



IBI Group 2014 Second-Quarter Financial Statements

THREE AND SIX MONTHS ENDED JUNE 30, 2014

Unaudited Interim Condensed Consolidated Financial Statements of

IBI GROUP INC.

Three and six months ended June 30, 2014 and 2013

IBI GROUP INC.

Interim Condensed Consolidated Statement of Financial Position

<i>(thousands of Canadian dollars)</i>	Notes	June 30, 2014	December 31, 2013
		<i>(unaudited)</i>	
Assets			
Current Assets			
Cash	4	\$ 9,127	\$ 8,066
Accounts receivable	4,7	103,292	104,791
Work in process		97,707	93,082
Prepaid expenses and other current assets		11,929	8,990
Income taxes recoverable	4	1,419	1,880
Total Current Assets		\$ 223,474	\$ 216,809
Property and equipment		12,768	6,559
Intangible assets		4,272	4,672
Deferred tax assets		15,729	14,221
Total Assets		\$ 256,243	\$ 242,261
Liabilities and Equity			
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	4	\$ 48,026	\$ 43,733
Deferred revenue		18,872	13,791
Notes payable	4,10	5,426	5,381
Income taxes payable	4	1,310	470
Due to related parties	4,5	10,000	-
Credit facility	4,7	17,960	-
Convertible debentures	4,13	45,401	44,831
Total Current Liabilities		\$ 146,995	\$ 108,206
Due to related parties	4,5	-	10,000
Credit facility	4,7	67,955	85,479
Convertible debentures	4,13	72,505	71,929
Deferred tax liabilities		1,983	2,016
Total Liabilities		\$ 289,438	\$ 277,630
Equity			
Shareholders' Equity			
Share capital	6	\$ 234,498	\$ 234,358
Contributed surplus	6	277	-
Deficit		(275,436)	(277,088)
Convertible debentures - equity component	4	5,852	5,852
Accumulated other comprehensive loss		(3,167)	(3,114)
Total Shareholders' Equity		\$ (37,976)	\$ (39,992)
Non-controlling interest	6	4,781	4,623
Total Equity		\$ (33,195)	\$ (35,369)
Total Liabilities and Equity		\$ 256,243	\$ 242,261

See accompanying notes to the interim condensed consolidated financial statements.

IBI GROUP INC.

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

(thousands of Canadian dollars, except per share amounts)	Notes	Three months ended		Six months ended	
		June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Revenue		\$ 84,067	\$ 86,745	\$ 165,777	\$ 171,344
Salaries, fees and employee benefits		58,850	62,601	117,952	124,106
Rent		6,309	5,474	12,523	10,980
Other operating expenses		10,565	10,223	21,097	19,983
Foreign exchange loss (gain)	7	761	(173)	(727)	(308)
Amortization of intangible assets		228	979	458	2,656
Amortization of property and equipment		841	801	1,414	1,478
Impairment of goodwill and intangible assets	12	-	79,601	-	79,601
Impairment of financial assets	7	671	1,399	1,408	2,050
		78,225	160,905	154,125	240,546
Operating Income (Loss)		\$ 5,842	\$ (74,160)	\$ 11,652	\$ (69,202)
Interest expense, net	9	4,359	3,477	8,712	6,859
Other finance costs	9	339	122	677	273
Finance Costs		\$ 4,698	\$ 3,599	\$ 9,389	\$ 7,132
Current tax expense		911	178	1,669	1,291
Deferred tax expense (recovery)		(697)	(1,898)	(1,532)	(2,242)
Income taxes		\$ 214	\$ (1,720)	\$ 137	\$ (951)
Net Income (Loss)		\$ 930	\$ (76,039)	\$ 2,126	\$ (75,383)
Other comprehensive income (loss)					
Income (loss) on translating financial statements of foreign operations, net of tax		\$ 21	\$ 1,177	\$ (68)	\$ 1,224
Other comprehensive income (loss), net of tax		21	1,177	(68)	1,224
Total Comprehensive Income (Loss)		\$ 951	\$ (74,862)	\$ 2,058	\$ (74,159)
Net income (loss) attributable to:					
Owners of the Company		\$ 723	\$ (58,683)	\$ 1,652	\$ (58,178)
Non-controlling interests	6	207	(17,356)	474	(17,205)
Net income (loss)		\$ 930	\$ (76,039)	\$ 2,126	\$ (75,383)
Total comprehensive income (loss) attributable to:					
Owners of the Company		\$ 739	\$ (57,776)	\$ 1,599	\$ (57,234)
Non-controlling interests	6	212	(17,086)	459	(16,925)
Total comprehensive income (loss)		\$ 951	\$ (74,862)	\$ 2,058	\$ (74,159)
Earnings (loss) per share					
Basic and diluted earnings (loss) per share	6	\$ 0.04	\$ (3.42)	\$ 0.09	\$ (3.41)

