IBI Group 2014
Second-Quarter Management Discussion and Analysis

THREE AND SIX MONTHS ENDED JUNE 30, 2014

IBI Group Inc.

Management discussion and analysis

For the three and six month period ended June 30, 2014

The following Management Discussion and Analysis ("MD&A") of interim operating results and financial position of IBI Group Inc. and its subsidiaries ("the Company") for the second quarter ended June 30, 2014 should be read in conjunction with the accompanying Unaudited Interim Condensed Consolidated Financial Statements for the periods ended June 30, 2014 and 2013, the MD&A in the fiscal year 2013 Annual Report and the audited Consolidated Financial Statements for the year ended December 31, 2013 including the notes thereto. Additional information relating to the Company, including Annual Information Form, is available on SEDAR at www.sedar.com.

The financial information presented herein has been prepared on the basis of International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") for financial statements and is expressed in thousands of Canadian dollars.

Forward-looking statements

This report includes certain forward-looking statements that are based on the Company's best information and judgments as at the date of this report. The forward-looking statements are subject to risks and uncertainties that may cause the actual results to differ materially from those anticipated in the discussion. See "Forward Looking Statements and Risk Factors" below for more information.

Company profile

The business of the Company is conducted through IBI Group Partnership ("IBI Group"), a global architecture, engineering, planning and technology company, which operates more than 60 offices in 15 countries across the world.

IBI Group's business, consulting services, is concentrated in three practice areas:

- Intelligence
- Buildings
- Infrastructure

IBI Group's professionals have a broad range of professional backgrounds and experience in urban design and planning, architecture, civil engineering, transportation engineering, traffic engineering, systems engineering, urban geography, real estate analysis, landscape architecture, communications engineering, software development, and many other areas of expertise, all contributing to the three areas in which IBI Group practices.

The firm's clients include national, provincial, state, and local government agencies and public institutions, as well as leading companies in the real estate building, land and infrastructure development, transportation and communication industries, and in other business areas.

The Company provides these services to clients through local offices in Canada, the United States, the United Kingdom, Europe, the Middle East, Asia, Africa, Mexico, the Caribbean and Central America.

Financial highlights
(in thousands of dollars except for per share amounts)
(Unaudited)

	Three months ended June 30, 2014	Three months ended June 30, 2013	**Six months ended June 30, 2014**	Six months ended June 30, 2013
Number of workings days	**63**	64	**125**	125
Revenue	**$ 84,067**	$ 86,745	**$ 165,777**	$ 171,344
Net income (loss)	**$ 930**	$ (76,039)	**$ 2,126**	$ (75,383)
Basic and diluted earnings per share ("EPS")	**$ 0.04**	$ (3.42)	**$ 0.09**	$ (3.41)
EBITDA[1]	**$ 7,687**	$ 7,257	**$ 12,705**	$ 14,557
EBITDA[1] as a percentage of revenue	**9.1%**	8.4%	**7.7%**	8.5%
Cash from (used in) operations	**$ 6,688**	$ (3,077)	**$ 8,617**	$ (6,785)

Overview

The Company's financial results continue to demonstrate strength with revenue growing for the last nine month period. Revenue for the three months ended June 30, 2014 was $84.1 million, compared with $81.7 million in the first quarter of this year and $77.8 million for the three months ended December 31, 2013 (a total 8% increase over this nine month period). This is consistent with the Company's long-term growth strategies to achieve and sustain results in line with industry performance.

EBITDA[1] as a percentage of revenue increased to 9.1% (or $7.7 million), compared with 6.1% (or $5 million) for the three months ended March 31, 2014 and 3.1% (or $2.4 million) in the fourth quarter of 2013. Significant efforts have been expended over the past nine months to restructure and manage the operations by geographical region, thereby resulting in greater scrutiny of financial results by the leadership team. These changes have facilitated the Company's ability to improve business processes, identify synergies, implement cost management initiatives, evaluate return on assets and achieve growth in sales. Second quarter results are reflective of these improvements coming to fruition, with the expectation that further improvements will be achieved in the forth coming quarters.

Net income for the three month period ended June 30, 2014 was $0.9 million, compared with net income in the first quarter of this fiscal year totaling $1.2 million and a net loss of $100.9 million for the three months ended December 31, 2013. After adjusting the Q4 2013 net loss for the after-tax impact of the impairment charge recorded on goodwill and intangible assets, the adjusted net loss[1] was $3.8 million. Growth in revenue has been a major contributor to the improvement in net income over these three periods, in addition to savings achieved from cost management initiatives implemented by the Company.

In addition, the Company made significant progress on its recapitalization plan by obtaining approval from the holders of the 7.0% convertible unsecured subordinated debentures to amend certain terms and conditions and extend the maturity date from December 31, 2014 to June 30, 2019. This marks a significant milestone in the Company's overall refinancing efforts. The Company is currently negotiating an amended credit facility with the lending syndicate which is expected to be completed in the third quarter of this year. Lastly, subsequent to June 30, 2014, management entered into a non-binding letter of intent with a buyer to sell the assets of one of its divisions. The sale is expected to close in Q3 2014.

[1] See "Definition of Non-IFRS Measures".

Results of operations

(in thousands of dollars except for per share amounts)
(Unaudited)

