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## IBI Group Inc.

### 2012 Third quarter report

Nine and nine months ending September 30, 2012

Unaudited Interim Condensed Consolidated Financial Statements of

# IBI GROUP INC.

Three and nine months ended September 30, 2012 and 2011

# IBI GROUP INC.

## Interim Condensed Consolidated Statement of Financial Position

| *(thousands of Canadian dollars)* | **Notes** | **September 30, 2012** *(unaudited)* | **December 31, 2011** |
|---|---|---|---|
| ***Assets*** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | *5* | $ 1,419 | $ 2,358 |
| Accounts receivable | *5,8* | 136,438 | 134,779 |
| Work in process | | 130,829 | 118,608 |
| Prepaid expenses and other current assets | | 7,916 | 10,616 |
| Income tax recoverable | | 1,766 | 1,703 |
| **Total Current Assets** | | $ 278,368 | $ 268,064 |
| Property and equipment | | 7,436 | 7,537 |
| Intangible assets | | 27,509 | 31,160 |
| Goodwill | | 168,252 | 169,766 |
| Unrealized interest rate swap gains | *5,8* | 8 | - |
| Deferred tax assets | | 5,572 | 5,332 |
| ***Total Assets*** | | $ 487,145 | $ 481,859 |
| ***Liabilities and Equity*** | | | |
| ***Liabilities*** | | | |
| **Current Liabilities** | | | |
| Accounts payable and accrued liabilities | *11* | $ 46,375 | $ 54,964 |
| Notes payable | *11* | 12,049 | 16,080 |
| Deferred revenue | | 9,268 | 12,885 |
| Credit facility | *5,11* | 66,757 | - |
| Income taxes payable | | 3,467 | 4,765 |
| Dividends payable | | 1,547 | 1,195 |
| Distributions payable | | - | 1,340 |
| **Total Current Liabilities** | | $ 139,463 | $ 91,229 |
| Due to related parties | *6* | 10,000 | 20,000 |
| Notes payable | *11* | 1,407 | 3,831 |
| Unrealized interest rate swap losses | *5,8* | - | 36 |
| Credit facility | *5,11* | - | 76,941 |
| Convertible debentures | *5* | 114,105 | 112,687 |
| Deferred tax liabilities | | 8,410 | 9,455 |
| ***Total Liabilities*** | | $ 273,385 | $ 314,179 |
| ***Equity*** | | | |
| **Shareholders' Equity** | | | |
| Share capital | *7* | 231,357 | 176,109 |
| Deficit | | (79,487) | (74,268) |
| Convertible debentures - equity component | *5* | 5,852 | 5,852 |
| Accumulated other comprehensive loss | | (4,783) | (3,558) |
| **Total Shareholders' Equity** | | $ 152,939 | $ 104,135 |
| Non-controlling interest | *7* | 60,821 | 63,545 |
| ***Total Equity*** | | $ 213,760 | $ 167,680 |
| ***Total Liabilities and Equity*** | | $ 487,145 | $ 481,859 |

See accompanying notes to the interim condensed consolidated financial statements.

