



# IBI Group 2013 Third-Quarter Financial Statements

---

THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2013

# IBI GROUP INC.

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

<i>(thousands of Canadian dollars)</i>	Notes	September 30, 2013	December 31, 2012
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	4	\$ 4,899	\$ -
Accounts receivable	4,7	120,964	142,168
Work in process	8	91,609	112,386
Prepaid expenses and other current assets		6,895	8,365
Income tax recoverable		2,526	3,374
<b>Total Current Assets</b>		<b>\$ 226,893</b>	<b>\$ 266,293</b>
Property and equipment		6,494	7,396
Intangible assets	11	21,687	30,410
Goodwill	11	83,666	157,788
Deferred tax assets		14,343	5,156
<b>Total Assets</b>		<b>\$ 353,083</b>	<b>\$ 467,043</b>
<b>Liabilities and Equity</b>			
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Bank indebtedness	4	\$ -	\$ 589
Accounts payable and accrued liabilities	10	41,274	48,129
Notes payable	10	7,953	13,999
Deferred revenue		13,340	10,435
Income taxes payable		1,693	3,010
Distributions payable		-	1,340
Credit facility	4,7,14	91,929	-
<b>Total Current Liabilities</b>		<b>\$ 156,189</b>	<b>\$ 77,502</b>
Due to related parties	5	10,000	10,000
Notes payable	10	1,691	2,697
Credit facility	4,7	-	72,903
Convertible debentures	4	116,206	114,613
Deferred tax liabilities		4,583	6,171
<b>Total Liabilities</b>		<b>\$ 288,669</b>	<b>\$ 283,886</b>
<b>Equity</b>			
<b>Shareholders' Equity</b>			
Share capital	6	233,664	231,706
Deficit		(198,917)	(102,539)
Convertible debentures - equity component	4	5,852	5,852
Accumulated other comprehensive loss		(3,393)	(4,782)
<b>Total Shareholders' Equity</b>		<b>\$ 37,206</b>	<b>\$ 130,237</b>
Non-controlling interest	6	27,208	52,920
<b>Total Equity</b>		<b>\$ 64,414</b>	<b>\$ 183,157</b>
<b>Total Liabilities and Equity</b>		<b>\$ 353,083</b>	<b>\$ 467,043</b>

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		Nine months ended	
		September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Revenue		\$ 38,792	\$ 86,809	\$ 210,136	\$ 262,263
Salaries, fees and employee benefits		59,593	62,135	183,699	183,775
Rent		5,515	5,291	16,495	15,623
Other operating expenses		9,080	10,016	29,063	29,442
Foreign exchange loss (gain)	7	225	357	(83)	504
Amortization of intangible assets	11	1,842	1,650	4,498	5,142
Impairment of goodwill and intangible assets	11	-	-	79,601	-
Amortization of property and equipment		861	869	2,339	2,441
Impairment of financial assets	4	13,677	345	15,727	1,053
		90,793	80,663	331,339	237,980
<b>Operating Income (Loss)</b>		\$ (52,001)	\$ 6,146	\$ (121,203)	\$ 24,283
Interest expense, net	9	3,780	3,338	10,639	10,250
Other finance costs	9	126	71	399	329
<b>Finance Costs</b>		\$ 3,906	\$ 3,409	\$ 11,038	\$ 10,579
Current tax expense	12	(313)	511	978	2,649
Deferred tax expense (recovery)	12	(8,417)	(478)	(10,659)	(1,061)
<b>Income taxes</b>		\$ (8,730)	\$ 33	\$ (9,681)	\$ 1,588
<b>Net Income (Loss)</b>		\$ (47,177)	\$ 2,704	\$ (122,560)	\$ 12,116
<b>Other comprehensive income (loss)</b>					
Income (loss) on translating financial statements of foreign operations, net of tax		575	(1,599)	1,799	(1,633)
<b>Other comprehensive income (loss), net of tax</b>		575	(1,599)	1,799	(1,633)
<b>Total Comprehensive Income (Loss)</b>		\$ (46,602)	\$ 1,105	\$ (120,761)	\$ 10,483
<b>Net income (loss) attributable to:</b>					
Owners of the Company		\$ (36,470)	\$ 2,074	\$ (94,648)	\$ 9,073
Non-controlling interests	6	(10,707)	630	(27,912)	3,043
<b>Net income (loss)</b>		\$ (47,177)	\$ 2,704	\$ (122,560)	\$ 12,116
<b>Total comprehensive income (loss) attributable to:</b>					
Owners of the Company		\$ (36,025)	\$ 848	\$ (93,259)	\$ 7,847
Non-controlling interests	6	(10,577)	257	(27,502)	2,636
<b>Total comprehensive income (loss)</b>		\$ (46,602)	\$ 1,105	\$ (120,761)	\$ 10,483
<b>Earnings (loss) per share</b>					
Basic and diluted earnings (loss) per share	6	\$ (2.1218)	\$ 0.1250	\$ (5.5369)	\$ 0.5999

