

Consolidated Financial Statements  
(Expressed in Canadian Dollars)



Years ended August 31, 2017 and August 31, 2016

# Independent Auditors' Report

To the Shareholders of People Corporation and its subsidiaries:

We have audited the accompanying consolidated financial statements of People Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at August 31, 2017 and August 31, 2016, and the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

## *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

## *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of People Corporation and its subsidiaries as at August 31, 2017 and August 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Winnipeg, Manitoba

November 30, 2017

*MNP LLP*

Chartered Professional Accountants

# PEOPLE CORPORATION

Consolidated Statements of Financial Position

As at August 31, 2017 and August 31, 2016

	Note	August 31, 2017	August 31, 2016
<b>Assets</b>			
Current assets:			
Cash		\$ 17,933,832	\$ 14,369,959
Trade and other receivables	5	11,233,804	9,421,731
Income taxes receivable		843,724	782,602
Prepaid and other current assets		1,376,436	1,175,832
Total current assets		31,387,796	25,750,124
Non-current assets:			
Property and equipment	6	2,666,248	1,953,986
Goodwill and intangible assets	7	134,943,617	120,273,962
Loans receivable	8	954,974	-
Total non-current assets		138,564,839	122,227,948
<b>Total assets</b>		<b>\$ 169,952,635</b>	<b>\$ 147,978,072</b>
<b>Liabilities and shareholders' equity</b>			
Current liabilities:			
Trade payables, accrued and other liabilities	9	\$ 14,919,459	\$ 10,905,251
Deferred revenue		3,997,864	5,369,433
Current portion of loans and borrowings	12	3,627,518	2,642,625
Total current liabilities		22,544,841	18,917,309
Accrued and other liabilities	9	1,199,871	2,302,519
Non-controlling interest put options	11	34,059,108	32,571,809
Loans and borrowings	12	32,899,207	37,834,542
Deferred tax liability	13	10,878,605	11,667,033
<b>Total liabilities</b>		<b>101,581,632</b>	<b>103,293,212</b>
Shareholders' equity:			
Share capital	14	58,861,256	39,333,725
Contributed surplus		1,892,859	1,213,006
Retained earnings		7,616,888	4,138,129
<b>Total shareholders' equity</b>		<b>68,371,003</b>	<b>44,684,860</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 169,952,635</b>	<b>\$ 147,978,072</b>

Commitments and contingencies (Note 19)

Comparative figures (Note 25)

Subsequent Events (Note 26)

ON BEHALF OF THE BOARD OF DIRECTORS

/s/ "Eric Stefanson"  
Director, Chair of the Audit & Risk Committee

/s/ "Laurie Goldberg"  
Director, Chief Executive Officer

The notes are an integral part of these Consolidated Financial Statements.



# PEOPLE CORPORATION

Consolidated Statements of Comprehensive Income (Loss)

For the years ended August 31, 2017 and August 31, 2016

	Note	Year ended August 31, 2017	Year ended August 31, 2016
Revenue		\$ 105,839,973	\$ 79,802,253
Operating expenses		83,531,240	63,527,786
Depreciation and amortization	6,7	8,451,346	6,975,608
Finance expenses	16	4,978,958	5,258,428
Acquisition, integration and reorganization costs		2,605,022	2,302,565
	24	99,566,566	78,064,387
<b>Income before income taxes</b>		<b>6,273,407</b>	<b>1,737,866</b>
Income tax expense (recovery):			
Current	13	5,464,400	3,229,715
Deferred	13	(2,669,752)	(1,317,055)
		2,794,648	1,912,660
<b>Net income (loss) and Comprehensive Income (Loss)</b>		<b>\$ 3,478,759</b>	<b>\$ (174,794)</b>
Earnings (Loss) per share	14(c)		
Basic		\$ 0.069	\$ (0.004)
Diluted		\$ 0.068	\$ (0.004)

The notes are an integral part of these Consolidated Financial Statements.

# PEOPLE CORPORATION

## Consolidated Statements of Changes in Equity

For the years ended August 31, 2017 and August 31, 2016

	Note	Share Capital	Contributed Surplus	Retained Earnings	Total
<b>Balance, August 31, 2015</b>		<b>\$ 39,029,883</b>	<b>\$ 736,584</b>	<b>\$ 4,312,923</b>	<b>\$ 44,079,390</b>
Loss and comprehensive loss for the year		-	-	(174,794)	(174,794)
Exercise of stock options	14(b)	303,842	(117,475)	-	186,367
Share-based payments	15(b)(c)(d)	-	593,897	-	593,897
		303,842	476,422	(174,794)	605,470
<b>Balance, August 31, 2016</b>		<b>\$ 39,333,725</b>	<b>\$ 1,213,006</b>	<b>\$ 4,138,129</b>	<b>\$ 44,684,860</b>
Net income and comprehensive income for the year		-	-	3,478,759	3,478,759
Issuance of common shares	14(b)	19,259,036	-	-	19,259,036
Exercise of stock options	14(b)	268,495	(108,569)	-	159,926
Share-based payments	15(b)(c)(d)	-	788,422	-	788,422
		19,527,531	679,853	3,478,759	23,686,143
<b>Balance, August 31, 2017</b>		<b>\$ 58,861,256</b>	<b>\$ 1,892,859</b>	<b>\$ 7,616,888</b>	<b>\$ 68,371,003</b>

The notes are an integral part of these Consolidated Financial Statements.

# PEOPLE CORPORATION

Consolidated Statements of Cash Flows

For the years ended August 31, 2017 and August 31, 2016

	Note	Year ended August 31, 2017	Year ended August 31, 2016
<b>Operating activities</b>			
Net income (loss) for the year		\$ 3,478,759	\$ (174,794)
Adjustments for:			
Depreciation	6	936,333	776,024
Amortization of intangible assets	7	7,515,013	6,199,584
Share-based compensation	15(b)(c)(d)	788,422	593,897
Change in estimated fair value of non-controlling interest put option	11	3,617,211	3,586,413
Accretive interest expense	16	85,710	317,933
Deferred tax recovery	13	(2,669,752)	(1,317,055)
Net cash from operations		13,751,696	9,982,002
Change in the following:			
Trade and other receivables		350,117	261,806
Other current assets		(117,326)	(90,353)
Trade payables, accrued and other liabilities		(479,166)	3,597,075
Deferred revenue		(1,697,721)	114,661
Income taxes receivable		(851,687)	(273,581)
Net cash from (used by) working capital items		(2,795,783)	3,609,608
<b>Net cash from operating activities</b>		<b>10,955,913</b>	<b>13,591,610</b>
<b>Investing activities</b>			
Acquisition of subsidiary, net of cash acquired	4	(12,881,805)	(17,305,049)
Acquisition of property and equipment	6	(1,485,314)	(481,968)
Acquisition of intangible assets	7	(2,776,702)	(2,084,591)
<b>Net cash used in investing activities</b>		<b>(17,143,821)</b>	<b>(19,871,608)</b>
<b>Financing activities</b>			
Proceeds from exercise of stock options		159,926	186,367
Outflows relating to loan advances		(1,044,110)	-
Proceeds from loans and borrowings		14,500,000	18,159,955
Repayment of loans and borrowings		(20,680,526)	(3,269,984)
Proceeds from private placement of shares, net		18,946,403	-
Payment of dividends on non-controlling interest	11	(1,679,008)	(941,115)
Payment of put options on non-controlling interest	11	(450,904)	-
<b>Net cash from financing activities</b>		<b>9,751,781</b>	<b>14,135,223</b>
Net increase in cash		3,563,873	7,855,225
Cash at beginning of the year		14,369,959	6,514,734
<b>Cash at the end of the year</b>		<b>\$ 17,933,832</b>	<b>\$ 14,369,959</b>

The notes are an integral part of these Consolidated Financial Statements.

# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2017 and August 31, 2016

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## 1. Reporting entity:

People Corporation (the "Company") was incorporated under the Ontario Business Corporations Act on July 5, 2006. The Company is a public company listed on the TSX Venture Exchange (the "TSX-V"), trading under the "PEO" symbol and is domiciled in Canada. The address of the Company's head office is 360 Main Street, Suite 1800, Winnipeg, Manitoba, Canada and the Company's registered office is 180 Bay Street, Suite 4400, Toronto, Ontario, Canada. These consolidated financial statements of the Company comprise accounts of the Company and its subsidiaries. The Company is primarily involved in the delivery of employee group benefit consulting, third-party benefits administration services, pension consulting and human resources consulting to help companies recruit, retain and reward employees.

## 2. Basis of presentation:

These consolidated financial statements were approved by the Board of Directors and authorized for issue on November 30, 2017.

### (a) Statement of compliance

These 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

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

- financial instruments at fair value through profit or loss are measured at fair value
- share-based compensation awards are measured at fair value at grant date

### (c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiaries. All financial information presented has been rounded to the nearest dollar except where indicated otherwise.

### (d) Use of estimates and judgments

Preparation of these consolidated financial statements in conformity with IFRS requires management to make estimates, judgments, and assumptions that affect the application of policies and the reported amounts of assets, liabilities at the date of these financial statements and reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates. Areas of significant accounting estimates and judgments include determination of fair value of financial instruments, impairment of financial instruments, impairment of goodwill and intangible assets, business combinations, and deferred taxes. The Company also uses judgment when determining functional currencies, operating segments, contingencies, acquisition, integration and reorganization costs, non-current assets and the determination of fair value of share-based payments. Details on the estimates and judgments are further described in the relevant accounting policies in these Notes.

