



# IBI Group 2015 Second-Quarter Financial Statements

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THREE AND SIX MONTHS ENDED  
JUNE 30, 2015

Unaudited Interim Condensed Consolidated Financial Statements of

**IBI GROUP INC.**

Three and six months ended June 30, 2015 and 2014

# IBI GROUP INC.

## Interim Condensed Consolidated Statement of Financial Position (unaudited)

| <i>(thousands of Canadian dollars)</i>    | Notes | June 30,<br>2015   | December 31,<br>2014 |
|---|-------|--------------------|----------------------|
| <b>Assets</b>                             |       |                    |                      |
| <b>Current Assets</b>                     |       |                    |                      |
| Cash                                      | 4     | \$ 4,486           | \$ 10,342            |
| Restricted cash                           | 4     | 1,467              | -                    |
| Accounts receivable                       | 4,7   | 101,827            | 106,451              |
| Work in process                           | 3     | 88,390             | 85,371               |
| Prepaid expenses and other current assets |       | 11,466             | 9,460                |
| Income taxes recoverable                  |       | 1,119              | 806                  |
| <b>Total Current Assets</b>               |       | <b>\$ 208,755</b>  | <b>\$ 212,430</b>    |
| Restricted cash                           | 4     | 1,451              | -                    |
| Other assets                              |       | 1,139              | 1,139                |
| Property and equipment                    |       | 14,092             | 12,780               |
| Investment in equity accounted investee   | 5     | 408                | 817                  |
| Intangible assets                         |       | 5,669              | 5,317                |
| Deferred tax assets                       |       | 17,671             | 19,580               |
| <b>Total Assets</b>                       |       | <b>\$ 249,185</b>  | <b>\$ 252,063</b>    |
| <b>Liabilities and Equity</b>             |       |                    |                      |
| <b>Liabilities</b>                        |       |                    |                      |
| <b>Current Liabilities</b>                |       |                    |                      |
| Accounts payable and accrued liabilities  | 4     | \$ 44,612          | \$ 57,449            |
| Deferred revenue                          | 3     | 33,281             | 28,002               |
| Vendor notes payable                      | 4,10  | 4,404              | 5,013                |
| Income taxes payable                      |       | 2,027              | 1,397                |
| Finance lease obligation                  | 4     | 463                | 693                  |
| Credit facilities                         | 4,7   | 71,967             | 10,000               |
| Onerous lease provisions                  | 12    | 972                | 687                  |
| Due to related parties                    | 4,5   | 10,000             | 10,000               |
| <b>Total Current Liabilities</b>          |       | <b>\$ 167,726</b>  | <b>\$ 113,241</b>    |
| Onerous lease provisions                  | 12    | 3,724              | 4,051                |
| Consent fee notes payable                 | 4,10  | 2,843              | 2,631                |
| Finance lease obligation                  | 4     | 112                | 235                  |
| Credit facilities                         | 4,7   | -                  | 63,423               |
| Convertible debentures                    | 4     | 101,169            | 98,437               |
| Deferred tax liabilities                  |       | 7,397              | 8,690                |
| <b>Total Liabilities</b>                  |       | <b>\$ 282,971</b>  | <b>\$ 290,708</b>    |
| <b>Equity</b>                             |       |                    |                      |
| <b>Shareholders' Equity</b>               |       |                    |                      |
| Share capital                             | 6     | \$ 235,036         | \$ 235,036           |
| Contributed surplus                       | 6     | 2,106              | 2,106                |
| Deficit                                   |       | (276,333)          | (279,546)            |
| Convertible debentures - equity component | 4     | 5,852              | 5,852                |
| Accumulated other comprehensive loss      |       | (2,821)            | (3,398)              |
| <b>Total Shareholders' Equity</b>         |       | <b>\$ (36,160)</b> | <b>\$ (39,950)</b>   |
| Non-controlling interest                  | 6     | 2,374              | 1,305                |
| <b>Total Equity</b>                       |       | <b>\$ (33,786)</b> | <b>\$ (38,645)</b>   |
| <b>Total Liabilities and Equity</b>       |       | <b>\$ 249,185</b>  | <b>\$ 252,063</b>    |

See accompanying notes to the interim condensed consolidated financial statements

