IBI Group 2014
Third-Quarter Management Discussion and Analysis

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014

IBI Group Inc.

Management discussion and analysis

For the three and nine months ended September 30, 2014

The following Management Discussion and Analysis ("MD&A") of interim operating results and financial position of IBI Group Inc. and its subsidiaries (the "Company") for the three and nine months ended September 30, 2014 should be read in conjunction with the accompanying unaudited Interim Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2014 and 2013, the MD&A in the fiscal year 2013 Annual Report and the audited Consolidated Financial Statements for the year ended December 31, 2013 including the notes thereto. Additional information relating to the Company, including its Annual Information Form dated March 31, 2014, is available on SEDAR at www.sedar.com.

The financial information presented herein has been prepared on the basis of International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") for financial statements and is expressed in thousands of Canadian dollars.

Forward-looking statements

This report includes certain forward-looking statements that are based on the Company's best information and judgments as at the date of this report. The forward-looking statements are subject to risks and uncertainties that may cause the actual results to differ materially from those anticipated in the discussion. See "Forward Looking Statements and Risk Factors" below for more information.

Company profile

The business of the Company is conducted through IBI Group Partnership ("IBI Group"), a global architecture, engineering, planning and technology entity, which operates more than 60 offices in 15 countries across the world.

IBI Group's business, consulting services, is concentrated in three practice areas:

- Intelligence
- Buildings
- Infrastructure

IBI Group's professionals have a broad range of professional backgrounds and experience in urban design and planning, architecture, civil engineering, transportation engineering, traffic engineering, systems engineering, urban geography, real estate analysis, landscape architecture, communications engineering, software development, and many other areas of expertise, all contributing to the three areas in which IBI Group practices.

The firm's clients include national, provincial, state, and local government agencies and public institutions, as well as leading companies in the real estate building, land and infrastructure development, transportation and communication industries, and in other business areas.

The Company provides these services to clients through its 60 local offices in 15 countries across the world.

Financial highlights
(in thousands of dollars except for per share amounts)
(Unaudited)

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Number of working days	**64**	63	**189**	188
Revenue	**$ 73,605**	$ 34,602	**$ 223,243**	$ 185,277
Net income (loss) from continuing operations	**$ 6,996**	$ (40,347)	**$ 10,044**	$ (117,701)
Net income (loss) from discontinued operations	**$ (5,308)**	$ (6,830)	**$ (6,230)**	$ (4,859)
Basic and diluted earnings per share ("EPS")	**$ 0.07**	$ (2.12)	**$ 0.17**	$ (5.53)
Basic and diluted EPS from continuing operations	**$ 0.31**	$ (1.82)	**$ 0.44**	$ (5.32)
Adjusted EBITDA[1]	**$ 4,718**	$ 4,814	**$ 17,738**	$ 16,700
Adjusted EBITDA[1] as a percentage of revenue	**6.4%**	13.9%	**7.9%**	9.0%

1- See "Definition of Non-IFRS Measures".

Overview

The three months ended September 30, 2014, were a very active period, with the Company continuing to implement its restructuring plan. During and immediately after this period, the following significant events occurred:

1. Effective July 23, 2014, the Company extended the maturity date of $46 million 7% convertible debentures from December 31, 2014 to June 30, 2019.

2. During the first week of October, the Company concluded two divestment transactions which further improved the financial position of the business.

3. Concurrently, in early October, the Company signed a new banking agreement with its senior lenders which provides sufficient liquidity for the Company to execute its business plan to the date this agreement matures on March 31, 2016.

The two divestment transactions included the divesture of certain assets and liabilities in the Company's operations in Quebec and sale of 49% equity interest in China for proceeds of approximately $13.2 million subject to final closing balance sheet adjustments.

As a result of the divestment activities the net assets of the Quebec and China businesses have been presented as assets held for sale as at September 30, 2014 and the results of operations as discontinued operations for all periods presented.

Assets Held for Sale and Discontinued Operations

For the three months ended September 30, 2014, revenue from discontinued operations was $7.3 million compared to $4.2 million for the same period ending in 2013. Expenses from discontinued operations for the three months ended September 30, 2014 were $7.8 million compared to $ $11.2 million for the same period in 2013. Impairment of assets held for sale was recognized for the three months ended September 30, 2014, was $4.6 million compared to $nil for the same period in 2013. As a result, net loss from discontinued operations for the three months ended September 30, 2014 was $5.3 million compared to a loss of $6.8 million for the same period in 2013.

For the nine months ended September 30, 2014, revenue from discontinued operations was $23.5 million compared to $24.9 million for the same period in 2013. Expenses from discontinued operations for the nine months ended September 30, 2014 was $24.7 million compared to $29.7 million for the same period in 2013. Impairment of assets held for sale for the nine month period ended September 30, 2014 was $4.6 million compared to $nil for the same period in 2013. As a result, net loss from discontinued operations for the nine months ended September 30, 2014 was $6.2 million compared to a loss of $4.9 million for the same period in 2013.

Statement of Comprehensive Income (Loss)

Revenue for the three months ended September 30, 2014 was $73.6 million, compared with $34.6 million in the same period in 2013.

In Q3 2013, with the introduction of the new senior leadership, management reviewed the ultimate collectability of WIP and concluded that a write-down of $31 million was required which was recorded against revenue. These write-downs were the result of:

1. Management focusing on their new strategic direction
2. Weaker economic factors in certain geographic areas
3. Management stopped pursuing small dollar outstanding balances
4. Accounts were in mediation or arbitration and recoveries expected were reduced

Net income from continuing operations for the three months ended September 30, 2014 was $7 million, compared with net loss in the same period in 2013 of $40.4 million. Net loss from discontinued operations for the three months ended September 30, 2014 was $5.3 million compared to net loss in the same period in 2013 of $6.8 million.

In determining net income before tax from continuing operations the Company recorded $18.7 million gain related to the extension, amendment of the 7% convertible debentures and issuance of consent fee notes. The Company has provided for the write down of leasehold improvements in the Quebec operations in the amount of $3.2 million. In addition, the Company has provided for an onerous lease related to the Quebec operations in the amount of $5.1 million. Net Income from continuing operations was also impacted by the higher professional fees of $0.9 million related to the restructuring and additional rent of $0.7 million paid for its Toronto offices.