See accompanying notes to the interim condensed consolidated financial statements.

IBI GROUP INC.

Interim Condensed Consolidated Statement of Cash Flows (unaudited)

(thousands of Canadian dollars)	Notes	Three months ended		Six months ended	
		June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Cash Flows provided by (used in) Operating Activities					
Net income (loss)		\$ 930	\$ (76,039)	\$ 2,126	\$ (75,383)
Items not affecting cash:					
Amortization of property and equipment		841	801	1,414	1,478
Amortization of intangible assets		228	979	458	2,656
Goodwill impairment		-	79,601	-	79,601
Amortization of deferred financing costs		241	78	472	147
Interest expense, net		4,359	3,477	8,712	6,859
Deferred income taxes		(697)	(1,898)	(1,532)	(2,242)
Change in fair value of financial instruments		-	(306)	-	(305)
Interest paid		(3,780)	(2,946)	(7,566)	(5,809)
Income taxes paid		(227)	8	(375)	(1,101)
Change in non-cash operating working capital	8	4,791	(6,832)	4,906	(12,686)
Net Cash provided by (used in) Operating Activities		\$ 6,686	\$ (3,077)	\$ 8,615	\$ (6,785)
Cash Flows provided by (used in) Financing Activities					
Payments on principal of notes payable		\$ -	\$ -	\$ -	\$ (1,248)
Proceeds from (payments on) principal of credit facility		(58)	2,983	(153)	13,827
Dividends paid to shareholders		-	-	-	(2,316)
Distributions paid to non-controlling interest		-	(2,010)	-	(2,010)
Net Cash provided by (used in) Financing Activities		\$ (58)	\$ 973	\$ (153)	\$ 8,253
Cash Flows (used in) Investing Activities					
Purchase of property and equipment		\$ (3,602)	\$ (581)	\$ (7,565)	\$ (1,037)
Net Cash (used in) Investing Activities		\$ (3,602)	\$ (581)	\$ (7,565)	\$ (1,037)
Effect of foreign exchange rate fluctuations on cash held	7	\$ 398	\$ (306)	\$ 164	\$ (431)
Net increase (decrease) in cash and cash equivalents		\$ 3,424	\$ (2,991)	\$ 1,061	\$ -
Cash and cash equivalents, beginning of period		5,703	2,991	8,066	-
Cash and Cash Equivalents, End of Period		\$ 9,127	\$ -	\$ 9,127	\$ -

See accompanying notes to the interim condensed consolidated financial statements.

IBI GROUP INC.

Interim Condensed Consolidated Statement of Changes in Equity (unaudited)

