liabilities	167,406	227,471
Non-current liabilities	690,393	684,359

Current Assets

Current assets as at December 31, 2020 decreased by $20.2 million to $250.4 million from $270.6 million as at December 31, 2019. The decrease in current assets is primarily due to a decrease in trade and other receivables and unbilled fees by $21.0 million as a result of improved collections, as well as decreases in cash of $0.7 million, prepaid and other expenses of $1.9 million, and finance lease receivables of $0.2 million. These decreases were partially offset by an increase in income taxes receivable of $4.8 million.

Non-current Assets

Non-current assets as at December 31, 2020 increased by $4.5 million to $1,264.1 million from $1,259.6 million as at December 31, 2019. The increase is primarily due to the right-of-use asset recognized for the new head office location and capital asset additions, net of depreciation, of $41.2 million and increases in deferred implementation costs, net of amortization, of $11.2 million. These increases were partially offset by the disposal of intangible assets and goodwill related to the sale of the benefits consulting business of $23.3 million, and depreciation and amortization of capital and intangible assets.

Current Liabilities

Current liabilities as at December 31, 2020 decreased by $60.1 million to $167.4 million from $227.5 million as at December 31, 2019. The decrease is primarily due to settlement of $40.7 million of convertible debentures, a decrease in trade and other payables of $7.7 million, a $23.1 million reduction in the future consideration related to acquisitions balance mainly due to payments, a $1.9 million decrease in the fair value of interest and currency swap liabilities and lower income taxes payable of $3.9 million. These decreases were partially offset by increases in lease liabilities of $0.9 million, deferred revenue of $5.7 million, bank indebtedness of $7.0 million, and provisions of $4.1 million.

Non-current Liabilities

Non-current liabilities as at December 31, 2020 increased by $6.0 million to $690.4 million from $684.4 million as at December 31, 2019. The increase is primarily due to increases in lease liabilities of $42.0 million, deferred tax liabilities of $13.4 million, provisions of $6.1 million due to the sublease loss provision recorded in the third quarter of 2020, fair value of interest and currency swap liabilities of $2.2 million, and deferred revenue of $1.0 million. The increases are partially offset by a repayment of long-term debt of $58.5 million and a reduction in future consideration related to acquisitions by $0.2 million.

As a result of the changes in current assets and current liabilities discussed above, working capital increased by $39.8 million from $43.2 million as at December 31, 2019 to $83.0 million as at December 31, 2020.

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 future impact of COVID-19 uncertainties could generate, in future reporting periods, a significant risk of material adjustment to the reported amounts of assets, liabilities, revenue and expenses in the consolidated financial statements. Examples of accounting estimates and judgments that may be impacted by the pandemic include: revenue recognition, impairment of goodwill and intangible assets, allowance for expected credit losses, corporate income taxes, provisions and contingent consideration related to acquisitions.

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, 2020 and 2019. The accounting estimates that are critical to our business relate to the following items:

Revenue recognition

Where a 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. Among 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. Among other factors, management considers the solvency of the client, the age of the outstanding unbilled fees balance, the fee arrangement and historical 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 assess whether development expenditures should be capitalized. These expenditures are capitalized only if the expenses are attributed to the intangible asset and measured reliably, the product is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient technical, financial and other resources to complete development and to use or sell the asset in an existing market. Otherwise, the expenditures are recognized in profit or loss as incurred.

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 assessment of the recoverability of goodwill allocated to its cash generating units 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 receivable are collectible from customers. Accordingly, management establishes an allowance for expected credit losses ("ECLs") for non-payment and delinquent accounts based on historical trends of the probability of default, the 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 in which 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 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 to 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.

Deferred implementation costs

The Company uses judgment to assess whether the implementation costs incurred in connection with contracts are specific, incremental and direct, as well as recoverable. In order to assess the recoverability of deferred implementation costs, management estimates the contract period and expected future cash flows for each respective client, which involves significant judgment.

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) Definition of a business:

In October 2018, the International Accounting Standards Board ("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 adoption of the IFRS 3 amendments did not have a material impact on the Company's consolidated financial statements.

(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 adoption of the IAS 1 amendments did not have a material impact on the Company's consolidated financial statements.

(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 adoption of this revised Conceptual Framework did not have a material impact on the Company's consolidated financial statements.

(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 that 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 adoption of these amendments did not have a material impact on the Company's consolidated financial statements.

Future Accounting Changes

(a) Onerous Contracts – Cost of Fulfilling a Contract:

The amendments to IAS 37 specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendments apply for annual reporting periods beginning on or after January 1, 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other components of equity, as appropriate. The comparatives are not restated. The extent of the impact of adoption of the standard has not yet been determined.

(b) Interest Rate Benchmark Reform – Phase 2:

The amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to:

(i) Change in basis for determining cash flows:

The amendments will require an entity to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability. The Company does not expect any significant impact from the adoption of these amendments.

(ii) Hedge accounting:

The amendments provide exceptions to the hedge accounting requirements in the following areas:

- Allow amendment of the designation of a hedging relationship to reflect changes that are required by the reform.
- When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the reform, the amount accumulated in the cash flow hedge reserve will be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.
- When a group of items is designated as a hedged item and an item in the group is amended to reflect the changes that are required by the reform, the hedged items are allocated to subgroups based on the benchmark rates being hedged.
- If an entity reasonably expects that an alternative benchmark rate will be separately identifiable within a period of 24 months, it is not prohibited from designating the rate as a non-contractually specified risk component if it is not separately identifiable at the designation date.

The Phase 2 amendments are applied for annual periods beginning on or after January 1, 2021. The Company does not expect a significant impact on its consolidated financial statements.

(c) Other standards:

The following new and amended standards are not yet effective for the Company, nor are they expected to have a significant impact on the Company's consolidated financial statements:

- COVID-19-Related Rent Concessions (Amendment to IFRS 16).
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).
- Reference to Conceptual Framework (Amendments to IFRS 3).
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.

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 and, as a result, competes with many domestic and international firms. Some of its competitors have achieved substantially more market penetration in certain areas where Morneau Shepell competes. In addition, some of its competitors may have more financial resources and/or financial flexibility than Morneau Shepell. Furthermore, the Company'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 licence 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 U.S., and the General Data Protection Regulation in Europe.

Due to the nature of the information involved in its products and services, Morneau Shepell is subject to cybersecurity risks and the consequences of disclosure. These risks can range from internal human error and 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 and invests in technology to remain current and effective in the area of security controls. In addition, the Company continues to increase employee awareness 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 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 the support of 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 as 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 affect its competitiveness and results 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 the Company'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 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

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, and 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 that 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, which, if they exist, 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 requires 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 the Company's total revenue for the years ended December 31, 2020 and 2019.

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 among themselves directly). There can be no assurance that Morneau Shepell will be able to maintain its existing relationships with all of these channel partners, which 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 wellbeing and health and productivity services involve confidential counselling 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 Company 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 its 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.

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 approximately $147.1 million for the year ended December 31, 2020. An increase in foreign revenue would expose Morneau Shepell to fluctuations in exchange rates, which may have a material adverse effect on the Company'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, addresses all material insurable risks, provides coverage 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.

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 its 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, 2020, 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 upon 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 the 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.

The sale of a substantial number of common shares by a significant shareholder in the public market or otherwise could adversely affect the prevailing market price 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 such 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 that may be dilutive.

SELECTED ANNUAL INFORMATION

(In thousands of dollars, except per share amounts)	Year ended December 31, 2020(3)	Year ended December 31, 2019(2)	Year ended December 31, 2018(1)
Revenue	$ 979,162	$ 888,889	$ 722,284
Profit for the year	55,924	18,968	21,797
Earnings per share (basic)	0.80	0.29	0.36
Earnings per share (diluted)	0.80	0.28	0.36
Dividends declared per share	0.78	0.78	0.78
Total assets	1,514,506	1,530,218	1,348,342
Long-term debt(4)	411,924	470,456	374,381

Footnotes:

(1) The Company has applied IFRS 16 using the modified retrospective approach. The figures presented have not been restated.

(2) 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.

(3) The company sold its benefits consulting business for $70.0 million and recorded an after-tax gain of $33.4 million. Total long-term debt decreased as the funds from the divestiture were used to repay the long-term debt.