The net loss in three months ended September 30, 2013 was attributable to provisions of $31 million related to write-offs of work in process and $11.3 million related to accounts receivable.

Significant progress has been made over the past twelve months in restructuring and managing the operations by geographical regions. These changes have facilitated the Company's ability to improve business processes, identify synergies, implement cost management initiatives, evaluate return on assets and achieve growth in sales.

Results of operations

	Three months ended		Nine months ended	
(thousands of Canadian dollars, except per share amounts) *(Unaudited)*	**September 30, 2014**	**September 30, 2013**	**September 30, 2014**	**September 30, 2013**
		(restated[2])		(restated[12])
Revenue	$ 73,605	$ 34,602	$ 223,244	$ 185,277
Salaries, fees and employee benefits	53,088	52,738	158,280	162,591
Rent	10,544	4,718	21,688	14,574
Other operating expenses	9,829	8,359	28,848	26,088
Foreign exchange loss (gain)	(605)	262	(1,306)	2
Amortization of intangible assets	172	1,750	630	4,221
Amortization of property and equipment	620	352	1,642	1,277
Impairment of property and equipment	3,248	-	3,248	-
Impairment of goodwill and intangible assets	-	-	-	79,601
Impairment of financial assets	757	11,446	1,930	13,296
	77,653	79,625	214,960	301,650
Operating Income (Loss)	$ (4,048)	$ (45,023)	$ 8,284	$ (116,373)
Interest expense, net	4,971	3,552	13,496	10,226
Other finance costs	(18,363)	129	(17,684)	406
Finance Costs (Income)	$ (13,392)	$ 3,681	$ (4,188)	$ 10,632
Current tax expense	271	(320)	1,883	975
Deferred tax expense (recovery)	2,077	(8,037)	545	(10,279)
Income Taxes	$ 2,348	$ (8,357)	$ 2,428	$ (9,304)
Net income (loss) from continuing operations	$ 6,996	$ (40,347)	$ 10,044	$ (117,701)
Net loss from discontinued operations	(5,308)	(6,830)	(6,230)	(4,859)
Net Income (Loss)	$ 1,688	$ (47,177)	$ 3,814	$ (122,560)
Other comprehensive income (loss)				
Income (loss) on translating financial statements of foreign operations from continuing operations, net of tax	$ (245)	$ 523	$ (282)	$ 1,848
Income (loss) on translating financial statements of foreign operations from discontinued operations, net of tax	$ (110)	$ 52	$ (141)	$ (49)
Other Comprehensive Income (Loss), net of tax	(355)	575	(423)	1,799
Total Comprehensive Income (Loss)	$ 1,333	$ (46,602)	$ 3,391	$ (120,761)
Net income (loss) attributable to:				
Owners of the Company	$ 1,313	$ (36,470)	$ 2,965	$ (94,648)
Non-controlling interests	375	(10,707)	849	(27,912)
Net Income (Loss)	$ 1,688	$ (47,177)	$ 3,814	$ (122,560)
Total comprehensive income (loss) attributable to*:*				
Owners of the Company	$ 1,037	$ (36,025)	$ 2,636	$ (93,259)
Non-controlling interests	296	(10,577)	755	(27,502)
Total Comprehensive Income (Loss)	$ 1,333	$ (46,602)	$ 3,391	$ (120,761)
Earnings (loss) per share attributable to the owners of the Company				
Basic and diluted earnings (loss) per share	$ 0.07	$ (2.12)	$ 0.17	$ (5.53)
Total comprehensive income (loss)	$ 1,333	$ (46,602)	$ 3,391	$ (120,761)
Earnings (loss) per share attribute to the owners of the Company				
Basic and diluted earnings (loss) per share	$ 0.07	$ (2.12)	$ 0.17	$ (5.53)
Basic and diluted earnings (loss) per share from continuing operations	$ 0.31	$ (1.82)	$ 0.44	$ (5.32)

[2] Restatement due to divestment of divisions. See “Unaudited Interim Condensed Consolidated Financial Statements – Note 13”

Description of Variances in Operating Results
(in millions of dollars)

i) Revenue from continuing operations

The Company reports revenue net of direct recoverable costs as these costs can vary significantly from contract to contract and are not indicative of its professional services business.

Revenue from continuing operations for the three months ended September 30, 2014 was $73.6 million, compared with $34.6 million in the same period in 2013. The third quarter of each year yields lower revenues for the Company from the previous quarter because of vacation time taken by staff in the summer. In Q3 2013, revenues were negatively impacted by $31 million as a result of provisions on work-in-process. The increase in revenue in Q3 2014 reflects the higher utilization of staff when compared to 2013.

Revenue from continuing operations for the nine months ended September 30, 2014 was $223.2 million, compared with $185.3 million for the same period in 2013 and was primarily impacted by the $31 million provision on work-in-process. The increase in revenue in Q3 2014 reflects the higher utilization of staff when compared to 2013.

ii) Salaries, fees, and employee benefits from continuing operations

Salaries, fees, and employee benefits from continuing operations for the three months ended September 30, 2014 was $53.1 million compared with $52.7 million in the same period in 2013.

Salaries, fees and employee benefits from continuing operations for the nine months ended September 30, 2014 was $158.3 million, compared with $162.6 million for the same period in 2013.

This is a result of reductions in headcount as well as lower salaries and benefits paid. The impact of the reduction of headcount has been tempered in 2014 by depreciation in the Canadian dollar against both the U.S dollar and British pound.

The Company continues to evaluate where synergies exist within the organization to further reduce these costs.

iii) Rent from continuing operations

Rent from continuing operations for the three months ended September 30, 2014 was $10.5 million compared to $4.7 million in the same period in 2013. The increase is attributed to a $5.2 million charge taken on an onerous lease in Quebec, which resulted from the sale of certain assets and liabilities and entering into a sub-lease with the purchaser. In Toronto, an additional $0.7 million of rent was paid during the transition between the Toronto offices.