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		Nine months ended	
		September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
<b>Cash Flows provided by (used in) Operating Activities</b>					
Net income (loss)		\$ (47,177)	\$ 2,704	\$ (122,560)	\$ 12,116
Items not affecting cash:					
Amortization of property and equipment		861	869	2,339	2,441
Amortization of intangible assets		1,842	1,650	4,498	5,142
Goodwill impairment	11	-	-	79,601	-
Amortization of deferred financing costs		78	53	225	161
Interest expense, net		3,780	3,338	10,639	10,250
Deferred income taxes		(8,417)	(478)	(10,659)	(1,061)
Change in fair value of financial instruments		-	(37)	(305)	(44)
Interest paid		(3,238)	(2,840)	(9,047)	(8,791)
Income taxes paid		(730)	(1,159)	(1,831)	(4,066)
Change in non-cash operating working capital	8	54,214	1,900	41,528	(21,088)
<b>Net Cash (used in) Operating Activities</b>		\$ 1,213	\$ 6,000	\$ (5,572)	\$ (4,940)
<b>Cash Flows provided by (used in) Financing Activities</b>					
Payments on principal of notes payable		(500)	(255)	(1,748)	(4,254)
Net proceeds from (payments on) principal of credit facility		4,000	1,500	17,827	(9,500)
Dividends paid to shareholders		-	(4,571)	(2,316)	(12,400)
Distributions paid to non-controlling interest		-	-	(2,010)	(4,690)
Issue of share capital, net of issue costs		-	(6)	-	38,409
<b>Net Cash provided by (used in) Financing Activities</b>		\$ 3,500	\$ (3,332)	\$ 11,753	\$ 7,565
<b>Cash Flows (used in) Investing Activities</b>					
Purchase of property and equipment		(188)	(536)	(1,225)	(2,155)
Acquisitions, net of cash acquired		-	(1,257)	-	(1,257)
<b>Net Cash (used in) Investing Activities</b>		\$ (188)	\$ (1,793)	\$ (1,225)	\$ (3,412)
Effect of foreign exchange rate fluctuations on cash held	7	374	(76)	(57)	(152)
<b>Net increase (decrease) in cash and cash equivalents</b>		\$ 4,899	\$ 799	\$ 4,899	\$ (939)
Cash and cash equivalents, beginning of period		-	620	-	2,358
<b>Cash and Cash Equivalents, End of Period</b>		\$ 4,899	\$ 1,419	\$ 4,899	\$ 1,419

See accompanying notes to the interim condensed consolidated financial statements.