(thousands of Canadian dollars)	Notes	Three months ended		Six months ended	
		June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Share Capital					
Share capital, beginning of period		\$ 234,382	\$ 233,514	\$ 234,358	\$ 231,706
Shares issued	6	116	150	140	1,958
Share Capital, End of Period		\$ 234,498	\$ 233,664	\$ 234,498	\$ 233,664
Contributed Surplus					
Contributed surplus, beginning of period	6	\$ 277	\$ -	\$ -	\$ -
Surplus on exchange of shares		-	-	277	-
Contributed surplus, end of period		\$ 277	\$ -	\$ 277	\$ -
Deficit					
Deficit, beginning of period		\$ (276,159)	\$ (104,350)	\$ (277,088)	\$ (102,539)
Net income (loss) attributable to common shareholders		723	(58,683)	1,652	(58,178)
Dividends declared to common shareholders		-	-	-	(2,316)
Shares issued on notes payable		-	586	-	586
Deficit, End of Period		\$ (275,436)	\$ (162,447)	\$ (275,436)	\$ (162,447)
Convertible Debentures - Equity Component					
Convertible debentures, beginning of period		\$ 5,852	\$ 5,852	\$ 5,852	\$ 5,852
Convertible Debentures, End of Period		\$ 5,852	\$ 5,852	\$ 5,852	\$ 5,852
Accumulated Other Comprehensive Loss					
Accumulated other comprehensive loss, beginning of period		\$ (3,183)	\$ (4,745)	\$ (3,114)	\$ (4,782)
Other comprehensive income attributable to common shareholders		16	907	(53)	944
Accumulated Other Comprehensive Loss, End of Period		\$ (3,167)	\$ (3,838)	\$ (3,167)	\$ (3,838)
Total Shareholders' Equity		\$ (37,976)	\$ 73,231	\$ (37,976)	\$ 73,231
Non-controlling Interest					
Non-controlling interest, beginning of period		\$ 4,569	\$ 53,081	\$ 4,623	\$ 52,920
Total comprehensive income (loss) attributable to non-controlling interests	6	212	(17,086)	459	(16,925)
Distributions		-	(670)	-	(670)
Reclassification of share issues for notes payable		-	2,509	-	2,509
Redemption of shares issued		-	-	(301)	-
Non-controlling Interest, End of Period		\$ 4,781	\$ 37,834	\$ 4,781	\$ 37,834
Total Equity, End of Period		\$ (33,195)	\$ 111,065	\$ (33,195)	\$ 111,065

See accompanying notes to the interim condensed consolidated financial statements.

IBI GROUP INC.

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

NOTE 1: ORGANIZATION AND DESCRIPTION OF THE BUSINESS

IBI Group Inc. (the "Company") is a company incorporated pursuant to the provisions of the Canada Business Corporations Act (the "CBCA") on 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 June 30, 2014, the Company's common share capital consisted of 17,614,730 issued and outstanding shares. Each share entitles the holder to one vote at all meetings of shareholders.

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

As at June 30, 2014, the Management Partnership holds 5,025,778 Class B partnership units representing 22.2% of the issued and outstanding units of IBI Group and, with affiliated partnerships, 3,984,206 common shares of the Company, representing a total ownership of approximately 39.8% of the Company. The Management Partnership also holds 5,025,778 non-participating voting shares of the Company, which together with the 3,984,206 common shares of the Company held by the Management Partnership and affiliated partnerships, represents approximately 39.8% 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 ("TSX") under the symbol "IBG". The Company's registered head office is 230 Richmond Street West, 5th Floor, Toronto, Ontario, M5V 1V6.

NOTE 2: STATEMENT OF COMPLIANCE

a) Statement of Compliance

These unaudited interim condensed consolidated financial statements of the Company and its subsidiaries (the “consolidated group”) have been prepared in accordance with IAS 34, Interim Financial Reporting, using accounting policies consistent with the International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and using accounting policies derived therein consistent with the Company’s audited December 31, 2013 consolidated financial statements other than those in (c) below. Certain information and footnote disclosures which are considered material to the understanding of the Company’s interim financial statements and which are normally included in annual financial statements prepared in accordance with IFRS are provided in these notes. The interim condensed consolidated financial statements do not include all of the information required for full annual financial statements. These interim condensed consolidated financial statements were approved by the Board of Directors on August 14, 2014.

b) Changes in Accounting Policies

IAS 32 Financial Instruments: Presentation

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 adoption of the amendments did not have a material impact on the consolidated financial statements.

IAS 36 Impairment of 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 adoption of the amendments did not have a material impact on the consolidated financial statements.

c) Future Accounting Policy Changes

IFRS 9 Financial Instruments

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

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 consolidated financial statements for the annual period beginning on January 1, 2015. The extent of the impact of adoption of the amendments has not yet been determined.

IFRS 15 Revenue from Contracts with Customers

On May 28, 2014 the IASB issued IFRS 15 Revenue from Contracts with Customers. The new standard is effective for fiscal years ending on or after December 31, 2017 and is available for early adoption.

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

The Company intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning on January 1, 2017. The extent of the impact of adoption of the standard has not yet been determined.