	Three months ended June 30, 2014	Three months ended June 30, 2013	**Six months ended June 30, 2014**	Six months ended June 30, 2013
Revenue	**$84,067**	$86,745	**$165,777**	$171,344
Expenses				
Salaries, fees and employee benefits	**58,850**	62,601	**117,951**	124,106
Other operating costs (other than interest)[1]	**17,190**	17,018	**34,443**	32,866
Other finance costs	**339**	122	**677**	273
Fair value of deferred share plan	**-**	305	**-**	305
Acquisition-related costs included in other operating costs	**-**	(558)	**-**	(763)
	76,379	79,488	**153,071**	156,787
Earnings before income taxes, interest and amortization (EBITDA)[1]	**7,688**	7,257	**12,706**	14,557
Interest, net	**4,359**	3,477	**8,712**	6,859
Deferred transaction costs/Other financing cost	**355**	78	**585**	147
Income taxes – current	**911**	178	**1,669**	1,291
Income taxes – deferred	**(697)**	(1,898)	**(1,532)**	(2,242)
Amortization of property, equipment	**841**	801	**1,414**	1,478
Amortization - Intangibles	**228**	979	**458**	2,656
Impairment of Goodwill	**-**	79,601	**-**	79,601
Foreign exchange (gain)/loss	**761**	(173)	**(727)**	(308)
Fair value of deferred share plan	**-**	(305)	**-**	(305)
Acquisition-related costs	**-**	558	**-**	763
Net income (loss)	**930**	(76,039)	**2,127**	(75,383)
Non-controlling interest	**207**	(17,356)	**474**	(17,205)
Net income (loss) attributable to the owners	**723**	(58,683)	**1,653**	(58,178)
Basic and diluted net earnings per share	**$0.04**	**$(3.42)**	**$0.09**	**$(3.41)**
Total assets	**$256,243**	$403,491	**$256,243**	$403,491

i) Revenue

The Company reports revenue net of direct recoverable costs as these costs can vary significantly from contract to contract and are not indicative of our professional services business.

For the three month period ended June 30, 2014, current year revenue was lower by $2.7 million or 3% compared to the same period last year (2014 - $84.1 million 2013 - $86.7 million). Similarly revenue for the six month period ended June 30, 2014 was also lower compared to the prior year comparative period by $5.6 million (2014 - $165.8 million 2013 - $171.3 million). The Company has continued to maintain a

[1] See “Definition of Non-IFRS Measures”.

steady stream of volume in projects consistent with the comparative period last year. However in the second half of fiscal 2013, significant provisions were charged to income for work-in-progress ("WIP") deemed non recoverable, which included work carried out on projects in the first half of 2013. Since Q3 2013, the Company has been carrying out more comprehensive reviews of its WIP.

Since Q3 2013, revenue continues to increase for nine consecutive months which is representative of the Company returning to more normalized levels. The Company expects to improve performance over the upcoming two quarters, forecasting revenue of $330 million this year. Based on revenue for the six months ended June 30, 2014, the Company is tracking towards meeting this target.

ii) Salaries, fees, and employee benefits

Salaries, fees, and employee benefits for the three months ended June 30, 2014 decreased by $3.7 million or 6% to $58.9 million compared to $62.6 million for the same period last year (and a $0.3 million decrease relative to the first quarter of 2014).

For the six month period ended June 30, 2014, salaries, fees, and employee benefits were $118 million compared with $124.1 million for the same period last year (a $6.1 million or 5% decrease). This is a result of reductions in headcount as well as lower salaries and benefits paid.

The Company continues to evaluate where synergies exist within the organization to further reduce these costs.

iii) Other operating costs (other than interest)

Other operating costs (other than interest) for the three months ended June 30, 2014 totaling $17.2 million were consistent when compared to the same period last year (up $0.2 million or 1.2%). The increase was mainly attributable to additional costs incurred for professional services (up $0.7 million) which are being used to assist with the overall recapitalization plan, combined with higher rent charges of $0.8 million for the new Toronto office. This was offset by a reduction in bad debt expense by $0.7 million, lower insurance charges by $0.3 million, a $0.2 million decrease in travel expenses, followed by a $0.1 million decrease in various miscellaneous items.

For the six month period ended June 30, 2014, other operating costs (other than interest) were $34.4 million compared with $32.9 million for the same period last year (up $1.5 million or 4.6%). The increase is primarily due to higher rent charges for the new Toronto office and higher professional fees related to the overall recapitalization plan totaling $3.1 million, offset by lower bad debt expense by $0.6 million, lower travel expenses and business promotion costs totaling $0.7 million, and various other items totaling $0.3 million.

Relative to the first quarter of this year, other operating costs (other than interest) were consistent (a $0.1 million decrease as a result of various miscellaneous items).

iv) Interest expense, net

Net interest expense for the three months ended June 30, 2014 increased by $0.9 million (up 25%) at $4.4 million compared to $3.5 million for the three months ended June 30, 2013. Included in net interest expense for the current period is $0.6 million of non-cash imputed interest expense related to the accretion of the convertible debentures liability ($0.6 million for the three months ended March 31, 2014 and $0.5 million for the three months ended June 30, 2013).

For the six month period ended June 30, 2014, net interest expense was $8.7 million compared with $6.9 million for the same period last year. The majority of the increase in net interest expense for the three and six month period ended June 30, 2014 versus the same period last year was a result of higher interest rates charged on the Company's senior credit facility upon amendment in Q4 of 2013.

Net interest expense was consistent with the costs incurred in the first quarter of this year.

v) Amortization

Amortization for the three months ended June 30, 2014 was down $0.7 million (2014 - $1.1 million 2013 - $1.8 million). On a six month basis ending June 30, 2014, total amortization charges were $1.9 million compared with $4.1 million in the prior year. The reduction in amortization charges this period was primarily from intangible assets such as client relationships, contracts, non-competition provisions, and development costs which were written down in fiscal 2013, thereby reducing the net carrying value of these assets and the related amortization expense.

Amortization charges were consistent with the costs incurred in the first quarter of this year.

vi) Foreign exchange

Foreign exchange for the three months ended June 30, 2014 was a loss of $0.8 million compared with a gain of $0.2 million for the same period last year. On a six month basis ending June 30, 2014, the total foreign exchange gain was $0.7 million versus $0.3 million in the previous year. These foreign exchange gains and losses arose on the translation of certain foreign-denominated assets and liabilities. The Company works to minimize its exposure to foreign exchange fluctuations by matching foreign denominated assets with foreign denominated liabilities.

vii) Income taxes

Income taxes for the three months ended June 30, 2014 was an expense of $0.2 million compared with a recovery of $1.7 million in the same period last year. On a six month basis ending June 30, 2014, income taxes were $0.1 million compared with a recovery of $1 million for the same period last year. The recovery in taxes last year was primarily due to losses incurred in certain operations. This generated tax losses available for carry forward which were deemed recoverable in future periods.

viii) EBITDA[1]

EBITDA[1] improved by 6% or $0.4 million over the same three month period ended June 30, 2013 (2014 - $7.7 million 2013 - $7.3 million). This was primarily attributable to lower salaries, fees and employee benefits by $3.8 million (2014 – 70% of revenue 2013 – 72.2% of revenue) and lower charges for receivables deemed uncollectible by $0.7 million (2014 - $0.7 million 2013 - $1.4 million). Offsetting these savings was a reduction in revenue of $2.7 million, higher rental charges by $0.8 million in relation to the new Toronto location and higher professional fees by $0.7 million pertaining to the ongoing recapitalization efforts. There was another $0.1 million decrease in expenses related to various miscellaneous items.

