



IBI Group 2016 Third-Quarter Financial Statements

THREE MONTHS ENDED
SEPTEMBER 30, 2016

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF

IBI GROUP INC.

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

IBI GROUP INC.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(unaudited)

(thousands of Canadian dollars)

NOTES SEPTEMBER 30, 2016 DECEMBER 31, 2015

ASSETS

Current Assets

Cash	4	\$	7,440	\$	7,968
Restricted cash	4,7		-		3,238
Accounts receivable	4,7		106,006		111,771
Work in process	3		93,505		80,622
Prepaid expenses and other current assets			13,882		11,825
Income taxes recoverable			1,162		1,796
Total Current Assets		\$	221,995	\$	217,220
Restricted cash	4,7		14,890		2,010
Other assets			480		480
Property and equipment			14,281		14,923
Investment in equity accounted investee			-		32
Intangible assets			7,585		6,891
Deferred tax assets			12,699		13,684
TOTAL ASSETS		\$	271,930	\$	255,240

LIABILITIES AND DEFICIT

LIABILITIES

Current Liabilities

Accounts payable and accrued liabilities	4,7		52,869		54,423
Deferred revenue	3		46,279		38,675
Vendor notes payable	4,10		-		4,238
Income taxes payable			1,678		1,570
Consent fee notes payable	4,10		3,422		3,067
Finance lease obligation	4,7		38		148
Onerous lease provisions			1,008		995
Convertible debentures	4		75,055		-
Total Current Liabilities		\$	180,349	\$	103,116
Onerous lease provisions			2,614		3,244
Finance lease obligation	4,7		76		104
Credit facilities	4		35,887		72,277
Convertible debentures	4		56,410		84,720
Other financial liabilities	4		10,908		-
Deferred tax liabilities			3,188		6,660
TOTAL LIABILITIES		\$	289,432	\$	270,121

DEFICIT

Shareholders' Deficit

Share capital	6		248,422		248,422
Capital reserve	12		320		-
Contributed surplus			3,002		3,002
Deficit			(275,441)		(272,165)
Convertible debentures – equity component	4		4,956		4,956
Accumulated other comprehensive loss			(3,294)		(4,220)
Total Shareholders' Deficit		\$	(22,035)	\$	(20,005)
Non-controlling interest	6		4,533		5,124
TOTAL DEFICIT		\$	(17,502)	\$	(14,881)
TOTAL LIABILITIES AND DEFICIT		\$	271,930	\$	255,240

See accompanying notes to the interim condensed consolidated financial statements.

IBI GROUP INC.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

(unaudited)

	NOTES	THREE MONTHS ENDED		NINE MONTHS ENDED	
		SEPTEMBER 30, 2016	SEPTEMBER 30, 2015	SEPTEMBER 30, 2016	SEPTEMBER 30, 2015
<i>(thousands of Canadian dollars, except per share amounts)</i>					
Revenue		\$ 88,211	\$ 83,819	\$ 267,299	\$ 242,179
Salaries, fees and employee benefits	12	62,241	59,029	186,955	170,726
Rent		5,364	5,892	16,793	17,609
Other operating expenses		10,403	8,880	31,279	26,816
Foreign exchange loss (gain)	7(a)	(392)	(3,908)	8,578	(6,887)
Amortization of intangible assets		316	200	709	579
Amortization of property and equipment		1,029	1,046	3,155	2,830
Impairment of financial assets	7	15	177	1,095	453
		78,976	71,316	248,564	212,126
OPERATING INCOME		\$ 9,235	\$ 12,503	\$ 18,735	\$ 30,053
Interest expense, net	7,9	14,384	5,286	22,489	16,141
Other finance costs	9	452	70	1,228	519
FINANCE COSTS		\$ 14,836	\$ 5,356	\$ 23,717	\$ 16,660
Share of loss of equity-accounted investee, net of tax		-	226	32	635
NET (LOSS) INCOME BEFORE TAX		\$ (5,601)	\$ 6,921	\$ (5,014)	\$ 12,758
Current tax expense	13	546	253	1,760	1,322
Deferred tax (recovery) expense	13	(1,419)	442	(2,673)	1,091
INCOME TAXES		\$ (873)	\$ 695	\$ (913)	\$ 2,413
Net (loss) income from continuing operations		\$ (4,728)	\$ 6,226	\$ (4,101)	\$ 10,345
Net (loss) income from discontinued operations		-	(1,411)	-	(1,411)
NET (LOSS) INCOME		\$ (4,728)	\$ 4,815	\$ (4,101)	\$ 8,934
OTHER COMPREHENSIVE (LOSS) INCOME					
Items that are or may be reclassified to profit or loss					
Gain (loss) on translating financial statements of foreign operations, net of tax		\$ 304	\$ (955)	\$ 1,160	\$ (216)
OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAX		304	(955)	1,160	(216)
TOTAL COMPREHENSIVE (LOSS) INCOME		\$ (4,424)	\$ 3,860	\$ (2,941)	\$ 8,718
NET INCOME ATTRIBUTABLE TO:					
Common shareholders		\$ (3,777)	\$ 3,755	\$ (3,276)	\$ 6,968
Non-controlling interests	6	(951)	1,060	(825)	1,966
NET (LOSS) INCOME		\$ (4,728)	\$ 4,815	\$ (4,101)	\$ 8,934
TOTAL COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO:					
Common shareholders		\$ (3,535)	\$ 3,010	\$ (2,350)	\$ 6,799
Non-controlling interests	6	(889)	850	(591)	1,919
TOTAL COMPREHENSIVE (LOSS) INCOME		\$ (4,424)	\$ 3,860	\$ (2,941)	\$ 8,718
EARNINGS PER SHARE ATTRIBUTABLE TO COMMON SHAREHOLDERS					
Basic and diluted earnings per share	6	\$ (0.15)	\$ 0.21	\$ (0.13)	\$ 0.39
Basic and diluted earnings per share from continuing operations	6	\$ (0.15)	\$ 0.27	\$ (0.13)	\$ 0.45
Basic and diluted earnings per share from discontinued operations	6	\$ -	\$ (0.06)	\$ -	\$ (0.06)

See accompanying notes to the interim condensed consolidated financial statements.