# IBI GROUP INC.

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

|  | Notes | Three months ended |                      | Six months ended |                      |
|--|-------|--------------------|----------------------|------------------|----------------------|
|  |       | June 30,<br>2015   | June 30,<br>2014     | June 30,<br>2015 | June 30,<br>2014     |
| <i>(thousands of Canadian dollars, except per share amounts)</i>   |       |                    | (restated – Note 12) |                  | (restated – Note 12) |
| Revenue  |       | \$ 80,879          | \$ 76,182            | \$ 158,360       | \$ 149,639           |
| Salaries, fees and employee benefits   |       | 56,026             | 52,475               | 111,696          | 105,192              |
| Rent   |       | 5,536              | 5,589                | 11,718           | 11,144               |
| Other operating expenses   |       | 9,156              | 9,420                | 17,937           | 19,018               |
| Foreign exchange loss (gain)   | 7     | 303                | 721                  | (2,979)          | (700)                |
| Amortization of intangible assets  |       | 189                | 228                  | 379              | 458                  |
| Amortization of property and equipment   |       | 979                | 584                  | 1,783            | 1,022                |
| Impairment (recovery) of financial assets  | 7     | (20)               | 549                  | 276              | 1,173                |
|  |       | 72,169             | 69,566               | 140,810          | 137,307              |
| <b>Operating Income</b>  |       | \$ 8,710           | \$ 6,616             | \$ 17,550        | \$ 12,332            |
| Interest expense, net  | 4,9   | 5,741              | 4,264                | 10,855           | 8,525                |
| Other finance costs  | 9     | 197                | 340                  | 449              | 679                  |
| <b>Finance Costs</b>   |       | \$ 5,938           | \$ 4,604             | \$ 11,304        | \$ 9,204             |
| Share of loss of equity-accounted investee, net of tax   | 5     | 212                | -                    | 409              | -                    |
| <b>Net income before taxes from continuing operations</b>  |       | \$ 2,560           | \$ 2,012             | \$ 5,837         | \$ 3,128             |
| Current tax expense  | 13    | 669                | 880                  | 1,068            | 1,612                |
| Deferred tax expense (recovery)  | 13    | 297                | (697)                | 649              | (1,532)              |
| <b>Income Taxes</b>  |       | \$ 966             | \$ 183               | \$ 1,717         | \$ 80                |
| Net income from continuing operations  |       | \$ 1,594           | \$ 1,829             | \$ 4,120         | \$ 3,048             |
| Net loss from discontinued operations  | 12    | -                  | (899)                | -                | (922)                |
| <b>Net Income</b>  |       | \$ 1,594           | \$ 930               | \$ 4,120         | \$ 2,126             |
| <b>Other comprehensive income</b>  |       |                    |                      |                  |                      |
| <b>Items that are or may be reclassified to profit or loss</b>   |       |                    |                      |                  |                      |
| Income (loss) on translating financial statements of foreign operations from continuing operations, net of tax |       | \$ (369)           | \$ 21                | \$ 739           | \$ (68)              |
| <b>Other Comprehensive Income (Loss), net of tax</b>   |       | (369)              | 21                   | 739              | (68)                 |
| <b>Total Comprehensive Income</b>  |       | \$ 1,225           | \$ 951               | \$ 4,859         | \$ 2,058             |
| <b>Net income attributable to:</b>   |       |                    |                      |                  |                      |
| Common shareholders  |       | \$ 1,243           | \$ 723               | \$ 3,213         | \$ 1,652             |
| Non-controlling interests  | 6     | 351                | 207                  | 907              | 474                  |
| <b>Net Income</b>  |       | \$ 1,594           | \$ 930               | \$ 4,120         | \$ 2,126             |
| <b>Total comprehensive income attributable to:</b>   |       |                    |                      |                  |                      |
| Common shareholders  |       | \$ 956             | \$ 739               | \$ 3,790         | \$ 1,599             |
| Non-controlling interests  | 6     | 269                | 212                  | 1,069            | 459                  |
| <b>Total Comprehensive Income</b>  |       | \$ 1,225           | \$ 951               | \$ 4,859         | \$ 2,058             |
| <b>Earnings per share attributable to common shareholders</b>  |       |                    |                      |                  |                      |
| Basic and diluted earnings per share   | 6     | \$ 0.07            | \$ 0.04              | \$ 0.18          | \$ 0.09              |
| Basic and diluted earnings per share from continuing operations  | 6     | \$ 0.07            | \$ 0.08              | \$ 0.18          | \$ 0.13              |
| Basic and diluted earnings per share from discontinued operations  | 6     | \$ -               | \$ (0.04)            | \$ -             | \$ (0.04)            |

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 |                  | Six months ended |                  |
|--|-------|--------------------|------------------|------------------|------------------|
|  |       | June 30,<br>2015   | June 30,<br>2014 | June 30,<br>2015 | June 30,<br>2014 |
| <b>Cash Flows provided by Operating Activities</b>           |       |                    |                  |                  |                  |
| Net income   |       | \$ 1,594           | \$ 930           | \$ 4,120         | \$ 2,126         |
| Items not affecting cash:                                    |       |                    |                  |                  |                  |
| Onerous lease provision                                      | 12    | (196)              | -                | (42)             | -                |
| Amortization of property and equipment                       |       | 979                | 841              | 1,783            | 1,414            |
| Amortization of intangible assets                            |       | 189                | 228              | 379              | 458              |
| Amortization of deferred financing costs                     |       | -                  | 241              | -                | 472              |
| Share of loss of equity-accounted investee,<br>net of tax    |       | 212                | -                | 409              | -                |
| Foreign exchange gain  |       | 140                | 721              | (2,979)          | (700)            |
| Interest expense, net  | 9     | 5,741              | 4,359            | 10,855           | 8,712            |
| Deferred income taxes  |       | 297                | (697)            | 649              | (1,532)          |
| Interest paid  |       | (3,913)            | (3,780)          | (7,508)          | (7,566)          |
| Income taxes paid  |       | (1,503)            | (227)            | (1,224)          | (375)            |
| Change in non-cash operating working capital                 | 8     | (3,059)            | 4,070            | (1,490)          | 5,606            |
| <b>Net Cash provided by Operating Activities</b>             |       | \$ 481             | \$ 6,686         | \$ 4,952         | \$ 8,615         |
| <b>Cash Flows provided by (used in) Financing Activities</b> |       |                    |                  |                  |                  |
| Payments on principal of notes payable                       |       | \$ (316)           | \$ -             | \$ (976)         | \$ -             |
| Advances (payments) on principal of credit facilities        |       | 900                | (58)             | (3,613)          | (153)            |
| Payments on principal of finance lease obligation            |       | (175)              | -                | (353)            | -                |
| <b>Net Cash provided by (used in) Financing Activities</b>   |       | \$ 409             | \$ (58)          | \$ (4,942)       | \$ (153)         |
| <b>Cash Flows used in Investing Activities</b>               |       |                    |                  |                  |                  |
| Purchase of property and equipment                           |       | \$ (1,660)         | \$ (3,602)       | \$ (2,853)       | \$ (7,565)       |
| Purchase of intangible assets                                |       | (234)              | -                | (402)            | -                |
| Restricted cash  | 4     | (2,847)            | -                | (2,847)          | -                |
| <b>Net Cash used in Investing Activities</b>                 |       | \$ (4,741)         | \$ (3,602)       | \$ (6,102)       | \$ (7,565)       |
| Effect of foreign exchange rate fluctuations on cash held    | 7     | \$ 8               | \$ 398           | \$ 236           | \$ 164           |
| <b>Net increase (decrease) in cash</b>                       |       | \$ (3,843)         | \$ 3,424         | \$ (5,856)       | \$ 1,061         |
| Cash, beginning of period                                    |       | 8,329              | 5,703            | 10,342           | 8,066            |
| Cash, end of period  |       | \$ 4,486           | \$ 9,127         | \$ 4,486         | \$ 9,127         |
| <b>Net cash is comprised of:</b>                             |       |                    |                  |                  |                  |
| Cash from continuing operations, end of period               |       | \$ 4,486           | \$ 8,624         | \$ 4,486         | \$ 8,624         |
| Cash from discontinued operations, end of period             |       | -                  | 503              | -                | 503              |
| <b>Cash, end of period</b>                                   |       | \$ 4,486           | \$ 9,127         | \$ 4,486         | \$ 9,127         |

See accompanying notes to the interim condensed consolidated financial statements