Rent from continuing operations for the nine months ended September 30, 2014 was $21.7 million, compared with $14.6 million for the same period in 2013. The increase is attributed to a $5.2 million charge taken on an onerous lease in Quebec and $2 million related to the rent for Toronto offices as described above.

iv) Other operating expenses from continuing operations

Other operating expenses from continuing operations for the three months ended September 30, 2014 was $9.8 million compared to $8.4 million in the same period in 2013. The increase is attributed to a $0.9 million related to professional fees associated with the recapitalization activities of the Company.

Other operating expenses from continuing operations for the nine months ended September 30, 2014 was $28.9 million, compared with $26.1 million for the same period in 2013. The increase is attributed to $2.9 million related to professional fees associated with the recapitalization activities of the Company.

v) Foreign Exchange loss (gain) from continuing operations

Foreign exchange loss (gain) from continuing operations for the three months ended September 30, 2014 was a gain of $0.6 million compared to a loss of $0.3 million in the same period in 2013. The gain is attributed to exchange rate movements between the Canadian dollar and the US dollar and British pound.

Foreign exchange loss (gain) from continuing operations for the nine months ended September 30, 2014 was a gain of $1.3 million compared with a nominal loss for the same period in 2013. The gain is attributed to exchange rate movements between the Canadian dollar and the US dollar and British pound.

vi) Amortization of intangible assets from continuing operations

Amortization of intangible assets from continuing operations for the three months ended September 30, 2014 was $0.2 million compared to $1.8 million in the same period in 2013. The decrease is as a result of the write-off of other intangible assets in the fourth quarter of 2013.

Amortization of intangible assets from continuing operations for the nine months ended September 30, 2014 was $0.6 million compared with $4.2 million for the same period in 2013. The decrease is as a result of the write-off of other intangible assets in the fourth quarter of 2013.

vii) Amortization of property and equipment from continuing operations

Amortization of property and equipment from continuing operations for the three months ended September 30, 2014 was $0.6 million compared to $0.4 million in the same period in 2013. The increase is a result of additions made to property and equipment during the period.

Amortization of property and equipment from continuing operations for the nine months ended September 30, 2014 was $1.6 million compared with $1.3 million for the same period in 2013. The increase is a result of additions made to property and equipment during the period.

viii) Impairment of property and equipment from continuing operations

Impairment of property and equipment from continuing operations for the three months ended September 30, 2014 was $3.2 million compared to $nil in the same period in 2013. The increase is a result of a $3.2 million write-off related to leasehold improvements in Quebec.

Although the Quebec operations have been divested, the Company maintains principal responsibility for the lease and it is management's best estimate at this time that the carrying value of these leasehold improvements will not be fully recoverable from sub-lease tenants.

Amortization of property and equipment from continuing operations for the nine months ended September 30, 2014 was $3.2 million compared to $nil in the same period in 2013. The variance in these amounts results from the write-off of leasehold improvements discussed above.

ix) Impairment of Financial Assets from continuing operations

Impairment of financial assets from continuing operations for the three months ended September 30, 2014 was $0.8 million compared to $11.4 million in the same period in 2013. The decrease is a result of a provision of $11.3 million taken in the third quarter of 2013 relating to the recoverability of accounts receivable. The write-off of $0.8 million in this period is consistent with the Company's plan in normal levels of business activity.

Impairment of financial assets from continuing operations for the nine months ended September 30, 2014 was $1.9 million compared with $13.3 million for the same period in 2013. The decrease in the impairment is a result of the recoverability described above.

x) Interest expense from continuing operations

Interest expense from continuing operations for the three months ended September 30, 2014 totaling $5.0 million compared to $3.6 million in the same period in 2013.

The amendment and extension of the 7% convertible debentures will give rise to significantly higher interest expense during the period from July 23, 2014 to June 30, 2019 as an effective interest rate of 26.5% was used in determining the fair value on the date of the amendment. The Company has recorded the gain on extinguishment of debt in this quarter but this will be offset by the higher accretion each quarter until maturity. The impact of this increased accretion has been $0.7 million increase in non-cash interest expense since July 23, 2014. The remaining increase of $0.7 million is the result of the Company paying higher borrowing rates to its senior lenders.

Interest expense from continuing operations for the nine months ended September 30, 2014 was $13.5 million compared with $10.2 million for the same period in 2013. The increase of $2.7 million in cash interest incurred is the result of higher rates paid to the Company's senior lenders. It is anticipated that these interest charges will decrease as the Company generates cash and repays its bank borrowings. Interest on the 7% debentures increased due to increased accretion of $0.7 million.

xi) Other finance costs (income) from continuing operations

Other finance costs (income) from continuing operations for the three months ended September 30, 2014 was an income of $18.4 million compared to costs of $0.1 million in the same period in 2013. The decrease is a result of $18.7 million gain recorded on substantial modification and extinguishment of 7% convertible debentures and issue of the consent fee notes.

Other finance costs (income) from continuing operations for the nine months ended September 30, 2014 was an income of $17.7 million compared with costs of $0.4 million for same period in 2013. This change was primarily to the gain on extinguishment of a 7% convertible debentures.

xii) Income Taxes from continuing operations

Income taxes from continuing operations for the three months ended September 30, 2014 was an expense of $2.3 million with the effective income tax rate at 25.12% compared to a recovery of $8.4 million with income tax rate of 17.16% in the same period in 2013.

Income taxes from continuing operations for the nine months ended September 30, 2014 was an expense of $2.4 million with an effective tax rate of 19.46% compared with a recovery of $9.3 million with an effective tax rate of 7.32% for the same period in 2013. The increase in the effective tax rate for both comparative periods was primarily due to an increase in non-deductible amounts and tax rates in foreign jurisdictions. The increase is a result of the deferred tax charges related to the gain on amendment of 7% convertible debentures, the onerous lease provision, leasehold improvements write-downs as outlined above.

xiii) Net income from continuing operations

Three months ended September 30, 2014

Net income from continuing operations for the three months ended September 30, 2014 increased to $7 million from a loss of $40.4 million from the same period in 2013. The factors impacting net income are set out in the description of individual line item accounts above.