(4) 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, 2020	September 30, 2020(1)	June 30, 2020	March 31, 2020(2)	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
Revenue	249,644	240,300	246,175	243,048	247,549	223,980	212,666	204,695
Profit (loss)	10,828	(2,069)	8,258	38,905	2,648	1,332	6,329	8,659
EBITDA(3)	47,122	33,833	44,386	81,330	39,433	34,459	39,032	41,460
Adjusted EBITDA(3)	50,998	49,634	52,075	47,318	48,041	43,811	45,882	44,718
EBITDA margin(3)	18.9%	14.1%	18.0%	33.5%	15.9%	15.4%	18.4%	20.3%
Adjusted EBITDA margin(3)	20.4%	20.7%	21.2%	19.5%	19.4%	19.6%	21.6%	21.8%
Earnings (loss) per share (basic)	0.15	(0.03)	0.12	0.56	0.04	0.02	0.10	0.13
Earnings (loss) per share (diluted)	0.15	(0.03)	0.12	0.56	0.04	0.02	0.10	0.13
Normalized Free Cash Flow(3)(4)	22,964	21,195	32,799	24,200	17,964	32,745	29,750	24,177
Dividends declared	13,388	13,358	13,327	13,287	12,739	12,596	12,586	12,533
Twelve-month rolling normalized payout ratio(3)(4)	52.8%	54.8%	48.2%	48.9%	48.2%	49.3%	57.5%	61.7%
Twelve-month rolling normalized payout ratio, including changes in adjusted operating working capital(3)(4)	51.4%	60.9%	61.6%	77.5%	75.0%	73.5%	72.1%	68.2%
Total assets	1,514,506	1,542,080	1,512,230	1,709,699	1,530,218	1,483,878	1,397,115	1,409,850
Long-term debt	411,924	424,028	424,228	586,244	470,456	460,474	408,715	374,752

Footnotes:

1. September 30, 2020 results included a sublease loss of $10.3 million.
2. March 31, 2020 results included a gain on business divestiture of $39.8 million.
3. These items are non-GAAP measures and should not be considered a substitute or alternative for GAAP measures. Refer to the 2020 Operating Results Summary for a reconciliation of these non-GAAP measures to IFRS measures.
4. The historical normalized free cash flow amounts and twelve-month rolling normalized payout ratio and twelve-month rolling normalized payout, including changes in adjusted operating working capital ratio, have been restated to align with the revised definition of normalized free cash flow.

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, 2020.

Internal Controls 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, 2020. No changes were made in our internal controls over financial reporting during the fourth quarter or year ended December 31, 2020, 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, 2021.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Morneau Shepell Inc.

Opinion

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

- the consolidated statements of financial positions as at December 31, 2020 and December 31, 2019
- the consolidated statements of income and comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- 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 Entity as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended 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 Entity 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Evaluation of specific, incremental and direct deferred implementation costs incurred and the assessment of recoverability

Description of the matter

We draw attention to notes 2(d), 3(c), 3(d) and 7 to the financial statements. The Entity enters into certain contracts that involve both an implementation and an ongoing services component. Implementation costs incurred in connection with contracts, depending on the nature of the arrangement with the client, relate to those costs necessary to set up clients and their pension, benefit or wellness programs onto the Entity's proprietary software solutions. The Entity has total deferred implementation costs of $73,629 thousand. Such costs may primarily include internal and external costs for assessing design requirements, coding and customizing systems, and client data conversion and migration costs.

Implementation costs are deferred only to the extent recovery is expected. For contracts where the implementation component is not distinct and a separate performance obligation, the specific, incremental, and direct costs are deferred and amortized over the term of the service contract plus any expected renewal period. The Entity uses judgment to assess whether the implementation costs incurred in connection with contracts are specific, incremental and direct as well as recoverable. In order to assess the recoverability of deferred implementation costs, the Entity estimates the contract period and expected future cash flows for each contract which involves significant judgment.

Why the matter is a key audit matter

We identified the evaluation of the nature of the costs as specific, incremental and direct deferred implementation costs incurred and the assessment of the recoverability as a key audit matter. This matter was a significant risk. There is significant judgment in assessing whether the costs incurred are specific, incremental and direct in relation to the contract and their recoverability. As a result, significant auditor judgment was required to evaluate the results of our procedures.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

We evaluated the design and tested the operating effectiveness of certain controls over the Entity's process to record and assess the recoverability of implementation costs. These controls related to the review of new and amended contracts to analyze expected recoverability, and the review of the nature and amount of costs capitalized during the year.

For a selection of contracts being implemented during the year, we evaluated the judgment that the costs were specific, incremental and direct in relation to the contract by:

- Inspecting the Entity's documentation and analysis of deferred implementation costs and by checking that the documentation supported the conclusion reached
- Enquiring with certain of the Entity's operation personnel who have direct oversight of such implementation projects
- Compared the hours recorded towards project implementation to the time tracking system
- Checked the accuracy of the amount capitalized during the year based on the hours incurred for implementation and the eligible payroll related costs.

For a selection of contracts being implemented during the year, we evaluated the judgment that the costs were recoverable by:

- Evaluating the estimated costs to implement the contract in comparison to the actual historical costs incurred to assess the Entity's ability to accurately predict these costs
- Comparing the contract period and future expected cash flows for these contracts to the terms of the underlying contract.

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.

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.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity'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.

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 Entity'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 Entity'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 Entity 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.

- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Kevin James Fisher.

KPMG LLP

Vaughan, Canada
March 10, 2021

MORNEAU SHEPELL INC.

Consolidated Statements of Financial Position

(In thousands of Canadian dollars)

December 31, 2020 and December 31, 2019

	December 31, 2020	December 31, 2019
Assets		
Current assets:		
Cash	**$ 8,736**	$ 9,469
Trade and other receivables (note 6)	**98,684**	112,484
Unbilled fees	**97,823**	104,993
Finance lease receivables (note 17)	**1,396**	1,641
Prepaid expenses and other	**14,429**	16,334
Cash and investments held in trust	**11,351**	11,984
Income taxes receivable	**4,753**	–
Deferred implementation costs (note 7)	**13,273**	13,633
Interest rate swaps (note 14)	**–**	95
Total current assets	**250,445**	270,633
Non-current assets:		
Deferred implementation costs (note 7)	**60,356**	49,145
Finance lease receivables (note 17)	**1,391**	3,375
Capital assets (note 8)	**157,503**	116,288
Intangible assets (note 9)	**452,538**	477,892
Goodwill (note 10)	**585,879**	607,151
Investments in joint ventures (note 25)	**6,394**	5,734
Total non-current assets	**1,264,061**	1,259,585
Total assets	**$1,514,506**	$1,530,218

See accompanying notes to the consolidated financial statements.

MORNEAU SHEPELL INC.

Consolidated Statements of Financial Position

(In thousands of Canadian dollars)

December 31, 2020 and December 31, 2019

	December 31, 2020	December 31, 2019
Liabilities and Equity		
Current liabilities:		
Bank indebtedness	**$ 12,784**	$ 5,818
Trade and other payables (note 11)	**93,646**	101,365
Income taxes payable	**–**	3,927
Deferred revenue (note 12)	**18,258**	12,487
Insurance premium liabilities	**11,351**	11,984
Interest rate and currency swaps (note 14)	**2,786**	4,683
Future consideration related to acquisitions (note 16)	**505**	23,611
Dividends payable	**4,470**	4,325
Convertible debenture payable (note 15)	**–**	40,699
Provisions (note 13)	**4,100**	–
Lease liabilities (note 17)	**19,506**	18,572
Total current liabilities	**167,406**	227,471
Non-current liabilities:		
Deferred revenue (note 12)	**26,408**	25,409
Long-term debt (note 14)	**411,924**	470,456
Future consideration related to acquisitions (note 16)	**49**	255
Interest rate swaps (note 14)	**4,150**	1,920
Provisions (note 13)	**8,964**	2,873
Deferred tax liabilities (note 18)	**116,254**	102,891
Lease liabilities (note 17)	**122,644**	80,555
Total non-current liabilities	**690,393**	684,359
Equity:		
Share capital (note 21)	**922,189**	872,981
Contributed surplus (note 21)	**25,481**	27,667
Equity component of convertible debenture (note 15, 21)	**–**	495
Accumulated other comprehensive (loss) income (note 21)	**(9,977)**	796
Deficit	**(280,986)**	(283,551)
Total equity	**656,707**	618,388
Total liabilities and equity	**$1,514,506**	$1,530,218

