# IBI Group 2013
# Annual Financial Statements

TWELVE MONTHS ENDED
DECEMBER 31, 2013

Audited Consolidated Financial Statements of

# IBI GROUP INC.

Years Ended December 31, 2013 and 2012

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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of IBI Group Inc.

We have audited the accompanying consolidated financial statements of IBI Group Inc., which comprise the consolidated statement of financial position as at December 31, 2013 and 2012, the consolidated statements of comprehensive loss, changes in equity and cash flows for the years ended December 31, 2013 and 2012 and notes, comprising a summary of significant accounting policies and other explanatory information.

***Management's responsibility for the consolidated financial statements***

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

***Auditors' responsibility***

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

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

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

***Opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of IBI Group Inc. as at December 31, 2013 and 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

**Chartered Professional Accountants, Licensed Public Accountants**

**Toronto, Canada**
**March 26, 2014**

# IBI GROUP INC.

## Consolidated Statement of Financial Position
***(audited)***

| *(thousands of Canadian dollars)* | **Notes** | **December 31, 2013** | **December 31, 2012** |
|---|---|---|---|
| ***Assets*** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | *6* | $ 8,066 | $ - |
| Accounts receivable | *6,12* | 104,791 | 142,168 |
| Work in process | | 93,082 | 112,386 |
| Prepaid expenses and other current assets | | 8,990 | 8,365 |
| Income taxes recoverable | *9* | 1,880 | 3,374 |
| **Total Current Assets** | | $ 216,809 | $ 266,293 |
| Property and equipment | *7* | 6,559 | 7,396 |
| Intangible assets | *8* | 4,672 | 30,410 |
| Goodwill | *8* | - | 157,788 |
| Deferred tax assets | *9* | 14,221 | 5,156 |
| ***Total Assets*** | | $ 242,261 | $ 467,043 |
| | | | |
| ***Liabilities and Equity*** | | | |
| ***Liabilities*** | | | |
| **Current Liabilities** | | | |
| Bank indebtedness | *6* | $ - | $ 589 |
| Accounts payable and accrued liabilities | *12* | 43,733 | 48,129 |
| Notes payable | *16* | 5,381 | 13,999 |
| Deferred revenue | | 13,791 | 10,435 |
| Income taxes payable | *9* | 470 | 3,010 |
| Distributions payable | | - | 1,340 |
| Convertible debentures | *6* | 44,831 | - |
| **Total Current Liabilities** | | $ 108,206 | $ 77,502 |
| Due to related parties | *10* | 10,000 | 10,000 |
| Notes payable | *16* | - | 2,697 |
| Credit facility | *6* | 85,479 | 72,903 |
| Convertible debentures | *6* | 71,929 | 114,613 |
| Deferred tax liabilities | *9* | 2,016 | 6,171 |
| ***Total Liabilities*** | | $ 277,630 | $ 283,886 |
| ***Equity*** | | | |
| **Shareholders' Equity** | | | |
| Share capital | *11* | 234,358 | 231,706 |
| Deficit | | (277,088) | (102,539 |
| Convertible debentures – equity component | *6* | 5,852 | 5,852 |
| Accumulated other comprehensive loss | | (3,114) | (4,782 |
| **Total Shareholders' Equity** | | $ (39,992) | $ 130,237 |
| Non-controlling interest | *11* | 4,623 | 52,920 |
| ***Total Equity*** | | $ (35,369) | $ 183,157 |
| ***Total Liabilities and Equity*** | | $ 242,261 | $ 467,043 |

See accompanying notes to the consolidated financial statements.



Approved on behalf of the Board

(signed) Dale E. Richmond (signed) Scott E. Stewart

# IBI GROUP INC.

## Consolidated Statement of Comprehensive Loss
*(audited)*

| *(thousands of Canadian dollars, except per share amounts)* | Notes | Year ended December 31, 2013 | 2012 |
|---|---|---|---|
| Revenue | | $ 287,965 | $ 337,727 |
| Salaries, fees and employee benefits | | 241,219 | 244,060 |
| Rent | *14* | 22,542 | 21,502 |
| Other operating expenses | | 40,028 | 39,848 |
| Foreign exchange loss (gain) | | (489) | 725 |
| Amortization of intangibles | *8* | 5,766 | 10,103 |
| Impairment of goodwill and intangible assets | *8* | 180,501 | 14,483 |
| Amortization of property and equipment | *7* | 3,410 | 3,376 |
| Impairment of financial assets | *12* | 16,094 | 5,492 |
| | | 509,071 | 339,589 |
| ***Operating Loss*** | | $ (221,106) | $ (1,862) |
| Interest expense, net | *12,15* | 14,728 | 13,578 |
| Other finance costs | *15* | 625 | 466 |
| ***Finance Costs*** | | $ 15,353 | $ 14,044 |
| Current tax expense (recovery) | *9* | (67) | 3,184 |
| Deferred tax recovery | *9* | (12,924) | (4,678) |
| ***Income Taxes*** | | $ (12,991) | $ (1,494) |
| ***Net Loss*** | | $ (223,468) | $ (14,412) |
| **Other Comprehensive Income (Loss)** | | | |
| Income (loss) on translating financial statements of foreign operations, net of tax | | 2,156 | (1,622) |
| ***Other Comprehensive Income (Loss), Net of Tax*** | | 2,156 | (1,622) |
| ***Total Comprehensive Loss*** | | $ (221,312) | $ (16,034) |
| **Net Loss Attributable to:** | | | |
| Owners of the Company | | $ (172,819) | $ (10,884) |
| Non-controlling interests | *11* | (50,649) | (3,528) |
| ***Net Loss for the Period*** | | $ (223,468) | $ (14,412) |
| **Total Comprehensive Loss Attributable to:** | | | |
| Owners of the Company | | $ (171,151) | $ (12,109) |
| Non-controlling interests | *11* | (50,161) | (3,925) |
| ***Total Comprehensive Loss*** | | $ (221,312) | $ (16,034) |
| ***Loss per Share*** | | | |
| Basic and diluted loss per share | *11* | $ (10.05) | $ (0.70) |

See accompanying notes to the consolidated financial statements.

# IBI GROUP INC.

## Consolidated Statement of Cash Flows

***(audited)***

| (thousands of Canadian dollars) | Notes | Year ended December 31, 2013 | 2012 |
|---|---|---|---|
| **Cash Flows provided by (used in) Operating Activities** | | | |
| Net loss | | $ (223,468) | $ (14,412) |
| Items not affecting cash: | | | |
| Amortization of property and equipment | *7* | 3,410 | 3,376 |
| Amortization of intangibles | *8* | 5,766 | 10,103 |
| Impairment of goodwill and intangible assets | *8* | 180,501 | 14,483 |
| Amortization of deferred financing costs | | 402 | 224 |
| Interest expense, net | | 14,728 | 13,578 |
| Deferred income taxes | *9* | (12,924) | (4,678) |
| Change in fair value of financial instruments | *15* | (371) | (342) |
| Adjustment to notes payable | *16* | (992) | - |
| Interest paid | | (12,581) | (11,611) |
| Income taxes paid | | (1,070) | (5,886) |
| Change in non-cash operating working capital | *13* | 56,061 | (8,318) |
| **Net Cash provided by (used in) Operating Activities** | | $ 9,462 | $ (3,484) |
| **Cash Flows provided by (used in) Financing Activities** | | | |
| Payments on principal of notes payable | *16* | (4,985) | (4,213) |
| Net proceeds from (payments on) principal of credit facility | | 10,182 | (4,309) |
| Dividends paid to shareholders | *11* | (2,316) | (16,910) |
| Distributions paid to non-controlling interest | *11* | (2,010) | (4,690) |
| Issue of share capital, net of issue costs | *11* | - | 38,409 |
| **Net Cash provided by Financing Activities** | | $ 871 | $ 8,287 |
| **Cash Flows used in Investing Activities** | | | |
| Purchase of property and equipment | *7* | (1,931) | (2,876) |
| Acquisitions, net of cash acquired | *16* | - | (4,019) |
| **Net Cash used in Investing Activities** | | $ (1,931) | $ (6,895) |
| Effect of foreign exchange rate fluctuations on cash held | *12* | (336) | (266) |
| **Net increase (decrease) in Cash and Cash equivalents** | | $ 8,066 | $ (2,358) |
| Cash and cash equivalents, beginning of period | | - | 2,358 |
| ***Cash and Cash Equivalents, End of Period*** | | $ 8,066 | $ - |

See accompanying notes to the consolidated financial statements.