# IBI GROUP INC.

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

<i>(thousands of Canadian dollars)</i>	Notes	Three months ended		Nine months ended	
		September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
<b>Share Capital</b>					
Share capital, beginning of period		\$ 233,664	\$ 228,533	\$ 231,706	\$ 176,109
Shares issued from treasury	6	-	2,824	1,958	55,248
<b>Share Capital, End of Period</b>		<b>\$ 233,664</b>	<b>\$ 231,357</b>	<b>\$ 233,664</b>	<b>\$ 231,357</b>
<b>Deficit</b>					
Deficit, beginning of period		\$ (162,447)	\$ (76,957)	\$ (102,539)	\$ (74,268)
Net income (loss) attributable to owners of the Company		(36,470)	2,074	(94,648)	9,073
Dividends declared to shareholders	6	-	(4,597)	(2,316)	(12,752)
Issue costs		-	(7)	-	(1,540)
Shares issued on notes payable		-	-	586	-
<b>Deficit, End of Period</b>		<b>\$ (198,917)</b>	<b>\$ (79,487)</b>	<b>\$ (198,917)</b>	<b>\$ (79,487)</b>
<b>Convertible Debentures - Equity Component</b>					
Convertible debentures, beginning of period		\$ 5,852	\$ 5,852	\$ 5,852	\$ 5,852
<b>Convertible Debentures, End of Period</b>		<b>\$ 5,852</b>	<b>\$ 5,852</b>	<b>\$ 5,852</b>	<b>\$ 5,852</b>
<b>Accumulated Other Comprehensive Loss</b>					
Accumulated other comprehensive loss, beginning of period		\$ (3,838)	\$ (3,558)	\$ (4,782)	\$ (3,558)
Other comprehensive income (loss) attributable to shareholders		445	(1,225)	1,389	(1,225)
<b>Accumulated Other Comprehensive Loss, End of Period</b>		<b>\$ (3,393)</b>	<b>\$ (4,783)</b>	<b>\$ (3,393)</b>	<b>\$ (4,783)</b>
<b>Shareholders' Equity</b>		<b>\$ 37,206</b>	<b>\$ 152,939</b>	<b>\$ 37,206</b>	<b>\$ 152,939</b>
<b>Non-controlling Interest</b>					
Non-controlling interest, beginning of period		\$ 37,834	\$ 62,574	\$ 52,920	\$ 63,545
Total comprehensive income (loss) attributable to non-controlling interests	8	(10,577)	257	(27,502)	2,636
Distributions		-	(2,010)	(670)	(5,360)
Reclassification of share issues for notes payable		(49)	-	2,460	-
<b>Non-controlling Interest, End of Period</b>		<b>\$ 27,208</b>	<b>\$ 60,821</b>	<b>\$ 27,208</b>	<b>\$ 60,821</b>
<b>Equity, End of Period</b>		<b>\$ 64,414</b>	<b>\$ 213,760</b>	<b>\$ 64,414</b>	<b>\$ 213,760</b>

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 September 30, 2010 and is the successor to IBI Income Fund (the "Fund"), an unincorporated, open-ended limited purpose trust established under the laws of Ontario.

The Fund was created on July 23, 2004, to indirectly acquire the outstanding Class A partnership units of IBI Group Partnership ("IBI Group"), a general partnership formed and carrying on business under the laws of the Province of Ontario. As at September 30, 2013, the Company's common share capital consisted of 17,188,635 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 September 30, 2013, the Management Partnership holds 5,025,778 Class B partnership units representing 22.6% of the issued and outstanding units of IBI Group and, with affiliated partnerships, 4,179,059 common shares of the Company, representing a total ownership of approximately 41.4% of the Company. The Management Partnership also holds 5,025,778 non-participating voting shares of the Company, which together with the 4,179,059 common shares of the Company held by the Management Partnership and affiliated partnerships, represents approximately 41.4% of the voting shares of the Company on a partially diluted basis, assuming the exchange of the Class B partnership units for common shares of the Company.

Through IBI Group, the Company is an international, multi-disciplinary provider of a broad range of professional services focused on the physical development of cities. IBI Group's business is concentrated in four main areas of development, being urban land, building facilities, transportation networks, and systems technology. The professional services provided by IBI Group include planning, design, implementation, analysis of operations, and other consulting services related to these four main areas of development.

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

### **NOTE 2: STATEMENT OF COMPLIANCE**

#### **(a) Statement of Compliance**

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

Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and using accounting policies derived therein consistent with the Company’s 2012 audited December 31, 2012 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 November 14, 2013.

**(b) Basis of measurement**

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

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 become 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:

- 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. The standards became effective for the Company on January 1, 2013 and the Company will include any additional disclosures required by IFRS 12 for the first time in the annual financial statements for the year ending December 31, 2013. These new standards have no material impact on the period ending September 30, 2013.

*Subsidiaries*

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

*Jointly controlled operations*

Joint ventures are entities over which the Company has control together with one or more affiliated entities. Joint ventures are accounted for using the equity consolidation 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 interim condensed consolidated financial statements are presented in Canadian dollars, which is the currency of the primary economic environment in which the Company and its Canadian subsidiaries, including IBI Group, operate (the “functional currency”).