[1] See "Definition of Non-IFRS Measures".

EBITDA[1] on a six month basis for the period ended June 30, 2014 was $12.7 million versus $14.6 million for same period in 2013 (a $1.9 million or 13% decrease over the prior year). Given EBITDA[1] in Q1 of the current year was lower by $2.3 million relative to the same period last year, the shortfall on a year to date EBITDA[1] was due to the financial performance in the first quarter of 2014. Revenue was lower by $2.9 million in Q1 year over year, followed by higher charges for professional fees by $0.8 million, increased rent charges by $0.7 million, and higher insurance premiums by $0.4 million. Offsetting this were savings achieved through lower salaries, fees and employee benefits totaling $2.4 million and lower travel and business promotions costs with a combined savings of $0.5 million. Stronger performance in the second quarter (a 6% increase over the same period last year) offset some of the shortfall in EBITDA[1] from Q1 2014.

ix) Net income

Net income for the three month period ended June 30, 2014 decreased by $1.5 million relative to the same period last year (this is after adjusting the net loss totaling $76 million by the after-tax impact of the impairment charge related to goodwill and intangibles for $79.6 million) from $2.4 million in the prior year to $0.9 million this year. In addition to the net improvement in EBITDA[1] for the same period of $0.4 million, there was a reduction in amortization charges related to intangibles by $0.8 million, followed by a decrease in non-recurring acquisition-related costs for $0.6 million and a reduction by $0.4 million for various miscellaneous items. Offsetting these savings were charges for higher interest rates incurred on the senior bank facility by $0.9 million, an unfavourable variance of $0.9 million for foreign exchange as a result of the stronger Canadian versus U.S. dollar, and a $1.9 million increase in income tax expense (the prior year had a recovery of $1.7 million versus an expense of $0.2 million this year).

For the six month period ended June 30, 2014, net income decreased by $0.9 million or 31% from the same period last year (after adjusting the net loss totaling $75.4 million by the after-tax impact of the impairment charge related to goodwill and intangibles for $79.6 million). Further to the net decrease in EBITDA[1] by $1.9 million for the same period, there were higher charges for interest expense by $1.9 million and a $1.1 million increase in income tax expense. This was offset by a reduction in amortization charges by $2.1 million (related to intangibles that were written off in 2013), a decrease in non-recurring acquisition-related costs for $0.8 million, a larger foreign exchange gain by $0.4 million, and a $0.7 million decrease in various miscellaneous items.

Net income attributable to owners of the Company for the three months ended June 30, 2014 was $0.7 million or basic and diluted EPS of $0.04 per share compared to a loss of $58.7 million or $3.42 loss per share for the three months ended June 30, 2013. On a six month basis ended June 30, 2014, net income attributable to the owners of the Company was $1.7 million or basic and diluted EPS of $0.09 per share compared to a loss of $58.2 million or $3.41 loss per share for the six months ended June 30, 2013. The year over year improvement in net income attributable to the owners of the Company was primarily due to impairment charges recorded on goodwill and intangibles in the prior year for $79.6 million (pre-tax).

[1] See "Definition of Non-IFRS Measures".

Liquidity and capital resources

i) Working Capital

The following table represents the working capital information:

(in thousands of dollars)	**June 30, 2014 (unaudited)**	December 31, 2013	Change
Current assets	**$ 223,474**	$ 216,809	$ 6,665
Current liabilities	**$ (146,995)**	$ (108,206)	$(38,789)
Working capital	**$ 76,479**	$ 108,603	$(32,124)

Current assets increased by $6.7 million as at June 30, 2014 when compared with December 31, 2013. This is primarily the result of an increase in WIP of $4.6 million due to higher volumes of work performed this period, a $1.1 million increase in cash due to improved collection efforts with a corresponding $1.5 million reduction in receivables, and an increase in prepaid and other current assets of $2.9 million primarily due to software licensing fees and membership fees paid upfront this period. This was offset by a $0.4 million reduction in income taxes recoverable.

Current liabilities increased by $38.8 million as at June 30, 2014 when compared with December 31, 2013. This was primarily due to the $18 million reclassification of the senior credit facility to current liabilities as the borrowings available will be reduced to $70.0 million by September 30, 2014. Furthermore, a loan owing to a related party for $10 million was reclassified from long-term to current liabilities as it matures April 1, 2015. Deferred revenue increased by $5.1 million as a result of improved billing efforts implemented by the Company, accounts payable and accrued liabilities increased by $4.3 million corresponding with the increased activity on client projects over the past two quarters, income taxes payable increased by $0.8 million, and a $0.6 million increase in the convertible debentures as a result of accreting the value of the loan upwards to maturity.

ii) Working Capital Measured in Number of Days of Gross Billings

Included in working capital of the Company are amounts reflecting project costs and sub-consultant expenses. The Company only reports its net fee volume as revenue, which would not include the billings for the recovery of these incurred costs. Therefore to measure number of days outstanding of working capital, the gross billings, which include the billings for recovery of project expenses, would result in a more consistent calculation.

The table below calculates working days on a twelve month trailing basis, measured as days outstanding on gross billings, which over the last two years has been approximately 25% greater than net fee volume.