# IBI GROUP INC.

## Consolidated Statement of Changes in Equity
***(audited)***

| *(thousands of Canadian dollars)* | Notes | Year ended December 31, 2013 | 2012 |
|---|---|---|---|
| **Share Capital** | | | |
| Share capital, beginning of period | | $ 231,706 | $ 176,109 |
| Shares issued from treasury | *11* | 2,652 | 55,597 |
| ***Share Capital, End of Period*** | | $ 234,358 | $ 231,706 |
| **Deficit** | | | |
| Deficit, beginning of period | | (102,539) | (74,268) |
| Net loss attributable to owners of the Company | | (172,819) | (10,884) |
| Dividends declared to shareholders | | (2,316) | (15,847) |
| Share capital issue cost | | - | (1,540) |
| Shares issued on notes payable | | 586 | - |
| ***Deficit, End of Period*** | | $ (277,088) | $ (102,539) |
| **Convertible Debentures - Equity Component** | | | |
| Convertible debentures, beginning of period | | 5,852 | 5,852 |
| ***Convertible Debentures, End of Period*** | | $ 5,852 | $ 5,852 |
| **Accumulated Other Comprehensive Loss** | | | |
| Accumulated other comprehensive loss, beginning of period | | (4,782) | (3,558) |
| Other comprehensive income (loss) attributable to shareholders | | 1,668 | (1,224) |
| ***Accumulated Other Comprehensive Loss, End of Period*** | | $ (3,114) | $ (4,782) |
| ***Total Shareholders' Equity*** | | $ (39,992) | $ 130,237 |
| **Non-controlling Interest** | | | |
| Non-controlling interest, beginning of period | | 52,920 | 63,545 |
| Total comprehensive loss attributable to non-controlling interests | *11* | (50,161) | (3,925) |
| Distributions | | (670) | (6,700) |
| Reclassification of shares issued for notes payable | | 2,534 | - |
| ***Non-controlling Interest, End of Period*** | | $ 4,623 | $ 52,920 |
| ***Equity, End of Period*** | | $ (35,369) | $ 183,157 |

See accompanying notes to the 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 is the successor to IBI Income Fund (the "Fund"), an unincorporated, open-ended limited purpose trust established under the laws of Ontario.

The Fund was created on July 23, 2004, to indirectly acquire the outstanding Class A partnership units of IBI Group Partnership ("IBI Group"), a general partnership formed and carrying on business under the laws of the Province of Ontario. As at December 31, 2013, the Company's common share capital consisted of 17,532,993 issued and outstanding shares. Each share entitles the holder to one vote at all meetings of shareholders.

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

As at December 31, 2013, the Management Partnership holds 5,025,778 Class B partnership units representing 22.3% of the issued and outstanding units of IBI Group and, with affiliated partnerships, 3,964,511 common shares of the Company, representing a total ownership of approximately 39.9% of the Company. The Management Partnership also holds 5,025,778 non-participating voting shares of the Company, which together with the 3,964,511 common shares of the Company held by the Management Partnership and affiliated partnerships, represents approximately 39.9% 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 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 230 Richmond Street West, 5th Floor, Toronto Ontario, M5V 1V6.

## NOTE 2: BASIS OF PREPARATION

### (a) Statement of Compliance

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

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

The consolidated financial statements were authorized for issuance by the Company's Board of Directors on March 25, 2014.

**(b) Basis of measurement**

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

In May 2011, the IASB issued IFRS 13, Fair Value Measurement (IFRS 13), which provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for when fair value measurement is required or permitted under IFRS. IFRS 13 became effective for the Company on January 1, 2013 and did not have any impact on its financial statements.

**(c) Basis of consolidation**

In May 2011, the IASB issued the following new standards, which became effective for the Company on January 1, 2013 requiring retrospective adoption with restatement of prior period amounts.

- IFRS 10, Consolidated Financial Statements, which will replace SIC-12, Consolidation − Special Purpose Entities, and parts of IAS 27, Consolidated and Separate Financial Statements;

- IFRS 11, Joint Arrangements which will replace IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities − Non-monetary Contributions by Venturers; and

- IFRS 12, Disclosure of Interests in Other Entities.

These new standards provide more guidance on the identification of entities and joint arrangements that should be included in the consolidated statements of a parent company, and also require additional disclosure of all forms of interest that an entity holds. There was no effect on the Company's consolidated financial statements upon adoption of these standards.

*Subsidiaries*

Subsidiaries are entities over which the Company has control. An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that effective control commences, and are de-consolidated from the date control ceases.

*Joint arrangements*

The Company recognizes its proportionate ownership in relation to its joint operations in the consolidated financial statements. The Company accounts for its joint ventures using the equity method.

*Transactions eliminated on consolidation*

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

*Non-controlling interest*

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

**(d) Functional and presentation currency**

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

Each of the Company’s subsidiaries determines its functional currency, and items included in the financial statements of each subsidiary are measured using that functional currency. The Company’s foreign operations are translated into its reporting currency (Canadian dollar) as follows: assets and liabilities are translated at the rate of exchange in effect at each consolidated statement of financial position date, and revenue and expense items (including depreciation and amortization) are translated at the average rate of exchange for the month. The resulting unrealized exchange gains and losses on foreign subsidiaries are recognized in accumulated other comprehensive income.

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

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

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

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

**(e) Use of accounting estimates and judgments**

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

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

*Revenue Recognition*

The Company accounts for certain of its revenue in accordance with IAS 11, “Construction Contracts,” which requires estimates to be made for contract costs and revenues and IAS 18 “Revenue”. Revenue from fixed-fee and variable-fee-with-ceiling contracts is recognized using the percentage of completion method based on the ratio of professional costs incurred to total estimated professional costs. Estimating total professional costs is subjective and requires the use of management’s best judgments based on the information available at that point in time. The Company also provides for estimated losses on incomplete contracts in the period in which such losses are determined. Changes in the estimates are reflected in the period in which they are made and would affect the Company’s revenue and work in process.

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

*Valuation of work in process*

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

*Recoverability of accounts receivable*

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

*Determining deferred revenue*

The Company records its deferred revenue based on projects for which billings exceed work in process. Estimating total direct labour costs is subjective and requires the use of management’s best judgment based on the information available at that point in time. The Company also provides for estimated losses on incomplete contracts in the period in which such losses are determined. Changes in the estimates are reflected in the period in which they are made and would affect the Company’s revenue and deferred 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 16).

