

Audited Consolidated Financial Statements of

IBI GROUP INC.

Years Ended December 31, 2012 and 2011



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To the Shareholders of IBI Group Inc.

We have audited the accompanying consolidated financial statements of IBI Group Inc., which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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



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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of IBI Group Inc. as at December 31, 2012 and December 31, 2011, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

March 21, 2013

Toronto, Canada

IBI GROUP INC.

Consolidated Statement of Financial Position (audited)

<i>(thousands of Canadian dollars)</i>	Notes	December 31, 2012	December 31, 2011
Assets			
Current Assets			
Cash and cash equivalents	6	\$ -	\$ 2,358
Accounts receivable	6,13	142,168	134,779
Work in process		112,386	118,608
Prepaid expenses and other current assets		8,365	9,596
Income taxes recoverable	7	3,374	1,703
Total Current Assets		\$ 266,293	\$ 267,044
Property and equipment	8	7,396	7,537
Intangible assets	9	30,410	32,180
Goodwill	9	157,788	169,766
Deferred tax assets	7,10	5,156	5,332
Total Assets		\$ 467,043	\$ 481,859
Liabilities and Equity			
Liabilities			
Current Liabilities			
Bank indebtedness	6	\$ 589	\$ -
Accounts payable and accrued liabilities	17	48,129	55,000
Notes payable	17	13,999	16,080
Deferred revenue		10,435	12,885
Income taxes payable	7,10	3,010	4,765
Dividends payable		-	1,195
Distributions payable	11	1,340	1,340
Total Current Liabilities		\$ 77,502	\$ 91,265
Due to related parties	11	10,000	20,000
Notes payable	17	2,697	3,831
Credit facility	6	72,903	76,941
Convertible debentures	6	114,613	112,687
Deferred tax liabilities	7,10	6,171	9,455
Total Liabilities		\$ 283,886	\$ 314,179
Equity			
Shareholders' Equity			
Share capital	12	231,706	176,109
Deficit		(102,539)	(74,268)
Convertible debentures – equity component	6	5,852	5,852
Accumulated other comprehensive loss		(4,782)	(3,558)
Total Shareholders' Equity		\$ 130,237	\$ 104,135
Non-controlling interest	12	52,920	63,545
Total Equity		\$ 183,157	\$ 167,680
Total Liabilities and Equity		\$ 467,043	\$ 481,859

See accompanying notes to the consolidated financial statements.

IBI GROUP INC.

Consolidated Statement of Comprehensive Income (audited)

<i>(thousands of Canadian dollars, except per share amounts)</i>	Notes	Year ended December 31,	
		2012	2011
Revenue		\$ 337,727	\$ 332,307
Salaries, fees and employee benefits		244,060	223,218
Rent	15	21,502	19,954
Other operating expenses	13	39,848	38,171
Foreign exchange loss	13	725	346
Amortization of intangibles, prepaid expenses and other assets	9	10,103	7,940
Impairment of goodwill	9	14,483	-
Amortization of property and equipment	8	3,376	3,523
Impairment of financial assets	13	5,492	3,309
		339,589	296,461
Operating Income (Loss)		\$ (1,862)	\$ 35,846
Interest expense, net	13,16	13,578	15,250
Other finance costs	16	466	1,502
Finance Costs		\$ 14,044	\$ 16,752
Current tax expense	7,10	3,184	5,129
Deferred tax expense (recovery)	7,10	(4,678)	1,310
Income Taxes		\$ (1,494)	\$ 6,439
Net Income (Loss) for the Period		\$ (14,412)	\$ 12,655
Other Comprehensive Income (Loss)			
Loss on translating financial statements of foreign operations		(1,622)	552
Other Comprehensive Income (Loss), Net of Tax		(1,622)	552
Total Comprehensive Income (Loss)		\$ (16,034)	\$ 13,207
Net Income (Loss) Attributable to:			
Owners of the Company		\$ (10,884)	\$ 9,124
Non-controlling interests	12	(3,528)	3,531
Net Income (Loss) for the Period		\$ (14,412)	\$ 12,655
Total Comprehensive Income (Loss) Attributable to:			
Owners of the Company		\$ (12,109)	\$ 9,522
Non-controlling interests	12	(3,925)	3,685
Total Comprehensive Income (Loss) for the Period		\$ (16,034)	\$ 13,207
Earnings (Loss) per Share			
Basic and diluted earnings (loss) per share	12	\$ (0.7000)	\$ 0.7034

See accompanying notes to the consolidated financial statements.

IBI GROUP INC.

Consolidated Statement of Cash Flows (audited)

<i>(thousands of Canadian dollars)</i>	Notes	Year ended December 31,	
		2012	2011
Cash Flows provided by (used in) Operating Activities			
Net income		\$ (14,412)	\$ 12,655
Items not affecting cash:			
Amortization of property and equipment	8	3,376	3,523
Amortization of intangibles	9	10,103	7,940
Impairment of goodwill	9	14,483	-
Amortization of deferred financing costs		224	1,384
Interest expense, net		13,578	15,250
Deferred income taxes	7,10	(4,678)	1,310
Change in fair value of financial instruments	16	(342)	(592)
Interest paid		(11,611)	(13,499)
Income taxes paid		(5,886)	(4,131)
Change in non-cash operating working capital	14	(8,318)	(28,675)
Net Cash used in Operating Activities		\$ (3,484)	\$ (4,835)
Cash Flows provided by (used in) Financing Activities			
Payments on principal of notes payable		(4,213)	(4,020)
Payments on principal of credit facility		(4,309)	(6,999)
Dividends paid to shareholders		(16,910)	(13,128)
Distributions paid to unitholders		-	(1,719)
Distributions paid to non-controlling interest		(4,690)	(7,369)
Payments to related parties	11	-	(6,000)
Issue of share capital, net of issue costs	12	38,409	-
Proceeds of issuance of convertible debentures, net of issue costs	6	-	54,619
Net Cash provided by Financing Activities		\$ 8,287	\$ 15,384
Cash Flows used in Investing Activities			
Purchase of property and equipment	8	(2,876)	(3,037)
Acquisitions, net of cash acquired	17	(4,019)	(9,003)
Net Cash used in Investing Activities		\$ (6,895)	\$ (12,040)
Effect of foreign exchange rate fluctuations on cash held	13	(266)	191
Net decrease in Cash and Cash equivalents		\$ (2,358)	\$ (1,300)
Cash and cash equivalents, beginning of period		2,358	3,658
Cash and Cash Equivalents, End of Period		\$ -	\$ 2,358

See accompanying notes to the consolidated financial statements.

IBI GROUP INC.

Consolidated Statement of Changes in Equity (audited)

<i>(thousands of Canadian dollars)</i>	Notes	Year ended December 31,	
		2012	2011
Share Capital			
Share capital, beginning of period		\$ 176,109	\$ -
Issuance upon conversion from trust to corporation	6	-	174,610
Shares issued from treasury	12	55,597	1,499
Share Capital, End of Period		\$ 231,706	\$ 176,109
Deficit			
Deficit, beginning of period		(74,268)	(69,069)
Net income(loss) attributable to owners of the Company		(10,884)	9,124
Dividends declared to shareholders		(15,847)	(14,323)
Share capital issue cost		(1,540)	-
Deficit, End of Period		\$ (102,539)	\$ (74,268)
Convertible Debentures - Equity Component			
Convertible debentures, beginning of period		5,852	-
Reclassification upon conversion from trust to corporation		-	2,646
Issuance of convertibles debentures		-	3,206
Convertible Debentures, End of Period		\$ 5,852	\$ 5,852
Accumulated Other Comprehensive Loss			
Accumulated other comprehensive loss, beginning of period		(3,558)	(3,958)
Other comprehensive income (loss) attributable to shareholders		(1,224)	400
Accumulated Other Comprehensive Loss, End of Period		\$ (4,782)	\$ (3,558)
Total Shareholders' Equity		\$ 130,237	\$ 104,135
Non-controlling Interest			
Non-controlling interest, beginning of period		63,545	-
Reclassification upon conversion from a trust to a corporation		-	67,899
Total comprehensive income (loss) attributable to non-controlling interests	12	(3,925)	3,685
Distributions		(6,700)	(8,039)
Non-controlling Interest, End of Period		\$ 52,920	\$ 63,545
Total Equity, End of Period		\$ 183,157	\$ 167,680

See accompanying notes to the consolidated financial statements.

IBI GROUP INC.

Notes to the Audited Consolidated Financial Statements

(In thousands of Canadian dollars)

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 June 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 December 31, 2012, the Company's common share capital consisted of 16,845,451 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 subordinated partnership unit. Class B partnership units do not entitle the holder to voting rights at the meetings of shareholders of the Company.

As at December 31, 2012, the Management Partnership holds 5,025,778 Class B partnership units representing 23.0% of the issued and outstanding units of IBI Group and, with affiliated partnerships, 4,179,059 common shares of the Company, representing a total ownership of approximately 42.1% of the Company. The Management Partnership also holds 5,025,778 non-participating voting shares of the Company, which together with the 4,179,059 common shares of the Company held by the Management Partnership and affiliated partnerships, represents approximately 42.1% of the voting shares of the Company on a partially diluted basis, assuming the exchange of the Class B partnership units for common shares of the Company.

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 four main areas of development, being urban land, building facilities, transportation networks and systems technology. The professional services provided by IBI Group include planning, design, implementation, analysis of operations and other consulting services related to these four main areas of development.

The common shares of the Company are listed on the Toronto Stock Exchange under the symbol "IBG". The Company's registered head office is 230 Richmond Street West, 5th Floor, Toronto Ontario, M5V 1V6.