IBI GROUP INC.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

	NOTES	THREE MONTHS ENDED		NINE MONTHS ENDED	
		SEPTEMBER 30, 2016	SEPTEMBER 30, 2015	SEPTEMBER 30, 2016	SEPTEMBER 30, 2015
<i>(thousands of Canadian dollars)</i>					
CASH FLOWS PROVIDED BY (USED IN)					
OPERATING ACTIVITIES					
Net (loss) income		\$ (4,728)	\$ 4,815	\$ (4,101)	\$ 8,934
Items not affecting cash:					
Onerous lease provision		(275)	(236)	(617)	(278)
Amortization of property and equipment		1,029	1,046	3,155	2,830
Amortization of intangible assets		316	200	709	579
Amortization of deferred financing costs	4	262	-	780	-
Impairment of financial assets		15	177	1,095	453
Share of loss of equity-accounted investee, net of tax		-	226	32	635
Foreign exchange loss (gain)	7	(392)	(3,908)	8,578	(6,887)
Interest expense, net	9	14,384	5,286	22,489	16,141
Deferred income taxes		(1,419)	442	(2,673)	1,091
Stock option expense	12	132	-	320	-
Interest paid		(667)	(1,971)	(5,772)	(9,480)
Income taxes received (paid)		(197)	75	(864)	(1,149)
Change in non-cash operating working capital	8	5,435	5,474	(9,530)	3,711
NET CASH PROVIDED BY OPERATING ACTIVITIES		\$ 13,895	\$ 11,626	\$ 13,601	\$ 16,580
CASH FLOWS PROVIDED BY (USED IN) FINANCING					
ACTIVITIES					
Bank indebtedness	4	\$ -	\$ 1,272	\$ -	\$ 1,272
Payments on principal of notes payable	10	-	(230)	(4,076)	(1,206)
Payments on principal of credit facilities		(47,980)	(13,960)	(37,988)	(17,573)
Issuance of convertible debentures	4	46,000		46,000	
Costs from issuance of convertible debentures	4	(2,594)		(2,594)	
Payments on principal of finance lease obligation		(10)	(172)	(138)	(525)
NET CASH PROVIDED BY (USED IN) FINANCING		\$ (4,584)	\$ (13,090)	\$ 1,204	\$ (18,032)
CASH FLOWS USED IN INVESTING ACTIVITIES					
Purchase of property and equipment		\$ (736)	\$ (999)	\$ (2,886)	\$ (3,852)
Purchase of intangible assets		(520)	(503)	(1,692)	(905)
Restricted cash	4	(3,282)	-	(9,811)	(2,847)
NET CASH USED IN INVESTING ACTIVITIES		\$ (4,538)	\$ (1,502)	\$ (14,389)	\$ (7,604)
Effect of foreign exchange rate fluctuations on cash	7	\$ (233)	\$ 319	\$ (944)	\$ 553
NET INCREASE (DECREASE) IN CASH		\$ 4,540	\$ (2,647)	\$ (528)	\$ (8,503)
Cash, beginning of period		2,900	4,486	7,968	10,342
CASH, END OF PERIOD		\$ 7,440	\$ 1,839	\$ 7,440	\$ 1,839
NET CASH IS COMPRISED OF:					
Cash from continuing operations, end of period		\$ 7,440	\$ 1,839	\$ 7,440	\$ 1,839
Cash from discontinued operations, end of period		-	-	-	-
CASH, END OF PERIOD		\$ 7,440	\$ 1,839	\$ 7,440	\$ 1,839

See accompanying notes to the interim condensed consolidated financial statements.

IBI GROUP INC.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN DEFICIT

(unaudited)

(thousands of Canadian dollars)	NOTES	THREE MONTHS ENDED		NINE MONTHS ENDED	
		SEPTEMBER 30, 2016	SEPTEMBER 30, 2015	SEPTEMBER 30, 2016	SEPTEMBER 30, 2015
SHARE CAPITAL					
Share capital, beginning of period		\$ 248,422	\$ 235,036	\$ 248,422	\$ 235,036
SHARE CAPITAL, END OF PERIOD		\$ 248,422	\$ 235,036	\$ 248,422	\$ 235,036
CAPITAL RESERVE					
Capital reserve, beginning of period		\$ 188	\$ -	\$ -	\$ -
Stock options	12	132	-	320	-
CAPITAL RESERVE, END OF PERIOD		\$ 320	\$ -	\$ 320	\$ -
CONTRIBUTED SURPLUS					
Contributed surplus, beginning of period		\$ 3,002	\$ 2,106	\$ 3,002	\$ 2,106
CONTRIBUTED SURPLUS, END OF PERIOD		\$ 3,002	\$ 2,106	\$ 3,002	\$ 2,106
DEFICIT					
Deficit, beginning of period		\$ (271,664)	\$ (276,333)	\$ (272,165)	\$ (279,546)
Net income (loss) attributable to common shareholders		(3,777)	3,755	(3,276)	6,968
DEFICIT, END OF PERIOD		\$ (275,441)	\$ (272,578)	\$ (275,441)	\$ (272,578)
CONVERTIBLE DEBENTURES - EQUITY COMPONENT					
Convertible debentures, beginning of period	4(b)	\$ 4,956	\$ 5,852	\$ 4,956	\$ 5,852
Convertible debentures, Issued					
CONVERTIBLE DEBENTURES, END OF PERIOD		\$ 4,956	\$ 5,852	\$ 4,956	\$ 5,852
ACCUMULATED OTHER COMPREHENSIVE LOSS					
Accumulated other comprehensive loss, beginning of period		\$ (3,536)	\$ (2,821)	\$ (4,220)	\$ (3,398)
Other comprehensive income (loss) attributable to common shareholders		242	(746)	926	(169)
ACCUMULATED OTHER COMPREHENSIVE LOSS, END OF PERIOD		\$ (3,294)	\$ (3,567)	\$ (3,294)	\$ (3,567)
TOTAL SHAREHOLDERS' DEFICIT		\$ (22,035)	\$ (33,151)	\$ (22,035)	\$ (33,151)
NON-CONTROLLING INTEREST					
Non-controlling interest, beginning of period		\$ 5,422	\$ 2,374	\$ 5,124	\$ 1,305
Total comprehensive income (loss) attributable to non-controlling interests	6	(889)	850	(591)	1,919
NON-CONTROLLING INTEREST, END OF PERIOD		\$ 4,533	\$ 3,224	\$ 4,533	\$ 3,224
TOTAL DEFICIT, END OF PERIOD		\$ (17,502)	\$ (29,927)	\$ (17,502)	\$ (29,927)

See accompanying notes to the interim condensed consolidated financial statements.

IBI GROUP INC.

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars, except per share and share amounts)

NOTE 1: ORGANIZATION AND DESCRIPTION OF THE BUSINESS

IBI Group Inc. (the “Company”) is a company incorporated pursuant to the provisions of the Canada Business Corporations Act (the “CBCA”) on September 30, 2010 and is the successor to IBI Income Fund (the “Fund”), an unincorporated, open-ended limited purpose trust established under the laws of Ontario.

The Fund was created on July 23, 2004, to indirectly acquire the outstanding Class A partnership units of IBI Group Partnership (“IBI Group”), a general partnership formed and carrying on business under the laws of the Province of Ontario. As at September 30, 2016, the Company’s common share capital consisted of 24,966,744 (December 31, 2015 – 24,966,744) issued and outstanding shares. Each share entitles the holder to one vote at all meetings of shareholders.