*Determining probable future utilization of tax loss carryforwards*

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

*Valuation of goodwill and intangible assets*

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

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

*Measuring fair value of financial instruments*

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

## NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### a) Revenue recognition

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

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

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

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

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

**b) Work in process**

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

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

**c) Cash and cash equivalents**

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

**d) Property and equipment**

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

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

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

**e) Goodwill and Intangible assets**

*Goodwill*

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

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

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

*Other intangible assets*

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

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

**f) Impairment of non-financial assets**

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

amount. The determination of recoverability is based on the higher of value in use or fair value less costs to sell.

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

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

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

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

**g) Income taxes**

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

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

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

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

### h) Share-based payments

The Company operates a share-based compensation plan ("Deferred Share Plan") which allows directors to receive director fees in the form of deferred shares rather than cash. These awards are accounted for as liabilities. On the grant date, the deferred shares are measured at fair value based on the market price with subsequent changes to the fair value recorded as salaries, fees and employee benefit expenses until settled.

### i) Business combinations

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

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

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

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

### j) Financial instruments

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

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

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

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

*Financial assets*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the date of the statement of financial position. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method, less any net impairment losses.

*Impairment*

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

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

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

[1] The deferred share plan liability is grouped with accounts payable and accrued liabilities on the statement of financial position. See note 17 for further discussion.

Subsequent recoveries of the amounts previously written off are charged against the allowance account and recognized as income in the statement of comprehensive loss.

*Financial liabilities and equity*

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

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

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

*Financial liabilities at FVTPL*

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

*Other financial liabilities*

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

*Compound financial instruments*

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

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

*Effective interest method*

The effective interest method calculates the amortized cost of a financial instrument and allocates interest income or expense over the corresponding period. The effective interest rate is the rate that

discounts estimated future cash flows over the expected life of the financial instrument to the net carrying amount of the financial liability on initial recognition.

**k) Leases**

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

*Operating lease*

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

*Finance lease*

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

**l) Provisions**

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

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

## NOTE 4: IFRS NOT YET ADOPTED

### (a) Financial Instruments

In November 2009 the IASB issued IFRS 9, Financial Instruments (IFRS 9 (2009)), and in October 2010, the IASB published amendments to IFRS 9 (IFRS 9 (2010)). In November 2013, the IASB issued a new general hedge accounting standard, which forms part of IFRS 9 Financial Instruments (2013). The new standard removes the January 1, 2015 effective date of IFRS 9. The new mandatory effective date will be determined once the classification and measurement and impairment phases of IFRS 9 are finalized.

Early adoption of the new standard is permitted. Canadian reporting entities cannot early adopt IFRS 9(2013) until it has been approved by the Canadian Accounting Standards Board. The Company does

not intend to adopt IFRS 9 (2009), IFRS 9 (2010) or IFRS 9 (2013) in its financial statements for the annual period beginning on January 1, 2014. The Company is currently assessing the impact of future adoption of this new standard.

**(b) Offsetting Financial Assets and Liabilities**

In December 2011 the IASB published Offsetting Financial Assets and Financial Liabilities. The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014. These amendments are to be applied retrospectively.

The Company intends to adopt the amendments to IAS 32 in its financial statements for the annual period beginning January 1, 2014. The extent of the impact of adoption of the amendments has not yet been determined.

**(c) Recoverable Amount Disclosures for Non-Financial Assets**

In May 2013, the IASB issued Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36).The amendments apply retrospectively for annual periods beginning on or after January 1, 2014.

The Company intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2014. As the amendments impact certain disclosure requirements only, the Company does not expect the amendments to have a material impact on the financial statements.

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

In December 2013, the IASB issued narrow-scope amendments to a total of nine standards as part of its annual improvements process. The IASB uses the annual improvements process to make non-urgent but necessary amendments to IFRS. Most amendments will apply prospectively for annual periods beginning on or after July 1, 2014; earlier application is permitted, in which case, the related consequential amendments to other IFRSs would also apply.

The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2014. The extent of the impact of adoption of the amendments has not yet been determined.

**(e) Levies**

IFRIC 21, “Levies” (IFRIC 21), was issued by the IASB on May 20, 2013 and provides guidance on when to recognize a liability to pay a levy imposed by government that is accounted for in accordance with IAS 37, “Provisions, Contingent Liabilities and Contingent Assets.” IFRIC 21 is effective for the year ending December 31, 2014. The Company is currently assessing the impact of IFRIC 21 on its financial statements.

## NOTE 5: SEGMENT INFORMATION

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

**(a) Operating segments**

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

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

**(b) Geographic segments**

The following table demonstrates certain statement of financial position information line items segmented geographically as at December 31, 2013, with comparatives as at December 31, 2012:

| | As at December 31, 2013 | | | |
|---|---|---|---|---|
| | Canada | U.S. | International | Total |
| Property and equipment | $ 2,801 | $ 1,830 | $ 1,928 | $ 6,559 |
| Intangible assets | - | 3,728 | 944 | 4,672 |
| Goodwill | - | - | - | - |
| Total assets | 169,210 | 47,813 | 25,238 | 242,261 |

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

The following table demonstrates certain information contained in the statement of comprehensive income segmented geographically for the year ended December 31, 2013, with comparatives for the year ended December 31, 2012. The unallocated amounts pertain to expenses relating to convertible debentures, taxes, and non-cash finance costs incurred by the Company.

The Company has disclosed its impairment loss by operating segment in note 8.

| | Year ended December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Unallocated Corporate Costs | Canada | U.S. | International | Total |
| Revenue | $ - | $ 176,028 | $ 69,796 | $ 42,141 | $ 287,965 |
| Net loss for the period | $ (7,820) | $ (166,950) | $ (36,200) | $ (12,498) | $ (223,468) |

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

**NOTE 6: FINANCIAL INSTRUMENTS**

**(a) Indebtedness**

IBI Group has a credit facility of $120,000. As of December 31, 2013, IBI Group had borrowings of $87,844 under the credit facility compared with borrowings of $73,852 under the credit facility as of December 31, 2012. According to the terms of the agreement, this credit facility is set to mature on July 29, 2016.

The credit facility contains financial covenants including funded debt to EBITDA[1] ratio, fixed-charge coverage ratio, and restrictions on distributions if certain conditions are not met. Under the terms of the amended agreement, the availability under the credit facility will be reduced to $70,000 by September 30, 2014. In addition to waiving and amending the financial covenants, the amendment also requires performance of certain financial and non-financial covenants, an agreement by the Company to provide the lenders a recapitalization plan by May 26, 2014, and the amendment and restatement of the credit facility by April 1, 2014.

The Company was in compliance with its credit facility covenants as at December 31, 2013. Continued compliance with the covenants 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 variances as may become necessary from time to time.

As at December 31, 2013, the total balance of unamortized transaction costs was $2,365 (December 31, 2012 - $949). Net of capitalized transaction costs, the carrying value of the credit facility was $85,479 as at December 31, 2013 (December 31, 2012 - $72,903).

In addition, a bid bond guarantee facility (the "Bid Bond Facility") of up to USD $20,000 continues to be made available to meet certain project requirements calling for the issuance of bid bonds to

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

international customers. As at December 31, 2013, IBI Group had issued bid bonds in the amount of $2,335 (December 31, 2012 – $3,926) under the Bid Bond Facility.