NOTE 2: BASIS OF PREPARATION

(a) Statement of Compliance

These consolidated financial statements of the Company and its subsidiaries (the "consolidated group") have been prepared in accordance with International Financial Reporting Standards ("IFRS"),

as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

The consolidated financial statements were authorized for issuance by the Company’s Board of Directors on March 21, 2013.

(b) Basis of measurement

These consolidated financial statements were prepared on a going concern basis. Amounts are recorded under the historical cost convention, except for certain financial liabilities measured at fair value through profit or loss.

(c) Basis of consolidation

Subsidiaries

Subsidiaries are entities over which the Company has control, where control is defined as the power to govern financial and operating policies of an entity in order to obtain benefit from the activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that effective control commences, and are de-consolidated from the date control ceases.

Jointly controlled operations

Joint ventures are entities over which the Company has control together with one or more affiliated entities. Joint ventures are accounted for using the proportionate consolidation method, where the consolidated financial statements include the assets that the Company controls and the liabilities that it incurs in the course of pursuing the joint venture, as well as its share of the income of the joint operation and the expenses the Company incurs.

Transactions eliminated on consolidation

Transactions, balances, income and expenses incurred within the consolidated group are eliminated in full on consolidation.

Non-controlling interest

Non-controlling interest in IBI Group is exchangeable into the common shares of the Company. Changes in the equity of IBI Group and distributions to the non-controlling interest are recorded in non-controlling interest.

(d) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the currency of the primary economic environment in which the Company and its Canadian subsidiaries, including IBI Group, operate (the “functional currency”).

Each of the Company’s subsidiaries determines its functional currency, and items included in the financial statements of each subsidiary are measured using that functional currency. The Company’s foreign operations are translated into its reporting currency (Canadian dollar) as follows: assets and liabilities are translated at the rate of exchange in effect at each consolidated statement of financial

position date, and revenue and expense items (including depreciation and amortization) are translated at the average rate of exchange for the month. The resulting unrealized exchange gains and losses on foreign subsidiaries are recognized in accumulated other comprehensive income.

Transactions in foreign currencies are translated to the functional currency of the respective entity at exchange rates at the dates of the transactions. Foreign exchange gains and losses on such transactions, as well as from the translation of monetary assets and liabilities not denominated in the functional currency of the respective entity, are recorded in income in the year in which they occur.

Amounts not likely to be settled in the foreseeable future are, in substance, part of the investment in foreign operations.

References to “\$” in these consolidated financial statements denote Canadian dollars and references to “US\$” are to U.S. dollars.

All amounts presented in Canadian dollars have been rounded to the nearest thousand.

(e) Use of accounting estimates and judgments

The preparation of these consolidated financial statements in accordance with IFRS 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 assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses for the period covered by the consolidated financial statements. Actual amounts may differ from these estimates.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are:

Revenue Recognition

The Company accounts for its revenue in accordance with IAS 11, “Construction Contracts,” which requires estimates to be made for contract costs and revenues. Revenue from fixed-fee and variable-fee-with-ceiling contracts is recognized using the percentage of completion method based on the ratio of professional costs incurred to total estimated professional costs. Estimating total professional costs is subjective and requires the use of management’s best judgments based on the information available at that point in time. The Company also provides for estimated losses on incomplete contracts in the period in which such losses are determined. Changes in the estimates are reflected in the period in which they are made and would affect the Company’s revenue and work in process.

The Company also enters into contracts that require multiple deliverables, which can include software and hardware elements. Management applies judgment when assessing whether certain deliverables in a customer arrangement should be included or excluded from a unit of account to which contract accounting is applied. The judgment is typically related to the sale and inclusion of third party hardware and licenses in a customer arrangement, and involves an assessment that principally addresses whether the deliverable has stand-alone value to the customer that is not dependent upon other components of the arrangement.

Valuation of work in process

The Company records its work in process based on the time and materials charged into each project. The work in process for each project is reviewed on a monthly basis to determine whether the amounts recorded are a true reflection of the amount that will be invoiced on the project. Where the review determines that the value of work in process exceeds the amount that can be invoiced, provisions are made to the work in process and revenue is reduced. The valuation of the work in process involves estimates of the volume of work required to complete the project. Errors in the estimation of work required to complete the projects could lead to the undervaluation or overvaluation of work in process.

Recoverability of accounts receivable

The Company records accounts receivable by reference to estimated losses due to its inability to collect on its trade receivables. The Company uses specific factors to determine the estimated losses that are based on the age of the outstanding receivables and on its historical collection and loss experience.

Determining deferred revenue

The Company records its deferred revenue based on projects for which billings exceed work in process. Estimating total direct labour costs is subjective and requires the use of management's best judgment based on the information available at that point in time. The Company also provides for estimated losses on incomplete contracts in the period in which such losses are determined. Changes in the estimates are reflected in the period in which they are made and would affect the Company's revenue and unbilled revenue.

Establishing fair values for assets and liabilities acquired in business combinations

In a business combination, the Company may acquire the assets and assume certain liabilities of an acquired entity. The estimate of fair values for these transactions involves judgment in determining the fair values assigned to the tangible and intangible assets (i.e., contract backlog, clients and relationships) acquired and the liabilities assumed on the acquisition. The determination of these fair values involves a variety of assumptions, including revenue growth rates, expected operating income, discount rates, and earnings multiples. Contingent consideration resulting from business combinations is recorded at fair value at the acquisition date as part of the business combination based on expected discounted cash flows, and is subsequently remeasured to fair value at each reporting date. The key assumptions used in determining fair value include the probability of meeting each performance target and a discount factor (see note 11).

Determining probable future utilization of tax loss carryforwards

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and the level of future taxable profits, together with future tax-planning strategies.

Valuation of goodwill and intangible assets

The Company performs impairment testing on its long-lived assets annually for goodwill and intangible assets, and when circumstances indicate that there may be impairment, for other long-lived assets. Management judgment is involved in determining if there are circumstances indicating that testing for impairment is required, and in determining the grouping of assets to identify their Cash Generating Units (“CGU”) for the purpose of impairment testing.

Impairment exists when the carrying amount of an asset or cash generating unit (“CGU”) exceeds its recoverable amount, which is the higher of its fair value less costs to sell or its value in use. Fair value less costs to sell is based on either available data from sales transactions in an arm’s-length transaction of similar assets, or on observable market prices less incremental costs for disposing of the asset. In the absence of such data, other valuation techniques can be used to estimate fair value less costs to sell. The value in use calculation is based on a multiple of earnings approach, which is the same as the Company uses in determining the fair value of its acquired entities. The calculation is most sensitive to the projected future earnings of the CGUs and the selected earnings multiple. Other significant estimates and assumptions include future working capital requirements.

Measuring fair value of financial instruments

The Company measures certain of its financial instruments at fair value. The determination of such fair value is based on the most readily available market data. When no readily available data is available, management is required to estimate the fair value of the instrument using various inputs that are either directly or indirectly observable, or not based on observable market data.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unless otherwise indicated, the significant accounting policies followed by the Company set out below have been applied consistently to all periods presented in these consolidated financial statements.

a) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received.

Revenue from fixed-fee and variable-fee-with-ceiling contracts is recognized by reference to the stage of completion using the revenue cost approach. Stage of completion is measured by reference to labour costs incurred to date as a percentage of total estimated labour costs for each contract. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered. Revenue from time-and-material contracts without stated ceilings and from short-term projects, is recognized as costs are incurred. Revenue is calculated based on billing rates for the services performed.

Provisions for estimated losses on incomplete contracts are made in the period in which the losses are determined. The effect of revisions to estimated revenues and costs is recorded when the amounts are known or can be reasonably estimated. Where total contract costs exceed, or are expected to exceed, revenues, the anticipated loss is immediately recognized as an expense.

Accounts receivable is valued at net realizable value (refer to note 3(j) below for further discussion on financial instruments).

The Company's software license agreements are multiple-element arrangements as they may also include maintenance, professional services, and hardware. Multiple-element arrangements are recognized as the revenue for each unit of accounting is earned based on the relative fair value of each unit of accounting as determined by an internal analysis of prices. A delivered element is considered a separate unit of accounting if it has value to the customer on a standalone basis, and delivery or performance of the undelivered elements is considered probable and substantially under the Company's control. If these criteria are not met, revenue for the arrangement as a whole is accounted for as a single unit of accounting.

b) Work in process

Work in process represents the fee revenue and recoverable disbursements which have not been billed but are expected to be billed and collected from clients for contract work performed to date, and is valued at estimated net realizable value.

Billings in excess of time value incurred on jobs in progress, for which future services will be provided, are included in deferred revenue in the consolidated statement of financial position.

c) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand. Cash balances, which the Company has the ability and intent to offset, are used to reduce reported bank indebtedness.

d) Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation, net of accumulated impairment losses, and amortized over their estimated useful lives as follows:

Asset	Basis	Rate
Office furniture and equipment	Diminishing balance	20%
Electronic data processing equipment	Straight line	2 years
Vehicles	Diminishing balance	20%
Leasehold improvements	Straight line	Term of lease

Depreciation methods, useful lives and residual values are reviewed at each annual reporting date and adjusted if appropriate.

e) Goodwill and Intangible assets

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to all other assets acquired, less liabilities assumed, based on their fair values at the date of acquisition.

Goodwill is not amortized but is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. Goodwill is measured at cost less accumulated impairment losses (refer to note 3(f) below for impairment discussion).

When the carrying amount of goodwill exceeds the fair value of goodwill, an impairment loss is recognized in the amount equal to the excess, and is presented as a charge in the consolidated statements of comprehensive income.