Specific pre-tax items that have impacted net income for both 2014 and 2013 from continuing operations in the third quarter are as follows:

	2014	**2013**
Gain, net of deferred financing charges expensed	18,700	
Impairment charge on leasehold improvements	(3,248)	
Provision on onerous lease	(5,129)	
Work-in-process write-down		(31,000)
Accounts Receivable write-down		(11,600)
Total	**10,323**	**(42,600)**

Net income from continuing operations attributable to owners of the Company for the three months ended September 30, 2014 was $1.3 million or basic and diluted EPS from continuing operations of $0.31 per share compared to a loss of $36.5 million or $1.82 loss per share for the same period in 2013. Basic and diluted EPS for the combined continuing and discontinued operations for three months ended September 30, 2104 is $0.07 compared to a loss per share of $2.12 for the same period in 2013.

Nine months ended September 30, 2014

Net income from continuing operations for the nine months ended September 30, 2014 was $10 million compared to a loss of $117.7 million for the same period in 2013. The factors impacting net income are set out in the description of individual line item accounts above.

Specific items that have impacted net income from continuing operations in this period are as follows:

	2014	**2013**
Gain, net of deferred financing charges expensed	18,700	
Impairment charge on leasehold improvements	(3,248)	
Provision on onerous lease	(5,129)	
Impairment of Goodwill (Q2)		(79,600)
Work-in-process Write-down (Q3)		(31,000)
Accounts Receivable Write-down		(11,600)
Total	**10,323**	**(122,200)**

Net income attributable to the owners of the Company for the nine months ended September 30, 2014 was $3.0 million or basic and diluted EPS from continuing operations of $0.44 per share compared to a loss of $94.6 million or $5.32 loss per share for the same period in 2013. Basic and diluted EPS for the combined continuing and discontinued operations is $0.17 compared to a loss of $5.53 for the same period in 2013.

xiv) Adjusted EBITDA[1] from continuing operations

All of the factors outlined above have been adjusted for the discussion in the non-IFRS measure, Adjusted EBITDA[1]. The following summary of quarterly results outlines all the items which comprise the difference between net income from continuing operations in each of the following quarters.

[1] See "Definition of Non-IFRS Measures".

Adjusted EBITDA[1] from continuing operations for the previous eight quarters

The following table provides quarterly historical financial data for the Company for each of the eight most recently completed quarters. This information should be read in conjunction with the applicable interim unaudited and annual audited consolidated financial statements and related notes thereto.

in thousands of dollars except for per share amounts	**September 30, 2014**	**June 30, 2014**	**March 31, 2014**	**December 31, 2013**	**September 30, 2013**	**June 30, 2013**	**March 31, 2013**	**December 31, 2012**
Revenue	73,605	76,182	73,456	72,109	34,602	76,605	74,071	65,897
Adjustment items	-	-	-	-	35,003	-	-	12,600
Adjusted revenue[1]	73,605	76,182	73,456	72,109	69,605	76,605	74,071	78,497
Net Earnings from continuing operations	6,996	1,829	1,219	(92,196)	(40,347)	(76,367)	(987)	(26,797)
Less:								
Interest expense, net	4,971	4,264	4,262	3,996	3,552	3,384	3,290	3,328
Current and deferred taxes expense (recovery)	2,348	183	(103)	(3,731)	(8,343)	(1,723)	762	(3,082)
Depreciation and amortization	1,075	812	668	1,927	2,194	1,453	2,128	5,809
	8,394	5,259	4,827	2,192	(2,597)	3,114	6,180	6,055
EBITDA	**15,390**	**7,088**	**6,046**	**(90,004)**	**(42,944)**	**(73,253)**	**5,193**	**(20,742)**
EBITDA %	**20.9%**	**9.3%**	**8.2%**	**-124.8%**	**-61.7%**	**-95.6%**	**7.0%**	**-26.4%**
Items excluded in calculation of Adjusted EBITDA[1]								
Foreign exchange (gain)/loss	(606)	721	(1,421)	(420)	262	(180)	(80)	221
Fair value and loss on redemption of DSP	212	355	231	111	78	(227)	69	(235)
Deferred financing charges	259	-	-	-	-	-	-	-
Restructuring costs	1,101	-	-	-	-	-	-	-
Gain on extinguishment of 7.0% convertible debentures	(22,028)	-	-	-	-	-	-	-
Loss on consent fee notes	2,437	-	-	-	-	-	-	-
Deferred costs expense on extinguishment of 7.0% convertible debentures	890	-	-	-	-	-	-	-
Impairment of PP&E	3,248	-	-	-	-	-	-	-
Impairment of Goodwill & Intangibles	-	-	-	94,696	-	79,601	-	14,483
Onerous lease provisions	5,129	-	-	-	-	-	-	-
Impairment of assets held for sale	-	-	-	-	-	-	-	-
Accretion of convertible debentures and consent fee notes	(1,314)	-	-	-	-	-	-	-
Acquisition-related costs	-	-	-	(419)	(440)	558	205	406
Adjustment items	-	-	-	-	47,858	-	-	16,000
	(10,672)	1,076	(1,190)	93,968	47,758	79,752	194	30,875
ADJUSTED EBITDA[1]	**4,718**	**8,164**	**4,856**	**3,964**	**4,814**	**6,499**	**5,387**	**10,133**
ADJUSTED EBITDA %	**6.4%**	**10.7%**	**6.6%**	**5.5%**	**6.9%**	**8.5%**	**7.3%**	**12.9%**
Net earnings per share attributed to the owners of the Company	**0.39**	**0.04**	**0.05**	**(0.17)**	**(0.34)**	**0.11**	**0.03**	**0.01**
weighted average share outstanding	17,756,535	17,614,730	17,551,668	17,521,765	17,188,635	17,162,554	16,931,241	16,825,902

Reconciliation:					TTM
per above Adjusted EBITDA[1]	4,718	8,164	4,856	3,964	21,702
per bank reporting EBITDA	4,243	7,688	5,018	2,396	19,345
Difference	475	476	(162)	1,568	2,357
Discontinued ops	(475)	(476)	162	(1,568)	(2,357)
Write off in disc ops	-	-	-	-	-

[1] See "Definition of Non-IFRS Measures".