Working days of gross billings outstanding	June 30, 2013 *(unaudited)*	September 30, 2013 *(unaudited)*	December 31, 2013 *(unaudited)*	March 31, 2014 *(unaudited)*	June 30, 2014 *(unaudited)*
Accounts receivable	80	73	65	64	65
WIP	75	55	58	62	62
Deferred revenue	(8)	(8)	(9)	(12)	(12)
Total	147	120	114	114	115

There has been a total decrease of 32 days in working capital as of June 30, 2014 compared to the same period last year (consistent when compared to Q1 2014 and Q4 2013). This is a result of more comprehensive reviews that were carried out by management in the second half of fiscal 2013 to reserve for WIP deemed non recoverable and receivables deemed uncollectible. Since Q3 2013, the Company continues to carry out regular comprehensive reviews of its WIP and receivables and has made significant improvements in the billings and collections process as noted by the improvement in the aging of receivables per the table below. Total working days of gross billings outstanding for the current period is representative of the Company stabilizing and returning to more normalized conditions. The Company has ongoing programs to reduce days outstanding even further.

The table below demonstrates that the aging of receivables has improved whereby total balances outstanding over 90 days is 31% compared to 34% as at March 31, 2014 and 37% as at December 31, 2013.

Accounts receivable aging (net of allowance) *(in thousands of dollars)*	*June 30, 2013* *(unaudited)*	*%*	*September 30, 2013* *(unaudited)*	*%*	*December 31, 2013*	*%*	*March 31, 2014* *(unaudited)*	*%*	*June 30, 2014* *(unaudited)*	*%*
Current	39,989	28	37,953	31	34,283	33	40,730	40	39,465	*38*
30 to 90 days	36,430	26	33,384	28	31,353	30	26,814	26	32,182	*31*
Over 90 days	66,103	46	49,627	41	39,155	37	34,428	34	31,645	*31*
Total	142,522	100	120,964	100	104,791	100	101,972	100	103,292	*100*

Cash flows from operating, financing, and investing activities, as reflected in the Consolidated Statement of Cash Flows, are summarized in the following table:

(in thousands of dollars)	**Three months ended June 30, 2014**	Three months ended June 30, 2013	Change
Cash flows provided by (used in) operating activities	**$ 6,686**	$ (3,077)	$ 9,763
Cash flows provided by (used in) financing activities	**(58)**	973	(1,031)
Cash flows (used in) investing activities	**$ (3,602)**	$ (581)	$ (3,021)

(in thousands of dollars)	**Six months ended June 30, 2014**	Six months ended June 30, 2013	Change
Cash flows provided by (used in) operating activities	**$ 8,615**	$ (6,785)	$ 15,400
Cash flows provided by (used in) financing activities	**(153)**	8,253	(8,406)
Cash flows (used in) investing activities	**$ (7,565)**	$ (1,037)	$ (6,528)

Cash flows from operations for the three months ended June 30, 2014 was an inflow of $6.7 million compared to an outflow of $3.1 million for the same period last year; a net increase of $9.8 million. Net income for the current period was lower by approximately $1.5 million (after adjusting the prior year loss of $76 million with the after-tax impact of the impairment recorded on goodwill and intangibles totaling $79.6 million). Interest paid for the three month period ended June 30, 2014 was higher by $0.9 million compared to the same period last year as a result of higher interest rates charged on the senior credit facility, combined with interest that was payable on the convertible debentures. This was offset by an increase to changes in non-cash working capital by $11.6 million (2014 – $4.8 million inflow 2013 - $6.8 million outflow). There were various miscellaneous items that resulted in a cash inflow of $0.5 million.

The $11.6 million change in non-cash working capital was primarily a result of an $8.2 million inflow due to an increase in accounts payable and accrued liabilities compared with an outflow of $5 million for the same period last year (change of $13.2 million). Higher payables this year were primarily a function of the higher activity in projects that occurred over the past two quarters. Furthermore, income taxes payable were higher this year resulting in a cash inflow of $0.9 million, followed by a smaller increase in work in progress compared with the same period last year, thereby resulting in a smaller outflow by $2.5 million. There was also a $1.7 million cash outflow this year pertaining to software and membership fees that were paid up front. Receivables were slightly higher for the three month period ended June 30, 2014, thereby resulting in a larger outflow of cash by $0.9 million compared to the same period last year. Deferred revenue had a smaller inflow this year by $0.8 million when compared to the same period last year. Lastly, there was a $1.6 million cash inflow last year for bank indebtedness which was not recurring this year as the Company has $9.1 million in cash as at June 30, 2014.

On a six month basis ending June 30, 2014, cash inflow from operating activities were $8.6 million compared to an outflow of $6.8 million for the same period last year. The fluctuation year over year was for similar reasons noted on a three month basis ended June 30, 2014.

Cash flows used in investing activities for the three months ended June 30, 2014 were $3.6 million compared with $0.6 million in cash used for the same period last year. Similarly, on a six month basis for the period ended June 30, 2014, cash used was $7.6 million versus $1.0 million last year. This is primarily related to payments made for leasehold improvements on the new offices.

Cash flows used in financing activities for the three months ended June 30, 2014 were $0.1 million compared with cash flows provided by financing activities of $1 million for the same period last year. On a six month basis ended June 30, 2014, cash used was $0.2 million compared with an inflow of $8.3 million for the comparative period. In Q2 2013, the Company drew $3 million from the credit facility which was offset by $2 million in distributions paid to the non-controlling ownership interest. For the six month period ended June 30, 2013, the Company drew $13.8 million from the credit facility of which $2.3 million was paid in dividends to the shareholders, $2.0 million in distributions were paid to the non-controlling ownership interest, and $1.2 million was paid towards the notes payable. These events did not occur this year, hence the fluctuations over the periods. There were various miscellaneous items that resulted in an additional $0.2 million cash inflow on a six month basis.

iii) Credit Facility and Bid Bond Guarantee Facility

IBI Group has a credit facility of $95 million with a lending syndicate of banks. As of June 30, 2014, IBI Group had borrowings of $88 million under the credit facility compared with borrowings of $87.8 million under the credit facility as of December 31, 2013. As at June 30, 2014, the total balance of unamortized transaction costs was $2 million (December 31, 2013 - $2.4 million) which have been recorded net of the long-term portion on the credit facility. Net of capitalized transaction costs, the total carrying value of the credit facility was $85.9 million as at June 30, 2014 (December 31, 2013 - $85.5 million).