Other intangible assets

Other intangible assets are initially recorded at fair value at their acquisition date and stated at cost less accumulated amortization and net impairment losses, where applicable. The cost of other intangible assets with determinable lives is amortized over the period in which the benefits of such assets are expected to be realized, as follows:

Asset	Basis	Amortization period
Customer relationships	Straight line	10 years
Contracts backlog	Straight line	1-2 years
Non-competition provisions	Straight line	3-4 years
Software development costs	Straight line	5 years

f) Impairment of non-financial assets

The Company evaluates the recoverability of non-financial assets, including: property and equipment, intangible assets with determinable lives, and goodwill, on either an annual basis or when events or a change in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which an asset's carrying amount exceeds its recoverable amount. The determination of recoverability is based on the higher of value in use or fair value less costs to sell.

For the purposes of assessing impairment where it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs is estimated. A CGU is the smallest identifiable group of assets for which there are separately identifiable cash inflows.

The grouping of CGU's for the purpose of testing goodwill impairment cannot be tested at a level higher than the operating segment.

The carrying amount of a CGU includes the carrying amount of only those assets that can be attributed directly, or allocated on a reasonable and consistent basis, and are expected to generate the future cash inflows.

An impairment loss is recognized as a current charge against income when a CGU's carrying amount exceeds its recoverable amount. The carrying amount of the CGU is reduced first, by the carrying amount of any goodwill allocated to the CGU, and then on a pro rata basis to the carrying amount of the other assets in the unit.

g) Income taxes

Income tax expense consists of current tax charge and the change in deferred tax assets and liabilities. Current tax and deferred tax is recognized in comprehensive income except to the extent that it relates to a business combination, or to items recognized directly in equity or other comprehensive income.

Current tax represents the current tax payable (receivable) on the taxable income (loss) for the period, calculated in accordance with the rates and legislation of the respective tax jurisdiction in which the entity operated, enacted or substantively enacted as at the date of the statement of financial position; it also reflects any adjustment to taxes payable (recoverable) in respect of previous years.

Deferred tax assets and liabilities are recognized in respect of the expected income tax consequences attributable to temporary differences between the financial statement carrying values of existing assets and liabilities in the consolidated financial statements and their respective income tax bases. Deferred tax assets and liabilities are measured using enacted, or substantively enacted, tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in comprehensive income in the period that includes the date of enactment or of substantive enactment.

Deferred tax assets are recognized for unused tax losses, tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are evaluated at each reporting period and are reduced to the extent that it is no longer probable that future taxable profits will be available against which they can be utilized.

h) Share-based payments

The Company operates a share-based compensation plan ("Deferred Share Plan") which allows directors to receive director fees in the form of deferred shares rather than cash. These awards are accounted for using fair value method such that, the fair value of the shares at their vesting date, including a distribution credit, together with subsequent changes in the market price, are recorded as salaries, fees and employee benefit expenses until settled.

i) Business combinations

- Business combinations are accounted for by applying the acquisition method, which requires: identifying the acquirer, determining the acquisition date, recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; and recognizing and measuring goodwill or a gain from a bargain purchase.

The results of operations of acquirees from the respective dates of acquisition are included in the statement of comprehensive income.

If the consideration the Company transfers in exchange for the acquiree includes any asset resulting from a contingent consideration arrangement, the Company recognizes the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree. Any change in this fair value is recorded in the statement of comprehensive income.

Acquisition-related costs include: finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees and general administrative costs are expensed immediately. Costs of registering and issuing debt are deferred and recorded as part of the effective interest expense. Costs of registering and issuing equity securities are recorded directly to equity.

j) Financial instruments

All financial assets and financial liabilities are required to be classified into one of the following categories:

- Financial assets are to be classified as either fair value through profit or loss ("FVTPL"), available-for-sale, held-to-maturity investments or loans and receivables; and
- Financial liabilities are to be classified as either FVTPL or other liabilities.

All financial assets and financial liabilities are to be carried at fair value in the statement of financial position, with the exception of held-to-maturity financial assets, loans and receivables and other financial liabilities which are measured at amortized cost. The table below summarizes the classification and measurement of the Company's financial assets and liabilities on its year end statement of financial position:

Asset	Classification	Measurement
Financial Assets		
Cash and cash equivalents	FVTPL	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Income tax recoverable	Loans and receivables	Amortized cost
Financial liabilities		
Bank indebtedness	FVTPL	Fair value
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Deferred share plan liability ¹	FVTPL	Fair value
Income tax payable	Other liabilities	Amortized cost
Due to related parties	Other liabilities	Amortized cost
Notes payable	Other liabilities	Amortized cost
Dividends and distributions payable	Other liabilities	Amortized cost
Credit facility	Other liabilities	Amortized cost
Convertible debentures – debt instrument	Other liabilities	Amortized cost

Financial assets

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the date of the statement of financial position. After their initial fair value

¹ The deferred share plan liability is grouped with accounts payable and accrued liabilities on the statement of financial position. See note 18 for further discussion.

measurement, they are measured at amortized cost using the effective interest rate method, less any net impairment losses.

Impairment

The Company's policy is to assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

The Company maintains an allowance for doubtful accounts on accounts receivable. The estimate is based on the best assessment of the collectability of the related receivable balance, based, in part, on the age of the outstanding receivables and in part on the Company's historical collection and loss experience. When the carrying amount of the receivable is reduced through the allowance, the reduction is recognized in impairment expense in the statement of comprehensive income.

An allowance account is also maintained on work in process, measured by the estimated amount of unbilled labour costs that are expected not to be billed. When work in process is determined not recoverable, the amount is written off against the allowance account.

Subsequent recoveries of the amounts previously written off are charged against the allowance account.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity (in accordance with the substance of the contractual arrangement). An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recorded net of direct issue costs.

Debt securities issued and subordinated liabilities are recognized at fair value on the date that they originated. Other financial liabilities are recognized initially on the trade date at which the Company becomes party to the contractual provisions of the instrument. Financial liabilities are classified as either financial liabilities at FVTPL or as other liabilities.

A financial liability is derecognized when its contractual obligations are discharged, cancelled or expire.

Financial liabilities at FVTPL

At the end of each reporting period subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognized directly in the statement of comprehensive income in the period in which they arise.

Other financial liabilities

Other financial liabilities are recognized initially at fair value, net of any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are carried at amortized cost using the effective interest rate method.

Compound financial instruments

Compound financial instruments issued by the Company comprise convertible debentures that can be converted into share capital at the option of the holder. The liability component of a compound financial instrument is measured initially at fair value, calculated as the net present value of the liability without a conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Effective interest method

The effective interest method calculates the amortized cost of a financial instrument and allocates interest income or expense over the corresponding period. The effective interest rate is the rate that discounts estimated future cash flows over the expected life of the financial instrument or, where appropriate, over a shorter period, to the net carrying amount of the financial liability on initial recognition.

k) Leases

The substance of the transaction at inception of the lease determines whether the lease is classified as operating or finance. Any modification to the terms of a lease requires reassessment by the Company of the classification of the lease.

Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under an operating lease, net of any incentives received from the lessor, are recognized in the statement of comprehensive income on a straight-line basis over the period of the lease.

Finance lease

Leases in which substantially all the risks and rewards of ownership are transferred to the Company are classified as finance leases. Assets meeting finance lease criteria are capitalized at the lower of the present value of the related lease payments or the fair value of the leased asset at the inception of the lease. Minimum lease payments are apportioned between the finance charge and the liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

l) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expected expenditures to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as an interest expense. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

NOTE 4: IFRS NOT YET ADOPTED**(a) Offsetting Financial Assets and Liabilities**

The Company intends to adopt the amendments to IFRS 7 in its financial statements for the annual period beginning on January 1, 2013, and the amendments to IAS 32 in its financial statements for the annual period beginning January 1, 2014. These amendments are to be applied retrospectively. The extent of the impact of adoption of the amendments has not yet been determined.

(b) Financial Instruments – Recognition and Measurement

In October 2010, the IASB published amendments to IFRS 9 Financial Instruments (IFRS 9 (2010)) which provide added guidance on the classification and measurement of financial liabilities. IFRS 9 (2010) supersedes IFRS 9 (2009) and is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. For annual periods beginning before January 1, 2015, either IFRS 9 (2009) or IFRS 9 (2010) may be applied. The Company intends to adopt IFRS 9 (2010) in its financial statements for the annual period beginning on January 1, 2015. The extent of the impact of adoption of IFRS 9 (2010) has not yet been determined.

(c) Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10 Consolidated Financial Statements. IFRS 10 replaces portions of IAS 27 Consolidated and Separate Financial Statements, that addresses consolidation, and supersedes SIC-12 Consolidation—Special Purpose Entities (“SPE”), in its entirety. IFRS 10 provides a single model to be applied in the analysis of control of all investees, including entities that currently are SPEs in the scope of SIC-12. In addition, the consolidation procedures specified in IFRS 10 are carried forward substantially unmodified from IAS 27.

(d) Joint Arrangements

In May 2011, the IASB issued IFRS 11 Joint Arrangements. IFRS 11 supersedes IAS 31 Interest in Joint Ventures and SIC-13 Jointly Controlled Entities—Non-Monetary Contributions by Venturers. Through an assessment of the rights and obligations in an arrangement, IFRS 11 establishes principles to determine the type of joint arrangement, which are classified as either joint operations or joint ventures, and provides guidance for financial reporting activities required by the entities that have an interest in arrangements that are controlled jointly. Investments in joint ventures are required to be accounted for using the equity method.

As a result of the issuance of IFRS 10 and IFRS 11, IAS 28 Investments in Associates and Joint Ventures, has been amended to correspond to the guidance provided in IFRS 10 and IFRS 11.

(e) Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12 Disclosure of Interests in Other Entities, which contains disclosure requirements for companies that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities.