As we defined Adjusted EBITDA[1] as the same definition as required in the lending agreement and this table only reports EBITDA from continuing operations, we have highlighted above the reconciliation to show discontinued operations as well

Liquidity and capital resources

i) Working Capital

The following table represents the working capital information:

(in thousands of dollars)	**September 30, 2014 (unaudited)**	December 31, 2013	Change
Current assets	**$ 229,765**	$ 216,809	$12,956
Current liabilities	**$ (98,397)**	$ (108,206)	($9,809)
Working capital	**$ 131,368**	$ 108,603	$22,765

Current assets increased by $12.9 million as at September 30, 2014 when compared with December 31, 2013. This is primarily the result of an increase in assets held for sale of $20.2 million, a $0.8 million increase in cash, and an increase in prepaid and other current assets of $1.0 million primarily due to software licensing fees and membership fees paid upfront this period. This was offset by a $2.3 million decrease in accounts receivable, a $5.8 million reduction in WIP and a $1.0 million reduction in income taxes recoverable.

Current liabilities decreased by $9.8 million as at September 30, 2014 when compared with December 31, 2013. This was primarily due to the $44.8 million carrying value of convertible debentures which were amended on July 23, 2014 to extend the maturity date to June 30, 2019. Accordingly, these were classified to long-term as at September 30, 2014. There has been a $5.2 million increase in accounts payable and accrued liabilities which is higher by $1.9 million because of accrued interest on convertible debentures. The deferred revenue increased by $10.7 million, which reflects improved billing procedures in the Company. Income taxes payable have increased by $0.9 million. The amount due to related parties of $10 million was reclassified to current liabilities as amounts due to the GMP partnership are due April 2015. An increase in liabilities associated with the assets held for sale increased in the current period by $7.1 million.

ii) Working Capital Measured in Number of Days of Gross Billings[1]

Included in working capital of the Company are amounts reflecting project costs and sub-consultant expenses. The Company only reports its net fee volume as revenue, which would not include the billings for the recovery of these incurred costs. Therefore, to measure number of days outstanding of working capital, the gross billings, which include the billings for recovery of project expenses, would result in a more consistent calculation.

The table below calculates working days on a trailing twelve month basis, measured as days outstanding on gross billings, which over the last two years has been approximately 25% greater than net fee volume.

[1] See "Definition of Non-IFRS Measures".

Working days of gross billings outstanding[1]	September 30, 2013 *(unaudited)*	December 31, 2013 *(unaudited)*	March 31, 2014 *(unaudited)*	June 30, 2014 *(unaudited)*	September 30, 2014* *(unaudited)*
Accounts receivable	73	65	64	65	65
WIP	55	58	62	62	56
Deferred revenue	(8)	(9)	(12)	(12)	(16)
	120	114	114	115	105

**All figures in the table above have been adjusted to exclude results from discontinued operations.*

There has been a total decrease of 15 days in working capital as of September 30, 2014 compared to the same period last year. Since Q3 2013, the Company continues to carry out regular comprehensive reviews of its WIP and receivables and has made significant improvements in the billings and collections process as noted by the improvement in the aging of receivables per the table below. Improving the days outstanding in WIP and accounts receivable is a significant area of focus for the Company. There are ongoing programs to accelerate billings and to reduce days outstanding even further.

Components of Working Capital

Working days of gross billings outstanding[1]	September 30, 2013 *(unaudited)*	December 31, 2013 *(unaudited)*	March 31, 2014 *(unaudited)*	June 30, 2014 *(unaudited)*	September 30, 2014* *(unaudited)*
Accounts receivable	121.0	104.7	102.0	103.3	102.5
WIP	91.6	93.1	98.6	97.7	87.3
Deferred revenue	(13.3)	(13.8)	(18.5)	(18.9)	(24.5)
	199.2	184.1	182.1	182.1	165.3

**All figures in the table above have been adjusted to exclude results from discontinued operations.*

i) Accounts Receivable

The table below demonstrates the aging of receivables:

Accounts receivable aging (net of allowance) *(in thousands of dollars)*	*September 30, 2013* *(unaudited)*	*%*	*December 31, 2013*	*%*	*March 31, 2014* *(unaudited)*	*%*	*June 30, 2014* *(unaudited)*	*%*	*September 30, 2014** *(unaudited)*	*%*
Current	37,953	31	34,283	32	40,730	40	39,465	39	37,214	*36*
30 to 90 days	33,384	28	31,353	31	26,814	26	32,182	*32*	30,613	*30*
Over 90 days	49,627	41	39,155	37	34,428	34	31,645	*29*	34,712	*34*
Total	120,964	100	104,791	100	101,972	100	103,292	*100*	102,539	*100*

**All figures in the table above have been adjusted to exclude results from discontinued operations.*

[1] See "Definition of Non-IFRS Measures".

Two large accounts receivable balances totaling $3 million which contributed to the increase in accounts receivable were collected in October 2014. Collection of these amounts had been anticipated in September, but were delayed. Accounts receivable balances increased during the month of August when client staff were on summer vacation. The Company made significant efforts to collect accounts receivable in September but the result of this did not occur until October. It is a major initiative of management to get billings out faster and collect outstanding invoices sooner.

ii) Work-In-Process

Work-In-Process has increased $3.9 million since September 30, 2013. There has been a decrease in work-in-process in the three months ended September 30, 2014, which reflects the Company's initiative to accelerate the process of completing billings. The Company is monitoring the aging of work-in-process to ensure that any accounts where billing may be an issue are being dealt with on a timely basis.

iii) Deferred Revenue

Deferred Revenue from continuing operations has grown by $14.2 million since September 30, 2013. There has been an increase in deferred revenue in the three months ended September 30, 2014 of $7.5 million which is the result of the Company accelerating its billings on jobs. The balance is monitored on a regular basis to ensure that amounts are recognized in fee revenue appropriately.

Cash Flows

Cash flows from operating, financing, and investing activities, as reflected in the Interim Condensed Consolidated Statement of Cash Flows, are summarized in the following table:

(in thousands of dollars) *(Unaudited)*	**Three months ended September 30, 2014**	**Three months ended September 30, 2013**	Change
Cash flows provided by operating activities	**$ 7,422**	$ 1,593	$ 5,829
Cash flows provided by (used in) financing activities	**(4,262)**	3,500	(7,762)
Cash flows used in investing activities	**(1,903)**	(188)	(1,715)

Operating Activities

Cash flows from operating activities for the three months ended September 30, 2014 were $7.4 million compared to $1.6 million for the same period last year.