Commitments (note 28) and contingencies (note 29)

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, 2020 and 2019

	2020	2019
Operating revenue (note 23, 26)	**$979,162**	$888,889
Operating expenses:		
Salaries, benefits and contractors (note 27)	**668,260**	599,467
Other operating expenses	**135,404**	135,602
Depreciation and amortization (note 8, 9)	**108,714**	94,138
Sublease loss provision (note 13)	**10,300**	–
Total operating expenses	**922,678**	829,207
Finance costs (note 14)	**26,896**	31,105
Gain on business divestiture (note 4)	**39,843**	–
Transaction costs (note 5)	**–**	719
Share of income of joint ventures (note 25)	**947**	608
Profit before income taxes	**70,378**	28,466
Income taxes (note 18):		
Current	**5,613**	15,202
Deferred	**8,841**	(5,704)
Total income taxes	**14,454**	9,498
Profit for the year	**55,924**	18,968
Other comprehensive income (loss):		
Items that may be reclassified subsequently to profit:		
Effective portion of change in interest rate cash flow hedges	**(4,307)**	(927)
Foreign currency translation differences for foreign operations	**(7,603)**	(8,149)
Income taxes on the above items	**1,140**	243
	(10,770)	(8,833)
Items that will not be reclassified to profit:		
Actuarial loss on post-employment benefit plans	**(4)**	(380)
Income taxes on the above item	**1**	101
	(3)	(279)
Other comprehensive loss, net of tax effect	**(10,773)**	(9,112)
Comprehensive income for the year	**$ 45,151**	$ 9,856
Earnings per share (note 22):		
Basic	**$ 0.80**	$ 0.29
Diluted	**$ 0.80**	$ 0.28

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, 2020 and 2019

2020	**Share capital**	**Contributed surplus**	**Deficit**	**Accumulated other comprehensive income (loss)**	**Equity component of convertible debenture**	**Total equity**
Balance, January 1, 2020	**$872,981**	**$27,667**	**$(283,551)**	**$ 796**	**$ 495**	**$618,388**
Long-term incentive plan – issuance (note 20)	**–**	**7,019**	**–**	**–**	**–**	**7,019**
Long-term incentive plan – redemption, net of taxes	**9,535**	**(9,205)**	**–**	**–**	**–**	**330**
Shares issued upon conversion of convertible debentures (note 15, 21)	**39,673**	**–**	**–**	**–**	**(495)**	**39,178**
Profit for the year	**–**	**–**	**55,924**	**–**	**–**	**55,924**
Dividends	**–**	**–**	**(53,359)**	**–**	**–**	**(53,359)**
Other comprehensive loss (note 21)	**–**	**–**	**–**	**(10,773)**	**–**	**(10,773)**
Balance, December 31, 2020	**$922,189**	**$25,481**	**$(280,986)**	**$ (9,977)**	**$ –**	**$656,707**

2019	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Equity component of convertible debenture	Total equity
Balance, December 31, 2018	$820,792	$ 27,141	$(252,482)	$9,908	$1,045	$606,404
IFRS 16 implementation adjustment	–	–	417	–	–	417
Balance, January 1, 2019, restated	820,792	27,141	(252,065)	9,908	1,045	606,821
Long-term incentive plan – issuance (note 20)	–	6,925	–	–	–	6,925
Long-term incentive plan – redemption	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

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, 2020 and 2019

	2020	2019
Operating activities		
Profit for the year	**$ 55,924**	$ 18,968
Items not involving cash:		
Depreciation and amortization	**108,714**	94,138
Finance costs (note 14)	**26,896**	31,105
Long-term incentive plan expense (note 20)	**7,019**	6,925
Income taxes (note 18)	**14,454**	9,498
Change in provisions	**10,191**	(617)
Share of income of joint ventures	**(947)**	(608)
Gain on business divestiture (note 4)	**(39,843)**	–
Other	**(1,236)**	870
	181,172	160,279
Change in operating working capital (note 24)	**2,681**	(37,389)
Cash generated from operating activities	**183,853**	122,890
Finance costs paid	**(22,365)**	(26,612)
Income taxes paid	**(7,563)**	(4,045)
Cash provided by operating activities	**153,925**	92,233
Financing activities:		
Change in revolving loan	**(63,112)**	95,277
Cost incurred to modify credit facilities	**(400)**	(223)
Principal payment of lease liabilities	**(16,746)**	(13,477)
Redemption of convertible debentures (note 15)	**(1,521)**	–
Dividends paid	**(53,214)**	(50,302)
Cash (used in) provided by financing activities	**(134,993)**	31,275
Investing activities:		
Business acquisitions (note 5)	**–**	(59,242)
Deferred and contingent acquisition payments (note 16 (b))	**(23,364)**	–
Business divestiture (note 4)	**68,810**	–
Principal payment received from finance leases	**1,609**	1,578
Additions to intangible assets	**(50,776)**	(33,654)
Additions to capital assets	**(22,910)**	(19,398)
Cash used in investing activities	**(26,631)**	(110,716)
(Decrease) increase in cash for the year	**(7,699)**	12,792
Cash (Bank indebtedness, net of cash), beginning of year	**3,651**	(9,141)
(Bank indebtedness, net of cash) Cash, end of year (note 24)	**$ (4,048)**	$ 3,651

See accompanying notes to the consolidated financial statements.

1. Organization and nature of the business:

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

Morneau Shepell Inc., its subsidiaries, and joint ventures (the "Company") provide an integrated approach to employee wellbeing 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, 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, 2021.

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 ("IASB").

(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 19).

(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. Unless otherwise noted, all financial information presented herein is in thousands of Canadian dollars.

(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. The future impact of uncertainties around the outbreak of the novel coronavirus ("COVID-19") pandemic could generate, in future reporting periods, a significant risk of material adjustment to the reported amounts of assets, liabilities, revenue and expenses in the consolidated financial statements. Examples of accounting estimates and judgments that may be impacted by the pandemic include: revenue recognition, impairment of goodwill and intangible assets, allowance for expected credit losses, corporate income taxes, provisions and contingent consideration related to acquisitions.

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

(i) Revenue recognition:

Where a 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. Among 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 of 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. Among other factors, management considers the solvency of the client, the age of the outstanding unbilled fees balance, the fee arrangement and historical client experience. If future billings differ from estimates, future profits could be materially affected.

(iii) Intangible assets (note 9):

(a) Internally-developed software:

The Company is required to assess whether development expenditures should be capitalized. These expenditures are capitalized only if the expenses are attributed to the intangible asset and measured reliably, the product is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient technical, financial and other resources to complete development and to use or sell the asset in an existing market. Otherwise, the expenditures are recognized in profit or loss as incurred.

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 10):

The Company's assessment of the recoverability of goodwill allocated to its cash generating units 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 6):

The Company is required to assess whether accounts receivable are collectible from customers. Accordingly, management establishes an allowance for expected credit losses ("ECLs") for non-payment and delinquent accounts based on historical trends of the probability of default, the 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 in which 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.

(vii) Provisions (note 13):

In identifying required provisions, the Company has to assess the probability of the future outflows of resources. Estimates must 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 to 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.

(ix) Deferred implementation costs (note 7):

The Company uses judgment to assess whether the implementation costs incurred in connection with contracts are specific, incremental and direct, as well as recoverable. In order to assess the recoverability of deferred implementation costs, management estimates the contract period and expected future cash flows for each respective client, which involves significant judgment.

3. Significant accounting policies:

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

(a) Basis of consolidation:

(i) Business combinations:

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

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 significant operating entities:

	% Ownership
Morneau Shepell Ltd.	100
Morneau Shepell Limited	100
Morneau Shepell Asset & Risk Management Ltd.	100
LifeWorks Canada Ltd.	100
LifeWorks.com Pty Ltd.	100
LifeWorks US Inc.	100
Morneau Shepell (UK) Ltd	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 and change in the net assets of the joint ventures.