IFRS 10, IFRS 11 and IFRS 12, and the amendments to IAS 27 and IAS 28 are all effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted, so long as IFRS 10, IFRS 11 and IFRS 12, and the amendments to IAS 27 and IAS 28 are adopted at the same time. However, entities are permitted to incorporate any of the disclosure requirements in IFRS 12 into their financial statements without early adopting IFRS 10, IFRS 11, amendments to IAS 27 and 28. The Company intends to adopt IFRS 10, IFRS 11 and IFRS 12 and the amendments to IAS 27 and IAS 28 in its consolidated financial statements for the annual period beginning on January 1, 2013.

The impact of the adoption of IFRS 10, IFRS 11 and IFRS 12 and the amendments to IAS 27 and IAS 28 is not expected to be material to the financial statements, and the additional disclosures required by these standards will be included in its 2013 financial statements.

(f) Fair Value Measurement

In May 2011, the IASB published IFRS 13 Fair Value Measurement, which is effective prospectively for annual periods beginning on or after January 1, 2013. IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. The Company intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on January 1, 2013. The Company will provide required additional disclosures on fair valued items beginning with its first quarter 2013 financial statements.

(g) Presentation of Financial Statements

In June 2011, the IASB published amendments to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income, which are effective for annual periods beginning on or after July 1, 2012 and are to be applied retrospectively. Early adoption is permitted. These amendments require that a company present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect significant change to its financial statements upon adoption of this standard.

(h) Financial Assets and Liabilities

In December 2011 the IASB published amendments to International Accounting Standard (“IAS”) 32 Financial Instruments: Presentation and issued new disclosure requirements in IFRS 7 Financial Instruments: Disclosures. The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014. The effective date for the amendments to IFRS 7 is annual periods beginning on or after January 1, 2013. These amendments are to be applied retrospectively.

The amendments to IAS 32 clarify when an entity has a legally enforceable right to off-set as well as clarify, when a settlement mechanism provides for net settlement, or gross settlement that is

equivalent to net settlement. The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar arrangements. The Company intends to adopt the amendments to IFRS 7 in its financial statements for the annual period beginning on January 1, 2013, and the amendments to IAS 32 in its financial statements for the annual period beginning January 1, 2014. The Company will include the additional disclosures required by the amendments to IFRS 7 in its 2013 financial statements. The extent of the impact of adoption of amendments to IAS 32 has not yet been determined.

NOTE 5: 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.

(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 statement of financial position information line items segmented geographically as at December 31, 2012, with comparatives as at December 31, 2011:

	As at December 31, 2012			
	Canada	U.S.	International	Total
Property and equipment	\$ 3,349	\$ 1,607	\$ 2,440	\$ 7,396
Intangible assets	17,537	7,895	4,978	30,410
Goodwill	136,878	14,888	6,022	157,788
Total assets	388,151	42,367	36,525	467,043

	As at December 31, 2011			
	Canada	U.S.	International	Total
Property and equipment	\$ 4,386	\$ 1,571	\$ 1,580	\$ 7,537
Intangible assets	20,305	8,218	3,657	32,180
Goodwill	139,618	23,030	7,118	169,766
Total assets	356,031	89,009	36,819	481,859

The following table demonstrates certain information contained in the statement of comprehensive income segmented geographically for the year ended December 31, 2012, with comparatives for the

year ended December 31, 2011. The unallocated amounts pertain to expenses relating to convertible debentures, taxes, and non-cash finance costs incurred by the Company.

	Year ended December 31, 2012				
	Unallocated Corporate costs	Canada	U.S.	International	Total
Revenue	\$ -	\$ 208,486	\$ 81,379	\$ 47,862	\$ 337,727
Net income (loss) for the period	\$ (7,820)	\$ 1,354	\$ (10,176)	\$ 2,230	\$ (14,412)

	Year ended December 31, 2011				
	Unallocated Fund income	Canada	U.S.	International	Total
Revenue	\$ -	\$ 213,546	\$ 75,177	\$ 43,584	\$ 332,307
Net income (loss) for the period	\$ (10,672)	\$ 18,058	\$ (1,062)	\$ 6,331	\$ 12,655

NOTE 6: FINANCIAL INSTRUMENTS
(a) Indebtedness

IBI Group has a credit facility of \$120,000, (the “revolver facility”) with an \$80,000 accordion feature for a total of \$200,000. As of December 31, 2012, IBI Group had borrowings of \$73,852 under the revolving facility compared with borrowings of \$77,925 under the revolving facility as of December 31, 2011. According to the terms of the agreement, this facility is set to mature on July 29, 2016.

As at December 31, 2012, the total balance of unamortized transaction costs was \$949 (December 31, 2011 - \$984). The net credit facility after transaction costs on the statement of financial position was \$72,903 as at December 31, 2012 (December 31, 2011 - \$76,941).

In addition, a bid bond guarantee facility (the “Bid Bond Facility”) of up to USD \$20,000 continues to be made available to meet certain project requirements calling for the issuance of bid bonds to international customers. As at December 31, 2012, IBI Group had issued bid bonds in the amount of \$3,926 (December 31, 2011 – \$4,352) under the Bid Bond Facility.

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 Operating Facility, the Term 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. The Bid Bond Facility is only available by way of letters of credit or letters of guarantee.

Cash balances, which the Company has the ability and intent to offset, are used to reduce reported bank indebtedness.

(b) Convertible debentures

The Company has three series of convertible debentures outstanding as at December 31, 2012.

6.0% Debentures

The 6.0% Debentures are recorded as compound financial instruments. The liability component was recorded at fair value on the date of conversion to a corporation and measured subsequently at amortized cost using the effective interest method over the life of the 6.0% Debentures. As at December 31, 2012, the liability component has an amortized cost of \$52,778 (December 31, 2011 - \$52,130). The equity component for the conversion feature of \$3,206 is measured at the fair value on the date of conversion to a corporation. The 6.0% Debentures have a maturity date of September 30, 2018 at \$57,500. 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 Toronto Stock Exchange ("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).

5.75% Debentures

The 5.75% Debentures are recorded as compound financial instruments. The liability component was recorded at fair value on the date of conversion to a corporation and measured subsequently at amortized cost using the effective interest method over the life of the 5.75% Debentures. As at December 31, 2012, the liability component has an amortized cost of \$18,067 (December 31, 2011 - \$17,728). The equity component for the conversion feature of \$896 is measured at the fair value on the date of conversion to a corporation. The 5.75% Debentures have a maturity date of September 30, 2017 at \$20,000. 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).

7.0% Debentures

The 7.0% Debentures are recorded as compound financial instruments. The liability component was recorded at fair value on the date of conversion to a corporation and measured subsequently at amortized cost using the effective interest method over the life of the 7.0% Debentures. As at December 31, 2012, the liability component has an amortized cost of \$43,768 (December 31, 2011 - \$42,829). The equity component for the conversion feature of \$1,750 is measured at the fair value on the date of conversion to a corporation. The 7.0% Debentures have a maturity date of December 31, 2014 at \$46,000. The 7.0% Debentures are convertible into shares of the Company at the option of the holder at a conversion price of \$19.17 per share. 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 (provided that, if the redemption is prior to September 30, 2013, 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 \$19.17).

The movement in Convertible Debentures and related embedded derivative for the year ended December 31, 2012 is as follows:

	Liability component		Equity component		Total
Balance, January 1, 2012	\$	112,687	\$	5,852	\$ 118,539
Accretion of convertible debenture issue cost		1,967		-	1,967
Other		(41)		-	(41)
Balance, December 31, 2012	\$	114,613	\$	5,852	\$ 120,465

The movement in convertible debentures for the year ended December 31, 2011 is as follows:

	Liability component		Embedded derivative (liability)		Equity component		Total
Balance, January 1, 2011	\$	59,367	\$	2,646	\$	-	\$ 62,013
Reclassification upon conversion to a corporation		-		(2,646)		2,646	-
Issuance of convertible debentures		51,569		-		3,206	54,775
Accretion of convertible debenture issue cost		1,751		-		-	1,751
Balance, December 31, 2011	\$	112,687	\$	-	\$	5,852	\$ 118,539

(c) Financial assets and liabilities

The carrying amount of the Company's financial instruments as at December 31, 2012 are as follows:

	Loans and receivables	Other financial liabilities	Financial liabilities at FVTPL	Total
Financial assets				
Accounts receivable	142,168			142,168
Income tax recoverable	3,374			3,374
Total	\$ 145,542			\$ 145,542
Financial liabilities				
Bank indebtedness		589		589
Accounts payable and accrued liabilities		47,791	338	48,129
Due to related parties		10,000		10,000
Notes payable		16,696		16,696
Income tax payable		3,010		3,010
Distributions payable		1,340		1,340
Credit facility		72,903		72,903
Convertible debentures		114,613		114,613
Total		\$ 266,942	\$ 338	\$ 267,280

The carrying amount of the Company's financial instruments as at December 31, 2011 are as follows:

	Loans and receivables	Other financial liabilities	Financial liabilities at FVTPL	Total
Financial assets				
Cash and cash equivalents	\$ 2,358			\$ 2,358
Accounts receivable	134,779			134,779
Income tax recoverable	1,703			1,703
Total	\$ 138,840			\$ 138,840
Financial liabilities				
Accounts payable and accrued liabilities		54,662	338	55,000
Due to related parties		20,000		20,000
Notes payable		19,911		19,911
Income tax payable		4,765		4,765
Dividend payable		1,195		1,195
Distributions payable		1,340		1,340
Credit facility		76,941		76,941
Convertible debentures		112,687		112,687
Total		\$ 291,501	\$ 338	\$ 291,839

NOTE 7: CONVERSION TO A CORPORATION

The conversion from an income trust to a corporation completed January 1, 2011 has had the following impacts on the consolidated annual financial statements of the Company:

(a) Income taxes

Current taxes

The conversion from an open-ended trust to a corporate entity resulted in the Company being subject to current tax on income at the Company level, whereas the Fund was not subject to tax on any income distributed to unitholders prior to conversion. The current tax attributable to the Company on a stand-alone basis was \$1,124 for the year ended December 31, 2011. Prior to conversion, no current tax expense was recorded at the Fund level.