After eliminating all the non-cash items in net income, the improvement in operating cash flows is the result of improved billing processes which have resulted in deferred revenue increasing from $17 million at June 30, 2014 to $24.5 million at September 30, 2014.

Cash flows used in operating activities for discontinued operations for the three months ended September 30, 2014 was $0.6 million compared to $0.1 million of cash flows from operating activities for the same period in 2013.

Financing Activities

Cash flows used in financing activities for the three months ended September 30, 2014 were $4.3 million compared with cash flows provided by financing activities of $3.5 million for the same period last year. The Company repaid $4.3 million from the credit facility. In Q3 2013, the Company borrowed an additional $4.0 million under the credit facility and paid $0.5 million to reduce its vendor notes payable.

Cash flows used in financing activities for discontinued operations for the three months ended September 30, 2014 were $0.2 million compared to cash flows from financing activities of $0.3 million for the same period last year.

Investing Activities

Cash flows used in investing activities for the three months ended September 30, 2014 were $1.9 million compared with $0.2 million used for the same period last year. These expenditures relate to equipping the Company's new office in Toronto.

Cash flows used in investing activities for discontinued operations for the three months ended September 30, 2014 and 2013 were nominal.

(in thousands of dollars) *(Unaudited)*	**Nine months ended September 30, 2014**	**Nine months ended September 30, 2013**	Change
Cash flows provided by (used in) operating activities	**$ 16,037**	(5,192)	$ 21,229
Cash flows provided by (used in) financing activities	**(4,415)**	11,753	(16,168)
Cash flows (used in) investing activities	**$ (9,468)**	(1,225)	$ (8,243)

Operating Activities

Cash flows from operating activities for the nine months ended September 30, 2014 was $16 million compared to use of $5.6 million for the same period last year.

After eliminating all the non-cash items which have impacted net income, the improvement in operating cash flows is the result of improved billing which has caused deferred revenue to increase from $13.8 million to $24.5 million.

Cash flows from operating activities for discontinued operations for the nine months ended September 30, 2014 was $0.4 million compared to cash used of $0.1 million for the same period last year.

Financing Activities

For the nine months ended September 30, 2014, the Company used $4.4 million to repay the credit facility. In the nine months ended September 30, 2013, the Company increased its borrowings on credit line by $17.8 million, during the same period the Company repaid vendor notes of $1.7 million, paid dividends of $2.3 million and made distributions to non-controlling interest of $2.0 million.

Cash flows used in financing activities for discontinued operations for the nine months ended September 30, 2014 was $0.1 million compared to $0.4 million of cash flows from financing activities for the same period last year.

Investing Activities

During the nine months ended September 30, 2014, the Company used $9.5 million to purchase computer and equipment to outfit offices in Toronto and Montreal. During the nine months ended September 30, 2013, the Company used $1.2 million to purchase computer and equipment.

Cash flows used in investing activities for discontinued operations for the nine months ended September 30, 2014 and 2013 were $0.1 million.

Credit Facility and Bid Bond Guarantee Facility

IBI Group had credit facilities of $95 million available as at September 30, 2014 which were set to mature July 29, 2016. Advances under these credit facilities bore interest at a rate based on the Canadian dollar or U.S dollar prime rate, LIBOR or banker's acceptance rates, plus, in each case, an applicable margin. Total borrowings were $85.6 million under the credit facilities as of September 30, 2014 which compared with borrowings of $87.8 million under the credit facilities as of December 31, 2013. The amounts borrowed were classified as long-term in the statement of financial position as at September 30, 2014.

The total balance of unamortized transaction costs was $2.1 million as at September 30, 2014 (December 31, 2013 - $2.3 million) which was recorded net of the credit facilities. Net of capitalized transaction costs, the total carrying value of the credit facilities were $83.5 million as at September 30, 2014 (December 31, 2013 - $85.5 million).

In addition, a bid bond guarantee facility (the "Bid Bond Facility") of up to US $20 million was available to the Company to meet certain project requirements calling for the issuance of bid bonds to international customers. As at September 30, 2014, IBI Group had issued bid bonds in the amount of $6.4 million (December 31, 2013 – $2.3 million) under the Bid Bond Facility. The Bid Bond Facility was only available by way of letters of credit or letters of guarantee. The Bid Bond Facility was cancelled as part of the new financing agreement and replaced by the amended credit facilities described below.

The credit facilities contained financial covenants including funded debt to EBITDA[3] ratio, fixed-charge coverage ratio, and restrictions on distributions if certain conditions were not met. The Company was in compliance with its credit facility covenants as at September 30, 2014.

On October 2, 2014 the Company finalized the sale of its Quebec operations and a 49% equity interest in China. Proceeds received of $9.1 million from the sale were used to reduce the existing indebtedness under the Company's credit facilities.

Security Interest of Senior Lenders

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

Amended Credit Agreement

On October 6, 2014, the Company reached an agreement with its senior lenders to amend its existing credit facilities. The amended credit facilities consist of a swing line facility for $3,500, a revolver facility

[3] 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.

for $14,500, an office capital expenditure facility for $7,000, a letter of credit facility for $7,000 and a term facility for $62,000. The Bid Bond Facility has been cancelled as part of this new financing.

The aggregate availability under the amended credit facilities on closing was $94 million with a maturity date of March 31, 2016. The agreement requires step-down payments on the term facility of $5 million on October 31, 2014, $5 million on July 31, 2015, $5 million on October 31, 2015 and $47 million on maturity related to the term loan facility. The Company made the required $5 million payment to reduce the term loan facility in October. In addition, the availability on the letter of credit facility was reduced to $2,000 in October, resulting in total available borrowings under the amended credit facilities to $87 million as of October 31, 2014. At October 31, 2014, total actual borrowings were $68.5 million.

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

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

The amendment to the existing credit facilities considered an extinguishment for accounting purposes. This will result in a pre-tax write-off of deferred financing costs of approximately $2.1 million that will be recorded in the fourth quarter.