IBI Group also issued Class B partnership units to IBI Group Management Partnership (the “Management Partnership”), the entity that carried on the operations of the Fund prior to its acquisition by the Fund. The Class B partnership units of IBI Group are indirectly exchangeable for shares on the basis of one share of the Company for each Class B partnership unit. Class B partnership units do not entitle the holder to voting rights at the meetings of shareholders of the Company.

If all of the outstanding Class B partnership units were converted to common shares, the common share capital as at September 30, 2016 would be 31,248,966 (December 31, 2015 – 31,248,966). If the Class B partnership units were converted, the Management Partnership and affiliated partnerships would hold 44.7% of the voting shares as at September 30, 2016 (December 31, 2015 – 44.5%).

The table below summarizes the ownership of the Company by the Management Partnership and affiliated partnerships as at September 30, 2016:

	NUMBER OF UNITS HELD	PERCENTAGE OF TOTAL OWNERSHIP
Class B partnership units and non-participating voting shares held by the Management Partnership	6,282,222	20.1%
Common shares held by the Management Partnership and affiliated partnerships	7,694,194	24.6%

Through IBI Group, the Company is an international, multi-disciplinary provider of a broad range of professional services focused on the physical development of cities. IBI Group’s business is concentrated in three main areas of development, being intelligence, buildings and infrastructure. The professional services provided by IBI Group include planning, design, implementation, analysis of operations and other consulting services related to these three main areas of development.

The table below summarizes the trading symbols of the Company’s securities which are listed on the Toronto Stock Exchange as at September 30, 2016:

IBI GROUP INC.**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
(in thousands of Canadian dollars, except per share and share amounts)

SECURITY	TRADING SYMBOL
Common shares	"IBG"
6.0% convertible debentures, \$57,500 principal, convertible at \$21 per share, matures on June 30, 2018 ("6.0% Debentures")	"IBG.DB.B"
7.0% convertible debentures (Option A), \$14,755 principal, convertible at \$19.17 per share, matures on June 30, 2019 ("7.0% Debentures")	"IBG.DB.C"
7.0% convertible debentures (Options B and C), \$31,245 principal, convertible at \$5.00 per share, matures on June 30, 2019 ("7.0% Debentures")	"IBG.DB"
5.5% convertible debentures, \$46,000 principal, convertible at \$8.35 per share, matures on December 31, 2021 ("5.5% Debentures")	"IBG.DB.D"

The Company's registered head office is 55 St. Clair Ave. West, 7th Floor, Toronto, Ontario, M5V 2Y7.

NOTE 2: BASIS OF PREPARATION**(a) STATEMENT OF COMPLIANCE**

These unaudited interim condensed consolidated financial statements ("interim financial statements") of the Company and its subsidiaries have been prepared in accordance with IAS 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board and accounting policies described in the Company's audited consolidated financial statements as at and for the year ended December 31, 2015 other than those described in (c) below. Certain information and footnote disclosures which are considered material to the understanding of the Company's interim financial statements and which are normally included in annual financial statements prepared in accordance with IFRS are provided in these notes. The interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Corporation's audited annual consolidated financial statements for the year ended December 31, 2015. These interim financial statements were approved by the Company's Board of Directors on November 9, 2016.

(b) USE OF ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of these interim financial statements requires management to exercise judgment and make estimates and assumptions that affect the application of accounting policies on reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the interim condensed consolidated statement of financial position ("interim statement of financial position"), and the reported amounts of revenue and expenses for the period covered by the interim condensed consolidated statement of income and comprehensive income ("interim statement of income and comprehensive income"). Actual amounts may differ from these estimates.

(c) CHANGES IN ACCOUNTING POLICIES

Annual Improvements to IFRS (2012 - 2014) Cycles

In September 2014, the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process.

The Company adopted these amendments in its interim financial statements for the annual period beginning on January 1, 2016. The adoption of these amendments did not have a material impact on the interim financial statements.

IAS 1 Presentation of Financial Statements

In December 2014, the IASB issued amendments to IAS 1 *Presentation of Financial Statements*, to provide guidance on the application of judgment in the preparation of financial statements and disclosures.

The Company adopted these amendments in its interim financial statements for the annual period beginning on January 1, 2016. The adoption of these amendments did not have a material impact on the interim financial statements.

IFRS 11 Joint Arrangements

In May 2014, IFRS 11 *Joint Arrangements* ("IFRS 11") was amended to require an acquisition of a joint operation that constitutes a business to be accounted for using the principles of business combinations in IFRS 3 *Business Combinations*. This amendment applies to both initial and additional interest acquired in the joint operation.

The Company adopted the amendments to IFRS 11 in its interim financial statements for the annual period beginning on January 1, 2016. The adoption of these amendments did not have a material impact on the interim financial statements.

(d) FUTURE ACCOUNTING POLICY CHANGES

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued Disclosure Initiative (*Amendments to IAS 7*). The amendments apply prospectively for annual periods beginning on or after January 1, 2017. Earlier application is permitted.

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

The Company intends to adopt the amendments to IAS 7 in its financial statements for the annual period beginning on January 1, 2017. The adoption of these amendments is not expected to have a material impact on the Company's financial statements.

Amendments to IAS 12 Income Taxes

In January 2016, the IASB issued Amendments to IAS 12 *Income Taxes* to provide clarification on the requirements relating to the recognition of deferred tax assets for unrealized losses on debt instruments measured at fair value. The amendments apply retrospectively for annual periods beginning on or after January 1, 2017. Earlier application is permitted.

The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences.

The Company intends to adopt the amendments to IAS 12 in its financial statements for the annual period beginning on January 1, 2017. The adoption of these amendments is not expected to have a material impact on the Company's financial statements.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"). The new standard is effective for annual periods beginning on or after January 1, 2018 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 new standard contains a single model that applies to contracts with customers and two approaches for recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of individual transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

In April 2016, the IASB issued *Clarifications to IFRS 15*, which is effective at the same time as IFRS 15.

The clarifications to IFRS 15 provide additional guidance with respect to the five-step analysis, transition, and the application of the standard to licenses of intellectual property.

The Company intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* ("IFRS 9"), with a mandatory effective date for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

IBI GROUP INC.**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
(in thousands of Canadian dollars, except per share and share amounts)

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.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 *Leases* ("IFRS 16"). The new standard is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 has been adopted.

IFRS 16 will replace IAS 17 *Leases*. The new standard requires all leases to be reported on the balance sheet unless certain criteria for exclusion are met. The Company intends to adopt IFRS 16 in its consolidated financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

Amendments to IFRS 2 *Classification and Measurement of Share-Based Payment Transactions*

In June 2016, the IASB issued Amendments to IFRS 2 *Share-Based Payments* ("IFRS 2"), clarifying how to account for certain types of share-based payment transactions. The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively or retrospectively, with early application permitted if information is available without the use of hindsight.

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share based payment transactions with a net settlement feature for withholding tax obligations, and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The Company intends to adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period beginning January 1, 2018. The extent of the impact of the adoption of the standard has not yet been determined.