Deferred taxes

The deferred tax asset or liability of an open-ended trust must be calculated as the gross temporary differences, applying the highest personal tax rate, 46% in 2010, as if the Fund did not distribute any of its income.

The deferred tax asset or liability of a corporation is based on the temporary timing of income reporting differences applied at the corporate tax rate, enacted or substantively enacted, of the relevant jurisdiction expected at the time the differences will reverse.

As a result, at the date of conversion, January 1, 2011, the deferred tax asset of the Fund is remeasured applying the average deferred corporate tax rate of approximately 26%. The resulting difference between the amount calculated at the 26% rate as compared to the 46% rate is approximately \$3,131, which is recorded as deferred tax expense in the statement of comprehensive income for the year ended December 31, 2011.

(b) Conversion costs

The conversion to a corporation also resulted in the Company incurring professional fees of \$323 in the year ended December 31, 2011 which are recorded as other operating expenses on the statement of comprehensive income.

NOTE 8: PROPERTY AND EQUIPMENT
(a) Carrying amount

Property and equipment consist of the following:

	Office furniture and equipment	Electronic data processing equipment	Vehicles	Leaseholds	Total
Cost					
January 1, 2011	\$ 5,290	\$ 11,406	\$ 195	\$ 5,304	\$ 22,195
Additions:					
Capital expenditures	625	1,297	26	1,089	3,037
Acquisitions	365	392	-	838	1,595
Disposals	-	(71)	-	-	(71)
Foreign currency translation loss	47	53	7	69	176
December 31, 2011	\$ 6,327	\$ 13,077	\$ 228	\$ 7,300	\$ 26,932
Additions:					
Capital expenditures	881	746	43	1,206	2,876
Acquisitions	214	261	32	234	741
Disposals	(15)	(79)	(45)	(325)	(464)
Foreign currency translation gain (loss)	(17)	81	(36)	(113)	(85)
December 31, 2012	\$ 7,390	\$ 14,086	\$ 222	\$ 8,302	\$ 30,000

Accumulated depreciation										
January 1, 2011	\$	3,043	\$	9,310	\$	73	\$	3,343	\$	15,769
Current year depreciation		596		1,660		32		1,235		3,523
Disposals		-		-		-		-		-
Foreign currency translation gain		42		16		3		42		103
December 31, 2011	\$	3,681	\$	10,986	\$	108	\$	4,620	\$	19,395
Current year depreciation		792		1,529		42		1,013		3,376
Disposals		(5)		(41)		(19)		(59)		(124)
Foreign currency translation gain (loss)		41		(26)		(28)		(30)		(43)
December 31, 2012	\$	4,509	\$	12,448	\$	103	\$	5,544	\$	22,604
Carrying amount										
December 31, 2011	\$	2,646	\$	2,091	\$	120	\$	2,680	\$	7,537
December 31, 2012	\$	2,881	\$	1,638	\$	119	\$	2,758	\$	7,396

Proceeds from disposals are netted against the related assets and the accumulated depreciation, and are included in the statement of comprehensive income.

NOTE 9: INTANGIBLE ASSETS AND GOODWILL

(a) Carrying amount

The following table presents the Company's goodwill and intangible assets as at December 31, 2012 and December 31, 2011:

	Goodwill	Contract backlog	Client relationships	Other	Total
Cost					
Balance at January 1, 2011	\$ 172,957	\$ 29,243	\$ 30,395	\$ 4,930	\$ 237,525
Additions	14,089	3,005	5,015	3,694	25,803
Finalized purchase price adjustments	(2,204)	-	-	-	(2,204)
Foreign exchange translation loss	133	85	154	69	441
Balance at December 31, 2011	\$ 184,975	\$ 32,333	\$ 35,564	\$ 8,693	\$ 261,565
Additions	3,915	756	2,133	5,959	12,763
Finalized purchase price adjustments	(1,067)	-	-	-	(1,067)
Foreign exchange translation gain	(343)	(32)	(31)	(37)	(443)
Balance at December 31, 2012	\$ 187,480	\$ 33,057	\$ 37,666	\$ 14,615	\$ 272,818
Accumulated amortization and impairment					
Balance at January 1, 2011	\$ 15,209	\$ 27,666	\$ 5,936	\$ 2,768	\$ 51,579
Amortization for the year	-	2,749	3,264	1,927	7,940
Impairment expense	-	-	-	-	-
Foreign exchange translation gain	-	65	11	24	100
Balance at December 31, 2011	\$ 15,209	\$ 30,480	\$ 9,211	\$ 4,719	\$ 59,619
Amortization for the period	-	1,847	3,400	3,944	9,191
Impairment expense	14,483	-	-	912	15,395
Foreign exchange translation loss	-	(25)	1	439	415
Balance at December 31, 2012	\$ 29,692	\$ 32,302	\$ 12,612	\$ 10,014	\$ 84,620
Carrying amount					
At December 31, 2011	\$ 169,766	\$ 1,853	\$ 26,353	\$ 3,974	\$ 201,946
At December 31, 2012	\$ 157,788	\$ 755	\$ 25,054	\$ 4,601	\$ 188,198

(b) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognized in profit or loss as an expense when incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized only if the product or process is technically and commercially feasible, if development costs can be measured reliably, if future economic benefits are probable, if the Company intends to use or sell the asset and the Company intends and has sufficient resources to complete development. Development expenditures are recorded as intangible assets on the statement of financial position. At December 31, 2012 the Company had \$2,832 in unamortized capitalized development expenditures recorded as intangible assets (December 31, 2011 - \$1,020).

(c) Impairment testing for CGUs containing goodwill

The Company performed its annual test for goodwill impairment in the fourth quarter of 2012 in accordance with its policy described in Note 3. For the purposes of assessing impairment where it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the cash generating unit (CGU) to which the asset belongs is estimated. A CGU is defined as the smallest identifiable group of assets for which there are separately identifiable cash inflows. The lowest level within the consolidated group at which the goodwill is monitored for internal management purposes, depends on the timing and integration of the legal entities acquired where goodwill arose on the business combination.

Where recently acquired subsidiaries are still operating as if they are an independent branch, i.e. negotiating, writing and collecting all contracts under the predecessor name, not sharing significant resources or staff, etc. with IBI Group, the entity is considered an independent CGU.

Where groups of entities within the consolidated group share contracts, resources and contribute to the cash inflows of one another, management assessed where independent cash inflows could be identified by grouping the lowest number of entities, which is by geographic location.

- The recoverable amount of each CGU was based on the higher of fair value less cost to sell and value in use, which was determined to be fair value less costs to sell for all CGUs. The Company applies the same methodology in determining the fair value less costs to sell of each CGU as is applied in calculating the purchase price on acquisition of subsidiaries. The following factors are considered: size of the firm in terms of revenue and staffing levels, functional diversification, geographic diversification, consistency of revenue and earnings growth, and strength of the management team. Based on an assessment of these, an appropriate earnings multiple is determined which is used in the calculation of the fair value less costs to sell. The historical range of EBITDA¹ multiples is between 3 and 6, with 3 being for small single function firms and 6 being used for larger, more diverse firms. Where a CGU consists of an acquired subsidiary, the multiple derived from the above analysis is compared to the earnings multiple provided in valuation reports from third-party service providers in

¹ References to "EBITDA" in respect of impairment testing 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.

relation to the acquisition of that firm. The lesser of the two earnings multiples is used in the calculation of fair value less cost to sell.

The factor identified above is multiplied by an average of the historical EBITDA¹. This is based on the average of the prior 3 to 5 year EBITDA¹ and management EBITDA¹ projections for the subsequent year. This amount represents the fair value of the CGUs. The remaining net assets of the CGUs are added to this amount to calculate the total fair value of the CGU. Costs to sell is calculated based on 3% of the total fair value so determined, which is in line with the average transaction costs in recent acquisitions.

The assumptions used were based on the Company's internal budget, financial reports for current and past periods, as well as multiples and historic EBITDA¹ figures provided by subsidiaries and third party advisors. In arriving at its budget, the Company considered past experience, economic trends such as GDP growth and inflation as well as industry and market trends. The projection also took into account the expected impact from new service initiatives, customer retention and integration programs, and the maturity of the markets in which the business operates.

During 2012 the share price of the Company decreased, adversely impacting its market capitalization. The performance of certain CGU's of the company have also been weaker than expected and as a result the Company has recorded an impairment charge of \$14,483 to goodwill and \$912 to intangibles in the period. In 2012 the Company had 20 CGU's, the allocation of the impairment charge by segment is identified below:

	As at December 31, 2012		
	Goodwill Impairment	Intangible Impairment	Total
Canada	\$ 3,383	\$ -	\$ 3,383
US	9,293	912	10,205
International	1,807	-	1,807
Total Impairment	\$ 14,483	\$ 912	\$ 15,395

In 2011, the Company had 18 CGUs. Each of the CGUs had fair values exceeding their carrying values and no impairment expense relating to non-financial assets was recorded.

¹ References to "EBITDA" in respect of impairment testing 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.