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

Advances under these credit facilities bear interest at a rate based on the Canadian dollar or United States dollar prime rate, LIBOR or banker's acceptance rates, plus, in each case, an applicable margin. The Bid Bond Facility is only available by way of letters of credit or letters of guarantee.

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

**(b) Convertible debentures**

The Company has three series of convertible debentures outstanding as at December 31, 2013.

*7.0% Debentures*

The 7.0% Debentures are recorded as compound financial instruments. The liability component was recorded at fair value on the date of conversion to a corporation and measured subsequently at amortized cost using the effective interest method over the life of the 7.0% Debentures. As at December 31, 2013, the liability component has an amortized cost of $44,831 (December 31, 2012 - $43,768). The equity component for the conversion feature of $1,750 is measured at the fair value on the date of conversion to a corporation. The 7.0% Debentures have a maturity date of December 31, 2014 at $46,000. The 7.0% Debentures are convertible into shares of the Company at the option of the holder at a conversion price of $19.17 per share. The 7.0% Debentures are redeemable by the Company at a price of $1,000 per 7.0% Debenture, plus accrued and unpaid interest, on or after September 30, 2012 and prior to the maturity date. The fair value of the 7.0% Debentures was $16,597 based on the quoted market price as at December 31, 2013.

*5.75% Debentures*

The 5.75% Debentures are recorded as compound financial instruments. The liability component was recorded at fair value on the date of conversion to a corporation and measured subsequently at amortized cost using the effective interest method over the life of the 5.75% Debentures. As at December 31, 2013, the liability component has an amortized cost of $18,436 (December 31, 2012 - $18,067). The equity component for the conversion feature of $896 is measured at the fair value on the date of conversion to a corporation. The 5.75% Debentures have a maturity date of September 30, 2017 at $20,000. The 5.75% Debentures are convertible into shares of the Company at the option of the holder at a conversion price of $20.52 per unit. The 5.75% Debentures are redeemable by the Company at a price of $1,000 per 5.75% Debenture, plus accrued and unpaid interest, on or after June 30, 2015 and prior to the maturity date (provided that, if the redemption is prior to June 30,

2015, the weighted average trading price of the shares of the Company on the TSX for the 20 consecutive trading days ending five trading days preceding the date on which notice of redemption is given is not less than 125% of the Conversion Price of $20.52). The fair value of the 5.75% Debentures was $4,298 based on the quoted market price as at December 31, 2013.

*6.0% Debentures*

The 6.0% Debentures are recorded as compound financial instruments. The liability component was recorded at fair value on the date of conversion to a corporation and measured subsequently at amortized cost using the effective interest method over the life of the 6.0% Debentures. As at December 31, 2013, the liability component has an amortized cost of $53,493 (December 31, 2012 - $52,778). The equity component for the conversion feature of $3,206 is measured at the fair value on the date of conversion to a corporation. The 6.0% Debentures have a maturity date of September 30, 2018 at $57,500. The 6.0% Debentures are convertible into common shares of the Company at the option of the holder at a conversion price of $21.00 per share. The 6.0% Debentures are redeemable by the Company at a price of $1,000 per 6.0% Debenture, plus accrued and unpaid interest, on or after June 30, 2014 and prior to the maturity date (provided that, if the redemption is prior to June 30, 2016, the weighted average trading price of the shares of the Company on the Toronto Stock Exchange ("TSX") for the 20 consecutive trading days ending five trading days preceding the date on which notice of redemption is given is not less than 125% of the Conversion Price of $21.00). The fair value of the 6.0% Debentures was $12,075 based on the quoted market price as at December 31, 2013.

The movement in Convertible Debentures and related embedded derivative for the year ended December 31, 2013 is as follows:

| | Liability component | Equity component | Total |
|---|---|---|---|
| Balance, January 1, 2013 | $ 114,613 | $ 5,852 | $ 120,465 |
| Accretion of convertible debenture issue cost | 2,147 | - | 2,147 |
| Balance, December 31, 2013 | $ 116,760 | $ 5,852 | $ 122,612 |

The movement in convertible debentures for the year ended December 31, 2012 is as follows:

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

**(c) Financial assets and liabilities**

The carrying amount of the Company's financial instruments as at December 31, 2013 are as follows:

| | Loans and receivables | Other financial liabilities | Total |
|---|---|---|---|
| **Financial assets** | | | |
| Cash and cash equivalents | 8,066 | | 8,066 |
| Accounts receivable | 104,791 | | 104,791 |
| Income tax recoverable | 1,880 | | 1,880 |
| Total | $ 114,737 | | $ 114,737 |
| **Financial liabilities** | | | |
| Accounts payable and accrued liabilities | | 43,733 | 43,733 |
| Due to related parties | | 10,000 | 10,000 |
| Notes payable | | 5,381 | 5,381 |
| Income tax payable | | 470 | 470 |
| Credit facility | | 85,479 | 85,479 |
| Convertible debentures | | 116,760 | 116,760 |
| Total | | $ 261,823 | $ 261,823 |

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

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

## NOTE 7: PROPERTY AND EQUIPMENT

### (a) Carrying amount

Proceeds from disposals are netted against the related assets and the accumulated depreciation, and are included in the statement of comprehensive loss. Property and equipment consist of the following:

| | Office furniture and equipment | Electronic data processing equipment | Vehicles | Leaseholds | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| January 1, 2012 | $ 6,327 | $ 13,077 | $ 228 | $ 7,300 | $ 26,932 |
| Additions: | | | | | |
| Capital expenditures | 881 | 746 | 43 | 1,206 | 2,876 |
| Acquisitions | 214 | 261 | 32 | 234 | 741 |
| Disposals | (15) | (79) | (45) | (325) | (464) |
| Foreign currency translation gain (loss) | (17) | 81 | (36) | (113) | (85) |
| December 31, 2012 | $ 7,390 | $ 14,086 | $ 222 | $ 8,302 | $ 30,000 |
| Additions: | | | | | |
| Capital expenditures | 525 | 560 | 0 | 1,239 | 2,324 |
| Acquisitions | 24 | 2 | 0 | 14 | 40 |
| Disposals | (223) | (208) | (26) | (359) | (816) |
| Foreign currency translation gain | 394 | 114 | 11 | 484 | 1,003 |
| December 31, 2013 | $ 8,110 | $ 14,554 | $ 207 | $ 9,680 | $ 32,551 |
| **Accumulated depreciation** | | | | | |
| January 1, 2012 | $ 3,681 | $ 10,986 | $ 108 | $ 4,620 | $ 19,395 |
| Current year depreciation | 792 | 1,529 | 42 | 1,013 | 3,376 |
| Disposals | (5) | (41) | (19) | (59) | (124) |
| Foreign currency translation gain (loss) | 41 | (26) | (28) | (30) | (43) |
| December 31, 2012 | $ 4,509 | $ 12,448 | $ 103 | $ 5,544 | $ 22,604 |
| Current year depreciation | 831 | 1,175 | 44 | 1,360 | 3,410 |
| Disposals | (198) | (180) | (21) | (357) | (756) |
| Foreign currency translation gain | 288 | 75 | 7 | 364 | 734 |
| December 31, 2013 | $ 5,430 | $ 13,518 | $ 133 | $ 6,911 | $ 25,992 |

| **Carrying amount** | | | | | |
|---|---|---|---|---|---|
| December 31, 2012 | $ 2,881 | $ 1,638 | $ 119 | $ 2,758 | $ 7,396 |
| December 31, 2013 | $ 2,680 | $ 1,036 | $ 74 | $ 2,769 | $ 6,559 |