# IBI GROUP INC.

## Interim Condensed Consolidated Statement of Comprehensive Income
## *(unaudited)*

| *(thousands of Canadian dollars, except per share amounts)* | Notes | Three months ended September 30, 2012 | Three months ended September 30, 2011 | Nine months ended September 30, 2012 | Nine months ended September 30, 2011 |
|---|---|---|---|---|---|
| Revenue | | $ 86,809 | $ 84,265 | $ 262,263 | $ 244,351 |
| Salaries, fees and employee benefits | | 62,135 | 57,032 | 183,775 | 165,266 |
| Rent | | 5,291 | 5,081 | 15,623 | 14,840 |
| Other operating expenses | | 10,016 | 9,358 | 29,442 | 27,654 |
| Foreign exchange loss (gain) | *8* | 357 | 77 | 504 | 361 |
| Amortization of intangible assets | | 1,650 | 1,730 | 5,142 | 5,510 |
| Amortization of property and equipment | | 869 | 934 | 2,441 | 2,486 |
| Impairment of financial assets | *5* | 345 | 411 | 1,053 | 831 |
| | | 80,663 | 74,623 | 237,980 | 216,948 |
| ***Operating Income*** | | $ 6,146 | $ 9,642 | $ 24,283 | $ 27,403 |
| Interest expense, net | *10,13* | 3,338 | 4,002 | 10,250 | 11,383 |
| Other finance costs | *10* | 71 | 392 | 329 | 1,094 |
| ***Finance Costs*** | | $ 3,409 | $ 4,394 | $ 10,579 | $ 12,477 |
| Current tax expense | | 511 | 1,503 | 2,649 | 4,703 |
| Deferred tax expense (recovery) | | (478) | (497) | (1,061) | 1,733 |
| ***Income taxes*** | | $ 33 | $ 1,006 | $ 1,588 | $ 6,436 |
| ***Net Income for the Period*** | | $ 2,704 | $ 4,242 | $ 12,116 | $ 8,490 |
| **Other comprehensive income (loss)** | | | | | |
| Income (loss) on translating financial statements of foreign operations, net of tax | | (1,599) | 3,715 | (1,633) | 2,295 |
| ***Other comprehensive income (loss), net of tax*** | | (1,599) | 3,715 | (1,633) | 2,295 |
| ***Total Comprehensive Income*** | | $ 1,105 | $ 7,957 | $ 10,483 | $ 10,785 |
| **Net income attributable to:** | | | | | |
| Owners of the Company | | $ 2,074 | $ 3,057 | $ 9,073 | $ 6,119 |
| Non-controlling interests | *7* | 630 | 1,185 | 3,043 | 2,371 |
| ***Net income for the period*** | | $ 2,704 | $ 4,242 | $ 12,116 | $ 8,490 |
| **Total comprehensive income attributable to:** | | | | | |
| Owners of the Company | | $ 848 | $ 5,735 | $ 7,847 | $ 7,773 |
| Non-controlling interests | *7* | 257 | 2,222 | 2,636 | 3,012 |
| ***Total comprehensive income for the period*** | | $ 1,105 | $ 7,957 | $ 10,483 | $ 10,785 |
| ***Earnings per share*** | | | | | |
| Basic and diluted earnings per share | *7* | $ 0.1250 | $ 0.2354 | $ 0.5999 | $ 0.4721 |

See accompanying notes to the interim condensed consolidated financial statements.

# IBI GROUP INC.

## Interim Condensed Consolidated Statement of Cash Flows
## *(unaudited)*

| *(thousands of Canadian dollars)* | Notes | Three months ended September 30, 2012 | Three months ended September 30, 2011 | Nine months ended September 30, 2012 | Nine months ended September 30, 2011 |
|---|---|---|---|---|---|
| **Cash Flows provided by (used in) Operating Activities** | | | | | |
| Net income | | $ 2,704 | $ 4,242 | $ 12,116 | $ 8,490 |
| Items not affecting cash: | | | | | |
| Amortization of property and equipment | | 869 | 934 | 2,441 | 2,486 |
| Amortization of intangible assets | | 1,650 | 1,730 | 5,142 | 5,510 |
| Amortization of deferred financing costs | | 53 | 422 | 161 | 927 |
| Interest expense, net | | 3,338 | 4,002 | 10,250 | 11,383 |
| Deferred income taxes | | (478) | (497) | (1,061) | 1,733 |
| Change in fair value of financial instruments | *5* | (37) | (65) | (44) | (448) |
| Interest paid | | (2,840) | (3,360) | (8,791) | (9,548) |
| Income taxes paid | | (1,159) | (399) | (4,066) | (2,887) |
| Change in non-cash operating working capital | *9* | 1,900 | (4,965) | (21,088) | (29,914) |
| **Net Cash provided by (used in) Operating Activities** | | $ 6,000 | $ 2,044 | $ (4,940) | $ (12,268) |
| **Cash Flows provided by (used in) Financing Activities** | | | | | |
| Payments on principal of notes payable | | (255) | (367) | (4,254) | (4,020) |
| Proceeds from (payments on) principal of credit facility | | 1,500 | 5,468 | (9,500) | (4,737) |
| Dividends paid to shareholders | | (4,571) | (3,584) | (12,400) | (11,262) |
| Distributions paid to non-controlling interest | | - | (2,456) | (4,690) | (5,136) |
| Advances from (payments to) related parties | *6* | - | - | - | (6,000) |
| Issue of share capital, net of issue costs | *7* | (6) | - | 38,409 | - |
| Proceeds of issuance of convertible debentures, net of transaction costs | | - | - | - | 54,619 |
| **Net Cash provided by (used in) Financing Activities** | | $ (3,332) | $ (939) | $ 7,565 | $ 23,464 |
| **Cash Flows (used in) Investing Activities** | | | | | |
| Purchase of property and equipment | | (536) | (775) | (2,155) | (1,972) |
| Acquisitions, net of cash acquired | *11* | (1,257) | (3,106) | (1,257) | (10,514) |
| **Net Cash (used in) Investing Activities** | | $ (1,793) | $ (3,881) | $ (3,412) | $ (12,486) |
| Effect of foreign exchange rate fluctuations on cash held | *8* | (76) | 743 | (152) | 234 |
| **Net increase (decrease) in cash and cash equivalents** | | $ 799 | $ (2,033) | $ (939) | $ (1,056) |
| Cash and cash equivalents, beginning of period | | 620 | 4,639 | 2,358 | 3,662 |
| ***Cash and Cash Equivalents, End of Period*** | | $ 1,419 | $ 2,606 | $ 1,419 | $ 2,606 |

See accompanying notes to the interim condensed consolidated financial statements.