NOTE 3: SEGMENT INFORMATION

The Company is an international, multi-disciplinary provider of a broad range of professional services focused on the physical development of cities. The Company considers the basis on which it is organized, including geographic areas and service offerings, in identifying its reportable segments.

IBI GROUP INC.
NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars, except per share and share amounts)
(a) OPERATING SEGMENTS

Operating segments of the Company are defined as components for which separate financial information is available that is evaluated regularly in allocating resources and assessing performance.

The Company has one operating segment, consulting services. These services are provided throughout Canada, the U.S., and internationally.

(b) GEOGRAPHIC SEGMENTS

The following table demonstrates certain information contained in the interim statement of financial position segmented geographically as at September 30, 2016, with comparatives as at December 31, 2015:

	AS AT SEPTEMBER 30, 2016			
	CANADA	U.S.	INTERNATIONAL	TOTAL
Property and equipment	\$ 9,526	\$ 3,518	\$ 1,237	\$ 14,281
Intangible assets	4,355	2,631	599	7,585
Work in process	60,808	14,933	31,305	107,046
Reserve for work in process	(12,375)	(351)	(815)	(13,541)
Work in process, net	48,433	14,582	30,490	93,505
Deferred revenue	29,708	7,497	9,074	46,279
Total assets	140,932	58,611	72,387	271,930

	AS AT DECEMBER 31, 2015			
	CANADA	U.S.	INTERNATIONAL	TOTAL
Property and equipment	\$ 10,584	\$ 2,533	\$ 1,806	\$ 14,923
Intangible assets	2,766	3,306	819	6,891
Work in process	56,275	15,053	26,766	98,094
Reserve for work in process	(14,137)	(557)	(2,778)	(17,472)
Work in process, net	42,138	14,496	23,988	80,622
Deferred revenue	25,909	8,492	4,274	38,675
Total assets	120,168	62,233	72,839	255,240

The following table demonstrates certain information contained in the interim statement of income and comprehensive income segmented geographically for the three and nine months ended September 30, 2016, with comparatives for the three and nine months ended September 30, 2015. The unallocated amounts pertain to interest on convertible debentures.

IBI GROUP INC.
NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars, except per share and share amounts)

THREE MONTHS ENDED SEPTEMBER 30, 2016						
	UNALLOCATED					
	CORPORATE		CANADA	U.S.	INTERNATIONAL	TOTAL
	COSTS					
Revenue	\$	-	\$ 45,558	\$ 30,076	\$ 12,577	\$ 88,211
Net income (loss) before tax	\$	(13,560)	\$ 3,488	\$ 3,080	\$ 1,391	\$ (5,601)
Foreign exchange loss (gain)		-	(450)	11	47	(392)
Net income (loss) before tax and foreign exchange	\$	(13,560)	\$ 3,038	\$ 3,091	\$ 1,438	\$ (5,993)

NINE MONTHS ENDED SEPTEMBER 30, 2016						
	UNALLOCATED					
	CORPORATE		CANADA	U.S.	INTERNATIONAL	TOTAL
	COSTS					
Revenue	\$	-	\$ 138,934	\$ 89,660	\$ 38,705	\$ 267,299
Net income (loss) before tax	\$	(19,897)	\$ 3,164	\$ 7,286	\$ 4,433	\$ (5,014)
Foreign exchange loss (gain)		-	8,041	55	482	8,578
Net income (loss) before tax and foreign exchange	\$	(19,897)	\$ 11,205	\$ 7,341	\$ 4,915	\$ 3,564

THREE MONTHS ENDED SEPTEMBER 30, 2015						
	UNALLOCATED					
	CORPORATE		CANADA	U.S.	INTERNATIONAL	TOTAL
	COSTS					
Revenue	\$	-	\$ 43,948	\$ 27,578	\$ 12,293	\$ 83,819
Net income (loss) before tax	\$	(3,595)	\$ 8,356	\$ 2,293	\$ (133)	\$ 6,921
Foreign exchange loss (gain)		-	(4,007)	-	99	(3,908)
Net income (loss) before tax and foreign exchange	\$	(3,595)	\$ 4,349	\$ 2,293	\$ (34)	\$ 3,013

IBI GROUP INC.NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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	NINE MONTHS ENDED SEPTEMBER 30, 2015				
	UNALLOCATED CORPORATE COSTS	CANADA	U.S.	INTERNATIONAL	TOTAL
Revenue	\$ -	\$ 132,244	\$ 74,471	\$ 35,464	\$ 242,179
Net income (loss) before tax	\$ (10,695)	\$ 21,709	\$ 1,328	\$ 416	\$ 12,758
Foreign exchange loss (gain)	-	(6,905)	(11)	29	(6,887)
Net income (loss) before tax and foreign exchange	\$ (10,695)	\$ 14,804	\$ 1,317	\$ 445	\$ 5,871

NOTE 4: FINANCIAL INSTRUMENTS**(a) INDEBTEDNESS**

On October 5, 2015, IBI Group secured an agreement to refinance its credit facilities under the existing banking agreement with its senior lenders. The arrangement consists of a \$90,000 revolver facility, of which a maximum of \$10,000 is available under a swing line facility and will mature on June 30, 2018. The commitment under the swing line facility will reduce availability under the revolver facility on a dollar-for-dollar basis. As at September 30, 2016, the interest rate on Canadian dollar borrowings was 4.95% (September 30, 2015 – 7.1%) and 6.25% on U.S dollar borrowings (September 30, 2015 – 7.5%).

The additional deposits in the Sinking Fund are pledged to repay the credit facilities or convertible debentures, and as security in the event of default. IBI Group made the required deposits to the Sinking Fund of \$2,000 for December 31, 2015, \$3,250 for March 31, 2016, \$3,250 for June 30, 2016 and \$3,250 for September 30, 2016, which have been recognized in restricted cash for \$11,750 in the interim statement of financial position. IBI Group will earn interest on the deposits in the Sinking Fund based on the Canadian dollar prime rate less an applicable margin. Deposits to the Sinking Fund have been recognized inclusive of interest earned as an investing activity in the interim condensed consolidated statement of cash flows.

As at September 30, 2016, IBI Group has borrowings of \$37,702 (December 31, 2015 - \$74,872) under the credit facilities, which has been recognized net of deferred financing costs of \$1,815 (December 31, 2015 - \$2,595). As at September 30, 2016, IBI Group has letters of credit outstanding of \$5,955 (December 31, 2015 - \$5,318), of which \$3,754 (December 31, 2015 - \$3,091) is issued under a \$7,500 facility which matures on June 30, 2017 and supports letters of credit backstopped by Export Development Canada. Advances under the revolver facility bear interest at a rate based on the Canadian dollar prime rate or U.S dollar base rate, LIBOR or Banker's Acceptance rates plus, in each case, an applicable margin. At September 30, 2016, \$32,117 was outstanding under Bankers' Acceptance with the remainder borrowed as prime rate debt (December 31, 2015 - \$30,000).