# IBI GROUP INC.

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

| (thousands of Canadian dollars)                                       | Notes | Three months ended |                  | Six months ended |                  |
|---|-------|--------------------|------------------|------------------|------------------|
|   |       | June 30,<br>2015   | June 30,<br>2014 | June 30,<br>2015 | June 30,<br>2014 |
| <b>Share Capital</b>  |       |                    |                  |                  |                  |
| Share capital, beginning of period                                    |       | \$ 235,036         | \$ 234,382       | \$ 235,036       | \$ 234,358       |
| Shares issued   | 6     | -                  | 116              | -                | 140              |
| <b>Share Capital, End of Period</b>                                   |       | \$ 235,036         | \$ 234,498       | \$ 235,036       | \$ 234,498       |
| <b>Contributed Surplus</b>  |       |                    |                  |                  |                  |
| Contributed surplus, beginning of period                              | 6     | \$ 2,106           | \$ 277           | \$ 2,106         | \$ -             |
| Surplus on exchange of shares   | 6     | -                  | -                | -                | 277              |
| <b>Contributed surplus, End of Period</b>                             |       | \$ 2,106           | \$ 277           | \$ 2,106         | \$ 277           |
| <b>Deficit</b>  |       |                    |                  |                  |                  |
| Deficit, beginning of period  |       | \$ (277,576)       | \$ (276,159)     | \$ (279,546)     | \$ (277,088)     |
| Net income attributable to common shareholders                        |       | 1,243              | 723              | 3,213            | 1,652            |
| <b>Deficit, End of Period</b>   |       | \$ (276,333)       | \$ (275,436)     | \$ (276,333)     | \$ (275,436)     |
| <b>Convertible Debentures - Equity Component</b>                      |       |                    |                  |                  |                  |
| Convertible debentures, beginning of period                           |       | \$ 5,852           | \$ 5,852         | \$ 5,852         | \$ 5,852         |
| <b>Convertible Debentures, End of Period</b>                          |       | \$ 5,852           | \$ 5,852         | \$ 5,852         | \$ 5,852         |
| <b>Accumulated Other Comprehensive Loss</b>                           |       |                    |                  |                  |                  |
| Accumulated other comprehensive loss, beginning of period             |       | \$ (2,533)         | \$ (3,183)       | \$ (3,398)       | \$ (3,114)       |
| Other comprehensive income (loss) attributable to common shareholders |       | (288)              | 16               | 577              | (53)             |
| <b>Accumulated Other Comprehensive Loss, End of Period</b>            |       | \$ (2,821)         | \$ (3,167)       | \$ (2,821)       | \$ (3,167)       |
| <b>Total Shareholders' Equity</b>                                     |       | \$ (36,160)        | \$ (37,976)      | \$ (36,160)      | \$ (37,976)      |
| <b>Non-controlling Interest</b>                                       |       |                    |                  |                  |                  |
| Non-controlling interest, beginning of period                         |       | \$ 2,105           | \$ 4,569         | \$ 1,305         | \$ 4,623         |
| Total comprehensive income attributable to non-controlling interests  | 6     | 269                | 212              | 1,069            | 459              |
| Redemption of shares issued   | 6     | -                  | -                | -                | (301)            |
| <b>Non-controlling Interest, End of Period</b>                        |       | \$ 2,374           | \$ 4,781         | \$ 2,374         | \$ 4,781         |
| <b>Total Equity, End of Period</b>                                    |       | \$ (33,786)        | \$ (33,195)      | \$ (33,786)      | \$ (33,195)      |

See accompanying notes to the interim condensed consolidated financial statements

# IBI GROUP INC.

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements (In thousands of Canadian dollars, except per share and share amounts)

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### NOTE 1: ORGANIZATION AND DESCRIPTION OF THE BUSINESS

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

The Fund was created on July 23, 2004, to indirectly acquire the outstanding Class A partnership units of IBI Group Partnership ("IBI Group"), a general partnership formed and carrying on business under the laws of the Province of Ontario. As at June 30, 2015, the Company's common share capital consisted of 17,808,484 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 June 30, 2015, the Management Partnership holds 5,025,778 Class B partnership units representing 22.0% of the issued and outstanding units of IBI Group and, with affiliated partnerships, 3,850,206 common shares of the Company, representing a total ownership of approximately 38.9% of the Company. The Management Partnership also holds 5,025,778 non-participating voting shares of the Company, which together with the 3,850,206 common shares of the Company held by the Management Partnership and affiliated partnerships, represents approximately 38.9% of the voting 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 three main areas of development, being intelligence, buildings and infrastructure. The professional services provided by IBI Group include planning, design, implementation, analysis of operations and other consulting services related to these three main areas of development.

The common shares of the Company are listed on the Toronto Stock Exchange under the symbol "IBG". The Company's registered head office is 55 St. Clair Ave. West, 7th Floor, Toronto, Ontario, M5V 2Y7.

### NOTE 2: STATEMENT OF COMPLIANCE

#### a) Statement of Compliance

These unaudited interim condensed consolidated financial statements ("interim financial statements") of the Company and its subsidiaries have been prepared in accordance with IAS 34, *Interim Financial Reporting*, 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 audited consolidated financial statements as

at and for the year ended December 31, 2014 other than those described in (c) below. Certain information and footnote disclosures which are considered material to the understanding of the Company's interim financial statements and which are normally included in annual financial statements prepared in accordance with IFRS are provided in these notes. The interim financial statements do not include all of the information required for full annual financial statements. These interim financial statements were approved by the Board of Directors on August 12, 2015.

b) Use of accounting estimates and judgments

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

*Liquidity*

IBI Group's swing facility and credit facility (the "Credit Facilities") will need to be renewed or refinanced no later than March 31, 2016. On March 31, 2015, the Company submitted a recapitalization plan to refinance its banking agreement with its senior lenders. The recapitalization plan was approved by the lenders with ongoing business updates and reporting against certain milestones in the plan. During the second quarter, the Company engaged a third party to assist management in the re-financing of the credit facilities. Through this process, the Company has received various forms of non-binding interest and is responding to the respective parties. Although the Company believes that it can negotiate an extension or renewal of the Credit Facilities or obtain replacement financing prior to the expiration of the Credit Facilities, there can be no assurance that the Credit Facilities will be extended or renewed or that future borrowings will be available to IBI Group, or available on acceptable terms, in an amount sufficient to meet the Company's financing requirements at that time. If such an extension or renewal or future borrowings were not available, or not available on acceptable terms, it would have a material adverse impact on the Company's business and financial condition.