(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 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 Wellbeing 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 obligations 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.

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 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.

(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 benefit 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 client pension and benefit plans on an outsourced basis, or provide administration support through SaaS and ASP offerings. Revenue from ongoing services is accrued as revenue as these services are provided and subsequently billed.

In Administrative Solutions 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 among 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.

Wellbeing Solutions offers counselling and educational services, as well as targeted health and wellness programs, to support employee and family work, and financial, personal and family needs. Wellbeing Solutions revenue is recognized on a fixed-fee or time-and-material basis, or through a combination of the minimum contracted amount and incremental usage above the minimum thresholds. Fixed fees and the minimum contracted amount are recognized on a basis consistent with the provision of well-being services. Incremental usage is accrued when the minimum usage threshold is exceeded. On time-and-material basis arrangements, revenue is accrued as services are rendered.

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.

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. 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.

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.

(d) Deferred implementation costs:

Implementation costs incurred in connection with contracts, depending on the nature of the arrangement with the client, relate to those costs necessary to set up clients and their pension, benefit or wellness programs on the Company's proprietary software solutions. Such costs primarily include internal and external costs for assessing design requirements, coding and customizing systems, and client data conversion and migration costs. Implementation costs are deferred only to the extent recovery is expected. For contracts where the implementation component is not distinct and a separate performance obligation, the 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, which requires judgment by management. 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, Australian 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.

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 historical trends of the probability of default, the 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.

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.

(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 them 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.

(l) Deferred revenue:

Deferred revenue represents the excess of retainer amounts billed over revenue earned on service contracts, and prepayments from 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 re-measured 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.

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 its long-term incentive plan ("2017 LTIP plan"), the Company may grant participants restricted share units ("RSUs"), performance share units ("PSUs") and deferred share units ("DSUs"). Under its 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." LTIP Units 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). Holders of LTIP units 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. All LTIP Units are accounted for as equity-settled awards.

i) DSUs, Director DSUs and RSUs:

DSUs generally vest three years after the date of grant and become redeemable only on the participant's termination of employment. Director DSUs have the same characteristics as DSUs except they vest immediately on grant date. RSUs vest over a three-year period after the date of grant. 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. At the end of each reporting period, the Company reassesses its estimates of forfeitures, and recognizes the impact of any revisions into profit or loss. When LTIP units are redeemed, they are issued to the participant and are recorded as share capital.

ii) 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 a conversion ratio for vested PSUs of 0% to 200%.

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. Anticipated forfeitures are factored into the determination of the fair value of the awards. 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.

iii) Phantom Share Unit Plan:

On November 10, 2020, the Company adopted a new employee Phantom Plan to replace the 2017 LTIP plan starting in 2021. The 2017 LTIP plan will be closed to new grants and all future grants to employees will fall under the Phantom Plan. The Phantom Plan is a cash settled plan, pursuant to which the Company may grant Phantom RSUs and Phantom PSUs (collectively, the "Phantom Units"). Phantom PSUs shall only be granted to executives. Each Phantom Unit has a value based upon the fair market value of one common share. Phantom Units are not shares, cannot be converted into shares and do not carry voting rights.

Pursuant to the Phantom Plan, each Phantom RSU vests over three years and is redeemable for an amount in cash equal to the fair market value of one Share on the redemption date. Phantom PSUs vest over three years and the final amount is based on market-based financial performance targets being met. When a dividend is paid on Morneau Shepell Shares, dividend equivalents will be credited on Phantom Units until redeemed by a Phantom Plan participant.

Phantom Units are initially measured at their fair value and compensation costs are recognized as salaries, benefits and contractors' expense and liabilities over the vesting period. If the awards' fair values change after they have been granted and before the exercise date, the resulting changes in the liabilities are recognized within profit and loss in the period the changed occurred.

(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 they relate to a business combination, or items recognized directly in equity or in other comprehensive income.

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

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

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

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

- 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 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, income taxes payable, dividends payable, future consideration related to acquisitions and insurance premium liabilities.

(iv) Cash flow hedge – derivative instruments:

The Company has variable rate borrowings which give rise to a risk that finance expense-related cash flows may be adversely affected by fluctuations in the underlying interest rates, and is primarily exposed to the CDOR, Canadian Prime and US Base Rate. 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 its interest costs.

The Company has designated its derivative instruments as cash flow hedges, which 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.

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, which 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.

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

(t) Leases:

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.

(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) 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 adoption of the IFRS 3 amendments did not have a material impact on the Company's consolidated financial statements.

(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 adoption of the IAS 1 amendments did not have a material impact on the Company's consolidated financial statements.

(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 adoption of this revised Conceptual Framework did not have a material impact on the Company's consolidated financial statements.

(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 that 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 adoption of these amendments did not have a material impact on the Company's consolidated financial statements.

(v) Future accounting changes:

(a) Onerous Contracts – Cost of Fulfilling a Contract:

The amendments to IAS 37 specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendments apply for annual reporting periods beginning on or after January 1, 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other components of equity, as appropriate. The comparatives are not restated. The extent of the impact of adoption of the standard has not yet been determined.

(b) Interest Rate Benchmark Reform – Phase 2:

The amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to:

(i) Change in basis for determining cash flows:

The amendments will require an entity to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability. The Company does not expect any significant impact from the adoption of these amendments.

(ii) Hedge accounting:

The amendments provide exceptions to the hedge accounting requirements in the following areas:

- Allow amendment of the designation of a hedging relationship to reflect changes that are required by the reform.
- When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the reform, the amount accumulated in the cash flow hedge reserve will be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.
- When a group of items is designated as a hedged item and an item in the group is amended to reflect the changes that are required by the reform, the hedged items are allocated to subgroups based on the benchmark rates being hedged.
- If an entity reasonably expects that an alternative benchmark rate will be separately identifiable within a period of 24 months, it is not prohibited from designating the rate as a non-contractually specified risk component if it is not separately identifiable at the designation date.

The Phase 2 amendments are applied for annual periods beginning on or after January 1, 2021. The Company does not expect a significant impact on its consolidated financial statements.

(c) Other standards:

The following new and amended standards are not yet effective for the Company, nor are they expected to have a significant impact on the Company's consolidated financial statements:

- COVID-19-Related Rent Concessions (Amendment to IFRS 16).
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).
- Reference to Conceptual Framework (Amendments to IFRS 3).

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

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).
- IFRS 17 *Insurance Contracts* and amendments to IFRS 17 *Insurance Contracts.*

4. Business divestiture:

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 and holdback conditions being satisfied. $67,535 was received on closing, $1,275 was settled when the working capital adjustments were finalized during the third quarter, and the remaining $1,190 will be received over the following 24 months.

The benefits consulting business represented approximately 3% of the Company's consolidated revenue for the year ended December 31, 2019. The divested business was part of the Health and Productivity Solutions operating segment.

The assets and liabilities disposed comprised the following:

Capital assets	$ 114
Intangible assets	5,263
Goodwill	18,047
Net working capital	2,286
Total	$25,710

Total selling costs (including reserves) for the divestiture were approximately $4,447. The pre-tax gain on business divestiture of $39,843 ($33,436 after tax) was recorded in the Company's consolidated financial statements of income and comprehensive income.

5. 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 consisted of $52,581 (US$39,675) paid on closing, with the remaining deferred and contingent consideration settled during 2020. 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.

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

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
	$74,672

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 contributed operating revenue of $56,889 and profit of $506. Had the acquisition occurred on January 1, 2019, the Company estimates that the consolidated revenue would have been higher by approximately $85,000 and the consolidated profit would have been higher by approximately $760. In determining these amounts, the Company 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 acquired the assets of MorningStar Health Inc., which complements the Health and Productivity Solutions line of business, for total cash consideration of $6,722 (US$5,100). The cash payment consisted of $6,063 (US$4,600) paid on closing, with the remaining contingent consideration settled during 2020. At the date of acquisition, $540 (US$410) 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
	$6,603

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.