**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 September 30, 2013, with comparatives as at December 31, 2012:

	As at September 30, 2013			
	Canada	U.S.	International	Total
Property and equipment	\$ 2,822	\$ 1,562	\$ 2,110	\$ 6,494
Intangibles	14,346	5,776	1,565	21,687
Goodwill	78,064	5,206	396	83,666
Total assets	305,765	19,540	27,778	353,083



	As at December 31, 2012			
	Canada	U.S.	International	Total
Property and equipment	\$ 3,349	\$ 1,607	\$ 2,440	\$ 7,396
Intangibles	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 (loss) segmented geographically for the three and nine months ended September 30, 2013, with comparatives for the three and nine months ended September 30, 2012. The unallocated amounts pertain to expenses relating to convertible debentures, taxes, and non-cash finance costs incurred by the Company.

	Three months ended September 30, 2013				
	Unallocated Corporate costs	Canada	U.S.	International	Total
Revenues	\$ -	\$ 17,151	\$ 12,162	\$ 9,479	\$ 38,792
Net income (loss)	\$ (1,955)	\$ (30,876)	\$ (11,559)	\$ (2,787)	\$ (47,177)

	Nine months ended September 30, 2013				
	Unallocated Corporate costs	Canada	U.S.	International	Total
Revenues	\$ -	\$ 126,361	\$ 51,844	\$ 31,931	\$ 210,136
Net income (loss)	\$ (5,865)	\$ (80,078)	\$ (27,335)	\$ (9,282)	\$ (122,560)

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

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

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

IBI Group has a credit facility of \$120,000. As of September 30, 2013, IBI Group had borrowings of \$92,827 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<sup>1</sup> ratio, fixed-charge coverage ratio, and restrictions on distributions. For the quarter ended September 30, 2013, IBI Group's funded debt to EBITDA<sup>1</sup> ratio and fixed-charge coverage ratio each exceeded the covenants. Failure to meet the terms of one or more of these covenants would constitute a default, potentially resulting in accelerating the repayment of the debt obligation. Subsequent to the reporting period, the creditors agreed to waive or amend the financial covenants under the credit facility for each quarterly reporting date from September 30, 2013 to December 31, 2014. 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 non-financial covenants, compliance with restrictive covenants, and agreements by the Company to provide the lenders with a recapitalization plan by January 15, 2014 and amend and restate the credit facility by January 31, 2014.

Continued compliance with the covenants is dependent on the Company achieving revenue forecasts, 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.

<sup>1</sup> 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.

Subsequent to the reporting period, the Company agreed to amendments requested by the lenders of the credit facility. IFRS requires classification of the credit facility as a current liability at September 30, 2013 since the amendment was received subsequent to period end.

As at September 30, 2013, the total balance of unamortized transaction costs was \$898 (December 31, 2012 - \$949). The net credit facility after transaction costs on the statement of financial position was \$91,929 as at September 30, 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 international customers. As at September 30, 2013, IBI Group had issued bid bonds in the amount of \$3,166 (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 September 30, 2013.

*7.0% Debentures*

The 7.0% Debentures are recorded as compound financial instruments. As at September 30, 2013, the liability component has an amortized cost of \$44,555 (December 31, 2012 - \$43,768). The equity component for the conversion feature is \$1,750. 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.

*5.75% Debentures*

The 5.75% Debentures are recorded as compound financial instruments. As at September 30, 2013, the liability component has an amortized cost of \$18,342 (December 31, 2012 - \$18,067). The equity component for the conversion feature is \$896. The 5.75% Debentures have a maturity date of September 30, 2017 at \$20,000 and are convertible into shares of the Company at the option of the holder at a conversion price of \$20.52 per unit.

*6.0% Debentures*

The 6.0% Debentures are recorded as compound financial instruments. As at September 30, 2013, the liability component has an amortized cost of \$53,309 (December 31, 2012 - \$52,778). The equity component for the conversion feature is \$3,206. The 6.0% Debentures have a maturity date of September 30, 2018 at \$57,500 and are convertible into common shares of the Company at the option of the holder at a conversion price of \$21.00 per share.

The movement in Convertible Debentures and related embedded derivative for the nine months ended September 30, 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	1,593	-	1,593
Balance, September 30, 2013	\$ 116,206	\$ 5,852	\$ 122,058

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 September 30, 2013 are as follows:

	Loans and receivables	Other financial liabilities	Financial liabilities at FVTPL	Total
<b>Financial assets</b>				
Cash and cash equivalents	4,899			4,899
Accounts receivable	120,964			120,964
Income tax recoverable	2,526			2,526
<b>Total</b>	\$ 128,389			\$ 128,389