NOTE 10: INCOME TAXES

The major components of income tax expense include the following:

	Year ended	
	December 31, 2012	December 31, 2011
<i>Current tax expense</i>		
Current period	\$ 2,259	\$ 5,077
Adjustment for prior periods	925	52
	3,184	5,129
<i>Deferred tax expense (recovery)</i>		
Origination and reversal of temporary differences	(4,365)	(1,256)
Adjustment on conversion to corporation (see note 7)	-	3,131
Change in tax rates	235	(68)
Adjustment for prior periods	20	(447)
Change in unrecognized deductible temporary differences	(568)	(50)
	(4,678)	1,310
Total tax expense (recovery)	\$ (1,494)	\$ 6,439

The provision for income taxes in the consolidated statement of comprehensive income represents an effective tax rate different than the Canadian enacted or substantively enacted statutory rate of approximately 26.5% (December 31, 2011 – 28.25%). The differences are as follows:

	Year ended	
	December 31, 2012	December 31, 2011
Net income (loss) for the period	\$ (14,412)	\$ 12,655
Total tax expense	(1,494)	6,439
Net income (loss) before taxes	\$ (15,906)	\$ 19,094
Income tax using the Company's domestic tax rate	\$ (4,215)	\$ 5,394
Income tax effect of:		
Non-deductible expenses	4,209	768
Change in deferred tax rates	235	(68)
Non-controlling interests share of income	(413)	(1,275)
One time adjustment on conversion to corporation	-	3,131
Operating in jurisdictions with different tax rates	(1,608)	(915)
Change in unrecognized temporary differences	(568)	(51)
Prior period adjustments to current tax	120	52
Prior period adjustments to deferred tax	20	(447)
Withholding taxes	806	-
Other	(80)	(150)
Income tax expense	\$ (1,494)	\$ 6,439

The applicable tax rate is the aggregate of the Canadian Federal income tax rate of 15% (2011 – 16.5%) and the Provincial income tax rate of 11.5% (2011 – 11.75%).

Unrecognized deferred tax liabilities

As at December 31, 2012, the Company has approximately \$6,002 (December 31, 2011 - \$3,416) of temporary differences associated with its investments in foreign subsidiaries for which no deferred taxes have been provided on the basis that the company is able to control the timing of the reversal of such temporary differences and that such reversal is not probable in the foreseeable future.

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following gross temporary differences:

	Year ended	
	December 31, 2012	December 31, 2011
Deductible temporary differences	\$ 6,001	\$ 6,386
Tax losses – Federal	1,824	2,215
Tax losses – State	11,442	8,760
	\$ 19,267	\$ 17,361

The tax effected amount of unrecognized gross temporary differences is as follows:

	Year ended	
	December 31, 2012	December 31, 2011
Deductible temporary differences	\$ 2,444	\$ 2,427
Tax losses – Federal	620	753
Tax losses – State	645	527
	\$ 3,709	\$ 3,707

As at December 31, 2012, the Company's affiliated entities have \$5,248 (December 31, 2011 - \$8,496) of operating loss carry forwards available for income tax purposes, which expire in the years 2016 through 2031. Deferred tax assets are recognized for these operating loss carry forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The ability of the Company to realize the tax benefits of the loss carry forwards is contingent on many factors, including the ability to generate future taxable profits in the jurisdictions in which the tax losses arose.

The Company regularly assesses the status of open tax examinations and its historical tax filing positions for the potential for adverse outcomes to determine the adequacy of the provision for income and other taxes. The Company believes that it has adequately provided for any tax adjustments that are more likely than not to occur as a result of ongoing tax examinations or historical filing positions.

The tax effect of temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases that give rise to significant portions of the deferred tax assets at December 31, 2012 and December 31, 2011 are presented below:

Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Year ended December 31, 2012			
	Assets	Liabilities	Total
Property and equipment	\$ 1,263	\$ (190)	\$ 1,073
Non-capital loss	1,074	-	1,074
Reserves	103	(2,492)	(2,389)
Financing costs	182	-	182
Intangible assets	2,715	(3,614)	(900)
Other	(181)	125	(55)
	\$ 5,156	\$ (6,171)	\$ (1,015)

Year ended December 31, 2011			
	Assets	Liabilities	Total
Property and equipment	\$ 531	\$ (189)	\$ 342
Non-capital loss	1,370	-	1,370
Reserves	62	(3,533)	(3,471)
Financing costs	-	(86)	(86)
Intangible assets	3,645	(5,957)	(2,312)
Other	(276)	310	34
	\$ 5,332	\$ (9,455)	\$ (4,123)

Deferred tax assets and liabilities - Movement in temporary differences during the year

	Balance December 31, 2011	Recognized in profit or loss	Acquired in business combination (Note 17)	Other deferred tax items	Balance December 31, 2012
Property, plant and equipment	\$ 342	\$ 849	\$ (118)	\$ -	\$ 1,073
Non-capital loss	1,370	(296)	-	-	1,074
Reserves	(3,471)	1,762	(680)	-	(2,389)
Financing costs	(86)	(281)	-	549	182
Intangible assets	(2,312)	2,695	(1,283)	-	(900)
Other	34	(51)	-	(38)	(55)
	\$ (4,123)	\$ 4,678	\$ (2,081)	\$ 511	\$ (1,015)

	Balance, January 1, 2011	Recognized in profit or loss	Acquired in business combination (Note 17)	Other deferred tax items	Balance, December 31, 2011
Property, plant and equipment	\$ 939	\$ (397)	\$ (200)	\$ -	\$ 342
Non-capital loss	470	900	-	-	1,370
Reserves	(2,794)	(233)	(444)	-	(3,471)
Unitholders' equity – issuance costs	268	(354)	-	-	(86)
Intangible assets	(340)	(1,051)	(921)	-	(2,312)
Other	232	(175)	-	(23)	34
	\$ (1,225)	\$ (1,310)	\$ (1,565)	\$ (23)	\$ (4,123)

NOTE 11: RELATED PARTY TRANSACTIONS

- 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 year ended December 31, 2012 was \$24,119 (year ended December 31, 2011 - \$21,336).
- IBI Group makes a monthly distribution to each Class B partnership unitholder equal to the dividend per share (on a pre-tax basis) declared to each shareholder. The Class B partnership unitholders are the partners of the Management Partnership. As at December 31, 2012 the amount of distributions payable to the Management Partnership was \$1,340 (as at December 31, 2011 - \$1,340). During the year ended December 31, 2012, the Company issued 215,000 common shares to the Management Partnership under the dividend reinvestment and share purchase plan ("DRIP"). These shares were issued in satisfaction of distributions totalling \$2,010 owed to the Management Partnership.
- During the first quarter of 2010, the Management Partnership advanced \$26,000 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. The loan matures July 28, 2013. In February 2011, IBI Group repaid \$6,000 of the advance. During the second quarter of 2012 IBI Group repaid \$10,000 of the advance with the issuance of 667,000 common shares of the Company. For the year ended December 31, 2012, interest expense on this advance was \$497 (year ended December 31, 2011 - \$760).
- *Compensation of Key Management Personnel*

The Company's key management personnel are comprised of the Board and members of the executive team of the Company, to the extent that they have the authority and responsibility for

planning, directing and controlling the day-to-day activities of the Company. The increase over 2011 arises from four operating directors being appointed and designated as key management personnel in 2012.

	Year ended December 31, 2012	Year ended December 31, 2011
Directors fees, salaries and other short-term employee benefits	\$ 3,357	\$ 2,081
Share-based compensation	211	173
Other compensation	-	32
Total compensation	\$ 3,568	\$ 2,286

NOTE 12: EQUITY

(a) Shareholders' equity

As at December 31, 2012, the Company's common share capital consisted of 16,845,451 shares issued and outstanding (December 31, 2012 – 13,022,695 shares).

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 December 31, 2012, the units issued on such exchange would have represented a 23.0% 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 consolidated financial statements as at December 31, 2012 and 2011.

Issues

On April 20, 2012 the Company issued 2,700,000 common shares on a bought deal basis at a price of \$15.00 per share, to a syndicate of underwriters for gross proceeds of \$40,500.

Concurrent with the Offering, the Company completed, on a non-brokered private placement basis, the issuance of 667,000 shares at \$15.00 per share to the Management Partnership in full satisfaction of \$10,000 of indebtedness owed by the Company to the Management Partnership.

The Company used the net proceeds from the Offering for debt reduction and general corporate purposes.

During the year ended December 31, 2012, the Company issued 215,000 common shares at \$9.37 per share for a total of \$2,010 under the DRIP to the Management Partnership. The Company also issued 19,000 common shares valued at a total of \$132 under the DRIP to shareholders.

- During the year ended December 31, 2012, the Company issued 18,000 common shares at \$15.28 per share, 46,000 common shares at \$11.70 per share, 18,000 common shares at \$15.28 per share, 17,000 common shares at \$15.28 per share, 58,000 common shares at \$11.77 per share, 51,000 common shares at \$13.89 per share and 18,000 common shares at \$15.28 per share for acquisition payments for a total of \$3,009. These share issuances were settled by reducing notes payable.

During the year ended December 31, 2011, the Company issued 35,000 common shares at \$15.28 per share, 27,000 common shares at \$15.26 per share, and 36,000 common shares at \$15.31 per share for a total of \$1,499. These share issuances were settled by reducing notes payable.

Dividends

For each of the twelve months ended December 31, 2012, the Company declared monthly dividends at a rate of \$0.092 cents per qualifying ordinary share total dividends declared during the period were \$15,847 (2011 - \$14,323).