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

6. Trade and other receivables:

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

	December 31, 2020	December 31, 2019
Trade receivables	**$101,867**	$110,595
Less: loss allowance	**(4,688)**	(381)
Net trade receivables	**97,179**	110,214
Other receivables	**1,505**	2,270
	$ 98,684	$112,484

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

	December 31, 2020	December 31, 2019
Current	**$ 44,203**	$ 40,230
Past due 1 – 30 days	**20,903**	25,764
Past due 31 – 90 days	**19,704**	26,309
Past due > 90 days	**17,057**	18,292
	$101,867	$110,595

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

	2020	2019
Balance at January 1	**$ 381**	$ 286
Additions	**5,035**	834
Amounts written off as uncollectible	**(728)**	(739)
Balance at December 31	**$4,688**	$ 381

7. Deferred implementation costs:

The Company's deferred implementation costs comprise the following:

	Cost	**Accumulated amortization**	**Net book value**
Balance, January 1, 2019	$ 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
Deferred implementation costs for the year	23,957	–	23,957
Amortization for the year	–	(11,599)	(11,599)
Effect of movements in exchange rates	(1,887)	380	(1,507)
Balance, December 31, 2020	$163,232	$(89,603)	$ 73,629
Less current portion			13,273
Non-current portion			$ 60,356

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

8. 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, 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
Additions	12,869	645	9,396	58,034	80,944
Disposals on business divestiture (note 4)	(140)	–	–	–	(140)
Disposals of fully depreciated assets	(8,943)	(970)	(122)	(329)	(10,364)
Effect of movements in exchange rates	(372)	34	(500)	(461)	(1,299)
Balance, December 31, 2020	$40,808	$ 6,785	$ 41,653	$142,890	$232,136

	Computer hardware	Furniture and fixtures	Leasehold improvements	Right-of-use assets	Total
Accumulated Depreciation					
Balance, January 1, 2019	$ 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
Depreciation	12,464	1,580	6,072	18,586	38,702
Disposals on business divestiture (note 4)	(26)	–	–	–	(26)
Disposals of fully depreciated assets	(8,943)	(970)	(122)	(329)	(10,364)
Effect of movement in exchange rates	(146)	195	(131)	(304)	(386)
Balance, December 31, 2020	$ 18,741	$ 4,561	$20,484	$30,847	$ 74,633
Carrying amount					
December 31, 2019	$22,002	$ 3,320	$ 18,214	$ 72,752	$116,288
December 31, 2020	$22,067	$ 2,224	$ 21,169	$112,043	$157,503

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

9. Intangible assets:

The Company's intangible assets comprise the following:

	Indefinite useful life	Finite useful life						
	Trade names	Customer relationships	Customer contracts	Proprietary software	Internally-developed software	Purchased software	Other	Total
Cost								
Balance, January 1, 2019	$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	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
Internally developed	–	–	–	–	48,950	–	–	48,950
Purchased	–	–	–	–	–	1,826	–	1,826
Disposals on business divestiture (note 4)	–	(21,664)	–	–	(908)	(73)	–	(22,645)
Disposals of fully depreciated assets	–	(2,618)	(32,506)	–	(5,419)	(783)	–	(41,326)
Effects of movements in exchange rates	431	(2,738)	470	(9)	639	(152)	–	(1,359)
Balance, December 31, 2020	$106,170	$ 433,923	$ 10,115	$20,144	$140,039	$ 14,011	$155	$ 724,557

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

	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, 2019	$ –	$ 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
Amortization	–	28,977	12,348	3,776	20,813	4,098	–	70,012
Disposals on business divestiture (note 4)	–	(17,026)	–	–	(301)	(55)	–	(17,382)
Disposals of fully depreciated assets	–	(2,618)	(32,506)	–	(5,419)	(783)	–	(41,326)
Effects of movements in exchange rates	–	(856)	186	(41)	352	(145)	–	(504)
Balance, December 31, 2020	$ –	$ 194,319	$ 7,662	$ 11,109	$ 52,496	$ 6,332	$101	$ 272,019
Carrying amount								
Balance, December 31, 2019	$105,739	$ 275,101	$ 14,517	$12,779	$ 59,726	$ 9,976	$ 54	$477,892
Balance, December 31, 2020	$106,170	$239,604	$ 2,453	$ 9,035	$ 87,543	$ 7,679	$ 54	$452,538

As at December 31, 2020, $23,295 (2019 – $11,580) 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 Wellbeing Solutions CGU. In accordance with our policy described in note 3(j), an impairment test for the trade name was performed as part of the impairment testing of non-financial assets included in the Wellbeing Solutions CGU (see note 10), and no impairment charge was required.

10. Goodwill:

(i) The change in goodwill was as follows:

Balance, January 1, 2019	$ 594,316
Acquired through business acquisition – Mercer (note 5)	22,986
Acquired through business acquisition – MorningStar (note 5)	3,025
Acquired through business acquisition – LifeWorks adjustment	(7,534)
Effects of movements in exchange rates	(5,642)
Balance, December 31, 2019	607,151
Disposed through business divestiture (note 4)	(18,047)
Effects of movements in exchange rates	(3,225)
Balance, December 31, 2020	$585,879

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

(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, 2020	December 31, 2019
Wellbeing Solutions	**$384,832**	$387,554
Administrative Solutions	**78,000**	78,445
Retirement Solutions	**101,370**	101,370
Health and Productivity Solutions	**21,677**	39,782
	$585,879	$607,151

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 Wellbeing Solutions, Administrative Solutions, Retirement Solutions, and Health and Productivity Solutions.

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, 2020 are described below.

(a) Valuation technique:

As at December 31, 2020, the recoverable amount of each CGU was calculated based on fair value less cost to sell ("FVLCS") using an income approach to estimate its fair value.

The FVLCS 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, EBITDA 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 rates, 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 all the CGUs.

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

(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, 2020:

Wellbeing Solutions	8.5%
Administrative Solutions	8.5%
Retirement Solutions	8.5%
Health and Productivity Solutions	8.9%

The recoverable amounts of the Retirement Solutions, Administrative Solutions, Wellbeing Solutions, and Health and Productivity Solutions CGUs assessed as at December 31, 2020 and 2019 were all in excess of their respective carrying amounts.

The Company has also performed a sensitivity analysis on the terminal 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 in any of the CGUs.

11. Trade and other payables:

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

	December 31, 2020	December 31, 2019
Trade payables and accrued liabilities	**$46,441**	$ 60,125
Accrued salaries and compensation	**39,536**	36,461
Other current liabilities	**7,669**	4,779
	$93,646	$101,365

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

12. Deferred revenue:

The Company's deferred revenue comprises the following:

	December 31, 2020	December 31, 2019
Balance at January 1	**$ 37,896**	$ 27,938
Additions	**44,397**	21,703
Revenue recognized	**(37,383)**	(10,988)
Effects of movements in exchange rates	**(244)**	(757)
Balance at December 31	**44,666**	37,896
Less current portion	**18,258**	12,487
Non-current portion	**$ 26,408**	$ 25,409

Deferred revenue represents the excess of retainer amounts billed over revenue earned on service contracts, and prepayments from 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 following five years for the majority of the non-current portion.

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 estimated sublease income related to these premises, and subsequently measured each period-end 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.

The Company signed a lease agreement for a new Toronto head office location which became effective in July 2020. The new location will replace the current head office and two other offices in the Greater Toronto Area. As a result, the Company incurred a penalty to terminate one lease early and plans to exit the other leases prior to the end of their respective lease terms. Due to the planned relocation, the Company recognized a loss provision for the year ended December 31, 2020, net of estimated sublease income, of $10,300 associated with leases of excess office space and other related lease exit costs. The Company will also record accelerated depreciation of the right-of-use assets and fixed assets related to these locations of $7,620 until the end of 2021, when the move is expected be completed. For the year ended December 31, 2020, the Company recorded $2,837 of the $7,620 of accelerated depreciation.