Vendor Notes Payable

The Company has notes payable due to the former owners of acquired businesses of $5.7 million of which $2.8 million was due September 30, 2014 and the remaining balances are due within the fourth quarter of this fiscal year. There are ongoing negotiations to reach a settlement agreement with the expectation that these will be finalized before the end of the current fiscal year. The settlement of the vendor notes payable is dependent on the availability provided by the credit facilities.

Convertible Debentures

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

7.0% Debentures ($46 million principal, matures on June 30, 2019)

On July 23, 2014 IBI announced that it entered into a supplemental trust indenture with CIBC Mellon Trust Company, the trustee for the 7.0% convertible unsecured subordinated debentures ("Debentures"), which were originally scheduled to mature on December 31, 2014, to give effect to the amendments approved at a special meeting of the Debenture holders to extend the maturity of the Debentures to June 30, 2019. In exchange for the extension of the maturity, Debenture holders that delivered and did not withdraw a valid proxy voting for the extension received either; a reduced conversion price to $5.00 per share from $19.17 per share with a consent fee note equal to $86.96 per $1,000 principal amount of

Debentures ("Option B") or the Debenture holders retained the conversion price of $19.17 per share and received a consent fee note equal to $195.65 per $1,000 principal amount of Debentures ("Option A"). The conversion price was also reduced to $5.00 per share from $19.17 per share for Debenture holders who did not deposit a proxy, abstained from voting or voted against the Debenture amendments ("Option C"). The Debentures bear interest from the date of issue at 7.0% per annum, payable in equal semi-annual payments in arrears on June 30th and December 31st of each year. The consent fee notes are unsecured, non-convertible, mature on December 31, 2016 and bear interest at the rate of 7.0% per annum which is payable on maturity.

The amendments to the Debentures resulted in them being accounted for as extinguishments for accounting purposes. Consequently, the original Debentures were derecognized and the new Debentures (under Option A, B and C) were recognized at fair value, resulting in a pre-tax gain on extinguishment in the amount of $21.1 million, net of transaction costs for $0.9 million which was recorded to other finance costs in the statement of comprehensive income (loss).

The fair value of the new Debentures issued under Option B and C of $18.75 million was estimated using the observed trading price as these Debentures are considered to be traded in an active market. The fair value was then allocated to the liability component in the amount of $15.92 million using discounted future cash flows at an estimated fair value discount rate of 26.5% and the residual was allocated to the Option B and C conversion feature in equity. The fair value of the new Debentures issued under Option A of $7.52 million was estimated using discounted future cash flows at an estimated fair value discount rate of 26.5%, with a comparison to pre-modification observed trading prices indicating that the equity component was of nominal value. As a result, substantively all of the fair value of the new Debentures issued under Option A was allocated to the liability component.

The fair value of the consent fee notes issued under Option A and B were $1.98 million and $0.45 million respectively, using discounted future cash flows at an estimated fair value discount rate of 26.5%.

The new Debentures and consent fee notes were subsequently measured at amortized cost using the effective interest method over their respective lives to maturity. As at September 30, 2014, the liability component of the new Debentures have an amortized cost of $24.28 million and the consent fee notes have an amortized cost of $2.53 million. The accretion expense for the new Debentures and consent fee notes was $0.84 million and $0.09 million, respectively, for the three and nine months ended September 30, 2014. The equity component for the conversion feature of the new Debentures in the amount of $2.89 million is measured at fair value at the date of issuance and there is no subsequent change in fair value recorded.

Post amendment, the ticker symbol for the new Debentures under Option B and C (aggregate principal amount of $31.3 million) is IBG.DB and for Option A (aggregate principal amount of $14.7 million) is IBG.DB.C. The fair value of the new Debentures under Option B and C was $19.5 million and for Option A was $8.4 million based on their respective quoted market price as at September 30, 2014.

5.75% Debentures ($20,000 principal, matures on September 30, 2017)

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 September 30, 2014, the liability component has an amortized cost of $18.7 million (December 31, 2013 - $18.4 million). The equity component for the conversion feature of $0.9 million 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 million. 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 $11.1 million based on the quoted market price as at September 30, 2014.

6.0% Debentures ($57,500 principal, matures on September 30, 2018)

The 6.0% Debentures are recorded as compound financial instruments. The liability component was recorded at fair value on issuance and was subsequently measured at amortized cost using the effective interest method over the life of the 6.0% Debentures. As at September 30, 2014, the liability component has an amortized cost of $54.1 million (December 31, 2013 - $53.4 million). The equity component for the conversion feature of $3.2 million 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 $57.5 million. 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 $27.9 million based on the quoted market price as at September 30, 2014.

Contractual obligations

As part of continuing operations, the Company enters into long-term contractual obligations from time to time. The table below summarizes the contractual obligations due on credit facilities, convertible debentures, operating lease commitments, notes payable, and amounts due to related parties as of September 30, 2014:

Contractual Obligations *(in millions of dollars)* *(unaudited)*	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Credit facility	$ 85.6	$ 15.0	$ 70.6	$ -	$ -
Interest on credit facility	10.3	6.0	4.3	-	-
Convertible debentures and consent fee notes	127.0	-	23.5	103.5	-
Interest on convertible debentures	33.0	7.8	16.2	9.0	-
Operating leases	151.2	22.6	31.9	30.6	66.1
Notes payable	5.6	5.6	-	-	-
Due to related party	10.0	10.0	-	-	-
Total Contractual Obligations	$ 420.7	$ 67.0	$144.5	$ 143.1	$ 66.1

*On July 23, 2014, the maturity date of the 7.0% Debentures were extended from December 31, 2014 to June 30, 2019.

For further information regarding the nature and repayment terms of the credit facility and convertible debentures, refer to Note 4 of the unaudited Interim Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2014.

Capital management

The Company's objective in managing capital is to maintain a capital base that will 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 has reviewed its anticipated revenues and costs over future years and has determined that the business has the ability to generate sufficient cash resources to fund its activities subject to successful negotiations with the holders of the vendor notes. A downturn in the economy or other unfavourable events may cause this situation to change. In conjunction with this analysis, 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.