Earnings per share

The calculation of basic and diluted earnings (loss) per share is demonstrated in the following table:

	Year ended December 31, 2012	Year ended December 31, 2011
Net income (loss) attributable to owners of the Company	\$ (10,884)	\$ 9,124
Weighted average common shares outstanding	15,549	12,971
Basic and diluted earnings (loss) per common share	\$ (0.7000)	\$ 0.7034

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

(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 statement of changes in equity. The calculation of net income and total comprehensive income attributable to non-controlling interest is set out below:

	Year ended December 31, 2012	Year ended December 31, 2011
Net income (loss)	\$ (14,412)	\$ 12,655
Non-controlling interest share of ownership	24.5%	27.9%
Net income (loss) attributable to non-controlling interest	\$ (3,528)	\$ 3,531
	Year ended December 31, 2012	Year ended December 31, 2011
Total comprehensive income (loss)	\$ (16,034)	\$ 13,207
Non-controlling interest share of ownership	24.5%	27.9%
Total comprehensive income (loss) attributable to non-controlling interest	\$ (3,925)	\$ 3,685

NOTE 13: 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 statement of financial position, comprehensive income and cash flow in support of achieving dividend distribution targets, as well as 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 financing strategy is to access public 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 floating-rate debt, which subjects it to interest rate cash flow risk.

The Company entered into interest rate swaps to convert a portion of its debt from floating to fixed rates. As at December 31, 2012, a notional amount of \$45,000 (December 31, 2011 - \$46,000) of interest rate swaps were outstanding. The terms of these swaps correspond to the terms of the underlying debt.

If the interest rate on the Company's variable rate loan balance as at December 31, 2012, had been 50 basis points higher, with all other variables held constant, net income for the year ended December 31, 2012 would have decreased by approximately \$107, tax effected, after the impact of the swap. If the interest rate had been 50 basis points lower, there would have been an equal and opposite impact on net income.

If the interest rate on the Company's variable rate loan balance as at December 31, 2011, had been 50 basis points higher, with all other variables held constant, net income for the year ended December 31, 2011 would have decreased by approximately \$115, tax effected after the impact of the swap. If the interest rate had been 50 basis points lower, there would have been an equal and opposite impact on net income.

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 utilize natural hedges to offset 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 financial assets and liabilities (such as cash balances, accounts receivable, work in process, accounts payable and term debt) held in the Company's Canadian operations. The Company minimizes its exposure to foreign exchange fluctuations on these items by matching US-dollar liabilities.

If the exchange rates had been 1% higher or lower at December 31, 2012, with all other variables held constant, net income would have increased or decreased by \$3 for the year ended December 31, 2012. If the exchange rates had been 1% higher or lower at December 31, 2011, with all other variables held constant, net earnings would have increased or decreased by \$60 for the year ended December 31, 2011.

(b) Credit risk

Financial instruments that subject the Company to credit risk consist primarily of accounts receivable and work in process. 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 collection and 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 December 31, 2012 there were 80 working days of adjusted revenue¹ in accounts receivable, up from 77 days at December 31, 2011. The maximum exposure to credit risk, at the date of the 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 statement of financial position and notes to the annual consolidated financial statements.

¹ References to "adjusted revenue" is to revenue excluding a write down of unbilled work in process of \$12,600. Adjusted revenue is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS.

The majority of the accounts receivable are due from government and public institutions. As well, IBI implements a process of assurance for payment from private entities. Their maturities are detailed below with the entire allowance for impairment losses relating to accounts receivable over 90 days:

	As at December 31, 2012	As at December 31, 2011
Current	\$ 46,707	\$ 38,533
30 to 90 days	36,929	31,717
Over 90 days	69,152	71,898
Allowance for impairment losses	(10,620)	(7,369)
Total	\$ 142,168	\$ 134,779

(c) Liquidity Risk

The Company strives to maintain sufficient financial liquidity at all times in order to participate in investment opportunities as they arise, as well as 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 committed credit facilities and access to capital markets.

As at December 31, 2012, the Company had \$589 of bank indebtedness plus \$42,221 of unutilized credit available under its Revolver Facility in addition to the accordion feature of \$80,000.

As at December 31, 2011, the Company had \$2,358 of cash and cash equivalents plus \$37,723 of unutilized credit available under its Revolver Facility in addition to the accordion feature of \$80,000.

(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 facility and equity.

The Company seeks to maintain a sufficient balance of available bank credit to allow it to take advantage of acquisition opportunities on a timely basis without being required to access the public capital markets. The Company has historically operated on the basis of using bank debt for acquisitions and as the bank debt increases, the Company then raised equity through a public offering, using the proceeds to reduce the bank debt. The Company has also used the bank debt to fund working capital.

The Company is subject to compliance with certain financial and other covenants related to its credit facilities. These covenants include but are not limited to, debt to EBITDA¹ ratio, fixed charge coverage ratio and distributions not to exceed distributable cash. Failure to meet the terms of one or more of

¹ References to "EBITDA" in note 13(d) is to the earnings before interest, income taxes, depreciation and amortization calculated using inputs measured using IFRS. EBITDA is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS.

these covenants may constitute a default, potentially resulting in accelerating the repayment of the debt obligation. As at December 31, 2012 and December 31, 2011, the Company was in compliance with all covenants under its credit facilities.

There were no changes in the Company's approach to capital management during year ended December 31, 2012.

(e) Fair value measurements

The fair values of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, dividends and distributions payable approximate their carrying amounts due to their short-term maturity. The fair value of notes receivable approximates their carrying value.

The fair value of the Company's term loan approximates its carrying value less deferred transaction costs related to debt modifications.

IFRS 7, Financial Instruments – Disclosures, requires financial instruments that are measured subsequent to initial recognition at fair value, grouped in Levels 1 to 3, in the fair value hierarchy, based on the degree to which the fair value is observable. The three levels of the fair value hierarchy are:

- Level 1 – inputs derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 – fair value derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	As at December 31, 2012		
	Level 1	Level 2	Level 3
Bank indebtedness	\$ (589)	\$ -	\$ -
Accounts payable and accrued liabilities		(347)	(338)
	\$ (589)	\$ (347)	\$ (338)
	As at December 31, 2011		
	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 2,358	\$ -	\$ -
Accounts payable and accrued liabilities		(442)	(338)
	\$ 2,358	\$ (442)	\$ (338)

There were no transfers between Level 1 and Level 2 for the year ended December 31, 2012 and the year ended December 31, 2011.

NOTE 14: CHANGE IN NON-CASH OPERATING WORKING CAPITAL

	Year ended	
	December 31, 2012	December 31, 2011
Accounts receivable	\$ (7,726)	\$ (2,226)
Work in process	995	(29,261)
Prepaid expenses and other assets	1,250	(1,578)
Bank indebtedness	589	-
Accounts payable	(6,379)	584
Deferred revenue	(2,342)	(57)
Net income taxes payable	2,773	5,512
Acquisition of working capital	2,522	(1,649)
Change in non-cash operating working capital	\$ (8,318)	\$ (28,675)

NOTE 15: OPERATING LEASES

Non-cancellable operating leases where the Company is the lessee are payable as set out below. These amounts represent the minimum annual future lease payments, in aggregate, that the Company is required to make under existing operating lease agreements.

2013	\$ 22,831
2014	23,478
2015	16,945
2016	14,505
2017	11,196
Thereafter	24,347

The Company leases certain property and equipment under operating leases. The leases typically run for an initial lease period with the potential to renew the leases after the initial period at the option of the Company.

NOTE 16: FINANCE COSTS (INCOME)

	Year ended	
	December 31, 2012	December 31, 2011
Interest on credit facility	\$ 2,566	\$ 3,970
Interest on convertible debentures	7,820	7,541
Non-cash accretion of convertible debentures	1,967	1,751
Other	1,225	1,988
Interest expense	\$ 13,578	\$ 15,250
Amortization of deferred financing costs	\$ 224	\$ 1,384
Change in fair value of interest rate swap	(35)	(592)
Other	277	710
Other finance costs	\$ 466	\$ 1,502
Finance costs for the period	\$ 14,044	\$ 16,752

NOTE 17: ACQUISITIONS

Acquisitions are accounted for under the acquisition method of accounting, and the results of operations since the respective dates of acquisition are included in the statement of comprehensive income. From time to time, as a result of the timing of acquisitions in relation to the Company's reporting schedule and the availability of information, certain of the purchase allocations may not be finalized at the time of reporting. Purchase price allocations are finalized after the vendors' final financial statements and income tax returns have been prepared and accepted by the Company (within one year from acquisition). Such preliminary purchase price allocations are based on management's best estimates of the fair value of the acquired assets and liabilities. Upon finalization, adjustments to the initial estimates may be required. The purchase prices of acquisitions are generally subject to price adjustment clauses included in the purchase agreements. Such purchase price adjustments generally result in an increase or reduction to the promissory note consideration recorded at acquisition, to reflect either more or less net working capital realized than was originally expected.

In addition, consideration, specified in certain purchase agreements, may be based on future performance parameters. This contingent consideration is recognized at its fair value at the acquisition date. Any changes to the fair value of the contingent consideration after the acquisition date are recorded in other operating expenses.

(a) Acquisitions in 2012 and 2011*2012*

- On December 12, 2012, the Company closed the acquisition of all of the outstanding shares of M-E Companies, Inc. ("MEC"). MEC is a full service engineering firm with expertise in

comprehensive management, engineering design, surveying and construction services with offices located in the Canton and Cincinnati areas of Ohio, USA. The firm currently has 80 staff.

The business combination was structured as a share acquisition; \$3,271 was paid on closing, the balance of \$3,271 will be paid in instalments over the two year period from the acquisition date.

- On August 3, 2012, the Company closed the acquisition of all of the outstanding shares of the professional practice of Taylor Young Limited Architects and Master Planners ("Taylor Young") in the United Kingdom. Taylor Young is a full services architectural practice including professional skills in urban planning and design and landscape architecture. The practice is based in Manchester, UK with offices in Liverpool and London. The firm currently has some 80 professional staff for a total complement of approximately 100 staff members.