# IBI GROUP INC.

## Interim Condensed Consolidated Statement of Changes in Equity
*(unaudited)*

| | | Three months ended | | Nine months ended | |
|---|---|---|---|---|---|
| *(thousands of Canadian dollars)* | **Notes** | **September 30, 2012** | **September 30, 2011** | **September 30, 2012** | **September 30, 2011** |
| **Share Capital** | | | | | |
| Share capital, beginning of period | | $ 228,533 | $ 175,561 | $ 176,109 | $ - |
| Issuance upon conversion from trust to corporation | *7* | - | - | - | 174,610 |
| Shares issued from treasury | *7* | 2,824 | - | 55,248 | 951 |
| ***Share Capital, End of Period*** | | $ 231,357 | $ 175,561 | $ 231,357 | $ 175,561 |
| **Deficit** | | | | | |
| Deficit, beginning of period | | $ (76,957) | $ (70,935) | $ (74,268) | $ (66,847) |
| Net income attributable to owners of the Company | | 2,074 | 3,057 | 9,073 | 6,119 |
| Dividends declared to shareholders | | (4,597) | (3,584) | (12,752) | (10,734) |
| Issue cost | | (7) | - | (1,540) | - |
| ***Deficit, End of Period*** | | $ (79,487) | $ (71,462) | $ (79,487) | $ (71,462) |
| **Convertible Debentures - Equity Component** | | | | | |
| Convertible debentures, beginning of period | | $ 5,852 | $ 5,852 | 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 | $ 5,852 | $ 5,852 |
| **Accumulated Other Comprehensive Loss** | | | | | |
| Accumulated other comprehensive loss, beginning of period | | (3,558) | (4,980) | (3,558) | (3,958) |
| Other comprehensive income (loss) attributable to shareholders | | (1,225) | 2,679 | (1,225) | 1,657 |
| ***Accumulated Other Comprehensive Loss, End of Period*** | | $ (4,783) | $ (2,301) | $ (4,783) | $ (2,301) |
| ***Total Shareholders' Equity*** | | $ 152,939 | $ 107,650 | $ 152,939 | $ 107,650 |
| **Non-controlling Interest** | | | | | |
| Non-controlling interest, beginning of period | | $ 62,574 | $ 65,116 | $ 63,545 | $ - |
| Reclassification upon conversion from a trust to a corporation | | - | - | - | 67,899 |
| Total comprehensive income attributable to non-controlling interests | *9* | 257 | 2,222 | 2,636 | 3,012 |
| Distributions | | (2,010) | (2,233) | (5,360) | (5,806) |
| ***Non-controlling Interest, End of Period*** | | $ 60,821 | $ 65,105 | $ 60,821 | $ 65,105 |
| ***Total Equity, End of Period*** | | $ 213,760 | $ 172,755 | $ 213,760 | $ 172,755 |

See accompanying notes to the interim condensed consolidated financial statements.

## 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 became 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 under the laws of the Province of Ontario that carries on business. As at September 30, 2012, the Company's common share capital consisted of 16,811,876 shares issued and outstanding. 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.

As at September 30, 2012, the Management Partnership holds 5,025,778 Class B partnership units representing 23.3% 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 42.2% 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 42.2% 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: STATEMENT OF COMPLIANCE

### (a) Statement of Compliance

These unaudited interim condensed consolidated financial statements of the Company and its subsidiaries (the "consolidated group") have been prepared in accordance with IAS 34, *Interim Financial Reporting,* using accounting policies consistent with the International Financial Reporting

Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and using accounting policies derived therein consistent with the Company's 2011 audited December 31, 2011 consolidated financial statements. Certain information and footnote disclosures which are considered material to the understanding of the Company's interim financial statements and which are normally included in annual financial statements prepared in accordance with IFRS are provided in these notes. The interim condensed consolidated financial statements do not include all of the information required for full annual financial statements. These interim condensed consolidated financial statements were approved by the Board of Directors on November 9, 2012.

**(b) Basis of measurement**

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

**(c) Functional and presentation currency**

These interim condensed 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").