Provisions are recognized for present legal or constructive obligations as a result of a past event, if it is probable that they will result in an outflow of economic resources and the amount can be reliably estimated. The amounts recognized for these provisions are the best estimates of the expenditures required to settle the present obligations or to transfer them to a third party at the statement of financial position date, considering all the inherent risks and uncertainties, as well as the time value of money. These provisions are reviewed as relevant facts and circumstances change.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

## PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2017 and August 31, 2016

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### 3. Significant accounting policies:

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

#### (a) Basis of consolidation

##### (i) Business combinations

For acquisitions, the Company measures goodwill as the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in net income (loss).

The Company recognizes liabilities, if any, resulting from a contingent consideration arrangement at their acquisition date fair value and such amounts form part of the cost of the business combination. Subsequent changes in the fair value of contingent consideration arrangements are recognized in net income (loss) for the period.

Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments to goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in net income (loss).

Transaction costs, other than those 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

Subsidiaries are entities controlled by the Company or a subsidiary of the Company. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control commences until the date that control ceases.

##### (iii) Transactions eliminated on consolidation

Inter-company balances and transactions, and any realized or unrealized revenue and expenses arising from inter-company transactions, are eliminated in preparing these consolidated financial statements.

These consolidated financial statements include the accounts of the Company and its subsidiaries:



# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2017 and August 31, 2016

	Common Ownership %
People First HR Services Ltd.	100%
Les Assurances W.B. Inc.	100%
Hamilton + Partners Inc., including its subsidiaries: <i>Employee Benefits Inc. (100%), Disability Concepts Inc. (100%) and 6814407 Canada Corporation (100%)</i>	100%
Bencom Financial Services Group Inc.	100%
Coughlin & Associates Ltd., including its subsidiary: <i>Allaire, Durand et Associés Ltée. (100%)</i>	100%
BPA Financial Group Ltd., including its subsidiaries: <i>Benefit Plan Administrators Ltd. (100%), Benefit Plan Administrators (Atlantic) Ltd. (100%), Benefit Plan Administrators (Pacific) Ltd. (100%), BPA Consulting Group Ltd. (100%), BPA Insurance Agencies Ltd. (100%), BPA Internet Connections Ltd. (100%), TAL Insurance Brokers Ltd. (100%), 1739813 Ontario Ltd. (100%), and Alluvus Solutions Inc. (50%)</i>	100%
Sirius Benefit Plans Inc.	100%
Skipwith & Associates Insurance Agencies Inc.	100%

## (b) Financial instruments

### (i) Non-derivative financial assets

Financial assets classified as fair value through profit and loss are measured at fair value, with gains and losses recognized in net income (loss). Cash is classified as fair value through profit and loss.

The Company initially recognizes loans and receivables on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

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

### (ii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables, and other current and non-current assets.

### (iii) Non-derivative financial liabilities

Financial liabilities classified as fair value through profit and loss are measured at fair value, with gains and losses recognized in net income (loss). Non-controlling interest put option is classified as fair value through profit and loss.

# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2017 and August 31, 2016

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

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

The Company has the following non-derivative financial liabilities: loans and borrowings, trade payables, and accrued and other liabilities.

Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

## (c) Share capital

Common voting shares are classified as equity. Incremental costs directly attributable to the issue of common voting shares are recognized as a deduction from equity, net of any tax effects.

## (d) Cash & cash equivalents

Cash and cash equivalents may include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

## (e) Property and equipment

### (i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. The costs of the day-to-day servicing of property and equipment are recognized in the consolidated statements of comprehensive income (loss) in the period in which they are incurred.

### (ii) Depreciation

Depreciation is recognized in the consolidated statements of comprehensive income (loss) over the estimated useful lives of each part of an item of property and equipment in a manner which most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

Asset	Basis	Rate
Leasehold improvements	Straight-line	Shorter of useful life or term of the lease
Furniture and fixtures	Diminishing balance	20%
Computer equipment	Diminishing balance	30%
Automobiles	Diminishing balance	30%

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2017 and August 31, 2016

## (f) Goodwill and intangible assets

### (i) Goodwill

Goodwill represents the excess of the purchase price paid for the acquisition of subsidiaries over the fair value of the net tangible and intangible assets acquired. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses.

### (ii) Intangible assets

Intangible assets consist of internally-developed software, customer relationships, contracts, acquired software and acquired brands. Intangible assets acquired separately are measured on initial recognition at cost. The cost of identifiable intangible assets acquired in a business combination is equal to fair value as at the date of acquisition. Following initial recognition, identifiable intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Internally-developed software is recognized at the aggregate cost of all eligible development costs, when the following criteria are met: (i) technically feasible; (ii) management intention to complete development; (iii) the Company is able to use the software once implemented; (iv) future benefits associated with the software can be demonstrated; (v) adequate technical, financial, and other resources to complete development and to use the software are available; and (vi) 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.

Definite life intangible assets are amortized from the date of acquisition or, for internally developed assets, from the time the asset is available for use. Amortization is recognized in the consolidated statements of comprehensive income (loss) either on a declining balance or on a straight-line basis over the estimated useful life of the asset, and the residual values and useful lives of the assets are reviewed at each financial year-end and adjusted if appropriate. The estimated useful lives for the current and comparative periods are as follows:

Asset	Basis	Rate
Customer relationships	Straight-line	8 - 10 years
Customer contracts	Straight-line	term of the contract
Computer software	Straight-line	4 years
Computer software - internally developed	Straight-line	8 - 10 years

Intangible assets are considered to have indefinite lives where management believes that there is no foreseeable limit to the period over which the intangible assets are expected to generate net cash flows.

## (g) Impairment

### (i) Financial assets

Financial assets not carried at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence that they are impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

## PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2017 and August 31, 2016

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At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in net income (loss) and reflected in an allowance account against assets. Interest on the impaired asset continues to be recognized using the effective interest rate method. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed up to the amount of original cost through net income (loss).

### (ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets (that have indefinite useful lives or that are not yet available for use) the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash generating unit", or "CGU"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in net income (loss). Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro-rata basis.

An impairment loss in respect of goodwill is 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. An impairment loss is reversed 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, if no impairment loss had been recognized.

### (h) Trade payables, accrued and other liabilities

Trade payables include obligations to pay for goods or services that have been acquired in the ordinary course of business. Trade payables are classified as current liabilities if payment is due within one year or less and are recognized initially at fair value and subsequently measured at amortized cost.

Accrued liabilities include accruals for salaries and compensation, and other obligations incidental to the Company's normal business operations. They are classified as current when it is expected to be settled within one year of the reporting period date, and are recognized initially at fair value and subsequently measured at amortized cost.

### (i) Deferred revenue

Deferred revenue represents payments received in advance for services which have not yet been performed. Deferred revenues are recognized into income as services are rendered, in accordance with the revenue recognition policies described below.

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# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2017 and August 31, 2016

**(j) Insurance premium liabilities and related cash**

In its capacity as third party administrators, the Company collects premiums from clients and remits premiums and claim payments, net of agreed deductions, such as taxes, administrative fees and commissions, to insurance carriers. As the Company is acting in its capacity as third party administrators to collect and remit premiums to insurance underwriters and claim payments to individuals, the Company is considered to have a legal right to offset premiums collected and corresponding liabilities. As such, the cash and investment balances relating to these liabilities have been offset against the related liability in the Company's consolidated statements of financial position.

**(k) Employee benefits**

**(i) Short-term employee benefits**

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

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

**(ii) Share-based payment transactions**

Share-based payments are comprised of equity-settled Employee Share Purchase Plan ("ESPP"), equity-settled stock options, equity-settled performance-conditioned Restricted Stock Units and equity-settled Deferred Stock Units (collectively, "Equity-Settled Awards"). Equity-Settled Awards granted to employees and directors of the Company are measured at the fair value of the equity instruments at the grant date. The grant date fair value of Equity-Settled Awards are recognized as compensation expense, with a corresponding increase in equity, over the period that the awards vest. The amount recognized as an expense is adjusted to reflect the number of Equity-Settled Awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of Equity-Settled Awards that do meet the related service and non-market performance conditions at the vesting date. For Equity-Settled Awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no reconciliation for differences between expected and actual outcomes.

The Company's contributions under its ESPP are expensed as incurred.

Equity-Settled Awards to non-employees are measured at the fair value of the goods and services received unless that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instrument granted and measured at the date the Company obtains the good or the counterparty renders the service.

**(l) Revenue recognition**

Revenue includes fees and commissions generated from administrative, advisory and consulting services provided to clients.

Generally, revenue from the rendering of services is recognized when the following criteria are met:

- The amount of revenue can be reliably measured;
- The stage of completion of services can be reliably measured;
- The receipt of economic benefits is probable; and
- Costs incurred and to be incurred can be reliably measured.

Concurrently with the above general principles, the Company applies the following specific revenue recognition policies:

## PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2017 and August 31, 2016

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Group benefit commission revenue from clients where advisory services and plan administration services are provided by the Company is generally received in advance and recorded as deferred revenue. Commission advances are recognized in income on a monthly basis based on the number of months for which the commission revenue was advanced, net of a provision for return commissions due to policy cancellation and adjustments. The provision is determined based on historical data.

Group benefit commission revenue from clients where the Company provides only advisory services is recognized in income at the effective or renewal date of the policy, net of a provision for return commissions due to policy cancellation and adjustments. The provision is determined based on historical data.