## NOTE 8: INTANGIBLE ASSETS AND GOODWILL

### (a) Carrying amount

The following table presents the Company's goodwill and intangible assets as at December 31, 2013 and December 31, 2012:

| | Goodwill | Contract backlog | Client relationships | Other | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance at January 1, 2012 | $ 184,975 | $ 32,333 | $ 35,564 | $ 8,693 | $ 261,565 |
| Additions | 3,915 | 756 | 2,133 | 5,959 | 12,763 |
| Finalized purchase price adjustments | (1,067) | - | - | - | (1,067) |
| Foreign exchange translation loss | (343) | (32) | (31) | (37) | (443) |
| Balance at December 31, 2012 | $ 187,480 | $ 33,057 | $ 37,666 | $ 14,615 | $ 272,818 |
| Finalized purchase price adjustments | 1,274 | - | - | - | 1,274 |
| Foreign exchange translation gain | 831 | 365 | 898 | 360 | 2,454 |
| Balance at December 31, 2013 | $ 189,585 | $ 33,422 | $ 38,564 | $ 14,975 | $ 276,546 |
| **Accumulated amortization and impairment** | | | | | |
| Balance at January 1, 2012 | $ 15,209 | $ 30,480 | $ 9,211 | $ 4,719 | $ 59,619 |
| Amortization for the year | - | 1,847 | 3,400 | 3,944 | 9,191 |
| Impairment expense | 14,483 | - | - | 912 | 15,395 |
| Foreign exchange translation gain (loss) | - | (25) | 1 | 439 | 415 |
| Balance at December 31, 2012 | $ 29,692 | $ 32,302 | $ 12,612 | $ 10,014 | $ 84,620 |
| Amortization for the period | - | 493 | 3,434 | 1,839 | 5,766 |
| Impairment expense | 159,893 | 180 | 18,093 | 2,335 | 180,501 |
| Foreign exchange translation gain (loss) | - | 301 | 1,106 | (420) | 987 |
| Balance at December 31, 2013 | $ 189,585 | $ 33,276 | $ 35,245 | $ 13,768 | $ 271,874 |

| **Carrying amount** | | | | | |
|---|---|---|---|---|---|
| At December 31, 2012 | $ 157,788 | $ 755 | $ 25,054 | $ 4,601 | $ 188,198 |
| At December 31, 2013 | $ - | $ 146 | $ 3,319 | $ 1,207 | $ 4,672 |

**(b) Impairment testing for CGUs containing goodwill**

The Company performed testing for goodwill impairment in the second and fourth quarters of 2013 in accordance with its policy described in Note 3. During the second quarter of 2013, the share price of the Company decreased, adversely impacting its market capitalization. The performance of certain cash generating units (CGUs) of the Company had also been weaker than expected and as a result the Company performed a test for goodwill impairment in the second quarter of 2013. For the purposes of assessing impairment where it was not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the CGU to which the asset belongs was estimated. A CGU is defined as the smallest identifiable group of assets for which there are separately identifiable cash inflows. The lowest level within the consolidated group at which the goodwill is monitored for internal management purposes, depends on the timing and integration of the legal entities acquired where goodwill arose on the business combination.

Where recently acquired subsidiaries are still operating as if they are an independent branch, i.e. negotiating, writing and collecting all contracts under the predecessor name, not sharing significant resources or staff, etc. with IBI Group, the entity is considered an independent CGU. Where groups of entities within the consolidated group share contracts, resources and contribute to the cash inflows of one another, management assessed where independent cash inflows could be identified by grouping the lowest number of entities, which is by geographic location.

- Estimates of expected future EBITDA[1] reflect estimates of future revenues, salaries fee, and employee benefits, rent, and other operating expenses, which are updated as part of the Company's ongoing budgeting process. In arriving at its budget, the Company considered past experience, economic trends such as GDP growth and inflation as well as industry and market trends. The projection also took into account the expected impact from new service initiatives, customer retention and integration programs, and the maturity of the markets in which the business operates. The Company's forecasts are based on revenue backlog, mix of employee staff levels and compensation, timing of project completion, and other factors related to the Company's project management. Due to the manner in which it fills its revenue backlog, management believes that the most recent and immediate following year are the best indicators of the Company's ongoing EBITDA[1].

- Since public companies in the Company's industry typically trade at a market capitalization that is based on a multiple of their EBITDA[1], a market participant would generally apply an EBITDA[1] multiple when estimating the fair value of a professional services company. When it acquires entities, the Company uses multiples that are specific to those countries and entities, which may vary from public multiples.

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

- The recoverable amount of each CGU was based on the higher of fair value less cost to sell and value in use, which was determined to be fair value less costs to sell for all CGUs. The fair value less costs to sell of each CGU was calculated by taking an average of:

  - The CGU's January 1, 2013 to December 31, 2013 EBITDA[1] multiplied by an earnings multiple of seven, or for recent acquisitions, the earnings multiple implied in the purchase price of the acquisition.

  - The CGU's January 1, 2014 to December 31, 2014 management forecasted EBITDA[1] multiplied by an earnings multiple of six, or for recent acquisitions, the earnings multiple used when determining the purchase price of the acquisition

  Costs to sell, estimated at 3%, were deducted from the fair value calculation, which is in line with the average transaction costs in recent acquisitions made by the Company.

- The earnings multiple of seven was selected to apply to historical EBITDA[1] based on search of industry comparables. The earnings multiple of six was selected to apply to the 2014 forecasted EBITDA[1] in order to incorporate a discount to the forecasted EBITDA[1]. The earnings multiple used for recently acquired CGUs were selected because this was an accurate reflection of the market value paid for the recently acquired CGU.

As a result of the analysis the Company recorded an impairment charge of $159,893 to goodwill and $20,608 to intangibles in 2013. In 2013 the Company had 14 CGU's, the allocation of the impairment charge by segment is identified below:

| | As at December 31, 2013 | | |
|---|---|---|---|
| | Goodwill Impairment | Intangible Impairment | Total |
| Canada | $ 129,069 | $ 13,667 | $ 142,736 |
| US | 22,798 | 3,419 | 26,217 |
| International | 8,026 | 3,522 | 11,548 |
| Total Impairment | $ 159,893 | $ 20,608 | $ 180,501 |

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

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

## NOTE 9: INCOME TAXES

The major components of income tax expense include the following:

| | Year ended | |
|---|---|---|
| | December 31, 2013 | December 31, 2012 |
| *Current tax expense (recovery)* | | |
| Current period | $ (165) | $ 2,259 |
| Adjustment for prior periods | 98 | 925 |
| | (67) | 3,184 |
| *Deferred tax expense (recovery)* | | |
| Origination and reversal of temporary differences | (20,766) | (4,365) |
| Change in tax rates | (144) | 235 |
| Adjustment for prior periods | 317 | 20 |
| Change in unrecognized deductible temporary differences | 7,669 | (568) |
| | (12,924) | (4,678) |
| Total tax recovery | $ (12,991) | $ (1,494) |

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

| | Year ended | |
|---|---|---|
| | December 31, 2013 | December 31, 2012 |
| Net loss for the period | $ (223,468) | $ (14,412) |
| Total tax recovery | (12,991) | (1,494) |
| Net loss before taxes | $ (236,459) | $ (15,906) |
| Income tax using the Company's domestic tax rate | $ (62,662) | $ (4,215) |
| Income tax effect of: | | |
| Non-deductible expenses | 1,062 | 4,209 |
| Change in deferred tax rates | (144) | 235 |
| Non-controlling interests share of income | 1,182 | (413) |
| Operating in jurisdictions with different tax rates | (3,688) | (1,608) |
| Change in unrecognized temporary differences | 7,669 | (568) |
| Prior period adjustments to current tax | 13 | 120 |
| Prior period adjustments to deferred tax | 302 | 20 |
| Withholding taxes | 141 | 806 |
| Impairment of goodwill | 43,221 | - |
| Other | (87) | (80) |
| Income tax expense | $ (12,991) | $ (1,494) |

The applicable tax rate is the aggregate of the Canadian Federal income tax rate of 15% and the Provincial income tax rate of 11.5%.