**(d) Critical accounting estimates and judgments**

The preparation of these interim condensed consolidated financial statements in accordance with IAS 34 requires management to exercise judgment and make estimates and assumptions that affect the 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 interim condensed 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:

*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 estimates 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 labor 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 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.

*Selecting inputs, including fair value multiples, discount rates, and forecasts used in calculating the recoverable amount for testing impairment of non-financial assets*

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 and its value in use. Fair value less costs to sell is based on available data from sales transactions in an arm's-length transaction of similar assets or 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 discounted cash flow model. The cash flows are derived from budgets over an appropriate number of years. The recoverable amount, when based on a discounted cash flow methodology, is most sensitive to the discount rate used, as well as the expected future cash inflows and the growth rate used for extrapolation purposes. To arrive at cash flow projections, the Company estimates economic and market information over the projection period, including growth rates in revenues, estimates of future expected changes in operating margins, and cash expenditures. Other significant estimates and assumptions include future estimates of capital expenditures and changes in 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 (see note 5).

## NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Company have been applied consistently to all periods presented in these interim condensed consolidated financial statements. Please refer to Note 3 of the audited December 31, 2011 consolidated financial statements of the Company for the summary of significant accounting policies.

## NOTE 4: 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 September 30, 2012, with comparatives as at December 31, 2011:

| | As at September 30, 2012 | | | |
|---|---|---|---|---|
| | Canada | U.S. | International | Total |
| Property and equipment | $ 3,714 | $ 1,230 | $ 2,492 | $ 7,436 |
| Intangibles | 15,654 | 6,758 | 5,097 | 27,509 |
| Goodwill | 139,618 | 20,978 | 7,656 | 168,252 |
| Total assets | 437,214 | 8,717 | 41,214 | 487,145 |

| | As at December 31, 2011 | | | |
|---|---|---|---|---|
| | Canada | U.S. | International | Total |
| Property and equipment | $ 4,386 | $ 1,571 | $ 1,580 | $ 7,537 |
| Intangibles | 19,285 | 8,218 | 3,657 | 31,160 |
| Goodwill | 139,618 | 23,030 | 7,118 | 169,766 |
| Total assets | 427,599 | 17,441 | 36,819 | 481,859 |

The following table demonstrates certain information contained in the statement of comprehensive income segmented geographically for the three and nine months ended September 30, 2012, with comparatives for the three and nine months ended September 30, 2011. The unallocated amounts pertain to expenses relating to convertible debentures, taxes, and non-cash finance costs incurred by the Company.

| | Three months ended September 30, 2012 | | | | |
|---|---|---|---|---|---|
| | Unallocated Corporate costs | Canada | U.S. | International | Total |
| Revenues | $ - | $ 55,257 | $ 19,496 | $ 12,056 | $ 86,809 |
| Net income for the period | $ (1,955) | $ 4,770 | $ (229) | $ 118 | $ 2,704 |

| | Nine months ended September 30, 2012 | | | | |
|---|---|---|---|---|---|
| | Unallocated Corporate costs | Canada | U.S. | International | Total |
| Revenues | $ - | $ 166,415 | $ 62,225 | $ 33,623 | $ 262,263 |
| Net income for the period | $ (5,865) | $ 15,236 | $ 265 | $ 2,480 | $ 12,116 |

| | Three months ended September 30, 2011 | | | | |
|---|---|---|---|---|---|
| | Unallocated Corporate costs | Canada | U.S. | International | Total |
| Revenues | $ - | $ 53,923 | $ 19,042 | $ 11,300 | $ 84,265 |
| Net income for the period | $ (2,411) | $ 4,980 | $ (730) | $ 2,403 | $ 4,242 |

| | Nine months ended September 30, 2011 | | | | |
|---|---|---|---|---|---|
| | Unallocated Corporate costs | Canada | U.S. | International | Total |
| Revenues | $ - | $ 155,789 | $ 54,793 | $ 33,769 | $ 244,351 |
| Net income for the period | $ (10,005) | $ 11,861 | $ 131 | $ 6,503 | $ 8,490 |

**NOTE 5: FINANCIAL INSTRUMENTS**

**(a) Indebtedness**

IBI Group has a revolving credit facility of $120,000 (the “Revolver Facility”) with an $80,000 accordion feature. As at September 30, 2012, IBI Group had borrowings of $67,580 under the Revolver Facility, compared with borrowings of $77,925 under the Revolver Facility as at December 31, 2011. According to the terms of the agreement, this facility is set to mature on July 29, 2016. However, the loan contains a debt covenant stating that at the end of each quarter IBI Group’s fixed charge coverage ratio (in the covenant defined as the IBI Group’s earnings before interest, tax and depreciation plus rent less capital expenditures less income taxes paid less distributions divided by rent plus cash interest) cannot be less than 1.1. IBI Group’s fixed charge coverage ratio is less than 1.1 for the quarter ended September 30, 2012. As a result, the credit facility has been classified as a current liability for the period.