Fee revenue from administrative and consulting services is recognized as services are provided.

For fee revenue that is contingent on certain criteria being met, the revenue is not recognized until criteria has been met.

All other revenues are recognized as services are rendered by the Company. Other revenue includes investment income recorded on the accrual basis of accounting.

### **(m) Finance income and finance costs**

Finance income comprises interest income on funds invested which is recognized as it accrues in net income (loss), using the effective interest method. Finance costs comprise interest expense on borrowings which are recognized in net income (loss) using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

### **(n) Income tax**

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

Current tax is 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 tax is 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 tax is 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 tax is 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, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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 utilised. 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.

### **(o) Earnings per share**

Basic earnings per share is calculated by dividing net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the period.

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# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2017 and August 31, 2016

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Diluted earnings per share is calculated by dividing net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise stock options, tandem stock appreciation rights, restricted stock units and deferred stock units.

**(p) New standards and interpretations adopted**

The Company has adopted the following new and revised Standards and Interpretations issued by IASB:

**IFRS 2, Share-based Payment ("IFRS 2")**

The IASB amended IFRS 2 on June 20, 2016 effective for annual periods beginning on or after January 1, 2018. The amendment allows for a share-based payment transaction with employees to be accounted for as equity-settled when the transaction is settled on a net basis in order to meet statutory withholding requirements and the transaction would otherwise be classified as equity-settled if there were no net settlement feature. The Company adopted the amendments to IFRS 2 on September 1, 2016 on a retrospective basis. The early adoption of this amendment did not have an impact on the recognized amounts or measurements in the consolidated financial statements.

**(q) New standards and interpretations not yet adopted**

The Company has not early adopted the following new and revised Standards and Interpretations that have been issued by IASB but are not yet effective:

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

The IASB issued IFRS 9 as a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple rules in IAS 39. The approach in IFRS 9 focuses on how an entity manages its financial instruments in the context of its business model, as well as the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods currently provided in IAS 39. The effective date is for annual periods beginning on or after January 1, 2018.

The Company is currently evaluating the impact of adopting IFRS 9 on its consolidated financial statements and the extent of the impact of adoption of the standard has not yet been determined.

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

The IASB issued IFRS 15 to establish principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. IFRS 15 also includes a cohesive set of disclosure requirements that would result in an entity providing comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. This standard is effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted.

The Company is currently evaluating the impact of adopting IFRS 15 on its consolidated financial statements and the extent of the impact of adoption of the standard has not yet been determined.

**IFRS 16, Leases ("IFRS 16")**

The IASB issued IFRS 16 which set out principles for the recognition, measurement, presentation and disclosure of leases. The objective of IFRS 16 is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. The standard is effective for annual periods beginning on or after January 1, 2019.

# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2017 and August 31, 2016

The Company is currently in the process of implementing a transition plan and evaluating the impact of adopting IFRS 16 on its financial statements, but expects this standard will have a significant impact on its consolidated statement of financial position, along with a change to the recognition, measurement and presentation of lease expenses in the consolidated statement of earnings.

## 4. Business acquisitions:

During the period the company acquired the following businesses:

Effective April 12, 2017, the Company acquired all of the issued and outstanding shares of Sirius Benefit Plans Inc. ("Sirius"), a national industry leading Third Party Administrator (TPA) and Third Party Payer (TPP) administering employee benefit programs for small to medium-sized companies across Canada.

Effective May 1, 2017, the Company acquired all of the issued and outstanding shares of Skipwith & Associates Insurance Agency Inc. ("Skipwith"), an established TPA and TPP providing group benefit consulting, administrative solutions and claims management services to corporations, unions and public service organizations in the Ontario region.

These acquisitions enable the Company to continue execution of its growth strategy and expansion of its national presence.

The Company accounted for these transactions as a business combination and has applied the acquisition method of accounting in accordance with IFRS 3. The recognized amounts of assets acquired and liabilities assumed in the transactions and the acquisition date fair value of the total consideration paid or payable are as follows:

	Sirius	Skipwith	Total
<b>Assets acquired and liabilities assumed</b>			
Goodwill	\$ 8,747,958	\$ 251,635	\$ 8,999,593
Customer relationships and other intangible assets	8,357,453	1,878,421	10,235,874
Property and equipment	155,809	7,477	163,286
Deferred tax assets	93,664	-	93,664
Above-market lease agreement	(353,448)	-	(353,448)
Net working capital	(1,887,271)	116,021	(1,771,250)
Deferred tax liabilities	(2,202,808)	(490,884)	(2,693,692)
	12,911,357	1,762,670	14,674,027
<b>Consideration paid or payable</b>			
Cash payment on closing	13,500,000	1,000,000	14,500,000
Working capital adjustment due from vendors	(2,037,271)	46,424	(1,990,847)
Vendor take-back notes payable	1,448,628	716,246	2,164,874
	\$ 12,911,357	\$ 1,762,670	\$ 14,674,027

Total consideration paid was subject to final adjustments for working capital which were settled subsequent to the end of the year. Net working capital includes \$1,618,195 of operating cash acquired. Vendor take-back notes payable are subject to clawback adjustments tied to achievement of certain financial metrics.

A significant part of the goodwill recorded on the acquisitions can be attributed to the assembled workforce and the operating know-how of key personnel. However, no intangible assets qualified for separate recognition in this respect.

The Company's consolidated statements of comprehensive income (loss) include the results of operations for Sirius and Skipwith from its date of acquisition to August 31, 2017.



# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2017 and August 31, 2016

	August 31, 2017	
	As reported	Pro forma of the Company
<b>Operating revenues</b>		
Sirius	3,019,933	6,059,709
Skipwith	230,533	543,753
<b>Net income and comprehensive income</b>		
Sirius	622,896	889,420
Skipwith	68,131	225,023

Pro forma balances represent management's estimates of consolidated revenue and consolidated net income as if the acquisitions had been completed on September 1, 2016. For the purposes of these pro forma balances, comprehensive income is equal to net income. Acquisition-related costs amounting to \$1,215,918 (2016 - \$2,002,630) are not included as part of the consideration transferred and have been recognized as acquisition, integration and reorganization costs in the consolidated statements of comprehensive income (loss).

## BPA Financial Group Limited

Effective April 13, 2016, the Company acquired BPA Financial Group Ltd. ("BPA"), an independent full service national firm providing group benefit and pension administration consulting and claims management services to corporations and multi-employer trust organizations in Canada. The Company holds a 100% voting interest and will hold a 67% economic interest in BPA through ownership of all of the issued dividend-bearing common shares of BPA ("Company Shares").

The principals of BPA collectively hold non-voting, non-cumulative, dividend-bearing shares of BPA ("BPA Principal Shares") and options to acquire BPA Principal Shares at a nominal price over a period of approximately four and one-half years from April 13, 2016. ("BPA Share Options"), which upon exercise of the options will result in the BPA Principals holding an aggregate 33% economic interest in BPA ("BPA Retained Economic Interest"). Commencing November 29, 2016, the issued Company Shares and BPA Principal Shares have an ongoing contractual right to receive quarterly dividends based on a calculation derived from BPA's earnings. The Company is entitled to a priority on the payment of dividends declared on the BPA dividend-bearing shares to the extent of a specified earnings amount.

In addition, the Company has a future right to purchase the BPA Principal Shares ("BPA Call Options") and individual BPA Principals have a future right to require the Company to purchase the BPA Principal Shares (collectively, the "BPA Put Options"), subject to the satisfaction of certain terms and conditions and by giving notice to the Company. On the effective date of exercise of the BPA Call Options or the BPA Put Options, the BPA Principal's pro-rata right to earn dividends will be terminated.

The Company accounted for this transaction as a business combination and has applied the acquisition method of accounting in accordance with IFRS 3. The recognized amounts of assets acquired and liabilities assumed in the transaction and the acquisition date fair value of the total consideration paid or payable are as follows:

<b>Assets acquired and liabilities assumed</b>	
Net working capital	\$ 1,654,624
Property and equipment	869,166
Customer relationships and other intangible assets	12,431,347
Goodwill (including assembled workforce)	14,665,972
Deferred tax liabilities	(3,406,189)
	<b>\$ 26,214,920</b>

# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2017 and August 31, 2016

## Consideration paid or payable

Cash payment on closing		\$	18,159,955
Working capital adjustment due to vendors			777,523
Non-controlling interest ("BPA Retained Economic Interest")	(Note 11)		7,277,442
		\$	26,214,920

Total consideration paid was subject to final adjustments for working capital.

The BPA Retained Economic Interest represented by the BPA Principal Shares and BPA Share Options is classified as a liability due to its terms, including the discounted value of estimated future dividend payments and put and call features. The fair value of these shares and options was determined using a discounted cash flow approach, and based on the terms of the BPA Principal Shares. The key assumptions in valuing the interest associated with the Principal Shares and BPA Share Options include: estimated gross projected cash flows based on historical results and applying a growth factor; the dates at which the put options will be exercised by the holder; the likelihood of certain contingent milestones being reached; and, a discount rate of 16.0%. In accordance with IFRS 2, the BPA Share Options are deemed to have vested immediately. Individual Principals are restricted from exercising their respective BPA Put Options until dates on or after September 2018, subject to certain terms and conditions including restrictions requiring minimum time period between individual exercise dates.

Changes in fair value, arising from changes in assumptions and accretion of interest, of these estimated liabilities for consideration paid will be recorded in finance costs in the consolidated statements of comprehensive income in future periods.