This facility is subject to compliance with certain financial, reporting and other covenants. The financial covenants under the agreement include a leverage ratio, interest coverage ratio, minimum Adjusted EBITDA¹ threshold, and restrictions on distributions, if certain conditions are not met. IBI Group was in compliance with its credit facility covenants as at September 30, 2016.

Continued compliance with the covenants under the amended credit facilities is dependent on IBI Group achieving revenue forecasts, profitability, reducing costs and the continued improvement of working capital. Market conditions are difficult to predict and there is no assurance that IBI Group will achieve its forecasts. In the event of non-compliance, IBI Group's lenders have the right to demand repayment of the amounts outstanding under the lending agreements or pursue other remedies if IBI Group cannot reach an agreement with its lenders to amend or waive the financial covenants. As in the past, IBI Group will carefully monitor its compliance with the covenants and will seek waivers, subject to lender approval, as may become necessary from time to time.

(b) CONVERTIBLE DEBENTURES

The Company has three series of convertible debentures outstanding as at September 30, 2016 and had two series of convertible debentures outstanding as of December 31, 2015.

In September 2016, the Company issued 5.5% Debentures of \$46,000 with a maturity date of December 31, 2021. The 5.5% Debentures are convertible into common shares of the Company at the option of the holder at a conversion price of \$8.35 per common share. The 5.5% Debentures are not redeemable at the option of the Company before December 31, 2019. The 5.5% Debentures are redeemable by the Company at a price of \$1,000 per 5.5% Debenture, plus accrued and unpaid interest, on or after December 31, 2019 and prior to December 31, 2020 (provided that the volume 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 \$8.35 per share). On or after December 31, 2020 and prior to the maturity date, the 5.5% Debentures are redeemable by the Company at a price of \$1,000 per 5.5% Debenture, plus accrued and unpaid interest. The 5.5% Debentures bear interest from the date of issue at 5.5% per annum, payable in equal semi-annual payments in arrears on June 30th and December 31st of each year, commencing June 30, 2017.

The 5.5% Debentures are recorded as a hybrid financial instrument. The non-derivative debt (interest and principal portion) was recorded at fair value on the date of issue and was recognized at \$32,498 which was net of deferred financing costs of \$2,594. The fair value of the 5.5% non-derivative debt component was \$35,092 and was estimated using discounted future cash flows at an estimated discount rate of 11.5%. Subsequently the non-derivative debt component is measured at amortized cost using the effective interest method over the life of the debenture.

¹ As defined in the credit facilities agreement, references to "Adjusted EBITDA" is to earnings before interest, income taxes, depreciation and amortization; adjusted for gain/loss arising from extraordinary, unusual or non-recurring items; acquisition costs and deferred consideration revenue; non-cash expenses; gain/loss realized upon the disposal of capital property; gain/loss on foreign exchange translation; gain/loss on purchase or redemption of securities issued; gain/loss on fair valuation of financial instruments; amounts attributable to minority equity investments; and interest income. Adjusted EBITDA is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS, and the Company's method of calculating Adjusted EBITDA may differ from the methods used by other similar entities.

IBI GROUP INC.**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
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The derivative component of this hybrid financial instrument representing the conversion feature of the 5.5% Debentures was measured at fair value of \$10,908 at the date of issuance, and recorded as part of Other Financial Liabilities in the statement of financial position.

As at September 30, 2016, the net proceeds of \$43,406 from the issuance of the 5.5% Debentures were used to repay the Company's credit facilities. Notice of redemption was given to the holders of the 6.0% Debentures on September 23, 2016, with a redemption date of October 24, 2016. All accrued and unpaid interest will be payable on the date of redemption up to but excluding the redemption date. Subsequent to the quarter, \$43,810 was drawn from the credit facility to fund the partial redemption of the 6% Debentures.

Upon notice of redemption being given to the holders of 6.0% Debentures, the portion of the financial liability being redeemed was accreted to principal, resulting in \$1,316 of incremental accretion expense being recognized in the interim statement of income and comprehensive income during the three months ended September 30, 2016. Subsequent to September 30, 2016, upon redemption of \$43,810 million of the 6.0% Debentures, the equity component of the portion redeemed of \$2,441 was reclassified to contributed surplus.

On September 29, 2016, the Company issued a notice of redemption to the holders of 7.0% Debentures under Options B and C ("IBG.DB"), The Company gave notice that it will be converting principal of \$31,245 into common shares under the \$5 share conversion option, with a redemption date of October 31, 2016. For those debenture holders that do not accept the conversion on or before October 31, 2016, they will receive common shares based on 95% of the 20 day volume-weighted average price on 5th trading day preceding the redemption date. The Company will pay any accrued and unpaid interest up to but excluding the redemption date for the portion that is not exercised by the debenture holders and is converted at 95% of the 20 day volume-weighted average price on the 5th trading day preceding the date of redemption. There will not be any interest payable since the last interest payment date on the portion that is exercised by the debenture holders under the \$5 share conversion option. The Company will not issue any fractional shares but will pay cash in lieu thereof, determined on the basis of the current market price of the common shares on the redemption date.

As at October 31, 2016, the holders of \$29,988 principal of the 7.0% Debentures had exercised the \$5 share conversion option and received 5,997,600 shares. For the balance of \$1,257 principal of the 7.0% Debentures, the Company issued 222,476 shares on October 31, 2016.

Upon notice of redemption being given to the holder of 7.0% Debentures, the financial liability being redeemed under Options B and C was accreted to the full principal value, resulting in \$8,867 of incremental accretion expense being recognized in the interim statement of income and comprehensive income during the three months ended September 30, 2016. Subsequent to September 30, 2016, upon conversion of the 7.0% Debentures under Options B and C, the Company recorded \$31,245 in common shares and reclassified the equity component of the portion redeemed of \$1,189 to contributed surplus.

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The fair value of the convertible debentures as at September 30, 2016, based on a Level 1 quoted market price, is as follows:

	Carrying value	Fair value
6.0% Debentures	\$ 57,089	\$ 57,540
7.0% Debentures	41,812	52,865
5.5% Debentures	32,564	46,805
Total	\$ 131,465	\$ 157,210

The fair value of the convertible debentures as at December 31, 2015, based on a Level 1 quoted market price, is as follows:

	Carrying value	Fair value
6.0% Debentures	\$ 55,102	\$ 42,493
7.0% Debentures	29,618	33,917
Total	\$ 84,720	\$ 76,410

The movement in convertible debentures for the nine months ended September 30, 2016 is as follows:

	LIABILITY COMPONENT	EQUITY COMPONENT	OTHER FINANCIAL LIABILITY COMPONENT	TOTAL
Balance, January 1, 2016	\$ 84,720	\$ 4,956	\$ -	\$ 89,676
Accretion of convertible debentures	14,247	-	-	14,247
Recognition of 5.5% Debentures	32,498	-	10,908	43,406
BALANCE, SEPTEMBER 30, 2016	\$ 131,465	\$ 4,956	10,908	\$ 147,329

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The movement in convertible debentures for the year ended December 31, 2015 is as follows:

	LIABILITY COMPONENT	EQUITY COMPONENT	TOTAL
Balance, January 1, 2015	\$ 98,437	\$ 5,852	\$ 104,289
Accretion of convertible debentures	6,283	-	6,283
Redemption of 5.75% convertible debentures ("5.75% Debentures")	(20,000)	(896)	(20,896)
BALANCE, DECEMBER 31, 2015	\$ 84,720	\$ 4,956	\$ 89,676

See Note 10 - Notes Payable for related consent fee notes payable which were issued in relation to the amendment of the 7% Debentures in 2014.