The significant judgments made by management in applying the accounting policies and key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2014.

c) Changes in Accounting Policies

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

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

The Company adopted these amendments in its interim financial statements for the annual period beginning on January 1, 2015. The adoption of the amendments did not have a material impact on the interim financial statements.



## d) Future Accounting Policy Changes

*Annual Improvements to IFRS (2012 – 2014) cycle*

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

Except for the proposed amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (“IFRS 5”), the proposed changes would be applied retrospectively for annual periods beginning on or after January 1, 2016; earlier application is permitted, in which case, the related consequential amendments to other IFRSs would also apply.

The proposed amendments to IFRS 5 would be applied prospectively in accordance with IAS 8 for annual periods beginning on or after January 1, 2016; similarly, earlier application is permitted, in which case, the related consequential amendments to other IFRSs would also apply.

The adoption of the amendments is not expected to have a material impact on the Company’s financial statements.

*IAS 1 Presentation of Financial Statements*

In December 2014, the IASB issued amendments to IAS 1 *Presentation of Financial Statements*, to provide guidance on the application of judgment in the preparation of financial statements and disclosures. These amendments are effective for annual periods beginning on or after January 1, 2016 with earlier adoption permitted. The adoption of the amendments is not expected to have a material impact on the Company’s financial statements.

*IFRS 11 Joint Arrangements*

In May 2014, IFRS 11 *Joint Arrangements* (“IFRS 11”) was amended to require an acquisition of a joint operation that constitutes a business to be accounted for using the principles of business combinations in IFRS 3 *Business Combinations*. This amendment applies to both initial and additional interest acquired in the joint operation. The Company intends to adopt the amendments to IFRS 11 in its consolidated financial statements for the annual period beginning January 1, 2016. The adoption of the amendments is not expected to have a material impact on the Company’s financial statements.

*IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures*

In September 2014, IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* were amended to clarify an inconsistency between the two standards relating to the sale or contribution of assets from an investor to its associate or joint venture. The amendment requires that a full gain or loss is recorded if the sold or contributed assets do not constitute a business. The Company intends to adopt these amendments in its consolidated financial statements for the annual period beginning January 1, 2016. The adoption of the amendments is not expected to have a material impact on the Company’s financial statements.

*IFRS 15 Revenue from Contracts with Customers*

On May 28, 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"). The new standard is effective for fiscal years ending on or after December 16, 2017 and is available for early adoption.

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

The new standard contains a single model that applies to contracts with customers and two approaches for recognizing revenue. The model features a contract-based five step analysis of individual transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Company intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

*IFRS 9 Financial Instruments*

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

**NOTE 3: SEGMENT INFORMATION**

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

**(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 June 30, 2015, with comparatives as at December 31, 2014:

|                             | As at June 30, 2015 |          |               |           |
|-----------------------------|---------------------|----------|---------------|-----------|
|                             | Canada              | U.S.     | International | Total     |
| Property and equipment      | \$ 10,174           | \$ 2,025 | \$ 1,893      | \$ 14,092 |
| Intangible assets           | 1,517               | 3,299    | 853           | 5,669     |
| Work in process             | 72,407              | 18,549   | 25,287        | 116,243   |
| Reserve for work in process | (20,031)            | (4,228)  | (3,594)       | (27,853)  |
| Work in process, net        | 52,376              | 14,321   | 21,693        | 88,390    |
| Deferred revenue            | 19,902              | 7,799    | 5,580         | 33,281    |
| Total assets                | 150,850             | 51,481   | 46,854        | 249,185   |

  

|                             | As at December 31, 2014 |          |               |           |
|-----------------------------|-------------------------|----------|---------------|-----------|
|                             | Canada                  | U.S.     | International | Total     |
| Property and equipment      | \$ 9,550                | \$ 1,974 | \$ 1,256      | \$ 12,780 |
| Intangible assets           | 1,115                   | 3,356    | 846           | 5,317     |
| Work in process             | 71,931                  | 16,759   | 21,178        | 109,868   |
| Reserve for work in process | (20,145)                | (2,687)  | (1,665)       | (24,497)  |
| Work in process, net        | 51,786                  | 14,072   | 19,513        | 85,371    |
| Deferred revenue            | 19,652                  | 5,621    | 2,729         | 28,002    |
| Total assets                | 165,412                 | 50,772   | 35,879        | 252,063   |

The following table demonstrates certain information related to continuing operations contained in the statement of comprehensive income segmented geographically for the three and six months ended June 30, 2015 and 2014. The unallocated amounts pertain to expenses relating to convertible debentures, the credit facilities, taxes, non-cash finance costs, rent for the Corporate office and professional fees related to Corporate matters that have been incurred by the Company.

|   | Three months ended June 30, 2015 |           |           |               |            |
|---|----------------------------------|-----------|-----------|---------------|------------|
|   | Unallocated<br>Corporate costs   | Canada    | U.S.      | International | Total      |
| Revenues  | \$ -                             | \$ 45,588 | \$ 23,081 | \$ 12,210     | \$ 80,879  |
| Net income (loss) from<br>continuing operations | \$ (2,017)                       | \$ 2,008  | \$ 498    | \$ 1,105      | \$ 1,594   |
|   | Six months ended June 30, 2015   |           |           |               |            |
|   | Unallocated<br>Corporate costs   | Canada    | U.S.      | International | Total      |
| Revenues  | \$ -                             | \$ 88,296 | \$ 46,892 | \$ 23,172     | \$ 158,360 |
| Net income (loss) from<br>continuing operations | \$ (4,033)                       | \$ 8,692  | \$ (815)  | \$ 276        | \$ 4,120   |
|   | Three months ended June 30, 2014 |           |           |               |            |
|   | Unallocated<br>Corporate costs   | Canada    | U.S.      | International | Total      |
| Revenues  | \$ -                             | \$ 42,185 | \$ 22,602 | \$ 11,395     | \$ 76,182  |
| Net income (loss) from<br>continuing operations | \$ (1,955)                       | \$ 591    | \$ 2,027  | \$ 1,166      | \$ 1,829   |
|   | Six months ended June 30, 2014   |           |           |               |            |
|   | Unallocated<br>Corporate costs   | Canada    | U.S.      | International | Total      |
| Revenues  | \$ -                             | \$ 81,163 | \$ 43,552 | \$ 24,924     | \$ 149,639 |
| Net income (loss) from<br>continuing operations | \$ (3,910)                       | \$ 650    | \$ 1,566  | \$ 4,742      | \$ 3,048   |

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

The Company has a credit facility of \$87,000 comprised of a swing line facility of \$3,500, a revolver facility of \$14,500, an office capital expenditure facility of \$7,000, a letter of credit facility of \$5,000 and a term facility of \$57,000. As of June 30, 2015, the Company had borrowings of \$71,967 under the credit facility compared with borrowings of \$73,423 as of December 31, 2014. According to the terms of the agreement, this credit facility is set to mature on March 31, 2016. As of June 30, 2015, the Company had issued letters of credit of \$4,308.