---

**Financial liabilities**

Accounts payable and accrued liabilities	40,936	338	41,274
Due to related parties	10,000		10,000
Notes payable	9,644		9,644
Income tax payable	1,693		1,693
Credit facility	91,929		91,929
Convertible debentures	116,206		116,206
<b>Total</b>	<b>\$ 270,408</b>	<b>\$ 338</b>	<b>\$ 270,746</b>

---

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

	Loans and receivables	Other financial liabilities	Financial liabilities at FVTPL	Total
<b>Financial assets</b>				
Accounts receivable	142,168			142,168
Income tax recoverable	3,374			3,374
<b>Total</b>	<b>\$ 145,542</b>			<b>\$ 145,542</b>

---

**Financial liabilities**

Bank indebtedness	589		589
Accounts payable and accrued liabilities	47,791	338	48,129
Due to related parties	10,000		10,000
Notes payable	16,696		16,696
Income tax payable	3,010		3,010
Distributions payable	1,340		1,340
Credit facility	72,903		72,903
Convertible debentures	114,613		114,613
<b>Total</b>	<b>\$ 266,942</b>	<b>\$ 338</b>	<b>\$ 267,280</b>

---

**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 September 30, 2013 was \$7,320 (three months ended September 30, 2012 - \$6,155) and \$21,632 for the nine months ended September 30, 2013 (nine months ended September 30, 2012 - \$18,466). As at September 30, 2013 there were 113 partners (September 30, 2012 – 91 partners).

- IBI Group from time to time makes a monthly distribution on Class B partnership units 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 September 30, 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. Interest expense on this advance was \$96 for the three months ended September 30, 2013 (three months ended September 30, 2012 - \$96) and \$284 for the nine months ended September 30, 2013 (nine months ended September 30, 2012 - \$401). The loan matures April 1, 2015.

## NOTE 6: EQUITY

### (a) Shareholders' equity

As at September 30, 2013, the Company's common share capital consisted of 17,188,635 shares issued and outstanding.

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

The 5,025,778 Class B partnership units of IBI Group are indirectly exchangeable for common shares of the Company on the basis of one share of the Company for each Class B subordinated partnership unit. If all such Class B partnership units of IBI Group had been exchanged for shares on September 30, 2013, the shares issued on such exchange would have represented a 22.6% interest in the Company.

Class B partnership units do not entitle the holder to voting rights at the meetings of shareholders. The Class B partnership units have been recorded as a non-controlling interest in the interim condensed consolidated financial statements as at September 30, 2013.

#### *Issuances*

During the three months ended June 30, 2013, the Company issued 44,780 common shares for acquisition payments for a total of \$77. These share issuances were settled by reducing notes payable.

During the three months ended June 30, 2013, the Company issued 12,439 common shares under the DRIP for a total of \$73.

During the three months ended March 31, 2013, the Company issued 286,000 common shares for acquisition payments for a total of \$1,807. These share issuances were settled by reducing notes payable.

#### *Dividends*

For each of the three months ended September 30, 2013, the Company declared no dividends (each of the three months ended September 30, 2012 - \$0.092 per share per month). In February 2013, the Company declared monthly quarterly dividend of \$0.1375 per qualifying ordinary share for total dividends declared during the nine months ended of \$2,316 (for nine months ended September 30, 2012 - \$12,752).

#### *Earnings per share*

The calculation of basic and diluted earnings per share for the three and nine months ended September 30, 2013 is demonstrated in the following table:

	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Net income (loss) attributable to owners of the Company	\$ (36,470)	\$ 2,074	\$ (94,648)	\$ 9,073
Weighted average common shares outstanding	17,189	16,590	17,094	15,124
Basic and diluted earnings (loss) per common share	\$ (2.1218)	\$ 0.1250	\$ (5.5369)	\$ 0.5999

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

#### **(b) Non-controlling interest**

Non-controlling interests in the Company's subsidiaries are exchangeable into the common shares of the Company on a one for one basis, subject to certain conditions. The movement in non-controlling interest is shown in the September 30, 2013 statement of changes in equity. The calculation of net income (loss) and total comprehensive income (loss) attributable to non-controlling interest is set out below:

	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Net income (loss)	\$ (47,177)	\$ 2,704	\$ (122,560)	\$ 12,116
Non-controlling interest share of ownership	22.7%	23.3%	22.8%	25.1%
Net income (loss) attributable to non-controlling interest	\$ (10,707)	\$ 630	\$ (27,912)	\$ 3,043

  