*Unrecognized deferred tax liabilities*

As at December 31, 2013, the Company has approximately $4,958 (December 31, 2012 - $6,002) of temporary differences associated with its investments in foreign subsidiaries for which no deferred taxes have been provided on the basis that the company is able to control the timing of the reversal of such temporary differences and that such reversal is not probable in the foreseeable future.

*Unrecognized deferred tax assets*

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

| | Year ended | | | |
|---|---|---|---|---|
| | December 31, 2013 | | December 31, 2012 | |
| Deductible temporary differences | $ | 13,897 | $ | 6,001 |
| Tax losses – Federal | | 16,210 | | 1,824 |
| Tax losses – State | | 25,878 | | 11,442 |
| | $ | 55,985 | $ | 19,267 |

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

| | Year ended | | | |
|---|---|---|---|---|
| | December 31, 2013 | | December 31, 2012 | |
| Deductible temporary differences | $ | 5,414 | $ | 2,444 |
| Tax losses – Federal | | 5,760 | | 620 |
| Tax losses – State | | 1,294 | | 645 |
| | $ | 12,468 | $ | 3,709 |

As at December 31, 2013, the Company's affiliated entities have $31,764 (December 31, 2012 - $5,248) of operating loss carry forwards available for income tax purposes, which expire in the years 2016 through 2033. Deferred tax assets are recognized for these operating loss carry forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The ability of the Company to realize the tax benefits of the loss carry forwards is contingent on many factors, including the ability to generate future taxable profits in the jurisdictions in which the tax losses arose.

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

The tax effect of temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases that give rise to significant portions of the deferred tax assets at December 31, 2013 and December 31, 2012 are presented below:

*Recognized deferred tax assets and liabilities*

Deferred tax assets and liabilities are attributable to the following:

| | Year ended December 31, 2013 | | |
|---|---|---|---|
| | Assets | Liabilities | Total |
| Property and equipment | $ 752 | $ (55) | $ 697 |
| Non-capital loss | 8,260 | - | 8,260 |
| Reserves | 168 | (2,214) | (2,046) |
| Financing costs | - | (125) | (125) |
| Intangible assets | 5,429 | - | 5,429 |
| Other | (388) | 378 | (10) |
| | $ 14,221 | $ (2,016) | $ 12,205 |

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

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

| | Balance December 31, 2012 | Recognized in profit or loss | Acquired in business combination (Note 16) | Other deferred tax items | Balance December 31, 2013 |
|---|---|---|---|---|---|
| Property, plant and equipment | $ 1,073 | $ (376) | $ - | $ - | $ 697 |
| Non-capital loss | 1,074 | 7,186 | - | - | 8,260 |
| Reserves | (2,389) | 343 | - | - | (2,046) |
| Financing costs | 182 | (307) | - | - | (125) |
| Intangible assets | (900) | 6,329 | - | - | 5,429 |
| Other | (55) | (251) | - | 296 | (10) |
| | $ (1,015) | $ 12,924 | $ - | $ 296 | $ 12,205 |

| | | Balance, January 1, 2012 | | Recognized in profit or loss | | Acquired in business combination (Note 16) | | Other deferred tax items | | Balance, December 31, 2012 |
|---|---|---|---|---|---|---|---|---|---|---|
| Property, plant and equipment | $ | 342 | $ | 849 | $ | (118) | $ | - | $ | 1,073 |
| Non-capital loss | | 1,370 | | (296) | | - | | - | | 1,074 |
| Reserves | | (3,471) | | 1,762 | | (680) | | - | | (2,389) |
| Financing costs | | (86) | | (281) | | - | | 549 | | 182 |
| Intangible assets | | (2,312) | | 2,695 | | (1,283) | | | | (900) |
| Other | | 34 | | (51) | | - | | (38) | | (55) |
| | $ | (4,123) | $ | 4,678 | $ | (2,081) | $ | 511 | $ | (1,015) |

## NOTE 10: RELATED PARTY TRANSACTIONS

- Pursuant to the Administration Agreement entered into in connection with the closing of the initial public offering of the Company's predecessor, the Fund, IBI Group and certain of its subsidiaries are paying to the Management Partnership an amount representing the base compensation for the services of the principals of the partners of the Management Partnership. The amount paid for such services during the year ended December 31, 2013 was $28,355 (year ended December 31, 2012 - $24,119). As at December 31, 2013 there were 101 partners (December 31, 2012 – 91 partners).

- IBI Group from time to time 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. All of the Class B partnership units are held by the Management Partnership. As at December 31, 2013 the amount of distributions payable to the Management Partnership were nil (as at December 31, 2012 - $1,340).

- During the first quarter of 2010, the Management Partnership advanced $26,000 to IBI Group. The loan bears interest at the same rate as the operating line of credit that IBI Group has with its bank lender, less any commitment fees payable to its bank lender. The loan is subordinated to the Company's credit facility with its bank lender and is unsecured. In February 2011, IBI Group repaid $6,000 of the advance. During the second quarter of 2012 IBI Group repaid $10,000 of the advance with the issuance of 667,000 common shares of the Company. For the year ended December 31, 2013, interest expense on this advance was $380 (year ended December 31, 2012 - $497). The loan matures April 1, 2015.

- *Compensation of Key Management Personnel*

  The Company's key management personnel are comprised of the Board and members of the executive team of the Company, to the extent that they have the authority and responsibility for planning, directing and controlling the day-to-day activities of the Company.

| | | Year ended December 31, 2013 | | Year ended December 31, 2012 |
|---|---|---|---|---|
| Directors fees, salaries and other short-term employee benefits | $ | 3,429 | $ | 3,357 |
| Share–based compensation | | 162 | | 211 |
| Total compensation | $ | 3,591 | $ | 3,568 |

**NOTE 11: EQUITY**

**(a) Shareholders' equity**

As at December 31, 2013, the Company's common share capital consisted of 17,532,993 shares issued and outstanding (December 31, 2012 – 16,845,451 shares).

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

The 5,025,778 Class B partnership units of IBI Group are indirectly exchangeable for common shares of the Company on the basis of one share of the Company for each Class B subordinated partnership unit. If all such Class B partnership units of IBI Group had been exchanged for shares on December 31, 2013, the units issued on such exchange would have represented a 22.3% 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 consolidated financial statements as at December 31, 2013 and 2012.

*Share Issues*

*2013*

- During the year ended December 31, 2013, the Company issued 12,000 common shares under the DRIP for a total of $74.
- During the year ended December 31, 2013, the Company issued 286,000 common share, 44,780 common shares and 344,000 common shares for acquisition payments for a total of $2,579. These share issuances were settled by reducing notes payable.