The Company's consolidated statements of comprehensive income include the result of the operations of BPA from its date of acquisition to August 31, 2017 and 2016.

## 5. Trade and other receivables:

The Company had the following trade and other receivables:

		August 31, 2017	August 31, 2016
Trade receivables		\$ 9,242,957	\$ 9,421,731
Working capital adjustment due from vendors	4	1,990,847	-
		\$ 11,233,804	\$ 9,421,731

The Company's exposure to credit and currency risks, and impairment losses related to trade and other receivables is disclosed in note 20.

# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2017 and August 31, 2016

## 6. Property and equipment:

The Company had the following property and equipment:

	Leasehold improvements	Furniture & fixtures	Computer equipment	Automobiles	Total
<b>Cost</b>					
Balance, August 31, 2015	\$ 1,424,698	\$ 2,201,137	\$ 2,432,973	\$ 35,000	\$ 6,093,808
Additions	283,892	50,680	147,396	-	481,968
Acquisition through business combination	250,830	198,493	131,718	84,181	665,222
Balance, August 31, 2016	1,959,420	2,450,310	2,712,087	119,181	7,240,998
Additions	1,054,946	86,309	344,059	-	1,485,314
Write down and disposal of assets	-	(2,668)	-	-	(2,668)
Acquisition through business combination	-	69,138	94,148	-	163,286
Balance, August 31, 2017	\$ 3,014,366	\$ 2,603,089	\$ 3,150,294	\$ 119,181	\$ 8,886,930
<b>Depreciation</b>					
Balance, August 31, 2015	\$ (842,169)	\$ (1,680,660)	\$ (1,969,819)	\$ (18,340)	\$ (4,510,988)
Depreciation for the year	(298,647)	(166,045)	(296,005)	(15,327)	(776,024)
Balance, August 31, 2016	(1,140,816)	(1,846,705)	(2,265,824)	(33,667)	(5,287,012)
Depreciation for the year	(398,234)	(176,958)	(335,487)	(25,654)	(936,333)
Write down and disposal of assets	-	2,663	-	-	2,663
Balance, August 31, 2017	\$ (1,539,050)	\$ (2,021,000)	\$ (2,601,311)	\$ (59,321)	\$ (6,220,682)
<b>Carrying amounts</b>					
Balance, August 31, 2016	\$ 818,604	\$ 603,605	\$ 446,263	\$ 85,514	\$ 1,953,986
Balance, August 31, 2017	\$ 1,475,316	\$ 582,089	\$ 548,983	\$ 59,860	\$ 2,666,248

# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2017 and August 31, 2016

## 7. Goodwill and intangible assets:

The Company had the following goodwill and intangible assets:

	Goodwill	Customer relationships	Customer contracts	Computer software	Total
<b>Cost</b>					
Balance, August 31, 2015	\$ 56,068,618	\$ 47,771,813	\$ 3,506,110	\$ 2,499,127	<b>\$109,845,668</b>
Additions	-	790,562	331,884	962,145	<b>2,084,591</b>
Acquisition through business combination	14,665,972	12,431,347	-	203,944	<b>27,301,263</b>
Balance, August 31, 2016	70,734,590	60,993,722	3,837,994	3,665,216	<b>139,231,522</b>
Additions	-	1,090,049	42,006	1,817,147	<b>2,949,202</b>
Acquisition through business combination	8,999,592	10,164,876	-	70,998	<b>19,235,466</b>
Balance, August 31, 2017	\$ 79,734,182	\$ 72,248,647	\$ 3,880,000	\$ 5,553,361	<b>\$161,416,190</b>
<b>Amortization</b>					
Balance, August 31, 2015	\$ -	\$ (8,399,740)	\$ (2,491,369)	\$ (1,866,867)	<b>\$ (12,757,976)</b>
Amortization for the year	-	(5,317,905)	(329,905)	(551,774)	<b>(6,199,584)</b>
Balance, August 31, 2016	-	(13,717,645)	(2,821,274)	(2,418,641)	<b>(18,957,560)</b>
Amortization for the year	-	(6,248,644)	(474,355)	(792,014)	<b>(7,515,013)</b>
Balance, August 31, 2017	\$ -	\$ (19,966,289)	\$ (3,295,629)	\$ (3,210,655)	<b>\$ (26,472,573)</b>
<b>Carrying amounts</b>					
Balance, August 31, 2016	\$ 70,734,590	\$ 47,276,077	\$ 1,016,720	\$ 1,246,575	<b>\$120,273,962</b>
Balance, August 31, 2017	\$ 79,734,182	\$ 52,282,358	\$ 584,371	\$ 2,342,706	<b>\$134,943,617</b>

Included in computer software additions is \$1,683,276 (2016 - \$1,107,038) of internally developed assets.

The Company completed its annual impairment tests for goodwill and concluded that there was no impairment. For impairment test purposes, the carrying value of goodwill has been allocated as follows:

	August 31, 2017	August 31, 2016
Coughlin & Associates Ltd.	\$ 25,930,637	\$ 25,930,637
BPA Financial Group Ltd. (Note 4)	14,665,972	14,665,972
Hamilton & Partners Ltd.	11,600,184	11,600,184
Sirius Benefit Plans Inc. (Note 4)	8,747,958	-
Bencom Financial Services Group Inc.	3,913,752	3,913,752
Other	14,875,679	14,624,045
	<b>\$ 79,734,182</b>	<b>\$ 70,734,590</b>

# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2017 and August 31, 2016

The key assumptions used to calculate the value in use are those regarding discount rates, growth rates and expected changes in margins. The values of these assumptions reflect past experience.

The after tax weighted average cost of capital was determined to be 16.0% (August 31, 2016 - 15.0% to 16.0%) and is based on a risk-free rate, an equity risk premium adjusted for betas of comparable publicly traded companies, an unsystematic risk premium, an after-tax cost of debt based on the Company's financing arrangements and the capital structure of comparable publicly traded companies.

Cash flow projections have been discounted using rates of return derived from the Company's after-tax weighted average cost of capital considering specific risks relating to each CGU. At August 31, 2017, the after-tax discount rate used in the recoverable amount calculations was 16.0% (August 31, 2016 - 15.0% to 16.0%). The pre-tax discount rate was 21.0% (August 31, 2016 - 19.0% to 21.0%).

The Company included five years of cash flows in its discounted cash flow model. The cash flow forecasts were extrapolated beyond the five year period using estimated long term growth rate of 2.0% (August 31, 2016 - 2.0%).

## 8. Loans receivable:

The Company had the following loans receivable:

	August 31, 2017	August 31, 2016
Loans receivable	\$ 1,044,110	\$ -
Less current portion of loans receivable	(89,136)	-
Total non-current accrued and other liabilities	\$ 954,974	\$ -

During the year, the Company made an interest-bearing loan to facilitate the transfer of certain economic interest through the ongoing right to earn performance-based commissions and fees and ownership of non-voting, non-dividend earning special shares in a subsidiary.

Subsequent to the end of the year, the Company entered into an agreement with an employee in which it provided a \$1,000,000 interest-bearing loan forgivable over ten years subject to certain conditions. In addition, the agreement provides for future additional advances subject to certain conditions.

## 9. Trade payables, accrued and other liabilities:

The Company had the following trade payables, accrued and other liabilities:

	August 31, 2017	August 31, 2016
Trade payables and other liabilities	\$ 14,868,653	\$ 10,852,669
Provision for onerous contracts	896,300	564,667
Contingent acquisition consideration	-	1,308,793
Post-retirement benefits and other liabilities	354,377	481,641
	16,119,330	13,207,770
Less current portion of trade payables, accrued and other liabilities	14,919,459	10,905,251
Total non-current accrued and other liabilities	\$ 1,199,871	\$ 2,302,519

# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2017 and August 31, 2016

Amounts previously recorded as contingent acquisition consideration related to the acquisition of Hamilton + Partners group of companies ("H+P") on July 9, 2013, were paid on November 29, 2016 for the fair value consideration of \$1,308,793. For the year ended August 31, 2017 the Company recognized an adjustment to the fair value of the contingent consideration of nil (2016 - \$125,474).

## 10. Insurance premium liabilities and related cash:

In its capacity as third-party benefits administrator, the Company collects premiums from insurers and remits premiums, net of agreed deductions, such as taxes, administrative fees and commissions, to insurance underwriters. These are considered flow-through items for the Company and, as such, the cash and investment balances relating to these liabilities are deducted from the related liability in the consolidated balance sheets. The Company has the following amounts held in accounts segregated from the Company's operating funds for insurance premium liabilities.

	August 31, 2017	August 31, 2016
Payable to carriers and insured individuals or groups	\$ 62,010,813	\$ 46,034,450
Less related cash balances	62,010,813	46,034,450
	\$ -	\$ -

## 11. Non-controlling interest put options:

The Company is subject to the following non-controlling interest put options:

	Note	August 31, 2017	August 31, 2016
Balance, beginning of year		\$ 32,571,809	\$ 22,649,069
Acquisition through business combination	4	-	7,277,442
Change in estimated fair value	16	3,617,211	3,586,413
Less payment of dividends on non-controlling interest		(1,679,008)	(941,115)
Less non-controlling interest put options exercised		(450,904)	-
Balance, end of year		\$ 34,059,108	\$ 32,571,809

Changes in estimated fair value represents accretion of interest and changes in assumptions used to estimate the liability related to future dividend payments and put features.