	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Total comprehensive income (loss)	\$ (46,602)	\$ 1,105	\$ (120,761)	\$ 10,483
Non-controlling interest share of ownership	22.7%	23.3%	22.8%	25.1%
Total comprehensive income (loss) attributable to non-controlling interest	\$ (10,577)	\$ 257	\$ (27,502)	\$ 2,636

**NOTE 7: FINANCIAL RISK MANAGEMENT**

The Company has exposure to market, credit and liquidity risk. The Company's primary risk management objective is to protect the Company's 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 September 30, 2013, had been 50 basis points higher, with all other variables held constant, net income for the nine months ended September 30, 2013 would have decreased by approximately \$263, after the impact of the swap. If the interest rate had been 50 basis points lower, there would have been an equal and opposite impact on net income.



*Currency Risk*

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

Foreign exchange gains or losses in the Company's net income arise on the translation of foreign-denominated financial assets and liabilities (such as cash balances, accounts receivable, work in process, accounts payable and 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 September 30, 2013, with all other variables held constant, net income would have increased or decreased by \$276 for the nine months ended September 30, 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 quarter 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 September 30, 2013 there were 73 working days of revenue in accounts receivable, 7 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 implements a process of assurance for payment from private entities. Their maturities are detailed below with the entire allowance for impairment losses relating to accounts receivable over 90 days:

	September 30, 2013	December 31, 2012
Current	\$ 37,953	\$ 46,707
30 to 90 days	33,384	36,929
Over 90 days	73,141	69,152
Allowance for impairment losses	(23,514)	(10,620)
<b>Total</b>	<b>\$ 120,964</b>	<b>\$ 142,168</b>

### (c) Liquidity Risk

The Company strives to maintain sufficient financial liquidity at all times in order to participate in investment opportunities as they arise, as well as to withstand sudden adverse changes in economic circumstances. Management forecasts cash flows for its current and subsequent fiscal years to identify financing requirements. These requirements are then addressed through a combination of committed credit facilities and access to capital markets.

As at September 30, 2013, the Company had \$4,899 of cash and cash equivalents plus \$9,007 of unutilized credit. 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.

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.

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.

### (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<sup>1</sup> ratio, fixed charge coverage ratio, and restrictions on distributions.

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.

<sup>1</sup> 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.

There were no changes in the Company's approach to capital management during the nine months ended September 30, 2013.

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

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Accounts receivable	\$ 20,450	\$ 6,181	\$ 22,737	\$ (2,803)
Work in process	36,713	(7,822)	22,000	(13,423)
Prepaid expenses and other assets	251	831	1,565	2,679
Bank indebtedness	(1,563)	-	(589)	-
Accounts payable	(838)	2,039	(7,671)	(7,830)
Deferred revenue	(664)	(1,083)	2,784	(3,464)
Income taxes payable	(135)	783	1,419	2,692
Acquisition of working capital	-	971	(717)	1,061
Decrease in non-cash operating working capital	\$ 54,214	\$ 1,900	\$ 41,528	\$ (21,088)

During the quarter 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 9: FINANCE COSTS

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Interest on credit facility	\$ 868	\$ 623	\$ 2,295	\$ 1,947
Interest on convertible debentures	1,955	1,955	5,865	5,865
Non-cash accretion of convertible debentures	542	497	1,592	1,459
Other	415	263	887	979
Interest expense, net	\$ 3,780	\$ 3,338	\$ 10,639	\$ 10,250
Amortization of deferred financing costs	\$ 78	\$ 54	\$ 225	\$ 161
Change in fair value of interest rate swap	-	(37)	(1)	(44)
Other	48	54	175	212
Other finance costs	\$ 126	\$ 71	\$ 399	\$ 329
Finance costs for the period	\$ 3,906	\$ 3,409	\$ 11,038	\$ 10,579

#### NOTE 10: ACQUISITIONS

##### (a) Acquisitions in 2012

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 Columbus, Canton, and Cincinnati areas of Ohio, USA.

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

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

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

#### (b) Consideration paid and outstanding

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

	Notes payable	Contingent consideration
Balance, December 31, 2012	\$ 16,696	\$ 338
Share issuances	(1,884)	-
Cash payments	(1,748)	-
Purchase price adjustments	(273)	-
Reclassification to non-controlling interest	(2,460)	-
Other	(687)	-
Balance, September 30, 2013	\$ 9,644	\$ 338

#### *Contingent consideration*

The fair value of the contingent consideration for CRJA was estimated and recorded on the date of acquisition and adjusted to fair value of \$338 at September 30, 2013 and December 31, 2012. It is classified as accrued liabilities on the statement of financial position.