*2012*

- On April 20, 2012 the Company issued 2,700,000 common shares on a bought deal basis at a price of $15.00 per share, to a syndicate of underwriters for gross proceeds of $40,500. Concurrent with the Offering, the Company completed, on a non-brokered private placement basis, the issuance of 667,000 shares at $15.00 per share to the Management Partnership in full satisfaction of $10,000 of indebtedness owed by the Company to the Management Partnership. The Company used the net proceeds from the Offering for debt reduction and general corporate purposes.

- During the year ended December 31, 2012, the Company issued 215,000 common shares for a total of $2,010 under the DRIP to the Management Partnership. The Company also issued 19,000 common shares valued at a total of $132 under the DRIP to shareholders.
- During the year ended December 31, 2012, the Company issued 18,000 common shares, 46,000 common shares, 18,000 common shares, 17,000 common shares, 58,000 common shares, 51,000 common shares and 18,000 common shares for acquisition payments for a total of $3,009. These share issuances were settled by reducing notes payable.

*Dividends*

On May 24, 2013 the company suspended its dividend and no dividends were declared after February 2013. In February 2013, the Company declared quarterly dividends of $0.1375 per qualifying ordinary share for total dividends declared during the year ended of $2,316.

For each of the twelve months ended December 31, 2012, the Company declared monthly dividends at a rate of $0.092 cents per qualifying ordinary share resulting in total dividends declared during the period of $15,847.

*Loss per share*

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

| | Year ended December 31, 2013 | Year ended December 31, 2012 |
|---|---|---|
| Net loss attributable to owners of the Company | $ (172,819) | $ (10,884) |
| Weighted average common shares outstanding | 17,201 | 15,549 |
| Basic and diluted loss per common share | $ (10.05) | $ (0.70) |

For the purposes of calculating diluted loss 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 loss per common share or weighted average number of common shares outstanding as they would be anti-dilutive.

**(b) Non-controlling interest**

Non-controlling interest in the Company's subsidiaries is exchangeable into the common shares of the Company on a one for one basis, subject to certain conditions. The movement in non-controlling interest is shown in the statement of changes in equity. The calculation of net loss and total comprehensive loss attributable to non-controlling interest is set out below:

| | Year ended December 31, 2013 | Year ended December 31, 2012 |
|---|---|---|
| Net loss | $ (223,468) | $ (14,412) |
| Non-controlling interest share of ownership | 22.7% | 24.5% |
| Net loss attributable to non-controlling interest | $ (50,649) | $ (3,528) |

| | Year ended December 31, 2013 | Year ended December 31, 2012 |
|---|---|---|
| Total comprehensive loss | $ (221,312) | $ (16,034) |
| Non-controlling interest share of ownership | 22.7% | 24.5% |
| Total comprehensive loss attributable to non-controlling interest | $ (50,161) | $ (3,925) |

## NOTE 12: 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 (loss) 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 United States 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 December 31, 2013, had been 50 basis points higher, with all other variables held constant, net income for the year ended December 31, 2013 would have decreased by approximately $281. If the interest rate had been 50 basis points lower, there would have been an equal and opposite impact on net income.

*Currency Risk*

The Company's foreign exchange risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. The Company's

policy has been to utilize natural hedges to offset foreign exchange exposures rather than purchasing currency swaps and forward foreign exchange contracts.

Foreign exchange gains or losses in the Company's net income arise on the translation of foreign-denominated financial assets and liabilities (such as cash balances, accounts receivable, work in process, accounts payable and 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 when possible.

If the exchange rates had been 1% higher or lower at December 31, 2013, with all other variables held constant, net income would have increased or decreased by $487 for the year ended December 31, 2013.

**(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 loss experience.

During the year the Company reassessed the estimated recoverability of accounts receivable. As a result of that review, the Company provided for $12,855 of accounts receivable to recognize the uncertainty of collections given the aging profile of the amounts.

The Company provides services to diverse clients in various industries and sectors of the economy, and its credit risk is not concentrated in any particular client, industry, economic or geographic sector. In addition, management reviews accounts receivable past due on an ongoing basis with the objective of identifying matters that could potentially delay the collection of funds (at an early stage). The Company monitors accounts receivable with an internal target of working days of revenue in accounts receivable (a non-IFRS measure). At December 31, 2013 there were 65 working days of revenue in accounts receivable, 15 days less than 80 days at December 31, 2012. 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 in the interim condensed consolidated financial statements.

A significant portion of the accounts receivable are due from government and public institutions. As well, IBI has processes in place to mitigate losses resulting from the uncollectability of accounts receivable. Their maturities are detailed below with the entire allowance for impairment losses relating to accounts receivable over 90 days:

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Current | $ 34,283 | $ 46,707 |
| 30 to 90 days | 31,353 | 36,929 |
| Over 90 days | 57,238 | 69,152 |
| Allowance for impairment losses | (18,083) | (10,620) |
| Total | $ 104,791 | $ 142,168 |

### (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 December 31, 2013, the Company had $8,066 of cash and cash equivalents plus $29,821 of available credit under its credit facility. Under the terms of the amended agreement, a covenant restriction will result in a declining amount of credit available under the credit facility, which will be limited to $70,000 by September 30, 2014. The accordion feature of $80,000, which existed under the credit facility, has been eliminated.

Access to additional liquidity is subject to meeting the terms of the credit facility, the Company's operating performance and the implementation of a recapitalization plan. The recapitalization has set out a time table and milestones to achieve meeting the $70,000 limit on borrowing under the credit facility by a combination of asset sales and/or secondary debt financing.

As at December 31, 2012, the Company had $589 of bank indebtedness plus $42,221 of unutilized credit available under its credit 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, 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 facility to fund working capital. The credit facility contains financial covenants including funded debt to EBITDA[1] ratio, fixed charge coverage ratio, and restrictions on distributions. All financial covenants were in compliance as at December 31, 2013.

The Company has a convertible debenture with a face value of $46,000 maturing December 31, 2014 which will need to be refinanced. The Company is currently evaluating refinancing options.

### (e) Fair value measurements

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

The fair value of the Company's credit facility less financing costs approximates its carrying value due to the variable interest rate of the debt.

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

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

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

| | As at December 31, 2013 | | |
|---|---|---|---|
| | Level 1 | Level 2 | Level 3 |
| Cash and cash equivalents | $ 8,066 | $ - | $ - |
| Accounts payable and accrued liabilities | - | (138) | - |
| | $ 8,066 | $ (138) | $ - |

| | As at December 31, 2012 | | |
|---|---|---|---|
| | Level 1 | Level 2 | Level 3 |
| Bank indebtedness | $ (589) | $ - | $ - |
| Accounts payable and accrued liabilities | - | (347) | - |
| | $ (589) | $ (347) | $ - |

There were no transfers between Level 1 and Level 2 for the year ended December 31, 2013 and the year ended December 31, 2012.

## NOTE 13: CHANGE IN NON-CASH OPERATING WORKING CAPITAL

| | Year ended | |
|---|---|---|
| | December 31, 2013 | December 31, 2012 |
| Accounts receivable | $ 40,293 | $ (7,726) |
| Work in process | 21,660 | 995 |
| Prepaid expenses and other assets | (409) | 1,250 |
| Bank indebtedness | (589) | 589 |
| Accounts payable | (6,603) | (6,379) |
| Deferred revenue | 3,146 | (2,342) |
| Net income taxes payable | 110 | 2,773 |
| Acquisition of working capital | (1,547) | 2,522 |
| Change in non-cash operating working capital | $ 56,061 | $ (8,318) |

In the third quarter of 2013 the Company reassessed the estimated recoverability of work in process. As a result of that review, the Company provided for $35,003 of unbilled work in process. The Company determined that these amounts previously recorded as revenue could no longer be billed.