According to the terms of the agreement, this credit facility is set to mature on July 29, 2016. The credit facility contains financial covenants including funded debt to EBITDA[1] ratio, fixed-charge coverage ratio,

[1] References to "EBITDA" is to earnings before interest, income taxes, depreciation and amortization. EBITDA is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS.

and restrictions on distributions if certain conditions are not met. The Company was in compliance with its credit facility covenants as at June 30, 2014.

Under the terms of the agreement, the availability under the credit facility will be reduced to $85 million by July 31, 2014 and $70 million by September 30, 2014. As of June 30, 2014 $18 million was reclassified to current liabilities for the amount required to be paid to reduce borrowings to $70 million. Subsequent to June 30, 2014, the availability limit for July 31, 2014 was extended by the lending syndicate to August 31, 2014.

Management is currently negotiating an amended credit facility which is expected to be completed in the third quarter of this year. Management has reached agreement with the lending syndicate on a term sheet, subject to final approval. The term sheet contemplates revised and extended repayment terms and availability limits, covenants, and maturity date.

The amended terms have been negotiated on the basis that management will execute on its forecasted operating plan and be able to dispose of certain assets to meet the repayment timelines and comply with financial covenants. To accomplish the forecasted operating plan, management must continue to manage the balance sheet and achieve further operational improvements. Market conditions have been difficult to predict and there is no assurance that the Company will achieve its forecasts. In the event of non-compliance, the Company's lenders have the right to demand repayment of the amounts outstanding under the lending agreements or pursue other remedies if the Company cannot reach an agreement with its lenders to amend or waive the financial covenants. As in the past, the Company will carefully monitor its compliance with the covenants and will seek variances, subject to lender approval, as may become necessary from time to time.

Subsequent to June 30, 2014, management entered into a non-binding letter of intent with a buyer to sell the assets of one of its divisions, which is subject to certain conditions. The Company expects that the sale will close in the third quarter. Proceeds from this sale may be used to repay amounts outstanding under the credit facility.

In addition, the Company has notes payable due to the former owners of acquired businesses of $5.4 million due within 1 year from June 30, 2014. The settlement of notes payable is dependent on the availability provided by the credit facility. The settlement of these notes has been contemplated in the term sheet agreed with the lending syndicate.

In addition, a bid bond guarantee facility (the “Bid Bond Facility”) of up to USD $20 million continues to be made available to meet certain project requirements calling for the issuance of bid bonds to international customers. As at June 30, 2014, IBI Group had issued bid bonds in the amount of $6.2 million (December 31, 2013 – $2.3 million) under the Bid Bond Facility. The Bid Bond Facility is only available by way of letters of credit or letters of guarantee.

Guarantees from certain subsidiaries of IBI Group as well as IBI Group Architects (Ontario), and a first ranking security interest in all of the assets of IBI Group and the guarantors, subject to certain permitted encumbrances, have been pledged as security for the indebtedness and obligations of IBI Group under the credit facility and the Bid Bond Facility. The indebtedness secured by these security interests will rank senior to all other security over the assets of IBI Group and the guarantors, subject to certain permitted encumbrances.

Advances under these credit facilities bear interest at a rate based on the Canadian dollar or United States dollar prime rate, LIBOR or banker's acceptance rates, plus, in each case, an applicable margin.

iv) Convertible Debentures

The Company has three series of convertible debentures outstanding as at June 30, 2014.

7.0% Debentures

The 7.0% Debentures are recorded as compound financial instruments. As at June 30, 2014, the liability component had an amortized cost of $45.4 million (December 31, 2013 - $44.8 million). The equity component for the conversion feature is $1.75 million which is measured at fair value. The 7.0% Debentures have a maturity date of December 31, 2014 at $46 million and are convertible into shares of the Company at the option of the holder at a conversion price of $19.17 per share. In addition, the 7.0% Debentures are redeemable by the Company at a price of $1,000 per 7.0% Debenture, plus accrued and unpaid interest, on or after September 30, 2012 and prior to the maturity date. The fair value of the 7.0% Debentures was $23.1 million based on the quoted market price as at June 30, 2014.

On July 16, 2014 certain terms and conditions along with the maturity date of the 7.0% Debentures were extended from December 31, 2014 to June 30, 2019. See “Recapitalization Plan” below for further discussion related to the refinancing efforts executed by the Company in this respect.

5.75% Debentures

The 5.75% Debentures are recorded as compound financial instruments. As at June 30, 2014, the liability component had an amortized cost of $18.6 million (December 31, 2013 - $18.4 million). The equity component for the conversion feature is $0.9 million which is measured at fair value. The 5.75% Debentures have a maturity date of September 30, 2017 at $20 million. The 5.75% Debentures are convertible into shares of the Company at the option of the holder at a conversion price of $20.52 per unit. The 5.75% Debentures are redeemable by the Company at a price of $1,000 per 5.75% Debenture, plus accrued and unpaid interest, on or after June 30, 2015 and prior to the maturity date (provided that, if the redemption is prior to June 30, 2015, the weighted average trading price of the shares of the Company on the TSX for the 20 consecutive trading days ending five trading days preceding the date on which notice of redemption is given is not less than 125% of the Conversion Price of $20.52). The fair value of the 5.75% Debentures was $10 million based on the quoted market price as at June 30, 2014.

6.0% Debentures

The 6.0% Debentures are recorded as compound financial instruments. As at June 30, 2014, the liability component had an amortized cost of $53.9 million (December 31, 2013 - $53.5 million). The equity component for the conversion feature is $3.2 million which is measured at fair value. The 6.0% Debentures have a maturity date of September 30, 2018 at $57.5 million. The 6.0% Debentures are convertible into common shares of the Company at the option of the holder at a conversion price of $21.00 per share. The 6.0% Debentures are redeemable by the Company at a price of $1,000 per 6.0% Debenture, plus accrued and unpaid interest, on or after June 30, 2014 and prior to the maturity date (provided that, if the redemption is prior to June 30, 2016, the weighted average trading price of the shares of the Company on the TSX for the 20 consecutive trading days ending five trading days preceding the date on which notice of redemption is given is not less than 125% of the Conversion Price of $21.00). The fair value of the 6.0% Debentures was $26.2 million based on the quoted market price as at June 30, 2014.