### (i) BPA

In connection with the BPA acquisition, the Company entered into various agreements whereby the BPA Principals, through a class of non-voting, non-cumulative, dividend-bearing shares of BPA ("BPA Principal Shares") and options to acquire BPA Principal Shares at a nominal price over a period of approximately four and one-half years from April 13, 2016 ("BPA Share Options"), can collectively hold an aggregate 33% economic interest in BPA ("BPA Retained Economic Interest"). Commencing November 29, 2016, the issued Company Shares and BPA Principal Shares have an ongoing contractual right to receive quarterly dividends based on a calculation derived from BPA's earnings. The Company is entitled to a priority on the payment of dividends declared on the BPA dividend-bearing shares to the extent of a specified earnings amount.

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Notes to the Consolidated Financial Statements

For the years ended August 31, 2017 and August 31, 2016

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All classes of non-voting, non-cumulative, dividend-bearing shares of BPA have an ongoing contractual right to receive dividends based on a calculation derived from BPA's earnings. The Company is entitled to a priority on the payment of dividends declared on the Company Shares to the extent of a specified earnings amount. BPA dividend entitlements are paid in arrears on a quarterly basis.

In addition, the Company has a future right to purchase the BPA Principal Shares ("BPA Call Options") and individual BPA Principals have a future right to require the Company to purchase the BPA Principal Shares (collectively, the "BPA Put Options"), subject to the satisfaction of certain terms and conditions and by giving notice to the Company. On the effective date of exercise of the BPA Call Options or the BPA Put Options, the BPA Principal's pro-rata right to earn dividends will be terminated.

The liability recognized in connection with the BPA Retained Economic Interest, which includes the fair value of future dividend entitlements of the BPA Principal Shares and the BPA Put Options, has been determined based on a pre-determined formula defined in an agreement which is based on a multiple of estimated future earnings of BPA, the estimated future exercise dates of BPA Put Options and other factors. Individual BPA Principals are restricted from exercising their respective BPA Put Options until dates on or after August 31, 2019, subject to certain terms and conditions including restrictions requiring a minimum time period between individual exercise dates.

### (ii) Coughlin

In connection with the Coughlin acquisition, the Company entered into various agreements whereby the former Coughlin shareholders (the "Coughlin Vendors") retained an initial 34% minority economic interest ("Coughlin Retained Economic Interest") through a class of non-voting, non-cumulative, dividend-bearing shares of Coughlin ("Coughlin Vendor Shares"). In addition, certain of the Coughlin Vendors were issued a class of non-voting, non-cumulative, dividend-bearing shares of Coughlin ("Coughlin Spring Shares") in which the aggregate Coughlin Retained Economic Interest can increase to 40% in five years, subject to certain specified terms and conditions having been met and subject to Coughlin achieving certain financial performance targets over the next five years, and thereby reducing the Company's economic interest in Coughlin to 60%.

All classes of non-voting, non-cumulative, dividend-bearing shares of Coughlin have an ongoing contractual right to receive dividends based on a calculation derived from Coughlin's earnings. The Company is entitled to a priority on the payment of dividends declared on a distinct class of Coughlin dividend-bearing shares to the extent of a specified earnings amount. Coughlin dividend entitlements are paid in arrears on a quarterly basis.

In addition, the Company has the right to purchase the Coughlin Vendor Shares and the Coughlin Spring Shares ("Coughlin Call Options") and individual Coughlin Vendors have the right to require the Company to purchase the Coughlin Vendor Shares and the Coughlin Spring Shares (the "Coughlin Put Options") by giving notice to the Company. On the effective date of exercise of the Coughlin Call Options or the Coughlin Put Options, the Coughlin Vendor's right to earn earnings-based dividends will be terminated.

The liability recognized in connection with the Coughlin Retained Economic Interest, which includes the fair value of future dividend entitlements of the Coughlin Vendor Shares and Coughlin Spring Shares and the Coughlin Put Options, has been determined based on a pre-determined formula defined in an agreement which is based on a multiple of estimated future earnings of Coughlin, the estimated future exercise dates of Coughlin Put Options and other factors. Individual Coughlin Vendors are restricted from exercising their respective Coughlin Put Options until dates on or after August 31, 2018, subject to certain terms and conditions including restrictions requiring a minimum time period between individual exercise dates.

On September 1, 2016, 1,000 Class Y Shares were exercised under the terms of the Coughlin Put Options with a total value of \$450,904. As at November 30, 2016, the Company's economic interest in Coughlin was 67.0%



# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2017 and August 31, 2016

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## (iii) H+P

In connection with the acquisition of H+P, the Company entered into various agreements whereby the H+P vendors hold an economic interest in H+P through the ongoing right to earn performance-based commissions and fees. In addition, the H+P vendors hold ongoing ownership through non-voting, non-dividend earning special shares ("H+P Special Shares"). The Company has the right to purchase the H+P Special Shares ("H+P Call Option") and the vendors have the right to require the Company to purchase the H+P Special Shares ("H+P Put Option") at certain dates in the future, subject to certain vesting and other conditions. On the effective date of exercise of the H+P Call Option or the H+P Put Option, the H+P vendor's right to earn performance-based commissions and fees will be terminated.

The liability recognized in connection with the H+P Put Option has been determined based on a pre-determined formula defined in an agreement which is based on a multiple of estimated future earnings of H+P, the estimated future exercise dates and other factors. The H+P Put Option was restricted until July 2016, which was three years from the effective date of the agreement, and is exercisable at any time by the non-controlling shareholder(s), subject to certain terms and conditions.

## (iv) Bencom

In connection with the acquisition of Bencom Financial Service Group Inc. ("Bencom"), the Company entered into various agreements whereby the vendors hold an economic interest in Bencom through the ongoing right to earn performance-based commissions and fees. In addition, the vendors hold ongoing ownership through non-voting, non-dividend earning special shares ("Bencom Special Shares"). The Company has the right to purchase the Bencom Special Shares ("Bencom Call Option") and the vendors have the right to require the Company to purchase the Bencom Special Shares ("Bencom Put Option") at certain dates in the future, subject to certain vesting and other conditions. On the effective date of exercise of the Bencom Call Option or the Bencom Put Option, the Bencom vendor's right to earn performance-based commissions and fees will be terminated.

The liability recognized in connection with the Bencom Put Option has been determined based on a pre-determined formula defined in an agreement which is based on a multiple of estimated future earnings of Bencom, the estimated future exercise dates and other factors. The Bencom Put Option was restricted until December 2015, which was three years from the effective date of the agreement, and is exercisable at any time by the non-controlling shareholder(s), subject to certain terms and conditions.

The fair value of the liability associated with the non-controlling put options is determined by discounting the estimated future payment obligation at each reporting date, and changes in fair value of the estimated liability in future periods will be recorded in finance costs in subsequent consolidated statements of comprehensive income. As no non-controlling put options were exercised and unsettled as at August 31, 2017, the Company had no specific contractual cash flows payable.

Significant unobservable inputs assumptions include: (i) put option exercises over periods ranging from 6 to 60 months; (ii) Contractually-defined *EBITDA* of BPA, Coughlin, H+P and Bencom before considering the retained economic interest attributable the respective vendors generated ("Put EBITDA") as at August 31, 2017 equal to \$20.8 million; (iii) growth rates applied to Put EBITDA ranging from 1.2% to 11.9% annually based on historical results; and (iv) discount rate of 16%. An increase in the Put EBITDA would result in an increase to the liability associated with the non-controlling put options. A 1% change in the discount rate would decrease or increase the liability associated with the non-controlling put options by \$0.9 million.



# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2017 and August 31, 2016

## 12. Loans and borrowings:

The Company had the following loans and borrowings, which are measured at amortized cost:

	August 31, 2017	August 31, 2016
<b>Term loans</b>		
(a) A bank loan bearing interest of bankers' acceptance rates plus an amount equal to 1.75% to 3.50% per annum subject to certain terms, secured by the assets of the Company, repayable in quarterly installments equal to 2.00% to 3.00% of the opening principal balance throughout the term of the agreement. The loan matures October 31, 2019 unless extended pursuant to the agreement.	\$ 18,882,750	\$ 21,104,250
(b) A bank loan bearing interest of bankers' acceptance rates plus an amount equal to 1.75% to 3.50% per annum subject to certain terms, secured by the assets of the Company, to the extent not previously paid, the principal shall be due and payable on the maturity date. The loan matures October 31, 2019 unless extended pursuant to the agreement.	14,500,000	17,984,955
<b>Total term loans</b>	<b>33,382,750</b>	<b>39,089,205</b>
<b>Vendor take-back loans</b>		
(c) A vendor take-back loan bearing no interest per annum, unsecured, payable in three annual installments of \$100,000. The amortized cost of the loan has been discounted using a rate equal to 5.80%. The loan matures on October 29, 2017.	99,040	198,094
(d) A vendor take-back loan bearing no interest per annum, unsecured, payable in monthly installments of \$5,224. The amortized cost of the loan has been discounted using a rate of 6.43%. The loan matured on August 31, 2017.	-	60,494
(e) A vendor take-back loan bearing no interest per annum, unsecured, payable in five payments: \$150,000 in the first year and \$300,000 annually thereafter. The amortized cost of the loan has been discounted using a rate of 4.40%. The loan matures on June 12, 2020.	834,762	1,090,098
(f) A vendor take-back loan bearing no interest per annum, unsecured, payable in two annual installments of \$750,000. The amortized cost of the loan has been discounted using a rate of 2.56%. The loan matures on April 12, 2019.	1,459,912	-

# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2017 and August 31, 2016

(g) A vendor take-back loan bearing no interest per annum, unsecured, payable in two payments: \$325,000 in the first year and \$425,180 in the second year. The amortized cost of the loan has been discounted using a rate of 2.56%. The loan matures on July 31, 2019.	722,366	-
<b>Total vendor take-back loans</b>	3,116,080	1,348,686
<b>Finance lease liabilities</b>		
(h) A finance lease repayable in monthly installments of \$1,082 and secured by the assets to which the obligation relates. The lease expires December 13, 2019 and includes an implicit interest rate equal to 4.71%.	27,895	39,276
<b>Total finance lease liabilities</b>	27,895	39,276
	36,526,725	40,477,167
Less current portion of:		
Term loans	2,221,500	2,221,500
Vendor take-back loans	1,394,089	410,834
Finance lease liabilities	11,929	10,291
	3,627,518	2,642,625
	<b>\$ 32,899,207</b>	<b>\$ 37,834,542</b>

The Company is a party to an agreement with a syndicate of Canadian banks, which included the following components:

1. \$5,000,000 revolving credit facility to fund operating cash flow needs. As at August 31, 2017, the Company had not utilized this facility (August 31, 2016 - nil).
2. \$22,215,000 term credit facility installment loan which was used to refinance the acquisition facility balance outstanding under the previous agreement and fund acquisitions. As at August 31, 2017, the balance owing on this facility was equal to \$18,882,750 (August 31, 2016 - \$21,104,250).
3. \$34,000,000 term acquisition credit facility to fund future acquisitions. As at August 31, 2017, \$14,500,000 (August 31, 2016 - \$17,984,955) was drawn down on the credit facility in connection with the acquisitions of Sirius and Skipwith.

The agreement provides for an option (the "Accordion Feature"), subject to the satisfaction of certain terms and conditions, to increase the term acquisition credit facility by an additional \$15,000,000 of capacity. The exercise of the option would result in the size of the term acquisition credit facility being increased to a maximum of \$49,000,000 and overall credit capacity being increased to a maximum of \$76,215,000. See Note 26(c).

The facility is secured by a general security agreement over the assets of the Company and its subsidiaries and is subject to covenants (Note 21).

# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2017 and August 31, 2016

## 13. Income Taxes:

Income taxes recognized in net income (loss) comprise the following:

	August 31, 2017	August 31, 2016
Income before income taxes	\$ 6,273,407	\$ 1,737,866
Statutory tax rate	26.81 %	26.80 %
Income tax provision at statutory tax rates	1,681,900	465,748
Adjustments to income taxes		
Non-deductible items	1,405,030	1,265,781
Prior period deferred tax recovery	(170,515)	-
Prior period current tax recovery, net	(143,765)	-
Change in tax rates and other	21,998	(50,950)
Change in estimate	-	232,081
	2,794,648	1,912,660
Current taxes	5,464,400	3,229,715
Deferred taxes	(2,669,752)	(1,317,055)
	\$ 2,794,648	\$ 1,912,660

The 2017 statutory tax rate differs from the 2016 statutory tax rate resulting from a change in the provincial allocation of gross revenue and wages.

# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2017 and August 31, 2016

Significant components of deferred tax assets and liabilities are as follows:

	August 31, 2017	August 31, 2016
Deferred tax assets		
Property and equipment	\$ -	\$ 21,146
Deferred financing costs	1,779	7,165
Lease inducements	-	869
Equity issue and financing costs	390,883	191,695
Non-capital losses carried forward	1,938,555	27,425
Cumulative eligible capital	560,393	399,072
Other	526,220	581,468
	<b>\$ 3,417,830</b>	<b>\$ 1,228,840</b>
Deferred tax liabilities		
Intangible assets	14,296,435	12,895,873
Net deferred tax liabilities	<b>\$ (10,878,605)</b>	<b>\$ (11,667,033)</b>

Movement in net deferred tax liabilities:

	August 31, 2017	August 31, 2016
Balance, August 31, 2016	\$ (11,667,033)	\$ (10,065,194)
Recognized in the statement of income and comprehensive income	2,669,752	1,317,055
Recognized in business acquisitions	(2,693,692)	(3,406,189)
Other	812,368	487,295
Balance, August 31, 2017	<b>\$ (10,878,605)</b>	<b>\$ (11,667,033)</b>

# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2017 and August 31, 2016

## 14. Share capital:

### (a) Authorized

The Company has authorized share capital of an unlimited number of common voting shares with no par value.

### (b) Shares issued and outstanding

Shares issued and outstanding are as follows:

	Number of Common voting shares	Amount
Balance, August 31, 2015	44,958,383	\$ 39,029,883
Exercise of stock options	266,667	303,842
Balance, August 31, 2016	45,225,050	39,333,725
Private placement of shares	5,439,500	19,259,036
Exercise of stock options	336,590	268,495
Balance, August 31, 2017	51,001,140	\$ 58,861,256

On October 6, 2016, the Company closed a private placement offering of 5,439,500 shares at a price of \$3.70 per share, for gross proceeds of \$20,126,150. The offering resulted in net proceeds of \$18,946,403 after share issuance and commission costs. In addition, the Company recorded a deferred tax asset of \$312,633 relating to share issuance and commission costs. See Note 26(b).

### (c) Earnings per share

Basic earnings per share is calculated by dividing net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the period.

Diluted earnings per share is calculated by dividing net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding, adjusted for the potentially dilutive effect of the total number of additional common shares related to grants outstanding at August 31, 2017 that would have been issued by the Company under its stock option plans.

The following details the earnings per share, basic and diluted, calculations for the years ended August 31, 2017 and August 31, 2016:

	August 31, 2017	August 31, 2016
Net income (loss) attributable to common shares (basic and diluted)	\$ 3,478,759	\$ (174,794)
Weighted average number of common shares (basic)	50,321,853	45,093,051
Add: Dilutive effect of stock options	715,271	-
Add: Dilutive effect of deferred stock units	39,789	-
Add: Dilutive effect of restricted stock units	296,508	-
Weighted average number of common shares (diluted)	51,373,421	45,093,051
Net income (loss) per share (basic)	\$ 0.069	\$ (0.004)
Net income (loss) per share (diluted)	\$ 0.068	\$ (0.004)

# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2017 and August 31, 2016

The average market value of the Company's shares for the purposes of calculating the dilutive effect of stock options was based on quoted market prices for the period during which the options were outstanding.

## 15. Share-based payments:

The Company's Security Based Compensation Plan allows for the issuance of stock options, tandem stock appreciation rights, restricted stock units and deferred stock units.

Under the Security Based Compensation Plan, awards may be granted to any director, officer, employee or consultant of the Company or of any of its affiliates by the Company's Board of Directors. Subject to the adjustment provisions provided for in the Security Based Compensation Plan and the applicable rules and regulations of all regulatory authorities to which the Company is subject (including the TSX Venture Exchange), the aggregate number of common shares reserved for issuance pursuant to the Security Based Compensation Plan cannot exceed 5,986,222, which number takes into account the common shares that are available for issuance under the Company's Security Based Compensation Plan.

### (a) Employee share purchase plan

The Company has an ESPP whereby both employee and Company contributions are used to purchase shares on the open market for employees. The Company's contributions are expensed as incurred as there is no vesting period. Under the plan, the Company matches \$1 for every \$4 contributed by employee contributions of between 2% and 5% of annual base remuneration.

At August 31, 2017, there were 274 participants (August 31, 2016 – 207) in the plan. The total number of shares purchased during the year ended August 31, 2017 on behalf of participants, including the Company contribution, was 245,720 shares (August 31, 2016 – 321,528 shares). During the year ended August 31, 2017, the Company's matching contributions totaled 49,144 shares (August 31, 2016 – 64,306 shares).

For the year ended August 31, 2017 the Company recorded an expense to recognize the matching contribution equal to \$242,258 (August 31, 2016 – \$185,440).

### (b) Stock option plans

Stock options may be granted to directors, officers, employees and service providers of the Company on terms that the directors of the Company may determine within the limitations set forth in the Security Based Compensation Plan or former Stock Option Plan or by security regulators. Options shall not be granted for a term exceeding eight years under the terms of the Security Based Compensation Plan or five years under the terms of the former Stock Option Plan.

Changes in the number of options outstanding during the years ended August 31, 2017 and August 31, 2016, were as follows:

	August 31, 2017		August 31, 2016	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Balance, beginning of year	1,504,897	\$ 2.08	1,107,679	\$ 1.12
Granted	130,173	4.37	713,885	3.11
Exercised	(336,590)	0.48	(266,667)	0.70
Forfeited and expired	-	-	(50,000)	2.96
Balance, end of year	1,298,480	\$ 2.73	1,504,897	\$ 2.08

# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2017 and August 31, 2016

	August 31, 2017	August 31, 2016
Options exercisable, end of year	600,927	664,775

For the year ended August 31, 2017, the Company received proceeds equal to \$159,926 (2016 - \$186,367) from the exercise of 336,590 (2016 - 266,667) options. Related to these transactions, the Company transferred \$108,569 (2016 - \$117,475) from contributed surplus to share capital.