#### *Purchase price adjustments*

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.

**NOTE 11: GOODWILL**

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 (CGU's) 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.

- 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, 2012 to December 31, 2012 EBITDA<sup>1</sup> multiplied by an earnings multiple of eight.
  - The CGU's July 1, 2012 to June 30, 2013 trailing twelve months EBITDA<sup>1</sup> multiplied by an earnings multiple of eight.
  - The CGU's January 1, 2013 to December 31, 2013, six month actual EBITDA<sup>1</sup> plus six month management forecasted EBITDA<sup>1</sup> for 2013 multiplied by an earnings multiple of seven.

An optimal working capital calculation was estimated by multiplying the trailing 12 months revenue as at June 30, 2013 by the historical rate of working capital required by the CGU to operate. The fair value was adjusted for any redundant or deficient working capital of the CGU when compared to the optimal working capital amount. Finally, estimated costs to sell of 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 eight was selected to apply to historical EBITDA<sup>1</sup> based on search of industry comparables provided by third party advisors. The earnings multiple of seven was selected to apply to the six month actual plus six month forecasted EBITDA<sup>1</sup> in order to incorporate a discount to the six months of forecasted EBITDA<sup>1</sup>.

---

<sup>1</sup> 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.

- All assumptions used were based on the Company's internal budget, financial reports for current and past periods, as well as multiples and historic EBITDA<sup>1</sup> figures provided by third-party advisors. In arriving at its budget, the Company considered past experience, economic trends such as GDP growth and inflation as well as industry and market trends. The projection also took into account the expected impact from new service initiatives, customer retention and integration programs, and the maturity of the markets in which the business operates.

As a result of the analysis the Company recorded an impairment charge of \$75,269 to goodwill and \$4,332 to intangibles in the second quarter of 2013. In 2013 the Company had 18 CGU's, the allocation of the impairment charge by segment is identified below:

	As at June 30, 2013		
	Goodwill Impairment	Intangible Impairment	Total
Canada	\$ 51,005	\$ -	\$ 51,005
US	16,657	1,433	18,090
International	7,607	2,899	10,506
<b>Total Impairment</b>	<b>\$ 75,269</b>	<b>\$ 4,332</b>	<b>\$ 79,601</b>

The following table presents the Company's goodwill as at December 31, 2012 and September 30, 2013:

	Cost	Accumulated impairment	Goodwill
Balance, December 31, 2012	\$ 187,480	\$ 29,692	\$ 157,788
Purchase price adjustments	444	-	444
Impairment	-	75,269	(75,269)
Foreign exchange translation	703	-	703
<b>Balance, September 30, 2013</b>	<b>\$ 188,627</b>	<b>\$ 104,961</b>	<b>\$ 83,666</b>

## NOTE 12: INCOME TAXES

The provision for income taxes in the consolidated statement of comprehensive income (loss) represents an effective tax rate different than the Canadian enacted or substantively enacted statutory rate of approximately 26.5% (September 30, 2012 – 26.5%). The differences are as follows:

<sup>1</sup> 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.

	Nine months ended	
	September 30, 2013	September 30, 2012
Net income (loss) for the period	\$ (122,560)	\$ 12,116
Total tax expense (recovery)	(9,681)	1,588
Net income (loss) before taxes	\$ (132,241)	\$ 13,704
Income tax using the Company's domestic tax rate	\$ (35,044)	\$ 3,632
Income tax effect of:		
Non-deductible expenses	1,669	888
Change in deferred tax rates	4	80
Non-controlling interests share of income	1,260	(1,213)
Operating in jurisdictions with different tax rates	(2,723)	(270)
Change in unrecognized temporary differences	6,260	(886)
Goodwill impairment	18,703	-
Prior period adjustments	(115)	(597)
Other	305	(46)
Income tax expense (recovery)	\$ (9,681)	\$ 1,588

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.

## NOTE 13: 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 14: SUBSEQUENT EVENTS**

Subsequent to the reporting period, the Company agreed to amendments requested by the lenders of the credit facility. IFRS requires classification of the credit facility as a current liability at September 30, 2013 since the amendment was received subsequent to period end.