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

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, 2020	December 31, 2019
Contingency reserve	**$ 1,470**	$ 491
Sublease loss provisions	**11,594**	2,382
	13,064	2,873
Less current portion	**4,100**	–
Non-current portion	**$ 8,964**	$ 2,873

The following tables present the movement in provisions for the years ended December 31, 2020 and 2019:

	Sublease loss provisions	Contingency reserve	Total provisions
Balance, January 1, 2019	$ 2,894	$ 640	$ 3,534
Transition to IFRS 16	(99)	–	(99)
Accrual and accretion	390	(252)	138
Utilization	(803)	103	(700)
Balance, December 31, 2019	2,382	491	2,873
Accrual and accretion	11,215	1,097	12,312
Utilization	(2,003)	(118)	(2,121)
Balance, December 31, 2020	$11,594	$1,470	$13,064

14. Long-term debt:

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

	December 31, 2020	December 31, 2019
Revolving loans	**$413,967**	$473,200
Less: debt issuance costs, net of accumulated amortization	**(2,043)**	(2,744)
	$411,924	$470,456

On April 17, 2020, the Company entered into an Amended and Restated Credit Facility Agreement (the "Credit Facility Agreement"), which amended the Company's previous arrangement (the "Prior Agreement"), the key changes, which include:

- The Company obtained an incremental $100,000 of committed capacity ("Incremental Facility") which matures 364 days from closing.

- The consolidated debt to Adjusted EBITDA financial covenant will remain at a level not to exceed 4.0:1.0 until maturity of the Credit Facility Agreement.

As a result of the above amendment, as at December 31, 2020, the Company had a revolving facility of $600,000 (including a swing line of $14,000), which matures on July 27, 2023 and the $100,000 Incremental Facility that matures on April 16, 2021.

Borrowings under the Credit Facility Agreement bear interest at CDOR or Canadian Prime plus a margin for borrowings in Canadian dollars. Borrowings in U.S. dollars under the Credit Facility Agreement bear interest at US Base Rate or LIBOR plus a margin. 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 of 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 4.0:1.0 and an EBITDA to interest expense ratio of not less than 2.0:1.0.

As at December 31, 2020, the Company had $314,657 borrowed in Canadian dollars and $99,310 (US$78,000) borrowed in U.S. dollars, and utilized $6,613 of the swing line available.

As at December 31, 2020, the Company complied with all of the required financial covenants of the Credit Facility Agreement (2019 – complied with all terms of the Prior Agreement).

(a) Interest rate swaps:

As at December 31, 2020, the Company has syndicated interest rate swap agreements for an aggregate notional amount of $130,000 to hedge against the variable interest rate component on amounts borrowed under the Credit Facility Agreement. The swap agreements have a fixed interest rate of 2.59% before the applicable margin for the period from December 5, 2018 to July 27, 2023.

The fair value of these interest rate swaps at December 31, 2020 was a liability of $6,936 (December 31, 2019 net liability – $2,629).

These swaps have been designated as cash flow hedges for hedge accounting treatment under IFRS 9. 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 other operating expenses. As at December 31, 2020 and 2019, 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 to optimize interest costs. Under these agreements, the Company borrows in U.S. dollars and swaps the amount for Canadian dollar borrowings for approximately one month, enabling the Company to reduce interest costs while protecting it from any foreign exchange exposure on settlement. As at December 31, 2020, the Company had $nil (US$131,400 – December 31, 2019) of debt under this arrangement. The fair value of the swap was a liability of $nil at December 31, 2020 ($3,879 – December 31, 2019).

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.

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

(c) Finance costs:

The Company's finance costs comprise of the following:

	December 31, 2020	December 31, 2019
Interest on term loan, revolving loan, bank indebtedness and other charges	**$18,128**	$18,120
Interest and accretion on convertible debenture	**45**	4,823
Amortization of debt issuance costs	**1,101**	2,808
Accretion expense	**1,776**	987
Net finance costs on leases (note 17)	**5,846**	4,367
	$26,896	$31,105

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 debentures are convertible at the option of the holder to common shares at a conversion price of $25.10 per common share.

The Company had 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 was 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. 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 4.75% Convertible Debentures were converted to 1.6 million Common Shares of the Company from the effective date of the redemption notice to December 31, 2019. On January 9, 2020, the Company converted an additional $39,178 of the 4.75% Convertible Debentures at the holders' request, into 1.6 million Common Shares of the Company at a conversion price of $25.10 per common share. The Company recorded $495 of the equity component of convertible debentures in share capital. The remaining $1,521 principal amount was redeemed for cash at a price of one thousand dollars per debenture, plus accrued and unpaid interest.

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

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

	Debt component	Equity component
Balance, January 1, 2019	$ 83,117	$1,045
Accretion and amortization on convertible debentures	2,883	–
Conversions	(45,301)	(550)
Balance, December 31, 2019	40,699	495
Accretion and amortization on convertible debentures	–	–
Conversions	(39,178)	(495)
Redemption	(1,521)	–
Balance, December 31, 2020	$ –	$ –

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 $1,400 (2019 – $1,300).

(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.

As a result of the recent major changes in market conditions due to the ongoing COVID-19 pandemic, the Company re-evaluated its credit risk and concluded that no major changes to existing strategies were necessary in addition to those already disclosed in the notes to these consolidated financial statements. The Company will continue to monitor and re-evaluate this risk as the COVID-19 pandemic and its associated impacts continue to unfold.

An allowance for ECLs was required on accounts receivable (note 6); however, no allowance was required on unbilled fees as of December 31, 2020. The Company determines its allowance for ECLs for non-payment and delinquent accounts based on historical trends of the probability of default, the 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, 2020 was $5,035 (2019 - $834).

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. 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, 2020 was approximately $147,100 (2019 – $97,600).

Foreign exchange sensitivity analysis:

As at December 31, 2020, the Company's net exposure to currency risk through its current assets and liabilities denominated in U.S. dollars was US$34,394 (December 31, 2019 – US$35,113). An appreciation (depreciation) of the Canadian dollar against the U.S. dollar would have resulted in an increase (decrease) of approximately $2,190 (2019 – $2,280) in the Company's comprehensive income as a result of the Company's net exposure to currency risk through its current assets and current 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. The Company's net exposure to other foreign currencies is not significant.

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

(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.

As a result of the recent major changes in market conditions due to the ongoing COVID-19 pandemic, the Company re-evaluated its liquidity risk and concluded that no major changes to existing strategies were necessary in addition to those already disclosed in the notes to these consolidated financial statements. The Company will continue to monitor and re-evaluate this risk as the COVID-19 pandemic and its associated impacts continue to unfold.

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.

2020	**< 1 year**	**1 – 2 years**	**3 – 5 years**
Non-derivative financial liabilities:			
Bank indebtedness	**$ 12,784**	**$ –**	**$ –**
Trade and other payables	**93,646**	**–**	**–**
Dividends payable	**4,470**	**–**	**–**
Insurance premium liabilities	**11,351**	**–**	**–**
Future consideration related to acquisitions	**521**	**50**	**–**
Long-term debt	**–**	**–**	**413,967**
Derivative financial liabilities:			
Interest rate swaps	**2,786**	**2,623**	**1,527**
	$125,558	**$2,673**	**$415,494**

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 swaps	4,683	1,552	368
	$193,842	$1,801	$ 473,568

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

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.

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, 2020	December 31, 2019	Level
Assets carried at fair value:			
Interest rate swaps	**$ –**	$ 95	2
	$ –	$ 95	
Liabilities carried at fair value:			
Interest rate and currency swaps	**$6,936**	$ 6,603	2
Future consideration related to acquisitions (contingent portion)	**554**	14,912	3
	$7,490	$21,515	

During the year ended December 31, 2020, 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. 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, 2020	December 31, 2019
Mercer	**$ –**	$23,685
MorningStar	**–**	650
Other acquisitions	**571**	881
	$571	$25,216

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

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

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

The following tables indicate the changes in the future consideration related to acquisitions during the year ended December 31, 2020 and December 31, 2019:

Future consideration related to acquisitions	**2020**	2019
Balance at January 1	**$ 23,866**	$ 1,783
Additions	**–**	22,634
Settlements of deferred and contingent acquisition payments	**(23,364)**	(598)
Accretion	**1,520**	895
Foreign exchange and other	**(1,468)**	(848)
Balance at December 31	**$ 554**	$23,866

Financial instruments carried at amortized cost:

Cash, bank indebtedness, trade and other receivables, income taxes receivable (payable), trade and other payables, insurance premium liabilities, dividends payable, and long-term debt are carried at amortized cost, which approximates their fair value because of their short-term nature.