On July 31, 2015, \$5,000 was paid on the principal of the term facility as a step-down payment out of operating cash flow. Subsequent to this step-down payment, the term facility decreased to \$52,000, resulting in a credit facility of \$82,000 as at July 31, 2015.

The credit facility is subject to a borrowing base calculation. In addition, the availability of each credit facility is subject to compliance with certain financial, reporting and other covenants. Advances under the credit facilities bear interest at a rate based on the Canadian dollar prime rate or US dollar base rate plus, in each case, an applicable margin.

The credit facilities contain financial covenants including funded debt to Adjusted EBITDA<sup>1</sup> ratio, fixed-charge coverage ratio, and restrictions on distributions, if certain conditions were not met. The Company was in compliance with its credit facility covenants as at June 30, 2015.

On March 30, 2015, the Company and the senior lenders reached an agreement to amend the letter of credit facility. As a result of the amendment, issuance or renewal of letters of credit with a maturity date after March 31, 2016 will reduce the availability under the revolver and term facilities.

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

As at June 30, 2015, a foreign subsidiary of the Company had issued letters of credit in the amount of U.S \$2,300. The Company has pledged U.S \$2,300 (December 31, 2014 - \$nil) of cash as security for these letters of credit issued by a foreign financial institution on behalf of the foreign subsidiary. In accordance with the provisions of the contract, the Company expects U.S \$1,176 to be unrestricted

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

prior to the end of the second quarter of 2016 as the foreign subsidiary achieves certain milestones in relation to a local project.

Guarantees from certain subsidiaries of IBI Group as well as IBI Group Architects (Ontario), and a first ranking security interest in all of the assets of IBI Group and the guarantors, subject to certain permitted encumbrances, have been pledged as security for the indebtedness and obligations of IBI Group under the credit facilities. 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.

**(b) Convertible debentures**

The Company has three series of convertible debentures outstanding as at June 30, 2015. The fair value of the convertible debentures as at June 30, 2015, based on a quoted market price, is as follows:

|   | Carrying value    | Fair value       |
|---|-------------------|------------------|
| 5.75% Debentures (\$20,000 principal, matures on June 30, 2017) | \$ 19,051         | \$ 11,400        |
| 6.0% Debentures (\$57,500 principal, matures on June 30, 2018)  | 54,676            | 29,331           |
| 7.0% Debentures (\$46,000 principal, matures on June 30, 2019)  | 27,442            | 24,728           |
| <b>Total</b>  | <b>\$ 101,169</b> | <b>\$ 65,459</b> |

The movement in convertible debentures for the six months ended June 30, 2015 is as follows:

|                                    | Liability component | Equity component | Total             |
|------------------------------------|---------------------|------------------|-------------------|
| Balance, January 1, 2015           | \$ 98,437           | \$ 5,852         | \$ 104,289        |
| Accretion of convertible debenture | 2,732               | -                | 2,732             |
| <b>Balance, June 30, 2015</b>      | <b>\$ 101,169</b>   | <b>\$ 5,852</b>  | <b>\$ 107,021</b> |

**(c) Financial assets and liabilities**

The fair values of cash, restricted cash, accounts receivable, accounts payable and accrued liabilities, vendor notes payable, consent fee notes payable and finance lease obligation approximate their carrying amounts due to their short-term maturity.

The carrying amount of the Company's financial instruments as at June 30, 2015 is as follows:

|  | Financial<br>assets and<br>liabilities at<br>FVTPL | Loans and<br>receivables | Other financial<br>liabilities | Total             |
|--|--|--------------------------|--------------------------------|-------------------|
| <b>Financial assets</b>                    |  |                          |                                |                   |
| Cash                                       | \$ 4,486   | \$ -                     | \$ -                           | \$ 4,486          |
| Restricted cash                            | 2,918  | \$ -                     | \$ -                           | \$ 2,918          |
| Accounts receivable                        | -  | 101,827                  | -                              | 101,827           |
| <b>Total</b>                               | <b>\$ 7,404</b>                                    | <b>\$ 101,827</b>        | <b>\$ -</b>                    | <b>\$ 109,231</b> |
| <b>Financial liabilities</b>               |  |                          |                                |                   |
| Accounts payable and accrued liabilities   | \$ -   | \$ -                     | \$ 43,978                      | \$ 43,978         |
| Deferred share plan liability <sup>1</sup> | 634  | -                        | -                              | 634               |
| Due to related parties                     | -  | -                        | 10,000                         | 10,000            |
| Vendor notes payable                       | -  | -                        | 4,404                          | 4,404             |
| Consent fee notes payable                  | -  | -                        | 2,843                          | 2,843             |
| Finance lease obligation                   | -  | -                        | 575                            | 575               |
| Credit facilities                          | -  | -                        | 71,967                         | 71,967            |
| Convertible debentures                     | -  | -                        | 101,169                        | 101,169           |
| <b>Total</b>                               | <b>\$ 634</b>                                      | <b>\$ -</b>              | <b>\$ 234,936</b>              | <b>\$ 235,570</b> |

<sup>1</sup> The deferred share plan liability is grouped with accounts payable and accrued liabilities on the unaudited interim condensed consolidated statement of financial position.