The business combination was structured as a share acquisition; \$1,463 was paid on closing, the balance of \$2,336 will be paid in instalments over the two year period from the acquisition date.

2011

- Effective September 15, 2011, the Company concluded arrangements for the acquisition of Dull Olson Weekes Architects, Inc., ("DOWA"), located in Portland, Oregon. DOWA, is known for high quality of design and technical competence, as well as for social consciousness in its approach to sustainability and other societal values. The combination of social infrastructure and transportation infrastructure is providing the Company with a strong, sustainable base across the United States as the Company succeeds in its plan of establishing national practices in these broad areas.

The business combination was structured as a share acquisition; \$3,106 was paid on closing, the balance of \$3,756 will be paid in instalments over the two year period from the acquisition date.

- Effective June 3, 2011, through the professional practice of IBI Group Architects, Engineers and Landscape Architects of New York, the Company formed a strategic alliance by merging with, Carol R. Johnston Associates Landscape Architects, ("CRJA"). CRJA, is located in Boston, MA known for landscape projects in educational campuses, building facilities, and prestigious embassies for urban developments of mixed uses; and for design of the public realm of streetscapes and public places.

The business combination was structured as an asset acquisition. The net purchase price for CRJA was \$1 at the effective date which was paid directly on closing. Contingent consideration as at December 31, 2011 of \$338 will be paid subject to earnings targets.

- Effective March 31, 2011, the Company concluded arrangements for the acquisition of Bay Architects Inc., ("Bay"). Bay located in Houston, Texas is an architectural firm that specializes in educational facilities (schools and community colleges); but also includes other institutional, retail, office and industrial facilities in the State of Texas.

The business combination was structured as a share acquisition; \$3,793 was paid on closing, the balance of \$3,793 will be paid instalments over the two year period from the acquisition date.

- In January 2011, the Company completed the acquisition of the practice of Cardinal Hardy Architectes, (“CHA”) in Montreal, Quebec, effective January 3, 2011. CHA is a full service architectural practice with technical work ranging from institutional projects in transportation, social infrastructure including building facilities in education and health, private development projects by leading developers in the Greater Montreal Region.

The business combination was structured as a share acquisition; \$3,918 was paid on closing, the balance of \$3,614 will be paid instalments over the two year period from the acquisition date.

(b) Consideration transferred and net assets acquired

The aggregate consideration for these acquisitions was allocated as follows based on preliminary purchase equations:

	Year ended December 31, 2012	Year ended December 31, 2011
Cash consideration	\$ 4,734	\$ 10,817
Notes payable issued, due 2013 through to 2014 To be settled in cash	5,607	11,163
Purchase price, net	\$ 10,341	\$ 21,980
Net working capital	\$ 2,781	\$ (1,649)
Cash	715	1,814
Property and equipment	741	1,595
Intangible assets		
Contract backlog	756	3,005
Clients and relationships	2,133	5,015
Other	1,381	1,994
Goodwill	3,915	14,089
Deferred tax liability	(2,081)	(3,883)
Net assets acquired	\$ 10,341	\$ 21,980

Goodwill comprises the value of expected synergies arising from an acquisition, the expertise and reputation of the assembled workforce acquired, and the geographic location of the acquiree.

In 2012, Taylor Young has contributed \$4,574 in revenue and \$308 in profit and ME has contributed \$1,418 in revenue and \$263 in profit towards the results of the consolidated group.

If the business combinations that occurred in 2012 had taken place at the beginning of 2012, revenue would be approximately \$13,905 higher than reported and net income would be approximately \$866 higher than reported.

If the business combinations that occurred in 2011 had taken place at the beginning of 2011, revenue would be approximately \$13,500 higher than reported and net income would not have changed due to net losses in DOWA and CRJA in 2011 prior to acquisition.

In the year ended December 31, 2012, directly attributable acquisition-related costs of \$1,081 (December 31, 2011 – \$1,570) have been expensed and are included in other operating expenses in the statement of comprehensive income.

(c) Consideration paid and outstanding

The total notes payable, contingent consideration outstanding, and adjustments to these obligations are as follows:

	Notes payable	Contingent consideration
Balance, January 1, 2011	\$ 13,830	\$ 1,551
Additions for acquisitions in the period	11,163	416
Share issuances	(1,499)	-
Payments	(4,020)	(1,551)
Foreign exchange translation	540	(78)
Purchase price adjustments	(103)	-
Balance, December 31, 2011	\$ 19,911	\$ 338
Additions for acquisitions in the period	5,636	-
Share issuances	(2,757)	-
Payments	(4,213)	-
Foreign exchange translation	(180)	-
Purchase price adjustments	(1,701)	-
Balance, December 31, 2012	\$ 16,696	\$ 338

Contingent consideration

Additional consideration, specified in certain purchase agreements, may be payable based on future performance parameters. The Company uses the income approach to determine the fair value of contingent consideration.

The fair value of the contingent consideration for CRJA was estimated and recorded on the date of acquisition and adjusted to fair value of \$338 at December 31, 2012 (December 31, 2011 - \$338). It is classified as accrued liabilities on the balance sheet.

During the year ended December 31, 2011, the Company settled the contingent consideration payable to NAL, which had been estimated and recorded on the date of the acquisition in 2010.

Purchase price adjustments

During the fourth quarter of 2012, the Company adjusted the working capital and notes payable on the CSM acquisition. This adjustment resulted in a decrease in net working capital of \$56 and a decrease in notes payable of \$56.

During the third quarter of 2012, the Company adjusted the working capital and notes payable on the MAAK acquisition. This adjustment resulted in a decrease in net working capital of \$198 and a decrease in notes payable of \$198.

During the second quarter of 2012, the Company adjusted the working capital and notes payable on the Bay acquisition. This adjustment resulted in a decrease in net working capital of \$321, a decrease in goodwill of \$869 and a decrease in notes payable of \$1,190.

During the second quarter of 2012, the Company adjusted the notes payable on the Nightingale acquisition. This adjustment resulted in an increase income of \$249, and a decrease in notes payable of \$249.

During the first quarter of 2012, the Company adjusted the working capital and notes payable on the BFGC acquisition. This adjustment resulted in an increase in net working capital of \$44, and an increase in notes payable of \$44.

During the first quarter of 2012, the Company adjusted the income tax payable and goodwill for the acquisition of Bay Architects Inc. The adjustment resulted in a decrease in income tax payable of \$456 and a decrease to goodwill of \$456.

During the fourth quarter of 2011, the Company adjusted the purchase price on the CSM acquisition. This adjustment resulted in an increase in goodwill of \$114 and increase in notes payable of \$114.

During the third quarter of 2011, the Company adjusted the purchase price on the Gruzen Samton acquisition. This adjustment resulted in a decrease in net working capital of \$203, and a decrease in notes payable of \$203.

During the second quarter of 2011, the Company adjusted the purchase price on the Nightingale acquisition. This adjustment resulted in a decrease in goodwill of \$2,318, and an increase in deferred tax assets of \$2,318.

NOTE 18: DEFERRED SHARE PLAN

The Company offers a deferred share plan ("DSP") for members of the board of directors. Under the DSP, directors of the Company may elect to allocate all or a portion of their annual compensation in the form of deferred shares rather than cash. These shares are fully vested upon issuance and are recorded as a financial liability at FVTPL on the statement of financial position amounting to \$347. Directors can only redeem their DSPs for shares when they retire.

During the year ended December 31, 2012, the Company granted 21,902 deferred shares (December 31, 2011 – 13,242) and redeemed no deferred shares (December 31, 2011 – 5,541), for a total of 53,747 deferred shares outstanding as at December 31, 2012 (December 31, 2011 – 31,845). Compensation expense for the year ended December 31, 2012 related to the deferred shares was \$211 (December 31, 2011 - \$264). There is no unrecognized compensation expense related to deferred shares, since these awards vest immediately when granted.

The table below shows the DSP transactions for the year ended December 31, 2012:

	Deferred shares	Fair value
Balance, January 1, 2012	31,845	\$ 442
Deferred shares issued	21,902	211
Deferred shares redeemed	-	-
Change in fair value due to share price	-	(306)
Balance, December 31, 2012	53,747	\$ 347

The table below shows the DSP transactions for the year ended December 31, 2011:

	Deferred shares	Fair value
Balance, January 1, 2011	-	\$ -
Impact of conversion to a corporation	24,144	326
Deferred shares issued	13,242	264
Deferred shares redeemed	(5,541)	(139)
Change in fair value due to share price	-	(31)
Balance, December 31, 2011	31,845	\$ 420

NOTE 19: 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 consolidated 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 consolidated financial statements with respect to these indemnifications as it is not probable that there will be an outflow of resources.

NOTE 20: RECLASSIFICATION OF PRIOR PERIOD AMOUNTS

Certain amounts for the prior period ended December 31, 2011 have been reclassified to be consistent with the presentation of amounts in the current period:

- Software development costs of \$1,020 were reclassified from Prepaid expenses and other current assets to Intangible assets on the Consolidated Statement of Financial Position.
- An unrealized interest rate swap gain of \$36 was reclassified from Unrealized interest rate swap gain to Accounts payable and accrued liabilities on the Consolidated Statement of Financial Position.
- The \$20,000 due to related parties was reclassified from Current Liabilities to Non-current liabilities on the Consolidated Statement of Financial Position.
- Deferred financing amortization of \$1,384 was reclassified from Payments on principal of credit facility under Cash flows provided by (used in) Financing Activities to Amortization of deferred financing costs under Cash flows provided by (used in) Operating Activities on the Consolidated Statement of Cash Flows.