The convertible debenture payable is a financial instrument carried at amortized cost whose carrying value does not equal its fair market value. The convertible debenture payable has a carrying value of $nil (December 31, 2019 – $40,699) and a fair value of $nil (December 31, 2019 – $54,605). The fair value is determined using quoted market values (Level 1) for the convertible debentures at the end of the year.

17. Leases:

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

	December 31, 2020	December 31, 2019
< 1 year	**$ 23,420**	$ 21,012
1 – 2 years	**24,258**	20,259
3 – 5 years	**52,420**	33,388
> 5 years	**84,461**	44,773
Total	**$184,559**	$ 119,432
Discounting	**(42,409)**	(20,305)
Lease liabilities	**$142,150**	$ 99,127

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

The Company's lease liabilities comprise the following:

	2020	2019
Balance at January 1	**$ 99,127**	$ –
IFRS 16 implementation adjustment	**–**	97,198
Additions	**58,263**	16,312
Payments	**(21,105)**	(18,133)
Interest expense	**6,074**	4,657
Effect of movements in exchange rates	**(209)**	(907)
Balance at December 31	**$ 142,150**	$ 99,127
Less current portion	**19,506**	18,572
Non-current portion	**$ 122,644**	$ 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:

	December 31, 2020	December 31, 2019
< 1 year	**$ 1,509**	$ 1,759
1 – 2 years	**1,115**	1,767
3 – 5 years	**335**	1,894
Total	**$ 2,959**	$ 5,420
Discounting	**(172)**	(404)
Finance lease receivables	**$ 2,787**	$ 5,016

The Company's finance lease receivables comprise the following:

	2020	2019
Balance at January 1	**$ 5,016**	$ –
IFRS 16 implementation adjustment	**–**	6,612
Additions	**–**	150
Disposals	**(607)**	–
Receipts	**(1,837)**	(1,867)
Interest income	**228**	290
Effect of movements in exchange rates	**(13)**	(169)
Balance at December 31	**2,787**	5,016
Less current portion	**1,396**	1,641
Non-current portion	**$ 1,391**	$ 3,375

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

18. Income taxes:

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

	2020	2019
Current tax expense:	**$ 5,613**	$15,202
Deferred tax benefit:		
Origination and reversal of temporary differences	**7,957**	(5,227)
Effect of changes in tax rates	**884**	(477)
	8,841	(5,704)
Total income tax expense	**$14,454**	$ 9,498

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:

	2020	2019
Income taxes statutory rates:		
Federal	**15.00%**	15.00%
Provincial	**11.66%**	11.75%

	2020	2019
Income tax provision applied to profit before income taxes:		
Combined basic federal and provincial income taxes at statutory rates	**$ 18,763**	$7,615
Non-deductible expenses	**251**	2,180
Adjustment to deferred income tax liabilities for change in income tax rate	**884**	(477)
Adjustment for income relating to gain on divestiture of non-financial assets	**(4,248)**	–
Other	**(1,196)**	180
	$ 14,454	$9,498

The income taxes recognized on components of other comprehensive income (loss) for the years ended December 31, 2020 and 2019 are as follows:

	Before taxes	**Tax recovery**	**2020 Net of taxes**
Change in fair value of interest rate swaps	**$ (4,307)**	**$ 1,140**	**$ (3,167)**
Actuarial loss on post-employment benefit plans	**(4)**	**1**	**(3)**
	$ (4,311)	**$ 1,141**	**$ (3,170)**

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

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

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

	December 31, 2020	December 31, 2019
Loss carry forward	**$ 2,803**	$ 5,745
Work in progress	**–**	1,874
Deferred lease obligations	**9,518**	5,713
Deferred revenue	**8,081**	6,815
Share issuance cost	**1,088**	1,633
Other assets	**5,622**	4,087
Deferred implementation cost	**(19,521)**	(16,641)
Capital assets	**170**	(2,758)
Intangible assets	**(104,098)**	(99,129)
Other liabilities	**(19,917)**	(10,230)
Net deferred tax liabilities	**$(116,254)**	$(102,891)

The Company has other tax losses available to offset future taxable income of $10,577 (December 31, 2019 – $50,906) that expire commencing from 2035, per below:

	December 31, 2020	**Expire date**	December 31, 2019	Expire date
Expire	$ 9,107	2035-2037	$ 19,827	2035-2037
Never expire	1,470		31,079	
	$10,577		$50,906	

Movement in temporary differences during the year 2020:

	Balance at January 1, 2020	**Recognized in profit or loss**	**Recognized in other comprehensive income**	**Recognized directly in equity**	**Acquisition & other**	**Balance at December 31, 2020**
Loss carry forward	**$ 5,745**	**$(2,942)**	**$ –**	**$ –**	**$ –**	**$ 2,803**
Work in progress	**1,874**	**(1,874)**	**–**	**–**	**–**	**–**
Deferred lease obligations	**5,713**	**3,805**	**–**	**–**	**–**	**9,518**
Deferred revenue	**6,815**	**1,266**	**–**	**–**	**–**	**8,081**
Share issuance cost	**1,633**	**(545)**	**–**	**–**	**–**	**1,088**
Other assets	**4,087**	**394**	**1,141**	**–**	**–**	**5,622**
Deferred implementation cost	**(16,641)**	**(2,880)**	**–**	**–**	**–**	**(19,521)**
Capital assets	**(2,758)**	**2,928**	**–**	**–**	**–**	**170**
Intangible assets	**(99,129)**	**(4,969)**	**–**	**–**	**–**	**(104,098)**
Other liabilities	**(10,230)**	**(4,024)**	**–**	**331**	**(5,994)**	**(19,917)**
	$(102,891)	**$(8,841)**	**$1,141**	**$331**	**$(5,994)**	**$(116,254)**

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

Movement in temporary differences during the year 2019:

	Balance at January 1, 2019	Recognized in profit or loss	Recognized in other comprehensive income	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)

19. Employee future benefits:

For the year ended December 31, 2020, the Company's contributions to its defined contribution plan were $9,055 (2019 – $8,886), 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, 2020 (December 31, 2019 – 51 members), comprising active employees, retirees, and deferred vested members. All other employees are covered by the defined contribution option of the plan.

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

(a) Funding:

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

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

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

(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, 2020	December 31, 2019
Defined benefit obligations	**$(5,080)**	$ (4,813)
Fair value of plan assets	**5,107**	4,845
Assets in the consolidated statements of financial position	**$ 27**	$ 32

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

	December 31, 2020	December 31, 2019
Defined benefit obligations at January 1	**$4,813**	$4,225
Included in profit or loss:		
Current service cost	**11**	8
Interest cost	**144**	220
	155	228
Included in other comprehensive income:		
Changes in financial assumptions	**358**	606
Other:		
Benefits paid by the plan	**(246)**	(246)
Defined benefit obligations at December 31	**$5,080**	$4,813

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

	December 31, 2020	December 31, 2019
Fair value of plan assets at January 1	**$4,845**	$4,618
Included in profit or loss:		
Estimated interest income on plan assets	**147**	168
Included in other comprehensive income:		
Return on plan assets in excess of estimated interest income	**354**	226
Other:		
Employer contributions	**7**	79
Benefits paid	**(246)**	(246)
	262	227
Fair value of plans assets at December 31	**$5,107**	$4,845

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

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

(c) Plan Assets:

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

	December 31, 2020	December 31, 2019
Cash	**1%**	0%
Pooled Bond Fund	**99%**	100%
	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:

The asset allocation policy was reviewed at the end of 2019 to implement a liability-driven strategy. The bond portfolio is structured to minimize interest rate risk to reduce the volatility of pension plan assets relative to the plan's liabilities. The target asset mix is 97.5% in fixed income (liability hedging) and 2.5% in Money Market.