The carrying amount of the Company's financial instruments as at December 31, 2014 is as follows:

|  | Financial<br>assets and<br>liabilities at<br>FVTPL | Loans and<br>receivables | Other financial<br>liabilities | Total             |
|--|--|--------------------------|--------------------------------|-------------------|
| <b>Financial assets</b>                    |  |                          |                                |                   |
| Cash                                       | \$ 10,342  | \$ -                     | \$ -                           | \$ 10,342         |
| Accounts receivable                        | -  | 106,451                  | -                              | 106,451           |
| <b>Total</b>                               | <b>\$ 10,342</b>                                   | <b>\$ 106,451</b>        | <b>\$ -</b>                    | <b>\$ 116,793</b> |
| <b>Financial liabilities</b>               |  |                          |                                |                   |
| Accounts payable and accrued liabilities   | \$ -   | \$ -                     | \$ 57,058                      | \$ 57,058         |
| Deferred share plan liability <sup>1</sup> | 391  | -                        | -                              | 391               |
| Due to related parties                     | -  | -                        | 10,000                         | 10,000            |
| Vendor notes payable                       | -  | -                        | 5,013                          | 5,013             |
| Consent fee notes payable                  | -  | -                        | 2,631                          | 2,631             |
| Finance lease obligation                   | -  | -                        | 928                            | 928               |
| Credit facilities                          | -  | -                        | 73,423                         | 73,423            |
| Convertible debentures                     | -  | -                        | 98,437                         | 98,437            |
| <b>Total</b>                               | <b>\$ 391</b>                                      | <b>\$ -</b>              | <b>\$ 247,490</b>              | <b>\$ 247,881</b> |

<sup>1</sup> The deferred share plan liability is grouped with accounts payable and accrued liabilities on the unaudited interim condensed consolidated statement of financial position.



The following tables summarize the Company's fair value hierarchy for those assets and liabilities that are measured at fair value on a recurring basis as at June 30, 2015 and December 31, 2014:

|                               | As at June 30, 2015 |               |             |
|-------------------------------|---------------------|---------------|-------------|
|                               | Level 1             | Level 2       | Level 3     |
| Cash                          | \$ 4,486            | \$ -          | \$ -        |
| Restricted cash               | 2,918               |               |             |
| Deferred share plan liability | -                   | 634           | -           |
|                               | <u>\$ 7,404</u>     | <u>\$ 634</u> | <u>\$ -</u> |

  

|                               | As at December 31, 2014 |               |             |
|-------------------------------|-------------------------|---------------|-------------|
|                               | Level 1                 | Level 2       | Level 3     |
| Cash                          | \$ 10,342               | \$ -          | \$ -        |
| Deferred share plan liability | -                       | 391           | -           |
|                               | <u>\$ 10,342</u>        | <u>\$ 391</u> | <u>\$ -</u> |

**NOTE 5: 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 three months ended June 30, 2015 was \$5,916 (three months ended June 30, 2014 - \$6,632) and \$12,084 for the six months ended June 30, 2014 (six months ended June 30, 2014 - \$13,278). As at June 30, 2015, there were 95 partners (June 30, 2014 - 102 partners).

IBI Group from time to time makes a monthly distribution to each Class B partnership unit holder equal to the dividend per share (on a pre-tax basis) declared to each shareholder. All of the Class B partnership units are held by the Management Partnership. As at June 30, 2015 and December 31, 2014 the amount of distributions payable to the Management Partnership were nil.

As at June 30, 2015, IBI Group has a loan payable to the Management Partnership of \$10,000 (December 31, 2014 - \$10,000). 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 facilities with its bank lender and is unsecured. Interest expense on this advance was \$567 for the three months ended June 30, 2015 (three months ended June 30, 2014 - \$94) and \$661 for the six months ended June 30, 2015 (six months ended June 30, 2014 - \$188). The loan matured April 1, 2015 with no repayment prior to the maturity of the credit facility unless the Company achieves certain financial covenants. On April 1, 2015, the terms of this loan were amended to automatically extend the maturity of the loan on the last day of each month to the last day of the subsequent month, unless either the Company or the Management Partnership

provides advance written notice to the other. The Partnership and Board of Directors approved a planning process to convert the Principal outstanding into common shares of IBI.

As noted in Note 12 –Discontinued Operations, on October 2, 2014, the Company also sold a 30% equity interest in IBI China Holdings Limited (“China”) to Services Integres Lemay & Associates Inc. (“Lemay”) for approximately \$510, subject to final closing adjustments. In addition, a 19% equity interest in China was sold to Champlain (2014) Inc. (“Champlain”) in exchange for a non-interest bearing receivable for \$475. The receivable will be settled based on an earn-out period over the next four years. Champlain is 100% owned by Daniel Arbour, who has led IBI Group’s operations in China and is a related party to the Company.

## NOTE 6: EQUITY

### (a) Shareholders’ equity

The Company is authorized to issue an unlimited number of common shares. As at June 30, 2015, the Company’s common share capital consisted of 17,808,484 shares issued and outstanding (December 31, 2014 - 17,808,484 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 June 30, 2015, the shares issued on such exchange would have represented a 22.0% interest in the Company.

Class B partnership units do not entitle the holder to voting rights at the meetings of shareholders, although the holder also holds an equal number of non-participating voting shares in the Company which give the holder one vote for each such share. The Class B partnership units have been recorded as a non-controlling interest in the interim condensed consolidated financial statements as at June 30, 2015.

#### *Issuances*

There were no share issuances during the three and six months ended June 30, 2015.

#### *Earnings per share from continuing and discontinued operations*

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

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

**(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 interim condensed consolidated statement of changes in equity for the three and six months ended June 30, 2015.

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

|   | Three months<br>ended June 30,<br>2015 | Three months<br>ended June 30,<br>2014 | Six months<br>ended June 30,<br>2015 | Six months<br>ended June 30,<br>2014 |
|---|--|--|--------------------------------------|--------------------------------------|
| Net income  | \$ 1,594                               | \$ 930                                 | \$ 4,120                             | \$ 2,126                             |
| Non-controlling interest share of ownership         | 22.0%                                  | 22.3%                                  | 22.0%                                | 22.3%                                |
| Net income attributable to non-controlling interest | \$ 351                                 | \$ 207                                 | \$ 907                               | \$ 474                               |

|   | Three months<br>ended June 30,<br>2015 | Three months<br>ended June 30,<br>2014 | Six months<br>ended June 30,<br>2015 | Six months<br>ended June 30,<br>2014 |
|---|--|--|--------------------------------------|--------------------------------------|
| Total comprehensive income  | \$ 1,225                               | \$ 951                                 | \$ 4,859                             | \$ 2,058                             |
| Non-controlling interest share of ownership                         | 22.0%                                  | 22.3%                                  | 22.0%                                | 22.3%                                |
| Total comprehensive income attributable to non-controlling interest | \$ 269                                 | \$ 212                                 | \$ 1,069                             | \$ 459                               |

**NOTE 7: FINANCIAL RISK MANAGEMENT**

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

**(a) Market risk***Interest Rate Risk*

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

If the interest rate on the Company's variable rate loan balance as at June 30, 2015, had been 50 basis points higher or lower, with all other variables held constant, net income for the six months ended June 30, 2015 would have decreased or increased by approximately \$264.