As at September 30, 2012, the total balance of unamortized transaction costs was $823 (December 31, 2011 - $984). The net credit facility after transaction costs on the statement of financial position was $66,757 as at September 30, 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 IBI Group to be used by IBI Group to meet certain project requirements calling for the issuance of bid bonds to international customers. As at September 30, 2012, IBI Group had issued bid bonds in the amount of $3,946 (December 31, 2011 – $4,352) under the Bid Bond Facility.

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 September 30, 2012.

*6.0% Debentures*

The 6.0% Debentures are compound financial instruments and the total proceeds of the offering, less applicable interest costs at the time of issue, were allocated between a liability for the debenture of $51,569 and equity component for the conversion feature of $3,206. As at September 30, 2012, the liability component has an amortized cost of $52,608 (December 31, 2011 – $52,130). The equity component, an embedded derivative, reflects the fair value of the conversion option of the 6.0%

Debentures at the issuance date. The 6.0% Debentures have a maturity date of September 30, 2018 at $57,500.

*5.75% Debentures*

For the period ended September 30, 2012, the 5.75% Debentures are recorded as compound financial instruments. The liability component was recorded at fair value on the date of issuance and measured subsequently at amortized cost using the effective interest method over the life of the 5.75% Debentures. As at September 30, 2012, the liability component has an amortized cost of $17,979 (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.

*7.0% Debentures*

For the period ended September 30, 2012, the 7.0% Debentures are recorded as compound financial instruments. The liability component was recorded at fair value on the date of issuance and measured subsequently at amortized cost using the effective interest method over the life of the 7.0% Debentures. As at September 30, 2012, the liability component has an amortized cost of $43,518 (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 movement in Convertible Debentures and related embedded derivative for the nine months ended September 30, 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 | 1,459 | - | 1,459 |
| Other | (41) | - | (41) |
| Balance, September 30, 2012 | $ 114,105 | $ 5,852 | $ 119,957 |

**(c) Derivatives**

As at September 30, 2012, the Company had a total of $45,000 (December 31, 2011 - $46,000) notional amounts of interest-rate swap agreements outstanding with a fair value of the swap asset of $8 (December 31, 2011 – liability of $36). The terms of these swaps correspond to the terms of the underlying interest payments on the credit facility, which represents economic hedge of the risks.

The interest rate swaps are not designated by the Company as hedges for accounting purposes; therefore, the unrealized gains or losses relating to this derivative financial instrument are recorded in income as other finance income (costs) and in the consolidated statements of financial position as a financial asset or liability.

The change in the fair value of the interest rate swap, estimated using third-party market indicators and forecasts at a gain of $37 for the three months ended September 30, 2012 (three months ended September 30, 2011 - gain of $65) and a gain of $44 for the nine months ended September 30, 2012 (nine months ended September 30, 2011 – gain of $448).

**(d) Financial assets and liabilities**

The carrying amount of the Company's financial instruments as at September 30, 2012 are as follows:

| | | | Financial assets and liabilities at FVTPL | | |
|---|---|---|---|---|---|
| | Loans and receivables | Other financial liabilities | Held-for-trading | Designated FVTPL | Total |
| **Financial assets** | | | | | |
| Cash and cash equivalents | $ 1,419 | | | | $ 1,419 |
| Accounts receivable | 136,438 | | | | 136,438 |
| Income tax recoverable | 1,766 | | | | 1,766 |
| Unrealized interest rate swap gain | | | $ 8 | | 8 |
| Total | $ 139,623 | | $ 8 | | $ 139,631 |
| **Financial liabilities** | | | | | |
| Accounts payable and accrued liabilities | | $ 46,037 | | $ 338 | $ 46,375 |
| Due to related parties | | 10,000 | | | 10,000 |
| Notes payable | | 13,456 | | | 13,456 |
| Income tax payable | | 3,467 | | | 3,467 |
| Dividend payable | | 1,547 | | | 1,547 |
| Credit facility | | 66,757 | | | 66,757 |
| Convertible debentures | | 114,105 | | | 114,105 |
| Total | | $ 255,369 | | $ 338 | $ 255,707 |

**NOTE 6: 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 and the partners of the Management Partnership. The amount paid for such services during the three months ended September 30, 2012 was $6,155 (three months ended September 30, 2011 - $5,433) and $18,466 for the nine months ended September 30, 2012 (nine months ended September 30, 2011 - $16,035).