Options outstanding at August 31, 2017 consisted of the following:

Range of exercise prices	Number outstanding	Remaining contractual life	Weighted average exercise price	Number exercisable
\$ 0.51 - \$ 1.00	193,334	0.65 years	0.63	193,334
\$ 1.01 - \$ 2.00	125,000	1.46 years	1.71	125,000
\$ 2.01 - \$ 3.00	572,184	5.71 years	2.88	184,165
\$ 3.01 - \$ 4.00	293,930	6.36 years	3.58	89,075
\$ 4.01 - \$ 4.48	114,032	7.33 years	4.43	9,353
\$ 0.25 - \$ 4.48	1,298,480	4.84 years	\$ 2.73	600,927

For the year ended August 31, 2017, the Company recorded an expense to recognize stock option compensation expense for options granted to employees and directors of the Company equal to \$359,397 (2016 - \$262,317).

The stock option compensation expense for options issued to employees was determined based on the fair value of the options at the date of measurement using the Black-Scholes option pricing model (Note 18) with the following weighted average assumptions:

	August 31, 2017	August 31, 2016
Expected option life	5.00 years	5.28 years
Risk-free interest rate	0.72%	0.80%
Dividend yield	nil	nil
Forfeiture rate	7.78%	7.24%
Volatility factor of expected market price of the Company's shares	31.74%	35.62%

For awards that vest at the end of a vesting period, compensation cost is recognized on a straight-line basis over the period of service. For awards subject to graded vesting, each installment is treated as a separate award with separate fair value and a separate vesting period. The estimated forfeiture rate is adjusted to actual forfeiture experience as information becomes available.

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. Volatility is determined based on the five-year share price history of the Company and comparable listed entities. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2017 and August 31, 2016

## (c) Performance-conditioned Restricted Stock Units (RSUs)

The Company has conditionally granted RSUs (payable in cash or shares of the Company's common stock at the discretion of the Board of Directors) to designated management employees, that may be earned at the end of a one-year performance period, based on each fiscal year ("the performance period"), subject to certain financial metrics for the performance period. In order to earn RSUs a minimum threshold must be achieved, with the maximum number of RSUs being earned upon achievement of the target.

For the year ended August 31, 2017, the Company conditionally granted 199,942 RSUs related to the current fiscal year; the RSUs, if earned, are scheduled to vest on or after October 11, 2019, conditional upon continued employment with the Company until such date.

Changes in the number of RSUs outstanding during the years ended August 31, 2017 and August 31, 2016, were as follows:

	August 31, 2017		August 31, 2016	
	Number of RSUs	Grant price \$	Number of RSUs	Grant price \$
Balance, beginning of year	128,680	\$ 3.73	38,568	\$ 4.11
Granted	199,942	3.96	110,724	3.59
Forfeited and expired	(3,466)	4.11	(20,612)	3.69
Balance, end of year	<b>325,156</b>	<b>\$ 3.87</b>	<b>128,680</b>	<b>\$ 3.73</b>

The fair value RSU's awarded is determined at grant date calculated based on the closing price of the Company's common shares for the ten business days preceding grant date and the related salary expense is recognized over the vesting period which is the period over which all of the specified vesting conditions are satisfied. The number of RSUs awarded is determined based on the fair market value of those RSUs on the date credited.

For the year ended August 31, 2017, the Company recorded an expense to recognize vesting of RSUs granted to employees and directors of the Company equal to \$369,024 (2016 - \$231,578).

## (d) Deferred Stock Units ("DSUs")

Independent members of the Company's Board of Directors are paid a portion of their annual retainer in the form of DSUs, which vest on the date determined by the Board of Directors. They may also elect to receive up to 100% of their remaining cash remuneration in the form of DSUs. The underlying security of DSUs are the Company's common shares, which are valued based on their volume weighted average closing price for the ten trading days prior to the date on which the DSUs are granted. The DSUs will be settled by the issuance of common shares by the Company unless, subject to the consent of the Company, the Director elects to receive cash in lieu of common shares.

Changes in the number of DSUs outstanding during the years ended August 31, 2017 and August 31, 2016, were as follows:

	August 31, 2017		August 31, 2016	
	Number of DSUs	Grant price \$	Number of DSUs	Grant price \$
Balance, beginning of year	26,442	\$ 3.78	9,730	\$ 4.11
Granted	15,036	3.99	16,712	3.59



# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2017 and August 31, 2016

Balance, end of year	41,478 \$	3.86	26,442 \$	3.78
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The fair value DSU's awarded is determined at grant date calculated with reference to the closing price of the Company's common shares for the ten business days preceding grant date and the related salary expense is recognized over the vesting period which is the period over which all of the specified vesting conditions are satisfied, if any. The number of DSUs awarded is determined based on the fair market value of those DSUs on the date credited.

For the year ended August 31, 2017, the Company recorded an expense to recognize DSUs granted to directors of the Company equal to \$60,000 (2016 - \$100,000) for annual awards covering the 2017 fiscal year.

For the year ended August 31, 2017 the Company recorded non-cash expense to recognize Stock Option, RSU and DSU grants to employees and directors of the Company equal to \$788,422 (August 31, 2016 – \$593,897).

## 16. Finance expenses:

The Company's finance expenses for the years ended August 31, 2017 and August 31, 2016 were comprised of the following:

	Note	August 31, 2017	August 31, 2016
Interest and finance costs on long-term debt	12	\$ 1,212,266	\$ 1,290,921
Other finance costs, net		63,771	63,161
Non-cash finance costs			
Accretion expense on vendor take-back loans and long-term liabilities		85,710	192,459
Accretion on contingent acquisition consideration	9	-	125,474
		85,710	317,933
Change in estimated fair value of non-controlling interest put option	11	3,617,211	3,586,413
		3,702,921	3,904,346
		\$ 4,978,958	\$ 5,258,428

## 17. Financial instruments:

### Fair value measurement

The Company's financial instruments measured at fair value through profit or loss include cash, contingent consideration, and non-controlling interest put options. The valuation techniques used to measure level 2 and level 3 financial instruments are described in the referenced notes.

# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2017 and August 31, 2016

The following presents the Company's assets and liabilities measured at fair value on a recurring basis and categorized by hierarchy level:

	Note	(Quoted prices in an active market for identical assets) Level 1	(Significant other observable inputs) Level 2	(Significant other unobservable inputs) Level 3
August 31, 2016:				
Cash		\$ 14,369,959	\$ -	\$ -
Contingent acquisition consideration	9	-	-	1,308,793
Non-controlling interest put options	11	-	-	32,571,809
August 31, 2017				
Cash		\$ 17,933,832	\$ -	\$ -
Non-controlling interest put options	11	-	-	34,059,108

The carrying value of the Company's trade and other receivables, trade payables, accrued and other liabilities approximate their fair values due to the immediate or short term maturity of these instruments. The carrying value of the long term debt approximates its fair value as the interest rates are consistent with the current rates offered to the Company for debt with similar terms. The carrying value of the other non-current assets approximates its fair value as the interest rates are consistent with the current rates offered by the Company for loans with similar terms.

- Level 1** Unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Fair value through profit or loss financial instruments are measured at fair value using Level 1 inputs for cash and Level 3 inputs for non-controlling interest put options and contingent acquisition consideration.

## 18. Determination of fair values:

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial instruments and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

### (a) Property and equipment

The fair value of property and equipment recognized as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

### (b) Intangible assets

The fair value of customer contracts and customer relationships is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2017 and August 31, 2016

## (c) Share-based payment transactions

The fair value of the employee share options and the share appreciation rights is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

Restricted Stock Units are conditionally granted and subject to achievement performance goals. The fair value of each Restricted Stock Unit is estimated in accordance with IFRS 2 on the grant date based on the volume-weighted average of the closing prices of common shares on the stock exchange for the 10 immediately preceding trading sessions, and are amortized over the vesting period, subject to the terms of the plan. Dependent on the expected nature of settlement, the Company may periodically re-value RSUs.

The fair value of Deferred Stock Units are estimated in accordance with IFRS 2 on the grant date based on the volume-weighted average of the closing prices of common shares on the stock exchange for the 10 immediately preceding trading sessions. Deferred Stock Units vest immediately and are expensed in the period granted.

## (d) Non-controlling interest put option

The fair value of the non-controlling interest put option has been determined by discounting estimated future cash flows based on an appropriate discount rate. The estimated future cash flows are calculated based on pre-determined formulas as defined in the purchase agreements which are based on a multiple of estimated future earnings, estimated future exercise dates and other factors.

## 19. Commitments and contingencies:

### (a) Contractual obligations

The Company leases premises and various office equipment under agreements which expire on various dates up to December 2027. Future minimum lease payments as at August 31, 2017 are as follows:

Next 12 months	\$ 4,880,551
13 - 24 months	4,041,675
25 - 36 months	3,702,555
37 - 48 months	3,132,808
49 - 60 months	2,609,609
Thereafter	6,894,948
	<b>\$ 25,262,146</b>

Included in operating expenses for the year ended August 31, 2017 are operating lease expenses, primarily in respect of leased premises and equipment of \$3,469,801 (2016 - \$2,405,082).

During the year, the Company entered into a lease agreement for office space representing a commitment of approximately \$6.9 million over a ten year period beginning on January 1, 2018 which is included in the above table. The Company has entered into agreements in which it is committed to project costs, including leasehold improvements, furniture and equipment, for the new premises of approximately \$9.5 million.

## PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2017 and August 31, 2016

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### (b) Contingencies

In the ordinary course of operating the Company's business it may from time to time be subject to various claims or possible claims. Management's view that there are no claims or possible claims that if resolved would either individually or collectively result in a material adverse impact on the Company's financial position, results of operations, or cash flows. These matters are inherently uncertain and management's view of these matters may change in the future.