NOTE 3: SEGMENT INFORMATION

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

(a) Operating segments

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

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

(b) Geographic segments

The following table demonstrates certain statement of financial position information line items segmented geographically as at June 30, 2014, with comparatives as at December 31, 2013:

	As at June 30, 2014			
	Canada	U.S.	International	Total
Property and equipment	\$ 9,067	\$ 1,771	\$ 1,930	\$ 12,768
Intangibles	-	3,356	916	4,272
Total assets	175,781	49,033	31,429	256,243

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

The following table demonstrates certain information contained in the statement of comprehensive income (loss) segmented geographically for the three and six months ended June 30, 2014, with comparatives for the three and six months ended June 30, 2013. The unallocated amounts pertain to expenses relating to convertible debentures, the credit facility, taxes, and non-cash finance costs incurred by the Company.

	Three months ended June 30, 2014				
	Unallocated Corporate costs	Canada	U.S.	International	Total
Revenues	\$ -	\$ 48,528	\$ 22,602	\$ 12,937	\$ 84,067
Net income (loss)	\$ (1,955)	\$ (405)	\$ 2,027	\$ 1,263	\$ 930

	Six months ended June 30, 2014				
	Unallocated Corporate costs	Canada	U.S.	International	Total
Revenues	\$ -	\$ 94,243	\$ 43,552	\$ 27,982	\$ 165,777
Net income (loss)	\$ (3,910)	\$ (446)	\$ 1,566	\$ 4,916	\$ 2,126

	Three months ended June 30, 2013				
	Unallocated Corporate costs	Canada	U.S.	International	Total
Revenues	\$ -	\$ 54,504	\$ 19,823	\$ 12,418	\$ 86,745
Net income (loss)	\$ (1,955)	\$ (55,260)	\$ (13,202)	\$ (5,622)	\$ (76,039)

Six months ended June 30, 2013					
	Unallocated Corporate costs	Canada	U.S.	International	Total
Revenues	\$ -	\$ 109,210	\$ 39,682	\$ 22,452	\$ 171,344
Net income (loss)	\$ (3,910)	\$ (49,202)	\$ (15,776)	\$ (6,495)	\$ (75,383)

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

IBI Group has a credit facility of \$95,000 with a lending syndicate of banks. As of June 30, 2014, IBI Group had borrowings of \$87,960 under the credit facility compared with borrowings of \$87,844 under the credit facility as of December 31, 2013. As at June 30, 2014, the total balance of unamortized transaction costs was \$2,045 (December 31, 2013 - \$2,365) which have been recorded net of the long-term portion on the credit facility. Net of capitalized transaction costs, the total carrying value of the credit facility was \$85,915 as at June 30, 2014 (December 31, 2013 - \$85,479).

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 EBITDA¹ ratio, fixed-charge coverage ratio, and restrictions on distributions if certain conditions are not met. The Company was in compliance with its credit facility covenants as at June 30, 2014.

Under the terms of the agreement, the availability under the credit facility will be reduced to \$85,000 by July 31, 2014 and \$70,000 by September 30, 2014. As of June 30, 2014 \$17,960 was reclassified to current liabilities for the amount required to be paid to reduce borrowings to \$70,000. Subsequent to June 30, 2014, the availability limit for July 31, 2014 was extended by the lending syndicate to August 31, 2014.

Management is currently negotiating an amended credit facility which is expected to be completed in the third quarter of this year. Management has reached agreement with the lending syndicate on a term sheet, subject to final approval. The term sheet contemplates revised and extended repayment terms and availability limits, covenants, and maturity date.

The amended terms have been negotiated on the basis that management will execute on its forecasted operating plan and be able to dispose of certain assets to meet the repayment timelines and comply with financial covenants. To accomplish the forecasted operating plan, management must continue to manage the balance sheet and achieve further operational improvements. 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

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.

in the past, the Company will carefully monitor its compliance with the covenants and will seek variances, subject to lender approval, as may become necessary from time to time.

Subsequent to June 30, 2014, management entered into a non-binding letter of intent with a buyer to sell the assets of one of its divisions, which is subject to certain conditions. The Company expects that the sale will close in the third quarter. Proceeds from this sale may be used to repay amounts outstanding under the credit facility.

In addition, a bid bond guarantee facility (the "Bid Bond Facility") of up to USD \$20,000 continues to be made available to meet certain project requirements calling for the issuance of bid bonds to international customers. As at June 30, 2014, IBI Group had issued bid bonds in the amount of \$6,204 (December 31, 2013 – \$2,335) under the Bid Bond Facility. The Bid Bond Facility is only available by way of letters of credit or letters of guarantee.