- 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 September 30, 2012 the amount of distributions payable to the Management Partnership was nil (as at December 31, 2011 - $1,340). During the three and nine months ended September 30, 2012, the Company issued 215,000 common shares from treasury 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, 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 indebtedness to its bank lender and is unsecured. The loan matures three years following the original issuance of the promissory note evidencing the loans. 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. Interest expense on this advance was $96 for the three months ended September 30, 2012 (three months ended September 30, 2011 - $181) and $401 for the nine months ended September 30, 2012 (nine months ended September 30, 2011 - $543).

## NOTE 7: EQUITY

### (a) Shareholders' equity

As at September 30, 2012, the Company's common share capital consisted of 16,811,876 shares issued and outstanding.

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

The 5,025,778 Class B partnership units of IBI Group are indirectly exchangeable for common shares of the Company on the basis of one share of the Company for each Class B subordinated partnership unit. If all such Class B partnership units of IBI Group had been exchanged for shares on September 30, 2012, the shares issued on such exchange would have represented a 23.3% interest in the Company.

Class B partnership units do not entitle the holder to voting rights at the meetings of shareholders. The Class B partnership units have been recorded as a non-controlling interest in the interim condensed consolidated financial statements as at September 30, 2012.

*Issuances*

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 three months ended September 30, 2012, the Company issued 215,000 common shares from treasury at $9.37 per share for a total of $2,010 under the DRIP to the Management Partnership.

During the three months ended September 30, 2012, the Company issued 46,000 common shares for acquisition payments at $11.70 per share and 18,000 common shares at $15.28 per share for a total of $814. These share issuances were settled by reducing notes payable.

During the three months ended June 30, 2012, the Company issued 17,000 common shares for acquisition payments at $15.28 per share and 58,000 common shares at $11.77 per share for a total of $947. These share issuances were settled by reducing notes payable.

During the three months ended March 31, 2012, the Company issued 51,000 common shares for acquisition payments at $13.89 per share and 18,000 common shares at $15.28 per share for a total of $977. These share issuances were settled by reducing notes payable.

*Dividends*

For each of the three months ended September 30, 2012, the Company declared monthly dividends at a rate of $0.092 (each of the three months ended September 30, 2011 - $0.092) per qualifying ordinary share for total dividends declared during the quarter of $4,597 (for three months ended September 30, 2011 - $3,584). For each of the nine months ended September 30, 2012, the Company declared monthly dividends at a rate of $0.092 (each of the nine months ended September 30, 2011 - $0.092) per qualifying ordinary share for total dividends declared during the period of $12,752 (for nine months ended September 30, 2011 - $10,734).

*Earnings per share*

The calculation of basic and diluted earnings per share for the three and nine months ended September 30, 2012 is demonstrated in the following table:

| | Three months ended September 30, 2012 | Three months ended September 30, 2011 | Nine months ended September 30, 2012 | Nine months ended September 30, 2011 |
|---|---|---|---|---|
| Net income attributable to owners of the Company | $ 2,074 | $ 3,057 | $ 9,073 | $ 6,119 |
| Weighted average common shares outstanding | 16,590 | 12,987 | 15,124 | 12,961 |
| Basic and diluted earnings per common share | $ 0.1250 | $ 0.2354 | $ 0.5999 | $ 0.4721 |

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 interests in the Company's subsidiaries are 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 September 30, 2012 statement of changes in equity. The calculation of net income and total comprehensive income attributable to non-controlling interest is set out below:

| | Three months ended September 30, 2012 | Three months ended September 30, 2011 | Nine months ended September 30, 2012 | Nine months ended September 30, 2011 |
|---|---|---|---|---|
| Net income | $ 2,704 | $ 4,242 | $ 12,116 | $ 8,490 |
| Non-controlling interest share of ownership | 23.3% | 27.9% | 25.1% | 27.9% |
| Net income attributable to non-controlling interest | $ 630 | $ 1,185 | $ 3,043 | $ 2,371 |

| | Three months ended September 30, 2012 | Three months ended September 30, 2011 | Nine months ended September 30, 2012 | Nine months ended September 30, 2011 |
|---|---|---|---|---|
| Total comprehensive income | $ 1,105 | $ 7,957 | $ 10,483 | $ 10,785 |
| Non-controlling interest share of ownership | 23.3% | 27.9% | 25.1% | 27.9% |
| Total comprehensive income attributable to non-controlling interest | $ 257 | $ 2,222 | $ 2,636 | $ 3,012 |

## NOTE 8: 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 September 30, 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 September 30, 2012, had been 50 basis points higher, with all other variables held constant, net income would have increased by approximately $85, net of income tax, for the nine months ended September 30, 2012 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 foreign exchange forward 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 credit facility) 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 September 30, 2012, with all other variables held constant, net income would have increased or decreased by $25 for the nine months ended September 30, 2012.