#### *Currency Risk*

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

Foreign exchange gains or losses in the Company's net income arise on the translation of foreign-denominated intercompany loans held in the Company's Canadian operations and financial assets and liabilities (such as cash, restricted cash, accounts receivable, accounts payable and credit facilities) held in the Company's foreign operations. The Company minimizes its exposure to foreign exchange fluctuations on these items by matching U.S-dollar liabilities when possible.

If the exchange rates had been 100 basis points higher or lower at June 30, 2015, with all other variables held constant, total comprehensive income would have increased or decreased by \$316 for the six months ended June 30, 2015.

#### **(b) Credit risk**

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

The Company provides services to diverse clients in various industries and sectors of the economy, and its credit risk is not concentrated in any particular client, industry, economic or geographic sector. In addition, management reviews accounts receivable past due on an ongoing basis with the objective of identifying matters that could potentially delay the collection of funds (at an early stage). The Company monitors accounts receivable with an internal target of working days of gross billings in accounts receivable (a non-IFRS measure). At June 30, 2015 there were 62 working days of revenue in accounts receivable, compared to 62 days at December 31, 2014. 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 unaudited interim condensed statement of financial position.

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

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

|                                 | June 30, 2015     | December 31, 2014 |
|---------------------------------|-------------------|-------------------|
| Current                         | \$ 38,474         | \$ 40,284         |
| 30 to 90 days                   | 33,642            | 32,241            |
| Over 90 days                    | 38,131            | 49,676            |
| Allowance for impairment losses | (8,420)           | (15,750)          |
| <b>Total</b>                    | <b>\$ 101,827</b> | <b>\$ 106,451</b> |

### (c) Liquidity Risk

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

As at June 30, 2015, the Company has \$4,486 of cash. The Company has issued letters of credit of \$4,308 under the \$5,000 letter of credit facility. The Company has borrowed \$71,967 under the remaining facilities of \$82,000 resulting in an availability of \$10,033.

On July 31, 2015, \$5,000 was paid on the principal of the term facility as a step-down payment out of operating cash flow. Subsequent to this step-down payment, the term facility decreased to \$52,000, resulting in a credit facility of \$82,000 as at July 31, 2015.

Access to additional liquidity is subject to meeting the terms of the credit facilities, the Company's operating performance and the implementation of a recapitalization plan.

IBI Group's credit facilities will need to be renewed or refinanced no later than March 31, 2016. On March 31, 2015, the Company submitted a recapitalization plan to refinance its banking agreement with its senior lenders. The recapitalization plan was approved by the lenders with ongoing business updates and reporting against certain milestones in the plan. During the second quarter, the Company engaged a third party to assist management in the re-financing of the credit facilities. Through this process, the Company has received various forms of non-binding interest and is responding to the respective parties. Although the Company believes that it can negotiate an extension or renewal of the credit facilities or obtain replacement financing prior to the expiration of the credit facilities, there can be no assurance that the credit facilities will be extended or renewed or that future borrowings will be available, or available on terms acceptable to the Company, in an amount sufficient to meet the Company's financing requirements at that time. If such an extension or renewal or future borrowings were not available, or not available on terms acceptable to the Company, it would have a material adverse impact on the Company's business and financial condition.

As at June 30, 2015, a foreign subsidiary of the Company had issued letters of credit in the amount of U.S \$2,300. The Company has pledged U.S \$2,300 (December 31, 2014 - \$nil) of cash as security for these letters of credit issued by a foreign financial institution on behalf of the foreign subsidiary. In

accordance with the provisions of the contract, the Company expects U.S \$1,176 to be unrestricted prior to the end of the second quarter of 2016 as the foreign subsidiary achieves certain milestones in relation to a local project.

**(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 its credit facilities, convertible debentures and equity.

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

The Company has used the credit facilities to fund working capital. The credit facilities contain financial covenants including funded debt to Adjusted EBITDA ratio, fixed charge coverage ratio, and restrictions on distributions. All financial covenants were in compliance as at June 30, 2015.

**NOTE 8: CHANGE IN NON-CASH OPERATING WORKING CAPITAL**

|  | Three months ended |                  | Six months ended |                  |
|--|--------------------|------------------|------------------|------------------|
|  | June 30,<br>2015   | June 30,<br>2014 | June 30,<br>2015 | June 30,<br>2014 |
| Accounts receivable                            | 5,354              | 122              | 8,347            | 1,886            |
| Work in process                                | (923)              | (6,106)          | (142)            | (5,525)          |
| Prepaid expenses and other assets              | (1,104)            | (3,380)          | (1,614)          | (3,363)          |
| Accounts payable and accrued liabilities       | (9,251)            | 6,051            | (12,453)         | 4,824            |
| Deferred revenue                               | 2,588              | 5,554            | 4,112            | 5,853            |
| Net income taxes payable                       | 277                | 1,829            | 260              | 1,931            |
| Decrease in non-cash operating working capital | \$ (3,059)         | \$ 4,070         | \$ (1,490)       | \$ 5,606         |