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.

(b) Convertible debentures

The Company has three series of convertible debentures outstanding as at June 30, 2014.

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 June 30, 2014, the liability component has an amortized cost of \$45,401 (December 31, 2013 - \$44,831). 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 and are convertible into shares of the Company at the option of the holder at a conversion price of \$19.17 per share. In addition, 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 \$23,138 based on the quoted market price as at June 30, 2014.

On July 16, 2014, the maturity date of the 7.0% Debentures were extended from December 31, 2014 to June 30, 2019 and certain other terms were amended. See Note 13 – Subsequent Events for further details.

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 June 30, 2014, the liability component has an amortized cost of \$18,633 (December 31, 2013 - \$18,436). 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 \$10,000 based on the quoted market price as at June 30, 2014.

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 June 30, 2014, the liability component has an amortized cost of \$53,872 (December 31, 2013 - \$53,493). 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 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 \$26,162 based on the quoted market price as at June 30, 2014.

The movement in Convertible Debentures and related embedded derivative for the six months ended June 30, 2014 is as follows:

	Liability component	Equity component	Total
Balance, January 1, 2014	\$ 116,760	\$ 5,852	\$ 122,612
Accretion of convertible debenture issue cost	1,146	-	1,146
Balance, June 30, 2014	\$ 117,906	\$ 5,852	\$ 123,758

The movement in convertible debentures 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

(c) Financial assets and liabilities

The carrying amount of the Company's financial instruments as at June 30, 2014 are as follows:

	Loans and receivables	Other financial liabilities	Total
Financial assets			
Cash	\$ 9,127	\$ -	\$ 9,127
Accounts receivable	103,292	-	103,292
Income taxes recoverable	1,419	-	1,419
Total	\$ 113,838	\$ -	\$ 113,838
Financial liabilities			
Accounts payable and accrued liabilities	\$ -	\$ 48,026	\$ 48,026
Due to related parties	-	10,000	10,000
Notes payable	-	5,426	5,426
Income taxes payable	-	1,310	1,310
Credit facility	-	85,915	85,915
Convertible debentures	-	117,906	117,906
Total	\$ -	\$ 268,583	\$ 268,583

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	\$ 8,066	\$ -	\$ 8,066
Accounts receivable	104,791	-	104,791
Income taxes 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 taxes payable		-	470		470
Credit facility		-	85,479		85,479
Convertible debentures		-	116,760		116,760
Total	\$	-	\$ 261,823	\$	261,823

NOTE 5: RELATED PARTY TRANSACTIONS

Pursuant to the Administration Agreement entered into in connection with the closing of the initial public offering of the Company's predecessor, the Fund, IBI Group, and certain of its subsidiaries are paying to the Management Partnership an amount representing the base compensation for the services of the principals of the partners of the Management Partnership. The amount paid for such services during the three months ended June 30, 2014 was \$6,632 (three months ended June 30, 2013 - \$7,384) and \$13,278 for six months ended June 30, 2014 (six months ended June 30, 2013 - \$14,312).

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. As at June 30, 2014, the remaining amount payable was \$10,000 (December 31, 2013 - \$10,000). Interest expense on this advance was \$94 for the three months ended June 30, 2014 (three months ended June 30, 2013 - \$95) and \$188 for the six months ended June 30, 2014 (six months ended June 30, 2013 - \$188). The loan matures April 1, 2015. The Company is currently negotiating with Management Partnership to extend the term of the loan or convert to equity with a resolution expected in the third quarter. Acceptance of new terms by the Management Partnership requires approval by the Company's Board of Directors and the Management Partnership.

NOTE 6: EQUITY**(a) Shareholders' equity**

As at June 30, 2014, the Company's common share capital consisted of 17,614,730 shares issued and outstanding. Each share entitles the holder to one vote at all meetings of shareholders.

The 5,025,778 Class B partnership units of IBI Group are indirectly exchangeable for common shares of the Company on the basis of one share of the Company for each Class B subordinated partnership unit. If all such Class B partnership units of IBI Group had been exchanged for shares on June 30, 2014, the shares issued on such exchange would have represented a 22.2% interest in the Company.