**(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)[1]. At September 30, 2012 there were 77 working days of revenue in accounts receivable, a decrease from 112 days at September 30, 2011 and consistent with 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 interim condensed consolidated financial statements.

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:

| | September 30, 2012 | December 31, 2011 |
|---|---|---|
| Current | $ 44,577 | $ 38,533 |
| 30 to 90 days | 30,917 | 31,717 |
| Over 90 days | 67,845 | 71,898 |
| Allowance for impairment losses | (6,901) | (7,369) |
| Total | $ 136,438 | $ 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 September 30, 2012, the Company had $1,419 of cash and cash equivalents plus $52,420 of available funding 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 available funding 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

[1] References to "working days of revenue in accounts receivable" in note 8(b) is calculated using inputs measured using IFRS. Working days of revenue in accounts receivable is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS.

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 EBITDA[1] ratio, fixed charge coverage ratio and distributions not to exceed distributable cash. Failure to meet the terms of one or more of these covenants may constitute a default, potentially resulting in accelerating the repayment of the debt obligation. Subsequent to the reporting period, the creditors of the $66,757 of credit facility agreed to an amendment to the fixed charge coverage ratio covenant from greater than 1.1 to greater than 1.0 for the period ending September 30, 2012, with a gradual reinstatement in ensuing quarters to 1.1. IFRS requires classification of the credit facility as a current liability at September 30, 2012 since the amendment was received subsequent to period end.

There were no changes in the Company's approach to capital management during the three month period ended September 30, 2012.

## NOTE 9: CHANGE IN NON-CASH OPERATING WORKING CAPITAL

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | September 30, 2012 | September 30, 2011 | September 30, 2012 | September 30, 2011 |
| Accounts receivable | $ 6,181 | $ (7,075) | $ (2,803) | $ (15,144) |
| Work in process | (7,822) | (6,478) | (13,423) | (23,812) |
| Prepaid expenses and other assets | 831 | (985) | 2,679 | (1,022) |
| Accounts payable | 2,039 | 7,782 | (7,830) | 1,464 |
| Deferred revenue | (1,083) | 1,623 | (3,464) | 4,351 |
| Income taxes payable | 783 | 866 | 2,692 | 4,952 |
| Acquisition of working capital | 971 | (698) | 1,061 | (703) |
| Change in non-cash operating working capital | $ 1,900 | $ (4,965) | $ (21,088) | $ (29,914) |

[1] References to "EBITDA" in note 8(d) is to the earnings before interest, income taxes, foreign exchange gains and losses, 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.

## NOTE 10: FINANCE COSTS

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | September 30, 2012 | September 30, 2011 | September 30, 2012 | September 30, 2011 |
| Interest on credit facility | $ 623 | $ 1,359 | $ 1,947 | $ 3,222 |
| Interest on convertible debentures | 1,955 | 1,955 | 5,865 | 5,586 |
| Non-cash accretion of convertible debentures | 497 | 455 | 1,459 | 1,288 |
| Other | 263 | 232 | 979 | 1,287 |
| Interest expense, net | $ 3,338 | $ 4,002 | $ 10,250 | $ 11,383 |
| Amortization of deferred financing costs | $ 54 | $ 422 | $ 161 | $ 927 |
| Change in fair value of interest rate swap | (37) | (65) | (44) | (448) |
| Other | 54 | 35 | 212 | 615 |
| Other finance costs | $ 71 | $ 392 | $ 329 | $ 1,094 |
| Finance costs for the period | $ 3,409 | $ 4,394 | $ 10,579 | $ 12,477 |

## NOTE 11: ACQUISITIONS

### (a) Acquisitions in 2012 and 2011

*2012*

- 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, 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 $1,951 will be paid subject to earnings targets.

*2011*

- In September 2011, the Company concluded arrangements for the acquisition of Dull Olson Weekes Architects, Inc. ("DOWA"), in Portland, Oregon, effective September 15, 2011. DOWA is known for its high quality of design, technical competence, as well as social consciousness in its approach to sustainability and other societal values. This combination of social infrastructure along with 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 subject to earnings targets.

- In June 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, Landscape Architects, ("CRJA") in Boston, Massachusetts, effective June 30, 2011. CRJA is known for its landscape projects in educational campuses and building facilities, in prestigious embassies, urban developments of mixed uses; and 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.