Contractual obligations

As part of continuing operations, the Company enters into long-term contractual obligations from time to time. The table below summarizes the contractual obligations due on credit facilities, convertible debentures, operating lease commitments, notes payable, and amounts due to related parties as of June 30, 2014:

Contractual Obligations					
(in millions of dollars) (unaudited)	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Credit facility	$ 88.0	$ 18.0	$ 70.0	$ -	$ -
Interest on credit facility	13.8	5.9	7.9	-	-
Convertible debentures	123.8	*47.2	-	76.6	-
Interest on convertible debentures	36.0	7.8	15.6	11.0	1.6
Operating leases	151.2	22.6	31.9	30.6	66.1
Notes payable	5.4	5.4	-	-	-
Due to related party	10.0	10.0	-	-	-
Total Contractual Obligations	$ 428.2	$ 116.9	$ 125.4	$ 118.2	$ 67.7

*On July 16, 2014 the maturity date of the 7.0% Debentures were extended from December 31, 2014 to June 30, 2019.

For further information regarding the nature and repayment terms of the credit facility and convertible debentures, refer to Note 4 of the Unaudited Interim Condensed Consolidated Financial Statements for the period ended June 30, 2014.

Capital management

The Company's objective in managing capital is to maintain a capital base that will maintain investor, creditor, and market confidence and to sustain future growth within the business. The Company defines its capital as the aggregate of credit facility, convertible debentures, and equity.

The Company's financing strategy is to access capital markets to raise debt and equity financing and utilize the banking market to provide committed term and operating credit facilities to support its short-term and long-term cash flow needs.

See "Recapitalization Plan" below for further discussion related to the refinancing efforts currently underway by the Company.

Recapitalization plan

The Company has submitted a Recapitalization Plan to its lending syndicate. The plan addresses the requirement to reduce borrowing under the senior credit facility over a specified period of time. This plan includes operational improvements and enhanced billing and collection efforts to increase operating cash flow, one of or a combination of the divesture of certain operations and subordinated debt financing.

Credit Facility

The Company continues to demonstrate an improvement in financial results since the third quarter of the prior year with a gradual increase in revenue and EBITDA[1] over this nine month period, combined with cash collections exceeding targets on an aggregate basis over this same period. Furthermore, aging of

[1] See "Definition of Non-IFRS Measures".

receivables have improved whereby total balances outstanding over 90 days decreased to 31% as at June 30, 2014, compared to 37% as at December 31, 2013 and 47% as of June 30, 2013. Accordingly, the Company is currently negotiating an amended credit facility with the lending syndicate which is expected to be completed in the third quarter of this year. An agreement has been reached on a term sheet, subject to final approval. The term sheet contemplates revised and extended repayment terms and availability limits, covenants, and maturity date.

Divestures

The Company also has ongoing efforts in place to identify parts of the business where the return on assets does not align with the long-term growth and performance strategies established by the senior leadership team. It was determined that certain operations were no longer meeting expectations. Subsequent to June 30, 2014, management entered into a non-binding letter of intent with a buyer to sell the assets of one of its divisions, which is subject to certain conditions. The Company expects that the sale will close in the third quarter. Proceeds from this sale may be used to repay amounts outstanding under the credit facility.

Convertible Debentures

On July 16, 2014, a special meeting was held with holders (the “Debentureholders”) of the 7.0% convertible unsecured subordinated debentures, which have a face value of $46 million and were scheduled to mature on December 31, 2014 (the “Debentures”), in relation to the proposal issued May 28, 2014 to extend the maturity date to June 30, 2019 (the “Debenture Amendments”). The following incentives were offered to the Debentureholders who delivered and did not withdraw a valid proxy voting in favour of the Debenture Amendments prior to the proxy deadline. Based on their election, they were offered either:

Option A – Consent Fee Note

Receive a consent fee, consisting of an unsecured, non-convertible promissory note equal to $195.65 per $1,000 principal amount of Debentures, payable December 31, 2016 and bearing interest at the rate of 7.0% per annum and payable on maturity; or

Option B – Consent Fee Note and Reduced Conversion Price

Receive (i) a consent fee, consisting of an unsecured, non-convertible promissory note equal to $86.96 per $1,000 principal amount of Debentures, payable December 31, 2016 and bearing interest at the rate of 7.0% per annum and payable on maturity and (ii) the reduction of the conversion price for the Debentures to $5.00 per common share from $19.17 per common share.

Debentureholders who did not deposit a proxy, abstained from voting or voted against the Debenture Amendments, were still given the benefit of receiving a reduction in the conversion price for the Debentures to $5.00 per share from $19.17 per share.

As a result of the special meeting, the Company is pleased to announce that the extension of the maturity date to June 30, 2019 was approved for all Debentures. This represents an important milestone in the Company’s recapitalization plan and will allow IBI Group the time needed to continue to execute on its strategic initiatives. The total face value of the promissory notes to be issued will be $3.6 million.

Outlook

The following represents forward looking information and users are cautioned that actual results may vary.

Management is forecasting approximately $330 million in total revenue for the year ended December 31, 2014 of which approximately 94% is committed and under contract. The Company continues to see an increase in committed work to be delivered in 2014, which now stands at approximately $309 million. The Company has approximately eight months of backlog (this is calculated on the basis of the current pace of work that the Company has achieved during the last 12 months ended June 30, 2014).

After adjusting for on-going costs of financial advisors, which are expected to be $3.8 million in 2014, the Company is forecasting the 2014 EBITDA[1] margin to approach a level more consistent with industry standards. Ongoing efforts are underway to improve the monitoring of financial results, identify synergies and implement cost management initiatives, strengthen the billings and collections process, refinance the Company's credit facility and other long-term debt commitments, and divest operations that are not performing in line with the Company's growth strategies. The Company continues to seek out opportunities to enhance profitability.