Class B partnership units do not entitle the holder to voting rights at the meetings of shareholders. The Class B partnership units have been recorded as a non-controlling interest in the interim condensed consolidated financial statements as at June 30, 2014.

Issuances

During three months ended June 30, 2014, the Company issued 62,041 shares for a total of \$116 related to the settlement of deferred share units exercised by a former member of the Board of Directors.

During the three months ended March 31, 2014, the Company issued 20,000 common shares for a total of \$24 in exchange for Class D partnership units of IBI Group which had been issued in a prior year for the acquisition of one of its subsidiaries. This resulted in a reduction of non-controlling interest by \$301 with a corresponding increase to contributed surplus for \$277 in the period.

Earnings per share

The calculation of basic and diluted earnings per share for the three and six months ended June 30, 2014 is demonstrated in the following table:

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Net income (loss) attributable to common shareholders	\$ 723	\$ (58,683)	\$ 1,652	\$ (58,178)
Weighted average common shares outstanding	17,615	17,163	17,567	17,047
Basic and diluted earnings (loss) per common share	\$ 0.04	\$ (3.42)	\$ 0.09	\$ (3.41)

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

(b) Non-controlling interest

Non-controlling interests in the Company's subsidiaries are exchangeable into the common shares of the Company on a one for one basis, subject to certain conditions. The movement in non-controlling interest is shown in the June 30, 2014 statement of changes in equity. The calculation of net income and total comprehensive income attributable to non-controlling interest is set out below:

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Net income (loss)	\$ 930	\$ (76,039)	\$ 2,126	\$ (75,383)
Non-controlling interest share of ownership	22.28%	22.82%	22.30%	22.82%
Net income (loss) attributable to non-controlling interest	\$ 207	\$ (17,356)	\$ 474	\$ (17,205)
	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Total comprehensive income (loss)	\$ 951	\$ (74,862)	\$ 2,058	\$ (74,159)
Non-controlling interest share of ownership	22.28%	22.82%	22.30%	22.82%
Total comprehensive income (loss) attributable to non-controlling interest	\$ 212	\$ (17,086)	\$ 459	\$ (16,925)

NOTE 7: FINANCIAL RISK MANAGEMENT

(a) 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.

(b) 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 June 30, 2014, had been 50 basis points higher, with all other variables held constant, net income for the six months ended June 30, 2014 would have decreased by approximately \$162. If the interest rate had been 50 basis points lower, there would have been an equal and opposite impact on net income.

Currency Risk

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

Foreign exchange gains or losses in the Company's net income arise on the translation of foreign-denominated financial assets and liabilities (such as cash balances, accounts receivable, work in process, accounts payable and term debt) held in the Company's Canadian operations. The Company minimizes its exposure to foreign exchange fluctuations on these items by matching US-dollar liabilities, when possible.

If the exchange rates had been 1% higher or lower at June 30, 2014, with all other variables held constant, net income would have increased or decreased by \$65 for the six months ended June 30, 2014.

(c) 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.

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. The Company monitors accounts receivable with an internal target of working days of revenue in accounts receivable (a non-IFRS measure). At June 30, 2014 there were 65 working days of revenue in accounts receivable, consistent with 65 days at December 31, 2013. 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. The Company expensed \$671 (2013 - \$1,399) for receivables deemed uncollectible for the three month period ended June 30, 2014 and \$1,408 (2013 - \$2,050) for the six month period ended June 30, 2014.

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

	June 30, 2014	December 31, 2013
Current	\$ 39,465	\$ 34,283
30 to 90 days	32,182	31,353
Over 90 days	49,546	57,238
Allowance for impairment losses	(17,901)	(18,083)
Total	\$ 103,292	\$ 104,791

(d) Liquidity Risk

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

As at June 30, 2014, the Company had \$9,127 of cash plus \$836 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.

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 subject to lender approval. The recapitalization plan 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. The Company has certain initiatives underway to obtain additional financing and to provide sufficient liquidity for working capital going forward.

As at December 31, 2013, the Company had \$8,066 of cash plus \$29,821 of unutilized credit available under its credit facility.

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 EBITDA¹ ratio, fixed charge coverage ratio, and restrictions on distributions. All financial covenants were in compliance as at June 30, 2014.

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.