(c) FINANCIAL ASSETS AND LIABILITIES

The fair values of accounts receivable, accounts payable and accrued liabilities, vendor notes payable, consent fee notes payable and finance lease obligation approximate their carrying amounts due to their short-term maturity. The fair value of the credit facilities approximate its carrying amount due to the variable rate of interest.

IBI GROUP INC.
NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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The carrying amount of the Company's financial instruments as at September 30, 2016 are as follows:

	FINANCIAL ASSETS AND LIABILITIES AT FVTPL¹		LOANS AND RECEIVABLES	OTHER FINANCIAL LIABILITIES	TOTAL	
FINANCIAL ASSETS						
Cash	\$	7,440	\$	-	\$	7,440
Restricted cash		14,890		-		14,890
Accounts receivable		-		106,006		106,006
TOTAL	\$	22,330	\$	106,006	\$	128,336
FINANCIAL LIABILITIES						
Accounts payable and accrued liabilities	\$	-	\$	-	\$	50,528
Deferred share plan liability		2,341		-		2,341
Consent fee notes payable		-		-		3,422
Finance lease obligation		-		-		114
Credit facilities		-		-		35,887
Convertible debentures		-		-		131,465
Other Financial Liabilities		10,908		-		10,908
TOTAL	\$	13,249	\$	-	\$	221,416

¹ Fair value through profit or loss ("FVTPL")

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The carrying amount of the Company's financial instruments as at December 31, 2015 are as follows:

	FINANCIAL ASSETS AND LIABILITIES AT FVTPL		LOANS AND RECEIVABLES	OTHER FINANCIAL LIABILITIES		TOTAL		
FINANCIAL ASSETS								
Cash	\$	7,968	\$	-	\$	-	\$	7,968
Restricted cash		5,248		-		-		5,248
Accounts receivable		-		111,771		-		111,771
TOTAL	\$	13,216	\$	111,771	\$	-	\$	124,987
FINANCIAL LIABILITIES								
Accounts payable and accrued liabilities	\$	-	\$	-	\$	53,696	\$	53,696
Deferred share plan liability		727		-		-		727
Vendor notes payable		-		-		4,238		4,238
Consent fee notes payable		-		-		3,067		3,067
Finance lease obligation		-		-		252		252
Credit facilities		-		-		72,227		72,227
Convertible debentures		-		-		84,720		84,720
TOTAL	\$	727	\$	-	\$	218,200	\$	218,927

The following tables summarize the Company's fair value hierarchy for those assets and liabilities that are measured at fair value on a recurring basis as at September 30, 2016 and December 31, 2015:

	AS AT SEPTEMBER 30, 2016					
	LEVEL 1	LEVEL 2	LEVEL 3			
Cash	\$	7,440	\$	-	\$	-
Restricted cash		14,890		-		-
Deferred share plan liability		-		(2,341)		-
Other Financial Liabilities		-		(10,908)		-
	\$	22,330	\$	(13,249)	\$	-

IBI GROUP INC.
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	AS AT DECEMBER 31, 2015		
	LEVEL 1	LEVEL 2	LEVEL 3
Cash	\$ 7,968	\$ -	\$ -
Restricted cash	5,248	-	-
Deferred share plan liability	-	(727)	-
	\$ 13,216	\$ (727)	\$ -

NOTE 5: RELATED PARTY TRANSACTIONS

Pursuant to the Administration Agreement, IBI Group and certain of its subsidiaries are paying to the Management Partnership an amount representing the base compensation for the services of the partners of the Management Partnership. The amount paid for such services during the three months ended September 30, 2016 was \$5,867 (three months ended September 30, 2015 - \$6,070) and \$17,742 for the nine months ended September 30, 2016 (nine months ended September 30, 2015 - \$18,154). As at September 30, 2016, the Company advanced \$502 to the Management Partnership for payment of future compensation for the services of the partners (December 31, 2015 – \$1,036). As at September 30, 2016, there were 88 partners (December 31, 2015 – 91 partners).

IBI Group from time to time makes a monthly distribution to each Class B partnership unit holder equal to the dividend per share (on a pre-tax basis) declared to each shareholder. All of the Class B partnership units are held by the Management Partnership. As at September 30, 2016 and December 31, 2015, the amount of distributions payable to the Management Partnership were \$nil.

NOTE 6: EQUITY**(a) SHAREHOLDERS' EQUITY**

The Company is authorized to issue an unlimited number of common shares. As at September 30, 2016, the Company's common share capital consisted of 24,966,744 shares issued and outstanding (December 31, 2015 – 24,966,744 shares).

Each share entitles the holder to one vote at all meetings of shareholders.

The 6,282,222 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 partnership unit. If all such Class B partnership units of IBI Group had been exchanged for shares on September 30, 2016, the units issued on such exchange would have represented a 20.1% interest in the Company.

Class B partnership units do not entitle the holder to voting rights at the meetings of shareholders, although the holder also holds an equal number of non-participating voting shares in the Company. The Class B partnership units have been recorded as a non-controlling interest in the interim financial statements as at September 30, 2016.

SHARE ISSUANCES

There were no share issuances during the three and nine months ended September 30, 2016.

During the quarter the company announced its intention to redeem \$31,245 of 7% Debentures which mature June 30, 2019 by issuing common shares. On October 31, 2016 the company completed this transaction by issuing 6,220,076 common shares.

EARNINGS PER SHARE

For the purposes of calculating diluted earnings per share, any impact of the convertible rights on the convertible debentures are not included in the calculation of net income per common share or weighted average number of common shares outstanding as they would be anti-dilutive.

For the purposes of calculating diluted earnings per share, any impact of the stock options are included in the calculation of net income per common share or weighted average number of common shares outstanding.

(b) NON-CONTROLLING INTEREST

Non-controlling interest in the Company's subsidiaries is exchangeable into the common shares of the Company on a one for one basis, subject to certain conditions. The movement in non-controlling interest is shown in the interim condensed consolidated statement of changes in deficit for the three and nine months ended September 30, 2016.