## NOTE 14: COMMITMENTS

The Company has the following contractual obligations as at December 31, 2013:

| | Years ended December 31 | | | |
|---|---|---|---|---|
| | 2014 | 2015 and 2016 | 2017 and 2018 | 2019 and beyond |
| Credit facility | $ - | $ 87,844 | $ - | $ - |
| Interest on credit facility | 5,900 | 9,400 | - | - |
| Convertible debentures | 46,000 | - | 77,500 | - |
| Interest on convertible debentures | 7,800 | 9,200 | 6,900 | - |
| Operating leases | 24,231 | 38,503 | 28,185 | 72,402 |
| Notes payable | 5,381 | - | - | - |
| Due to related party | - | 10,000 | - | - |
| Total obligations | $ 89,312 | $ 154,947 | $ 112,585 | $ 72,402 |

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

| | | |
|---|---|---|
| 2014 | $ | 24,231 |
| 2015 | | 20,993 |
| 2016 | | 17,510 |
| 2017 | | 15,550 |
| 2018 | | 12,635 |
| Thereafter | | 72,402 |

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

## NOTE 15: FINANCE COSTS (INCOME)

| | Year ended | | | |
|---|---|---|---|---|
| | December 31, 2013 | | December 31, 2012 | |
| Interest on credit facility | $ | 3,641 | $ | 2,566 |
| Interest on convertible debentures | | 7,820 | | 7,820 |
| Non-cash accretion of convertible debentures | | 2,147 | | 1,967 |
| Other | | 1,120 | | 1,225 |
| Interest expense | $ | 14,728 | $ | 13,578 |
| Amortization of deferred financing costs | $ | 402 | $ | 224 |
| Change in fair value of interest rate swap | | (1) | | (35) |
| Other | | 224 | | 277 |
| Other finance costs | $ | 625 | $ | 466 |
| Finance costs for the period | $ | 15,353 | $ | 14,044 |

## NOTE 16: ACQUISITIONS

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

recorded at acquisition, to reflect either more or less net working capital realized than was originally expected.

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

There were no acquisitions in 2013.

*2012*

- On December 12, 2012, the Company closed the acquisition of all of the outstanding shares of M·E Companies, Inc. ("MEC"). MEC is a full service engineering firm with expertise in comprehensive management, engineering design, surveying and construction services with offices located in the Canton and Cincinnati areas of Ohio, USA. The firm currently has 80 staff.

  The business combination was structured as a share acquisition; $3,271 was paid on closing and the balance of $3,271, plus interest at a market rate, paid in instalments over the two year period from the acquisition date.

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

  The business combination was structured as a share acquisition; $1,463 was paid on closing and the balance of $2,336, plus interest at a market rate, paid in instalments over the two year period from the acquisition date.

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

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

| | Year ended December 31, 2012 |
|---|---|
| Cash consideration | $ 4,734 |
| Notes payable issued, due 2013 through to 2014 | |
| To be settled in cash | 5,607 |
| Purchase price, net | $ 10,341 |

| | | |
|---|---|---|
| Net working capital | $ | 2,781 |
| Cash | | 715 |
| Property and equipment | | 741 |
| Intangible assets | | |
| Contract backlog | | 756 |
| Clients and relationships | | 2,133 |
| Other | | 1,381 |
| Goodwill | | 3,915 |
| Deferred tax liability | | (2,081) |
| Net assets acquired | $ | 10,341 |

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.

For the year ended December 31, 2012 Taylor Young contributed $4,574 in revenue and $308 in profit and ME contributed $1,418 in revenue and $263 in profit towards the results of the consolidated group. If the business combinations that occurred in 2012 had taken place at the beginning of 2012, revenue would be approximately $13,905 higher than reported and net income would be approximately $866 higher than reported for the year ended December 31, 2012.

In the year ended December 31, 2012, directly attributable acquisition-related costs of $1,081 were expensed and included in other operating expenses in the statement of comprehensive income.

**(b) Consideration paid and outstanding**

The total notes payable and adjustments are as follows:

| | | Notes payable |
|---|---|---|
| Balance, January 1, 2012 | $ | 19,911 |
| Additions for acquisitions in the period | | 5,636 |
| Share issuances | | (2,757) |
| Payments | | (4,213) |
| Foreign exchange translation | | (180) |
| Purchase price adjustments | | (1,701) |
| Balance, December 31, 2012 | $ | 16,696 |
| Share issuances | | (2,560) |
| Payments | | (4,985) |
| Foreign exchange translation | | 615 |
| Purchase price adjustments | | (1,851) |
| Reclassification to non-controlling interest | | (2,534) |
| Balance, December 31, 2013 | $ | 5,381 |

*Purchase price adjustments*

*2013*

During the fourth quarter of 2013, the Company adjusted the notes payable on the Taylor Young acquisition. This adjustment resulted in an increase income of $384, and a decrease in notes payable of $384.

During the fourth quarter of 2013, the Company adjusted the notes payable on the DOWA acquisition. This adjustment resulted in an increase income of $147, and a decrease in notes payable of $147.

During the third quarter of 2013, the Company adjusted the notes payable on the Taylor Young acquisition. This adjustment resulted in an increase income of $457, and a decrease in notes payable of $457.

During the first quarter of 2013, the Company adjusted the notes payable and accrued liabilities for the acquisition of Tetra Design Inc. The adjustment resulted in a decrease in notes payable of $273 and an increase to accrued liabilities of $273.

During the first quarter of 2013, the Company adjusted the net working capital and goodwill for the acquisition of M·E Companies, Inc. The adjustment resulted in a decrease to net working capital of $444 and an increase in goodwill of $444. The purchase accounting is not yet finalized.

*2012*

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

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

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

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

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

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

## NOTE 17: DEFERRED SHARE PLAN

The Company offers a deferred share plan ("DSP") for members of the board of directors. Under the DSP, directors of the Company may elect to allocate all or a portion of their annual compensation in the form of deferred shares rather than cash. These shares are fully vested upon issuance and are recorded as a financial liability at FVTPL on the statement of financial position amounting to $138. Directors can only redeem their DSPs for shares when they retire.

During the year ended December 31, 2013, the Company granted 103,380 deferred shares (December 31, 2012 – 21,902) and redeemed no deferred shares (December 31, 2012 – nil), for a total of 157,127 deferred shares outstanding as at December 31, 2013 (December 31, 2012 – 53,747). Compensation expense for the year ended December 31, 2013 related to the deferred shares was $162 (December 31, 2012 - $211). There is no unrecognized compensation expense related to deferred shares, since these awards vest immediately when granted.

The table below shows the DSP transactions for the year ended December 31, 2013:

| | Deferred shares | Fair value |
|---|---|---|
| Balance, January 1, 2013 | 53,747 | $ 347 |
| Deferred shares issued | 103,380 | 162 |
| Change in fair value due to share price | - | (371) |
| Balance, December 31, 2013 | 157,127 | $ 138 |

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

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

## NOTE 18: CONTINGENCIES

### (a) Legal matters

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

### (b) Indemnifications

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