- In March 2011, the Company concluded arrangements for the acquisition of Bay Architects Inc., ("Bay") in Houston, Texas, effective March 31, 2011. Bay is an architectural firm that specializes in educational facilities, (schools and community colleges), along with other areas of architectural practice in civic, 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 to be paid over two years from the time of the acquisition.

- 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 to be paid over two years from the time of the acquisition.

**(b) Consideration transferred and net assets acquired**

The aggregate consideration for the acquisition was allocated as follows based on the preliminary purchase equation:

| | Three and nine months ended September 30, 2012 | Year ended December 31, 2011 |
|---|---|---|
| Cash consideration | $ 1,463 | $ 10,817 |
| Notes payable issued, due 2013 through to 2014 to be settled in cash | 1,951 | 11,163 |
| Purchase price | $ 3,414 | $ 21,980 |
| | | |
| Net working capital | $ 1,170 | $ (1,649) |
| Cash | | 1,814 |
| Property and equipment | 332 | 1,595 |
| Intangible assets | | |
| Contract backlog | 259 | 3,005 |
| Clients and relationships | 839 | 5,015 |
| Other | 784 | 1,994 |
| Goodwill | 501 | 14,089 |
| Deferred tax liability | (471) | (3,883) |
| Net assets acquired | $ 3,414 | $ 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 the three months ended September 30, 2012 Taylor Young has contributed $2,303 in revenue and $181 in profit towards the results of the consolidated group.

If the business combination that occurred in 2012 had taken place at the beginning of 2012, revenue would be approximately $4,642 higher than reported and net income would be approximately $95 higher than reported.

If the business combination 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 nine months ended September 30, 2012, directly attributable acquisition-related costs of $675 (nine months ended September 30, 2011 – $1,098) 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, December 31, 2011 | $ | 19,911 | $ | 338 |
| Additions for acquisitions in the period | | 1,951 | | - |
| Share issuances | | (2,738) | | - |
| Payments | | (4,002) | | - |
| Foreign exchange translation | | (283) | | - |
| Other | | (1,383) | | - |
| Balance, September 30, 2012 | $ | 13,456 | $ | 338 |

*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 September 30, 2012 and December 31, 2011. It is classified as accrued liabilities on the balance sheet.

*Purchase price adjustments*

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.

**(d) Goodwill reconciliation**

The following table presents the Company's goodwill as at December 31, 2011 and September 30, 2012:

| | | Cost | | Accumulated impairment | | Goodwill |
|---|---|---|---|---|---|---|
| Balance, December 31, 2011 | $ | 184,975 | $ | 15,209 | $ | 169,766 |
| Additions for acquisitions in the period | | 501 | | - | | 501 |
| Purchase price adjustments | | (1,325) | | - | | (1,325) |
| Foreign exchange translation | | (690) | | - | | (690) |
| Balance, September 30, 2012 | $ | 183,461 | $ | 15,209 | $ | 168,252 |

## NOTE 12: 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 condensed interim 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 13: CORRECTION TO SEPTEMBER 30, 2011 COMPARATIVE FIGURES

During the course of the preparation of December 31, 2011 financial statements, the Company discovered that it had been incorrectly accreting the liability component of the convertible debenture and incorrectly calculating the interest on the loan due to the Management Partnership. The Company has recalculated in accordance with IFRS and increased the non-cash imputed interest expense and the interest expense on the loan to the Management Partnership. The September 30, 2011 comparative figures displayed in these financial statements and accompanying notes for the

three and nine months ended September 30, 2012 have been updated to reflect the correct interest expense. This impacted the distribution of interest expense throughout the quarters in 2011, however the 2011 annual financial statements correctly reflected the amounts.

The impact arising from the change is summarized as follows:

| | Three months ended September 30, 2011 | Nine months ended September 30, 2011 |
|---|---|---|
| **Statement of comprehensive income** | | |
| Non-cash imputed interest expense | $ 456 | $ 1,288 |
| Decrease in income before income tax | $ 456 | $ 1,288 |
| | Three months ended September 30, 2011 | Nine months ended September 30, 2011 |
| **Statement of financial position** | | |
| Increase in convertible debentures – liability component | $ 456 | $ 1,288 |
| Increase to deficit | $ 456 | $ 1,288 |

**NOTE 14: SUBESEQUENT EVENTS**

Subsequent to the reporting period, the creditors of the $66,757 of credit facility agreed to an amendment to the fixed charge coverage ratio covenant from greater than 1.1 to greater than 1.0 for the period ending September 30, 2012, with a gradual reinstatement in ensuing quarters to 1.1. IFRS requires classification of the credit facility as a current liability at September 30, 2012 since the amendment was received subsequent to period end.