The calculation of net income and total comprehensive income attributable to non-controlling interest is set out below:

	THREE MONTHS ENDED SEPTEMBER 30, 2016	THREE MONTHS ENDED SEPTEMBER 30, 2015	NINE MONTHS ENDED SEPTEMBER 30, 2016	NINE MONTHS ENDED SEPTEMBER 30, 2015
Net income	\$ (4,728)	\$ 4,815	\$ (4,101)	\$ 8,934
Non-controlling interest share of ownership ¹	20.1%	22.0%	20.1%	22.0%
Net income attributable to non-controlling interest	\$ (951)	\$ 1,060	\$ (825)	\$ 1,966

¹ For the purposes of allocating net income and total comprehensive income to non-controlling interest, the average share of non-controlling interest for the year ended December 31, 2015 was used.

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	THREE MONTHS ENDED SEPTEMBER 30, 2016	THREE MONTHS ENDED SEPTEMBER 30, 2015	NINE MONTHS ENDED SEPTEMBER 30, 2016	NINE MONTHS ENDED SEPTEMBER 30, 2015
Total comprehensive income	\$ (4,424)	\$ 3,860	\$ (2,941)	\$ 8,718
Non-controlling interest share of ownership ¹	20.1%	22.0%	20.1%	22.0%
Total comprehensive income attributable to non-controlling interest	\$ (889)	\$ 850	\$ (591)	\$ 1,919

NOTE 7: FINANCIAL RISK MANAGEMENT

The Company has exposure to market, credit and liquidity risk. The Company's primary risk management objective is to protect the Company's interim statement of financial position, income and comprehensive income and cash flow in support of sustainable growth and earnings. The Company's financial risk management activities are governed by financial policies that cover risk identification, tolerance, measurement, authorization levels, and reporting.

(a) MARKET RISK**INTEREST RATE RISK**

The Company's credit facilities have floating-rate debt, which subjects it to interest rate cash flow risk. Advances under these credit facilities bear interest at a rate based on the Canadian dollar or U.S dollar prime rate, LIBOR or banker's acceptance rates, plus, in each case, an applicable margin.

If the interest rate on the Company's variable rate loan balance as at September 30, 2016, had been 50 basis points higher or lower, with all other variables held constant, net income for the nine months ended September 30, 2016 would have decreased or increased by approximately \$124.

CURRENCY RISK

The Company's foreign exchange risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. The Company's policy has been to economically hedge foreign exchange exposures rather than purchasing currency swaps and forward foreign exchange contracts.

Foreign exchange gains or losses in the Company's net income arise on the translation of foreign-denominated intercompany loans held in the Company's Canadian operations and financial assets and liabilities held in the Company's foreign operations. The Company minimizes its exposure to foreign exchange fluctuations on these items by matching U.S dollar liabilities when possible.

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If the exchange rates had been 100 basis points higher or lower as at September 30, 2016, with all other variables held constant, total comprehensive income would have increased or decreased by \$67 for the nine months ended September 30, 2016. If the exchange rates had been 100 basis points higher or lower during the nine months ended September 30, 2016, with all other variables held constant, net income would have increased or decreased by \$99 for the nine months ended September 30, 2016.

(b) CREDIT RISK

Financial instruments that subject the Company to credit risk consist primarily of accounts receivable. The Company maintains an allowance for estimated credit losses on accounts receivable. The estimate is based on the best assessment of the ultimate collection of the related accounts receivable balance based, in part, on the age of the outstanding accounts receivable and on its historical impairment loss experience.

The Company provides services to diverse clients in various industries and sectors of the economy, and its credit risk is not concentrated in any particular client, industry, economic or geographic sector. In addition, management reviews accounts receivable past due on an ongoing basis with the objective of identifying matters that could potentially delay the collection of funds (at an early stage). The Company monitors accounts receivable with an internal target of working days of revenue in accounts receivable (a non-IFRS measure). At September 30, 2016 there were 63 working days of revenue in accounts receivable, compared to 62 days at December 31, 2015. The maximum exposure to credit risk, at the date of the interim statement of financial position to recognized financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the interim statement of financial position.

A significant portion of the accounts receivable are due from government and public institutions. Receivables that are neither past due nor impaired are considered by management to have no significant collection risk. The liquidity of customers and their ability to pay receivables are considered in assessing the impairment of such assets. No collateral is held in respect of impaired assets or assets that are past due but not impaired.

The aging of the accounts receivable are detailed below with the entire allowance for impairment losses relating to accounts receivable over 90 days:

	AS AT	
	SEPTEMBER 30, 2016	DECEMBER 31, 2015
Current	\$ 43,196	\$ 44,283
30 to 90 days	32,340	30,614
Over 90 days	38,547	46,185
Allowance for impairment losses	(8,077)	(9,311)
TOTAL	\$ 106,006	\$ 111,771

(c) LIQUIDITY RISK

The Company strives to maintain sufficient financial liquidity to withstand sudden adverse changes in economic circumstances. Management forecasts cash flows for its current and subsequent fiscal years to identify financing requirements. These requirements are then addressed through a combination of

IBI GROUP INC.**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
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committed credit facilities (as described in Note 4 – Financial Instruments) and access to capital markets.

On October 5, 2015, IBI Group signed an amendment to refinance its credit facilities with its senior lenders (refer to Note 4 – Financial Instruments).

As at September 30, 2016, a foreign subsidiary of the Company had issued letters of credit in the amount of U.S \$2,300. The Company has pledged U.S \$2,300 (December 31, 2015 – U.S \$2,300) of cash as security for these letters of credit issued by a foreign financial institution on behalf of the foreign subsidiary.

(d) CAPITAL MANAGEMENT

The Company's objective in managing capital is to maintain a strong capital base so as to maintain investor, creditor, and market confidence and to sustain future growth within the business. The Company defines its capital as the aggregate of credit facilities, 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.

The Company has used the credit facilities to fund working capital. The credit facilities contain financial covenants including a leverage ratio, interest coverage ratio, minimum Adjusted EBITDA¹ threshold, and restrictions on distributions, if certain conditions are not met. The Company was in compliance with the credit facility covenants as at September 30, 2016.

NOTE 8: CHANGE IN NON-CASH OPERATING WORKING CAPITAL

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30, 2016	SEPTEMBER 30, 2015	SEPTEMBER 30,2016	SEPTEMBER 30, 2015
Accounts receivable	\$ (4,285)	\$ (4,503)	\$ (1,149)	\$ 3,571
Work in process	102	679	(12,899)	537
Prepaid expenses and other assets	2,142	(729)	(2,316)	(2,343)
Accounts payable and accrued liabilities	2,138	1,018	(500)	(11,435)
Deferred revenue	5,274	8,608	6,745	12,720
Net income taxes payable	64	401	589	661
Change in non-cash operating working capital	\$ 5,435	\$ 5,474	\$ (9,530)	\$ 3,711

¹ As defined in the credit facilities agreement, references to "Adjusted EBITDA" is to earnings before interest, income taxes, depreciation and amortization; adjusted for gain/loss arising from extraordinary, unusual or non-recurring items; acquisition costs and deferred consideration revenue; non-cash expenses; gain/loss realized upon the disposal of capital property; gain/loss on foreign exchange translation; gain/loss on purchase or redemption of securities issued; gain/loss on fair valuation of financial instruments; amounts attributable to minority equity investments; and interest income. Adjusted EBITDA is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS, and the Company's method of calculating Adjusted EBITDA may differ from the methods used by other similar entities.