**NOTE 9: FINANCE COSTS**

|   | Three months ended |                  | Six months ended |                  |
|---|--------------------|------------------|------------------|------------------|
|   | June 30,<br>2015   | June 30,<br>2014 | June 30,<br>2015 | June 30,<br>2014 |
| Interest on credit facilities                   | \$ 1,525           | \$ 1,640         | \$ 2,905         | \$ 3,271         |
| Interest on convertible debentures              | 1,955              | 1,955            | 3,910            | 3,910            |
| Interest on consent fee notes payable           | 62                 | -                | 123              | -                |
| Non-cash accretion of convertible debentures    | 1,379              | 579              | 2,732            | 1,146            |
| Non-cash accretion of consent fee notes payable | 108                | -                | 212              | -                |
| Other   | 712                | 90               | 973              | 198              |
| Interest expense, net                           | \$ 5,741           | \$ 4,264         | \$ 10,855        | \$ 8,525         |
| Financing costs                                 | \$ 87              | \$ -             | \$ 279           | \$ -             |
| Amortization of deferred financing costs        | -                  | 241              | -                | 472              |
| Other   | 110                | 99               | 170              | 207              |
| Other finance costs                             | \$ 197             | \$ 340           | \$ 449           | \$ 679           |
| Finance costs for the period                    | \$ 5,938           | \$ 4,604         | \$ 11,304        | \$ 9,204         |

**NOTE 10: NOTES PAYABLE**

The movement in the vendor notes payable and adjustments to these obligations are as follows:

|                          |          |
|--------------------------|----------|
| Balance, January 1, 2015 | \$ 5,013 |
| Repayment                | (976)    |
| Foreign exchange         | 367      |
| Balance, June 30, 2015   | \$ 4,404 |

In January 2015, the Company agreed to an extension of the maturity of the notes payable to June 30, 2016. Monthly payments on these notes payable are U.S \$100 until May 31, 2016 and a balloon payment of U.S \$2,598 due June 30, 2016.

The movement in the consent fee notes payable for the six months ended June 30, 2015 is as follows:

|  | Total    |
|--|----------|
| Balance, January 1, 2015               | \$ 2,631 |
| Accretion of consent fee notes payable | 212      |
| Balance, June 30, 2015                 | \$ 2,843 |

**NOTE 11: CONTINGENCIES****(a) Legal matters**

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

**(b) Indemnifications**

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

**NOTE 12: DISCONTINUED OPERATIONS**

On October 2, 2014, an agreement was reached to sell certain net assets and operations of IBI/DAA Group Inc.; CHB-IBI Group Inc. and Martin, Marcotte-Beinhaker Inc. (hereinafter collectively described as "Quebec"), to Lemay. Subject to final closing adjustments, the gross proceeds for the sale of Quebec are expected to be approximately \$11,412. As a part of this arrangement, the Company entered into a separate sublease agreement with Lemay for the use of a portion of the Montreal premises for a 3.5 year term and with a one year renewal option, effective October 1, 2014. While the overall agreement excludes the sale of any leasehold improvements made to the premises by the Company, it was determined that Lemay is effectively obtaining some value from the use of these assets during the term of the sublease and accordingly, approximately \$500 of the proceeds were allocated to the leasehold improvements for the purposes of determining its fair value as of October 2, 2014.

The Company also sold a 30% equity interest in China to Lemay for approximately \$510, subject to final closing adjustments. In addition, a 19% equity interest in China was sold to Champlain in exchange for a non-interest bearing receivable for \$475. The receivable will be settled based on an earn-out period over the next four years. Champlain is 100% owned by Daniel Arbour, who has led IBI Group's operations in China and is a related party to the Company.



Of the total proceeds received from Lemay of \$11,412, \$9,082 was received in cash on October 2, 2014 and \$2,330 was held in escrow which will be released upon finalization of the closing adjustments and the satisfaction of other post-closing conditions. The final determination of working capital which resulted in the escrow is subject to an arbitration process which is currently underway and the outcome of which is not determinable. Until such time as that arbitration concludes, the Company has excluded the escrow amount from the proceeds of the sale. In addition, approximately \$1,900 of accounts receivable were not sold and will be collected in the normal course of business. Of these accounts receivable not sold, \$400 has been subsequently collected.

As the sale of Quebec and the 49% equity interest in China met the definition of “discontinued operations” under IFRS 5, the net loss for the three and six months ended June 30, 2014 have been reclassified from continuing operations to discontinued operations.

The following table summarizes the net loss and cash flows from discontinued operations for Quebec and China combined:

|  | Three months<br>ended | Six months<br>ended |
|--|-----------------------|---------------------|
|  | June 30, 2014         | June 30, 2014       |
| Revenue  | \$ 7,885              | \$ 16,138           |
| Expenses   | 8,659                 | 16,818              |
| Operating loss   | \$ (774)              | (680)               |
| Finance costs  | 94                    | 185                 |
| Current taxes  | 31                    | 57                  |
| Net loss from discontinued operations                  | \$ (899)              | \$ (922)            |
| Net loss from discontinued operations attributable to: |                       |                     |
| Common shareholders                                    | \$ (699)              | \$ (716)            |
| Non-controlling interest                               | (200)                 | (206)               |
| Net cash from operating activities                     | \$ 663                | \$ 1,700            |
| Net cash from financing activities                     | 1,025                 | 3,045               |
| Net cash used in investing activities                  | (1,589)               | (4,589)             |
| Effect of foreign currency translation                 | (34)                  | (24)                |
| Net decrease in cash during the period                 | 65                    | 132                 |
| Cash, beginning of period                              | 438                   | 371                 |
| Cash, end of period                                    | \$ 503                | \$ 503              |

The following table summarizes the effect of the disposal of Quebec and China on the financial position of the Company in 2014:

|   | 2014      |
|---|-----------|
| Cash                                      | \$ 282    |
| Accounts receivable                       | 9,221     |
| Work in process                           | 5,596     |
| Prepaid expenses and other current assets | 2,399     |
| Property and equipment                    | 1,094     |
| Accounts payable and accrued liabilities  | (3,698)   |
| Deferred revenue                          | (1,874)   |
| Income taxes payable                      | (43)      |
| Due to related parties                    | (1,565)   |
| Net assets and liabilities                | \$ 11,412 |
| Consideration received                    | 11,412    |
| Less: Cash held in escrow                 | 2,330     |
| Net cash inflow                           | \$ 9,082  |

#### NOTE 13: INCOME TAXES

Income tax expense for the three months ended June 30, 2015 was \$966 (2014 – \$183) and the effective income tax rate was 37.7% (2014 – 9.1%). Income tax expense for the six months ended June 30, 2015 was \$1,717 (2014 – \$80) and the effective income tax rate was 29.4% (2014 – 2.6%). The increase in the effective income tax rate for both comparative periods was primarily due to the recognition of previously unrecognized temporary differences impacting the prior year results, as well as changes in the mix of taxable income in the various jurisdictions that the company operates in with differing tax rates.