As at June 30, 2014, the Company has convertible debentures with a total face value of \$46,000 maturing December 31, 2014. On July 16, 2014 the Company obtained approval from the holders of the debentures to extend the maturity date to June 30, 2019. See Note 13 - Subsequent Events for further details.

NOTE 8: CHANGE IN NON-CASH OPERATING WORKING CAPITAL

	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Accounts receivable	\$ (2,694)	\$ (1,803)	\$ 1,650	\$ 2,287
Work in process	(484)	(3,028)	(4,835)	(14,713)
Prepaid expenses and other assets	(1,677)	71	(2,943)	1,314
Bank indebtedness	-	1,563	-	974
Accounts payable	8,205	(4,979)	4,222	(6,833)
Deferred revenue	510	1,332	5,122	3,448
Income taxes payable	931	12	1,690	1,554
Acquisition of working capital	-	-	-	(717)
Decrease in non-cash operating working capital	\$ 4,791	\$ (6,832)	\$ 4,906	\$ (12,686)

NOTE 9: FINANCE COSTS

	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Interest on long term debt	\$ 1,640	\$ 788	\$ 3,271	\$ 1,427
Interest on convertible debentures	1,955	1,955	3,910	3,910
Non-cash accretion of convertible debentures	579	531	1,146	1,050
Other	185	203	385	472
Interest expense, net	\$ 4,359	\$ 3,477	\$ 8,712	\$ 6,859
Amortization of deferred financing costs	\$ 241	\$ 78	\$ 472	\$ 147
Other	98	44	205	126
Other finance costs	\$ 339	\$ 122	\$ 677	\$ 273
Finance costs for the period	\$ 4,698	\$ 3,599	\$ 9,389	\$ 7,132

NOTE 10: NOTES PAYABLE

The total notes payable and adjustments to these obligations are as follows:

Balance, December 31, 2013	\$5,381
Foreign exchange	45
Balance, June 30, 2014	\$5,426

The Company has notes payable due to the former owners of acquired businesses of \$5,426 due within 1 year from June 30, 2014. The settlement of notes payable is dependent on the availability provided by the credit facility. The settlement of these notes has been contemplated in the term sheet agreed with the lending syndicate for the credit facility.

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

In the normal course of business, the Company is a defendant in a number of lawsuits. The potential liability, if any, is not determinable, therefore no provisions have been recorded.

(b) Indemnifications

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

NOTE 12: GOODWILL AND INTANGIBLE ASSETS

During the second quarter of 2013, the Company recorded an impairment charge of \$75,269 to goodwill and \$4,332 to intangible assets.

NOTE 13: SUBSEQUENT EVENTS

On July 16, 2014, a special meeting was held with holders (the "Debentureholders") of the 7.0% convertible unsecured subordinated debentures, which have a face value of \$46,000 and were scheduled to mature on December 31, 2014 (the "Debentures"), in relation to the proposal issued May 28, 2014 to extend the maturity date to June 30, 2019 (the "Debenture Amendments"). The following incentives were offered to the Debentureholders who delivered and did not withdraw a valid proxy voting in favour of the Debenture Amendments prior to the proxy deadline. Based on their election, they were offered either:

Option A – Consent Fee Note

Receive a consent fee, consisting of an unsecured, non-convertible promissory note equal to \$195.65 per \$1,000 principal amount of Debentures, payable December 31, 2016 and bearing interest at the rate of 7.0% per annum and payable on maturity; or

Option B – Consent Fee Note and Reduced Conversion Price

Receive (i) a consent fee, consisting of an unsecured, non-convertible promissory note equal to \$86.96 per \$1,000 principal amount of Debentures, payable December 31, 2016 and bearing interest at the rate of 7.0% per annum and payable on maturity and (ii) the reduction of the conversion price for the Debentures to \$5.00 per common share from \$19.17 per common share.

Debentureholders who did not deposit a proxy, abstained from voting or voted against the Debenture Amendments, were still given the benefit of receiving a reduction in the conversion price for the Debentures to \$5.00 per share from \$19.17 per share.

As a result of the special meeting, the extension of the maturity date to June 30, 2019 was approved for all Debentures. The total face value of the promissory notes to be issued with respect to consent fees will be \$3,551. The Company is currently evaluating the accounting treatment for this transaction which will be recorded in the third quarter.