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NOTE 9: FINANCE COSTS

<i>(in thousands of Canadian dollars)</i>	THREE MONTHS ENDED		NINE MONTHS ENDED	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Interest on credit facilities	760	1,455	2,340	4,360
Interest on convertible debentures	1,764	1,955	5,099	5,865
Interest on consent fee notes payable	63	63	186	186
Non-cash accretion of 7.0% Debentures	9,993	1,083	12,194	3,192
Non-cash accretion of 6.0% Debentures	1,543	211	1,987	621
Non-cash accretion of 5.75% Debentures	-	110	-	323
Non-cash accretion of 5.5% Debentures	66	-	66	-
Non-cash accretion of consent fee notes payable	121	111	355	323
Other	74	298	262	1,271
INTEREST EXPENSE, NET	14,384	5,286	22,489	16,141
Financing costs	-	2	-	281
Amortization of deferred financing costs	262	-	780	-
Other	190	68	448	238
OTHER FINANCE COSTS	452	70	1,228	519
FINANCE COSTS	14,836	5,356	23,717	16,660

NOTE 10: NOTES PAYABLE

The movement in the vendor notes payable for the nine months ended September 30, 2016 is as follows:

Balance, January 1, 2016	\$	4,238
Repayment		(4,076)
Foreign exchange		(162)
BALANCE, SEPTEMBER 30, 2016	\$	-

The movement in the consent fee notes payable for the nine months ended September 30, 2016 is as follows:

	TOTAL
Balance, January 1, 2016	\$ 3,067
Accretion	355
BALANCE, SEPTEMBER 30, 2016	\$ 3,422

The vendor notes payable were repaid upon maturity on June 30, 2016. The consent fee notes payable mature on December 31, 2016.

NOTE 11: CONTINGENCIES**(a) LEGAL MATTERS**

In the normal course of business, the Company is a defendant in a number of lawsuits. The potential liability, if any, is not determinable and in management's opinion, it would not have a material effect on these interim financial statements, therefore no provisions have been recorded.

(b) INDEMNIFICATIONS

The Company provides indemnifications and, in very limited circumstances, bonds, which are often standard contractual terms, to counterparties in transactions such as purchase and sale contracts for assets or shares, service agreements, and leasing transactions. The Company also indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law. These indemnifications may require the Company to compensate the counterparty for costs incurred as a result of various events, including changes in or in the interpretation of laws and regulations, or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnifications will vary based upon the contract, the nature of which prevents the Company from making a reasonable estimate of the maximum potential amount that it could be required to pay to counterparties. The Company carries liability insurance, subject to certain deductibles and policy limits that provides protection against certain insurable indemnifications. Historically, the Company has not made any significant payments under such indemnifications, and no provisions have been accrued in the accompanying interim financial statements with respect to these indemnifications as it is not probable that there will be an outflow of resources.

NOTE 12: SHARE-BASED COMPENSATION

The Company has a share-based compensation plan which allows directors to receive director fees in the form of deferred shares rather than cash. These awards are accounted for as financial liabilities at FVTPL. On the grant date, the deferred shares are measured at fair value based on the market price with subsequent changes to the fair value until settlement recorded as salaries, fees and employee benefit expenses. The change in fair value of the deferred shares is recognized in other operating expenses in the interim statement of income and comprehensive income. During the three months ended September 30, 2016, an expense of \$365 was recognized (three months ended September 30, 2015 – recovery of \$82) due to market movement in the share price. During the nine months ended September 30, 2016, an expense of \$1,334 was recognized (nine months ended September 30, 2015 – expense of \$49) due to market appreciation in the share price.

The Company has an equity-settled stock option plan. The grant-date fair value of the stock options is recognized as salaries, fees and employee expenses, with a corresponding increase to capital reserve over the vesting period of the stock options. Market conditions are reflected in the initial measurement of fair-value, with no subsequent true-up for differences between expected and actual outcomes.

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(in thousands of Canadian dollars, except per share and share amounts)

Under the terms of the Company's stock option plan, the options vest evenly over a three year period on each of the first, second and third anniversary dates of the grant, and expire on the tenth anniversary of the date of the grant. All options are to be settled by the physical delivery of shares.

On January 15, 2016, the Company granted 535,000 stock options to management under the terms of the Company's stock option plan at an exercise price of \$2.33 per share. The fair value of the stock option plan at the grant date has been measured using the Black-Scholes model. The following inputs were used in the measurement of the fair values at the grant date of the options:

	TRANCHE 1	TRANCHE 2	TRANCHE 3
Fair value at grant date	\$ 1.14	\$ 1.16	\$ 1.17
Share price at grant date	\$ 2.13	\$ 2.13	\$ 2.13
Exercise price	\$ 2.33	\$ 2.33	\$ 2.33
Expected volatility (weighted average)	64.2%	62.1%	60.2%
Expected life (weighted average)	5.5 years	6.0 years	6.5 years
Expected dividends	0%	0%	0%
Risk-free interest rate	0.64%	0.72%	0.81%

On May 25, 2016, the Company granted 99,213 stock options to management under the terms of the Company's stock options plan at an exercise price of \$4.49 per share. The fair value of the stock option plan at the grant date has been measured using the Black-Scholes model. The following inputs were used in the measurement of the fair values at the grant date of the options:

	TRANCHE 1	TRANCHE 2	TRANCHE 3
Fair value at grant date	\$ 2.47	\$ 2.49	\$ 2.52
Share price at grant date	\$ 4.34	\$ 4.34	\$ 4.34
Exercise price	\$ 4.49	\$ 4.49	\$ 4.49
Expected volatility (weighted average)	66.9%	64.3%	62.3%
Expected life (weighted average)	5.5 years	6.0 years	6.5 years
Expected dividends	0%	0%	0%
Risk-free interest rate	0.86%	0.92%	0.99%

Expected volatility is based on an evaluation of the historical volatility of the Company's share price over the historical period commensurate with the expected term. The expected term of the instruments has been based on general option-holder behavior.

For the three and nine months ended September 30, 2016, the Company has recognized an expense of \$132 and \$320, respectively, in salaries, fees and employee benefits for stock options in the interim statement of income and comprehensive income.

NOTE 13: INCOME TAXES

Income taxes for the three months ended September 30, 2016 was a recovery of \$873 (2015 – expense of \$695) and the effective income tax rate was a recovery of (15.5)% (2015 – expense of 10.0%). Income taxes for the nine months ended September 30, 2016 was a recovery of \$913 (2015 – expense of \$2,413) and the effective income tax rate was a recovery of (18.2)% (2015 – expense of 18.9%). The movement in the effective income tax rates for both comparative periods is primarily due to the results of operations.