### 20. Financial risk management:

The Company has exposure to the following risks from its use of financial instruments:

- Interest risk
- Credit risk
- Liquidity risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

#### (a) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. Financial assets and financial liabilities that bear interest at fixed rates are subject to fair value interest rate risk. The Company's term loans bear interest at variable rates and vendor take-back loans are non-interest bearing. The carrying value of the long term debt approximates its fair value as the interest rates are consistent with the current rates offered to the Company for debt with similar terms.

The Company has identified an exposure to fair value variation in relation to variable interest term loans. The Company does not use financial derivatives to decrease its exposure to interest risk. For the year ended August 31, 2017, a change in interest rate relating to loans and borrowings of 1% would have increased or decreased finance expense by approximately \$385,000 (2016 - \$329,000).

#### (b) Credit Risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The Company is exposed to credit risk from customers. In order to reduce its credit risk, the Company reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information. When a receivable balance is considered uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against "general and administrative operating expenses" in the consolidated statement of comprehensive income. The Company recorded an expense for bad debt during the year ended August 31, 2017 of \$45,780 (2016 - \$224,230).

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Notes to the Consolidated Financial Statements

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Pursuant to their respective payment terms, consolidated trade receivable were aged as follows as at August 31, 2017:

Current	\$	8,360,905
31 - 60 days past due		1,763,773
61 - 90 days past due		703,233
Over 91 days past due		625,276
		11,453,187
Allowance for doubtful accounts		(219,383)
	\$	11,233,804

## (c) Liquidity Risk

Liquidity risk is the risk that the Company would not be able to meet its financial obligations as they come to maturity or can only do so at excessive costs. Based on the Company's ability to generate cash flows through its ongoing operations, management believes that cash flows are sufficient to cover its known operating and capital requirements, as well as its debt servicing costs. The Company manages its cash resources through ongoing financial forecasts and anticipated cash flows.

The maturity dates of the Company's financial liabilities as at August 31, 2017 are as follows:

	Carrying amount	Contractual cash flows	Maturing in the next 12 months	Maturing in 13 to 36 months	Maturing in 37 to 60 months	Maturing in more than 60 months
Trade payables and accrued liabilities	\$16,119,330	\$16,410,576	\$14,875,635	\$ 847,207	\$ 280,734	\$ 407,000
Loans and borrowings	36,526,725	36,662,153	3,709,488	32,952,665	-	-
	\$52,646,055	\$53,072,729	\$18,585,123	\$33,799,872	\$ 280,734	\$ 407,000

## 21. Capital Management:

The Company views its capital as the combination of its cash, loans and borrowings, and shareholders' equity, which as at August 31, 2017 was equal to \$86,963,896 (2016 - \$70,792,068). The Company's primary objective when managing capital is to safeguard the entity's ability to continue as a going concern while supporting 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 objective, 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 issue new or repurchase existing shares and assume new or repay existing debt.

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. The Company complied with all the required financial covenants at August 31, 2017.

# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2017 and August 31, 2016

## 22. Operating segments:

The Company offers human resource consulting, recruitment services, pension advisory services, group benefits insurance, benefits and pension administration. As at August 31, 2017, the Company applied the aggregation criteria on the basis of type of services provided across all the segments is similar and in accordance with IFRS 8, *Operating Segments*, the Company was represented by and had one reportable segment. The Company operates exclusively within Canada.

## 23. Related parties:

### (a) Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Board of Directors and Officers are key management personnel. In addition to their salaries, the Company also provides non-cash benefits and participation in the Employee Share Purchase Plan (Note 15(a)) and Security Based Compensation Plan (Note 15(b)(c),(d)).

The following table details the compensation paid to key management personnel during the years ended August 31, 2017 and 2016:

	August 31, 2017	August 31, 2016
Salaries, fees and short-term employee benefits	\$ 2,217,330	\$ 1,952,624
Share-based payments	481,198	463,627
	\$ 2,698,528	\$ 2,416,251

### (b) Key management personnel and director transactions

As at August 31, 2017, directors and key management personnel owned 17.31% (August 31, 2016 - 19.19%) of the voting shares of the Company.

During the years ended August 31, 2017 and August 31, 2016 the Company engaged in transactions with Directors and key management personnel of the Company. All the transactions were in the normal course of operations and are measured at the exchanged amount, which is the consideration agreed to by the parties.

# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2017 and August 31, 2016

## 24. Expenses by nature:

The Company's expenses for the years ended August 31, 2017 and August 31, 2016 were comprised of the following:

	August 31, 2017	August 31, 2016
Personnel and compensation	\$ 62,977,492	\$ 47,630,673
General and administrative	13,638,403	10,405,522
Occupancy	5,803,598	4,423,180
Administration fees	3,398,085	3,023,050
Public company costs	318,684	347,926
	86,136,262	65,830,351
Depreciation and amortization	8,451,346	6,975,608
Finance expenses	4,978,958	5,258,428
	\$ 99,566,566	\$ 78,064,387

The Company's operating expenses and acquisition, integration and reorganization costs, as reported on the statements of comprehensive income, for the years ended August 31, 2017 and August 31, 2016 were comprised of the following:

	August 31, 2017	August 31, 2016
Operating expenses	\$ 83,531,240	\$ 63,527,786
Acquisition, integration and reorganization costs	2,605,022	2,302,565
	\$ 86,136,262	\$ 65,830,351

Certain employees of the Company participate in a defined contribution pension plan. Contributions to the plan by the Company totaled \$489,713 for the year ended August 31, 2017 (2016 – \$227,039).

Other employee benefits totaled \$6,381,522 for the year ended August 31, 2017 (2016 – \$5,036,671). These amounts are included in the personnel and compensation expense in these consolidated financial statements.

For the year ended August 31, 2017 the Company incurred \$2,605,022 (2016 - \$2,302,565) of acquisition, integration and reorganization costs. Acquisition, integration and reorganization costs are comprised of professional fees and other non-recurring incremental costs incurred to secure and complete specific acquisitions, non-operating outlays associated with integrating acquired operations into the Company's business model subsequent to completion of an acquisition, and non-recurring outlays including consulting and recruiting fees and severance costs associated with reorganization of operations.

## 25. Comparative figures:

Certain prior period balances have been reclassified to conform with the current year presentation. The Company reported a deferred tax asset equal to \$1,228,840 on the Consolidated Statement of Financial Position as at August 31, 2016. In the current year, this deferred tax asset is included as a reduction to the deferred tax liability in recognition that both the deferred tax asset and deferred tax liability are attributable to the same taxing jurisdiction. These reclassifications do not affect prior period's net income.

# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2017 and August 31, 2016

## 26. Subsequent events:

### (a) Agreement to Acquire

On November 1, 2017, the Company announced that it had entered into definitive agreements to acquire specific assets, liabilities and business operations of Assurances Dalbec Ltée ("Dalbec"), a leading Third Party Administrator (TPA) and Third Party Payor (TPP) service provider for employee benefit plans of small and medium-sized companies in the Québec market. The Company has agreed to purchase the assets of Dalbec for a purchase price of \$16.1 million, subject to post-closing adjustments. The purchase price is comprised of a payment of \$11.3 million at closing and the \$4.8 million remaining balance in the form of a vendor note to be repaid in installments on the first, second, and third anniversaries of the closing. The deferred payments are subject to potential adjustments related to the financial performance of the business over that period.

Closing of the Transaction, which is subject to customary conditions, is expected to occur during the Company's second fiscal quarter.

The payment due on close of \$11.3 million is expected to be funded by the net proceeds of the private placement share offering noted below. The additional payments are expected to be paid from available cash resources on the anniversaries.

### (b) Private Placement

On November 1, 2017, the Company entered into an agreement with a syndicate of underwriters led by Cormark Securities Inc. (collectively the "Underwriters") which the Underwriters have agreed to purchase, on a bought deal private placement basis, 3,284,000 common shares (the "Shares") of the Company at a price of \$6.70 per Share (the "Issue Price"), with an option, exercisable in whole or in part at any time prior to the closing date, to purchase for resale up to an additional 15% of the Shares sold at the Issue Price (the "Offering").

The Offering was completed on November 22, 2017 and, pursuant to the Offering, the Company issued 3,776,600 Shares of the Company at a purchase price of \$6.70 per Share, including 492,600 Shares issued through the full exercise of the syndicate's over-allotment option, for gross proceeds to the Company of \$25,303,220. The members of the syndicate received a cash commission equal to 5.0% of the gross proceeds raised in the Offering.

The net proceeds of the Offering will be used to fund the previously announced acquisition of the assets, liabilities and business operations of Dalbec, with the balance to be used to repay indebtedness and fund growth initiatives.

The Shares issued in connection with the Offering are subject to a statutory four-month hold which expires on March 23, 2018.

### (c) Amendment to Credit Facility

In conjunction with the anticipated acquisition of Dalbec, the Company's senior lender has increased the Company's existing credit facility by \$22,085,000 to a total of \$83,300,000. The amended credit facility consists of a \$5,000,000 revolving facility (the "Revolving Credit Facility"), a \$19,500,000 term loan (the "Term Loan") with \$9,500,000 delayed draw on the term loan (the "Delayed Draw"), and a \$48,800,000 revolving acquisition facility (the "Acquisition Revolver") with an option (the "Accordion Feature") subject to the satisfaction of certain terms and conditions, to increase the Acquisition Revolver by an additional \$15,000,000 of capacity, which would result in the size of the Acquisition Revolver being increased to \$82,800,000, and overall credit capacity being increased to \$97,800,000.