This guidance should be read in conjunction with the "Forward Looking Statements and Risk Factors" below and is subject to the risks and uncertainties summarized in that section, which are more fully described in the Company's public disclosure documents.

Summary of quarterly results

The following table provides quarterly historical financial data for the Company for each of the eight most recently completed quarters. This information should be read in conjunction with the applicable interim unaudited and annual audited consolidated financial statements and related notes thereto.

(in thousands of dollars except for per unit and per share amounts and ratios) (unaudited)	2nd Qtr 2014	1st Qtr 2014	4th Qtr 2013	3rd Qtr 2013	2nd Qtr 2013	1st Qtr 2013	4th Qtr 2012	3rd Qtr 2012
Revenue	$ 84,067	$ 81,710	$ 77,829	$ 38,792	$ 86,745	$ 84,599	$ 75,464	$ 86,809
Adjustment Items	-	-	-	35,003	-	-	12,600	-
Adjusted revenue[1]	$ 84,067	$ 81,710	$ 77,829	$ 73,795	$ 86,745	$ 84,599	$ 88,064	$ 86,809
Net earnings	930	1,196	(100,908)	(47,177)	(76,039)	656	(26,528)	2,704
Changes in fair value and other finance costs	355	231	111	78	(227)	69	(235)	17
Interest expense, net	4,359	4,353	4,089	3,780	3,477	3,382	3,328	3,337
Income tax expense (recovery)	214	(77)	(3,310)	(8,730)	(1,720)	769	(3,082)	34
Amortization of property and equipment and intangible assets	1,069	803	2,339	2,703	1,780	2,354	5,896	2,519
Acquisition-related costs	-	-	(419)	(440)	558	205	406	434
Foreign exchange loss (gain)	761	(1,488)	(406)	225	(173)	(135)	221	357
Impairment of goodwill and intangible assets	-	-	100,900	-	79,601	-	14,483	-
Adjustment items	-	-	-	47,858	-	-	16,000	-
Adjusted earnings before income taxes, interest and amortization (Adjusted EBITDA[1])	7,688	5,018	2,396	(1,703)	7,257	7,300	10,488	9,402
Adjusted EBITDA[1] as a percentage of	9.1%	6.1%	3.1%	(2.3%)	8.4%	8.6%	11.9%	10.8%

[1] See "Definition of Non-IFRS Measures".

revenue								
Basic adjusted net earnings (loss) per share[1]	0.04	0.05	(0.17)	(0.34)	0.11	0.03	0.01	0.13
Personnel – average	2,578	2,533	2,628	2,752	2,805	2,833	2,873	2,944
Personnel – quarter end	2,606	2,502	2,581	2,674	2,823	2,814	2,852	2,926

Share capital

As at June 30, 2014, the Company's common share capital consisted of 17,614,730 shares issued and outstanding. Each share entitles the holder to one vote at all meetings of shareholders.

The 5,025,778 Class B partnership units of IBI Group are indirectly exchangeable for common shares of the Company on the basis of one share of the Company for each Class B subordinated partnership unit. If all such Class B partnership units of IBI Group had been exchanged for shares on June 30, 2014, the shares issued on such exchange would have represented a 22.2% interest in the Company.

Class B partnership units do not entitle the holder to voting rights at the meetings of shareholders. The Class B partnership units have been recorded as a non-controlling interest in the interim condensed consolidated financial statements as at June 30, 2014.

Transactions with related parties

Pursuant to the Administration Agreement entered into in connection with the closing of the initial public offering of the Company's predecessor, the Fund, IBI Group, and certain of its subsidiaries are paying to the Management Partnership an amount representing the base compensation for the services of the principals of the partners of the Management Partnership. The amount paid for such services during the three months ended June 30, 2014 was $6.6 million (three months ended June 30, 2013 - $7.4 million) and $13.3 million for six months ended June 30, 2014 (six months ended June 30, 2013 - $14.3 million).

During the first quarter of 2010, the Management Partnership advanced $26 million to IBI Group. The loan bears interest at the same rate as the operating line of credit that IBI Group has with its bank lender, less any commitment fees payable to its bank lender. The loan is subordinated to the Company's credit facility with its bank lender and is unsecured. As at June 30, 2014, the remaining amount payable was $10 million (December 31, 2013 - $10 million). Interest expense on this advance was $0.1 million for the three months ended June 30, 2014 (three months ended June 30, 2013 - $0.1 million) and $0.2 million for the six months ended June 30, 2014 (six months ended June 30, 2013 - $0.2 million). The loan matures April 1, 2015 and has therefore been reclassified as current liability. The Company is currently negotiating with Management Partnership to extend the term of the loan or convert to equity with a resolution expected in the third quarter. Acceptance of new terms by the Management Partnership requires approval by the Company's Board of Directors and the Management Partnership.

Accounting developments

Changes in Accounting Policies

IAS 32 Financial Instruments: Presentation

In December 2011 the IASB published Offsetting Financial Assets and Financial Liabilities. The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014. These amendments are to be applied retrospectively. The adoption of the amendments did not have a material impact on the consolidated financial statements.

IAS 36 Impairment of Assets

In May 2013, the IASB issued Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36). The amendments apply retrospectively for annual periods beginning on or after January 1, 2014. The adoption of the amendments did not have a material impact on the consolidated financial statements.

Future Accounting Policy Changes

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments with a mandatory effective date of January 1, 2018. The new standard brings together the classification and measurements, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. In addition to the new requirements for classification and measurement of financial assets, a new general hedge accounting model and other amendments issued in previous versions of IFRS 9, the standard also introduces new impairment requirements that are based on a forward-looking expected credit loss model. The Company intends to adopt IFRS 9 in its consolidated financial statements for the annual period beginning January 1, 2018. The extent of the impact of the adoption of IFRS 9 has not yet been determined.

Annual Improvements to IFRS (2010 – 2012) and (2011-2013) cycles

In December 2013, the IASB issued narrow-scope amendments to a total of nine standards as part of its annual improvements process. The IASB uses the annual improvements process to make non-urgent but necessary amendments to IFRS.

Most amendments will apply prospectively for annual periods beginning on or after July 1, 2014; earlier application is permitted, in which case, the related consequential amendments to other IFRSs would also apply.