(d) Actuarial assumptions:

The principal actuarial assumptions were as follows:

	December 31, 2020	December 31, 2019
Discount rate at the end of the current fiscal period used to determine the accrued benefit obligation	**2.4%**	3.1%
Discount rate at the end of preceding period used to determine the benefit cost	**3.1%**	3.7%
Rate of compensation increase used to determine the accrued benefit obligation	**3.5%**	3.5%
Rate of compensation increase used to determine the benefit cost	**3.5%**	3.5%

(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 $173 increase in the defined benefit obligation as of December 31, 2020.

20. Long-term incentive plan:

Under its 2017 LTIP Plan, the Company may grant participants RSUs, PSUs and DSUs. Under its 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".

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

The change in the number of awards outstanding, and their related weighted average grant prices for the years ended December 31, 2020 and 2019 were as follows:

	RSU	PSU	DSU	Director DSU	Total
Awards outstanding, January 1, 2019	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
Granted (at $29.67 per unit)	244,015	97,295	33,074	49,716	424,100
Exercised	(183,746)	(42,893)	(389,038)	(65,237)	(680,914)
Forfeited	(32,917)	–	(9,780)	–	(42,697)
Awards outstanding, December 31, 2020	526,882	116,189	1,207,461	145,848	1,996,380
Total vested awards, December 31, 2019	–	–	1,520,125	161,369	1,681,494
Total vested awards, December 31, 2020	–	–	1,188,770	125,749	1,314,519
Share-based compensation expense, year ended December 31, 2019					$ 6,925
Share-based compensation expense, year ended December 31, 2020					$ 7,019

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, 2020 and 2019, no Preferred Shares were issued or outstanding.

(iii) Dividends:

Dividends are declared in Canadian dollars. The monthly dividend rate was $0.065 for the year ended December 31, 2020 (2019 – $0.065). The Company continued to declare the same monthly dividend amount in January and February of 2021.

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

2020	**Number of Common Shares**	**Share capital**	**Contributed surplus**
Balance, January 1, 2020	**66,542,725**	**$872,981**	**$27,667**
Long-term incentive plan – issuance	**–**	**–**	**7,019**
Long-term incentive plan – redemption (note 20)	**680,914**	**9,535**	**(9,205)**
Shares issued upon conversion of convertible debentures (note 15)	**1,560,874**	**39,673**	**–**
Balance, December 31, 2020	**68,784,513**	**$922,189**	**$25,481**

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

2019	Number of Common Shares	Share capital	Contributed surplus
Balance, January 1, 2019	64,205,330	$820,792	$ 27,141
Long-term incentive plan – issuance	–	–	6,925
Long-term incentive plan – redemption	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

(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, 2019	$ (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
Actuarial loss on post-employment benefit plans	–	(3)	–	(3)
Effective portion of change in interest rate cash flow hedges	(3,167)	–	–	(3,167)
Foreign currency translation differences for foreign operations	–	–	(7,603)	(7,603)
Balance, December 31, 2020	$(4,553)	$(473)	$ (4,951)	$(9,977)

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.

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

The following details the earnings per share, basic and diluted, calculations for the years ended December 31, 2020 and 2019:

	2020	2019
Profit attributable to common shareholders (basic and diluted)	**$ 55,924**	$ 18,968
Weighted average number of Common Shares (in number of shares):		
January 1	**66,542,725**	64,205,330
Issued on redemption of LTIP	**284,023**	284,955
Issued on conversion of convertible debenture	**1,527,765**	36,864
Issued as part of acquisition and public offering	**–**	–
Vested LTIP awards	**1,460,779**	1,633,397
Basic	**69,815,292**	66,160,546
Dilutive effect of unvested LTIP awards	**367,175**	448,933
Diluted	**70,182,467**	66,609,479
Earnings per share:		
Basic	**$ 0.80**	$ 0.29
Diluted	**$ 0.80**	$ 0.28

23. Segmented information:

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 has four operating segments, consistent with the Company's four lines of business. As at December 31, 2020, 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 of the regulatory environments in which the segments operate.

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:

	December 31, 2020	December 31, 2019
Revenue:		
Canada	**$572,534**	$593,502
United States	**355,522**	251,174
International	**51,106**	44,213
Consolidated total	**$979,162**	$888,889

	December 31, 2020	December 31, 2019
Total assets:		
Canada	**$ 900,439**	$ 857,455
United States	**488,771**	565,701
International	**125,296**	107,062
Consolidated total	**$1,514,506**	$1,530,218

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

24. Supplementary cash flow information:

Change in operating working capital for the years ended December 31, 2020 and 2019 was as follows:

	December 31, 2020	December 31, 2019
Trade and other receivables	**$ 12,052**	$(10,300)
Unbilled fees, current and non-current	**6,973**	(36,358)
Prepaid expenses and other	**1,883**	(4,951)
Deferred implementation costs, current and non-current	**(12,358)**	(5,833)
Trade and other payables	**(12,717)**	10,738
Deferred revenue, current and non-current	**6,848**	9,315
	$ 2,681	$(37,389)

Cash (Bank indebtedness) reconciliation for the years ended December 31, 2020 and 2019 was as follows:

	December 31, 2020	December 31, 2019
Bank indebtedness	**$(12,784)**	$(5,818)
Cash	**8,736**	9,469
(Bank indebtedness, net of cash) Cash, end of year	**$ (4,048)**	$ 3,651

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:

	December 31, 2020	December 31, 2019
Salaries and other benefits	**$ 8,550**	$ 8,847
Share-based payments	**3,885**	4,179
	$12,435	$13,026

(b) Unconsolidated structured entities:

The Company's wholly-owned subsidiary, Morneau Shepell Asset & Risk Management Ltd., is the sponsor of the funds and manages the financial and operating activities of the Company's funds. In exchange, each fund pays an administrative fee ranging from 0.05% to 0.10% of the fund's net asset value to cover regulatory filing fees and reimbursement of operating expenses. The Company does not hold any units of the funds.

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

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:

The Company has ownership interests in joint ventures that provide employee assistance programs. The Company holds more than half of the ownership interest in certain Chestnut Global Partners Group of Companies ("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 these joint ventures as included in its own financial statements, adjusted for fair value adjustments at acquisition and differences in accounting policies, as at December 31, 2020.

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

	December 31, 2020	December 31, 2019
Current assets	**$ 5,797**	$4,041
Non-current assets	**574**	428
Current liabilities	**(1,006)**	(631)
Non-current liabilities	**(44)**	(34)
Net assets (100%)	**5,321**	3,804
Company's share of net assets	**3,704**	2,908
Intangible assets	**3,611**	3,818
Deferred tax liabilities	**(921)**	(992)
Carrying amount of interest in joint venture	**$ 6,394**	$5,734

	December 31, 2020	December 31, 2019
Revenue	**$11,464**	$10,695
Expense	**(9,237)**	(8,934)
Profit (100%)	**2,227**	1,761
Company's share of profit	**1,632**	1,282
Amortization	**(685)**	(674)
Share of income	**$ 947**	$ 608

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

The Company had no significant outstanding balances with any of the joint ventures as at December 31, 2020 and December 31, 2019.

26. Revenue:

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

	December 31, 2020	December 31, 2019
Administrative Solutions	**$395,492**	$303,603
Wellbeing Solutions	**372,742**	362,633
Retirement Solutions	**116,272**	114,573
Health and Productivity Solutions	**94,656**	108,080
	$979,162	$888,889

27. Salary, benefits and contractors:

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

	December 31, 2020	December 31, 2019
Salaries and other benefits	**$565,013**	$490,892
Contractors	**103,247**	108,575
	$668,260	$599,467

28. Commitments:

The Company has entered into contracts for software licences that will give rise to annual commitments of approximately $2,200 per year over the next four 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 contingent consideration for prior acquisitions, typically based upon performance measures contractually agreed at the time of purchase.

As at December 31, 2020, 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, 2020, the Company's capital is $1,072,679 (December 31, 2019 – $1,125,892), comprised of $415,972 (December 31, 2019 – $507,504) bank indebtedness and debt, net of cash, and $656,707 (December 31, 2019 – $618,388) of equity. The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern while maintaining dividends to its shareholders and the growth of the Company's business through organic growth and new acquisitions.

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

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

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

The Company is subject to externally imposed capital requirements to maintain certain financial covenants as mentioned above. The Company complied with all the required financial covenants at December 31, 2020.

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