The Company intends to adopt these amendments in its consolidated financial statements for the annual period beginning on January 1, 2015. The extent of the impact of adoption of the amendments has not yet been determined.

IFRS 15 Revenue from Contracts with Customers

On May 28, 2014 the IASB issued IFRS 15 Revenue from Contracts with Customers. The new standard is effective for fiscal years ending on or after December 31, 2017 and is available for early adoption.

IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services.

The Company intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning on January 1, 2017. The extent of the impact of adoption of the standard has not yet been determined.

Disclosure controls and procedures and internal control over financial reporting

As required by National Instrument 52-109 of the Canadian Securities Administrators, the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") will be making certifications related to the information contained in the Company's quarterly filings. As part of certification, the CEO and CFO must certify as to the design of disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR").

DC&P are designed to provide reasonable assurance that information required to be disclosed by the Company is processed and reported on a timely basis to the Company's management, including the CEO and CFO, as appropriate, to allow timely decisions with respect to required disclosure. The Company has adopted or formalized such controls as it believes are necessary and consistent with its business and internal management and supervisory practices. ICFR is a process designed to provide reasonable assurances regarding the reliability of the Company's financial reporting and of the preparation of financial statements for external purposes in compliance with generally accepted accounting principles. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance with respect to the reliability of the financial reporting and of the preparation of the financial statements.

The CEO and CFO of the Company, together with management of the Company have evaluated the design of the Company's DC&P and ICFR. The CEO and CFO of the Company, together with management, are collectively satisfied that the Company's DC&P and ICFR were appropriately designed.

Critical account estimates

The preparation of the Company's consolidated financial statements requires management to make certain estimates and assumptions. The estimates and assumptions are based on the Company's experience combined with management's understanding of current facts and circumstances. These estimates may differ from actual results, and certain estimates are considered critical, as they are both important to reflect the Company's financial position and results of operations, and require significant or complex judgement on the part of management using accounting policies derived therein consistent with the Company's audited December 31, 2013 consolidated financial statements.

Forward looking statements and risk factors

Certain statements in this MD&A may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company and its subsidiary entities, including IBI Group (collectively, the "Company"), or the industry in which they operate, to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this MD&A, such statements use words such as "may", "will", "expect", "believe", "plan" and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this MD&A. These forward-looking statements involve a number of risks and uncertainties, including those related to: (i) the Company's ability to maintain profitability and manage its growth; (ii) the Company's reliance on its key professionals; (iii) competition in the industry in which the Company operates; (iv) timely completion by the Company of projects and performance by the Company of its obligations; (v) reliance on fixed-price contracts; (vi) the general state of the economy; (vii) acquisitions by the Company; (viii) risk of future legal proceedings against the Company; (ix) the international operations of the Company; (x) reduction in the Company's backlog; (xi) fluctuations in interest rates; (xii) fluctuations in currency exchange rates; (xiii) potential undisclosed liabilities associated with acquisitions; (xiv) upfront risk of time invested in participating in consortia bidding on large projects; (xv) limits under the Company's insurance policies; (xvi) the Company's reliance on distributions from its subsidiary entities and, as a result, its susceptibility to fluctuations in the performance of the Company's subsidiary entities; (xvii) unpredictability and volatility of the price of Common Shares; (xviii) the degree to which the Company is leveraged may affect its operations; (xix) dividends are not guaranteed and will fluctuate with the Company's performance; (xx) the possibility that the Company may issue additional Common Shares diluting existing Shareholders' interests; (xxi) income tax matters; (xxii) approval of the recapitalization plan by the Company's lending syndicate and achieving the specified requirements per the amended agreement; and (xxiii) refinancing the convertible debentures which mature December 31, 2014. These risk factors are discussed in detail under the heading "Risk Factors" in the Company's annual information form for the year ended December 31, 2013. New risk factors may arise from time to time and it is not possible for management of the Company to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance or achievements of the Company to be materially different from those contained in forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this MD&A, and the Company assumes no obligations to update or revise them to reflect new events or circumstances.

Definition of non-IFRS measures

References in this MD&A to EBITDA[1] are to earnings before interest, income taxes, depreciation and amortization, acquisition-related costs, foreign exchange gains and losses, dividends treated as an expense, fair value adjustment on financial liabilities and restructuring and special charges. Management of the Company believes that in addition to net income (loss), EBITDA[1] is a useful supplemental measure as it provides readers with an indication of cash available for dividends prior to debt service, capital expenditures and income taxes. Readers should be cautioned, however, that EBITDA[1] should not be construed as an alternative to net income (loss) determined in accordance with IFRS as an indicator of the Company's performance or to cash flows from operating activities as a measure of liquidity and cash flows. EBITDA[1] is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS, and the Company's method of calculating EBITDA[1] may differ from the methods used by other similar entities. Accordingly, EBITDA[1] may not be comparable to similar measures used by such entities. Reconciliations of net income (loss) to EBITDA[1] have been provided under the headings "Results of Operations" and "Summary of Quarterly Results".

Adjusted EBITDA[1] is defined as EBITDA[1] plus or minus any Adjustment Items.

Adjustment items are defined as the impact of any adjustments to unbilled WIP deemed non recoverable and/or uncollectible accounts receivable.

.Other operating costs (other than interest) are defined by the Company as the sum of rent, other operating expenses and impairment of financial assets.

[1] See "Definition of Non-IFRS Measures"

Other finance costs is defined by the Company for the purposes of the MD&A as other finance costs as recorded in the consolidated financial statements of the Company less deferred transaction costs and change in the fair value of interest rate swap.

Adjusted revenue is equal to revenue plus or minus the impact of any adjustments to unbilled WIP deemed non recoverable.

Adjusted net income (loss) is equal to the net income (loss) for the period plus the after tax impact of any impairments to goodwill and intangible assets as well as any adjustments to unbilled WIP and uncollectible accounts receivable.

Adjusted basic and diluted net earnings per share is equal to the adjusted net income (loss) attributable to the owners for the period divided by the weighted average number of common shares outstanding during the period.