Future Cash Generation

Specific items of consideration in future cash generation are as follows:

1. Ability to generate sufficient cash

   The Company's existing business plan indicates that future earnings and cash flow generated will be sufficient to pay down and re-finance existing amounts outstanding within current thresholds acceptable to lenders subject to successful negotiations with the holders of the vendor notes. In the event that capital markets deteriorate or the Company does not execute on its business plan this situation may change. Reference should be made to commentary on forward looking statements in this document.

2. Circumstances that could affect funding

   In the event that capital markets deteriorate or the Company does not execute on its business plan this will affect ability to attract and / or generate sufficient funds.

3. Working capital requirements

   Currently the business has sufficient financing to fund its working capital requirements. Management is implementing procedures and systems that are expected to reduce the level of working capital on the balance sheet. If achieved, this will reduce existing borrowing amounts.

4. Situations involving extended payment

   There are situations where arrangements with clients result in extended payment arrangements on projects. Management is implementing procedures and systems to improve cash flow forecasting before contracts are signed with clients to continue to ensure that sufficient cash flow is generated from each project.

5. Circumstances that impact essential transactions

   Certain larger projects in the architecture and engineering marketplace require capital investment to participate in the business opportunity. While the Company will continue to participate in these activities it will continue to do so only where probability of sufficient cash flow generation is determined at the beginning of the project.

6. Sources of funds to meet capital expenditure requirements

   With the exception of 2014, where new leases were signed on two major offices, the Company does not have significant capital needs in relation to its cash generating ability. In the event that capital markets deteriorate or the Company does not execute on its business plan this situation may change. Reference should be made to commentary on forward looking statements in this document.

7. Credit Facility

   As outlined in previous paragraphs, the Company has entered into a new credit facility with senior lenders on October 6, 2014 that provides sufficient operating capital for the Company to execute its business plan, subject to successful execution of that plan.

8. Divestures

   The Company also has ongoing efforts in place to identify parts of the business where the return on assets does not align with the long-term growth and performance strategies established by the senior leadership team.

9. Convertible Debentures

   As outlined above, the Company has three series of debentures that provide a basis of capital which requires repayment or refinancing over the period from September 2017 to June 2019.

Outlook

The following represents forward looking information and users are cautioned that actual results may vary.

Management is forecasting approximately $318 million in total revenue for the year ended December 31, 2014 of which 98.4% is committed and under contract. As a result of the divestment of the Quebec and China operations, the forecasted revenue for the year was reduced from $330 million to $318 million for revenue that was expected to be earned by them in the fourth quarter. This committed workload is a material factor and assumption used to develop revenue forecasts. The Company continues to see an increase in committed work to be delivered in 2014, which now stands at approximately $313 million. The Company has approximately eight and a half months of backlog (this is calculated on the basis of the current pace of work that the Company has achieved during the last 12 months ended September 30, 2014).

After adjusting for on-going costs of financial advisors, which are expected to be $4 million in 2014 and increased rent due to having two offices in Toronto for a short period of time, which is expected to be $2 million, the Company is forecasting the 2014 EBITDA margin to approach a level more consistent with industry standards.

The Company bases its view of industry standards on:

1. Annual surveys completed by a consulting firm who focuses on architecture and engineering industries.

2. The reported performance of Company's direct competitors.
3. The reports published by market analysts covering firms in the Company's business sectors.

Based on the most recent review of this information, EBITDA margins in the industry average 8-12%.

Ongoing efforts are underway to improve the monitoring of financial results, identify synergies and implement cost management initiatives, strengthen the billings and collections process, and other long-term debt commitments, and divest operations that are not performing in line with the Company's growth strategies. The Company continues to seek out opportunities to enhance profitability.

This guidance should be read in conjunction with the "Forward Looking Statements and Risk Factors" below and based on the factors and assumptions and is subject to the risks and uncertainties summarized in that section, which are more fully described in the Company's public disclosure documents.

Share capital

As at September 30, 2014, the Company's common share capital consisted of 17,756,535 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, 2014, the shares issued on such exchange would have represented a 22.1% interest in the Company.

Class B partnership units do not entitle the holder to voting rights at the meetings of shareholders, although the holder also holds an equal number of non-participating voting shares in the Company which give the holder one vote for each such share. The Class B partnership units have been recorded as a non-controlling interest in the interim condensed consolidated financial statements as at September 30, 2014.

Transactions with related parties

Pursuant to the Administration Agreement entered into in connection with the closing of the initial public offering of the Company's predecessor, IBI Income 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, 2014 was $6.6 million (2013 - $7.3 million) and $19.9 million for nine months ended September 30, 2014 (2013 - $21.6 million).

During the first quarter of 2010, the Management Partnership advanced $26 million 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 September 30, 2014, the remaining amount payable was $10 million (December 31, 2013 - $10 million). Interest expense on this advance was $0.1 million for the three months ended September 30, 2014 (2013 - $0.1 million) and $0.3 million for the nine months ended September 30, 2014 (2013 - $0.3 million). The loan matures April 1, 2015 and has therefore been reclassified as current liability. 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.

As described in Note 13 to the Company's unaudited Interim Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2014, the Company also divested of a 19% interest in its business in China to Daniel Arbour, a senior executive of China operations.

Accounting developments

a) 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 interim condensed 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 interim condensed consolidated financial statements.

b) 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 Programs, 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.

Disclosure controls and procedures and internal control over financial reporting

As required by National Instrument 52-109 of the Canadian Securities Administrators, the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") will be making certifications related to the information contained in the Company's quarterly filings. As part of certification, the CEO and CFO must certify as to the design of disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR").

DC&P are designed to provide reasonable assurance that information required to be disclosed by the Company is processed and reported on a timely basis to the Company's management, including the CEO and CFO, as appropriate, to allow timely decisions with respect to required disclosure. The Company has adopted or formalized such controls as it believes are necessary and consistent with its business and internal management and supervisory practices. ICFR is a process designed to provide reasonable assurances regarding the reliability of the Company's financial reporting and of the preparation of financial statements for external purposes in compliance with generally accepted accounting principles. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance with respect to the reliability of the financial reporting and of the preparation of the financial statements.

The CEO and CFO of the Company, together with management of the Company have evaluated the design of the Company's DC&P and ICFR. The CEO and CFO of the Company, together with management, are collectively satisfied that the Company's DC&P and ICFR were appropriately designed.

Critical account estimates

The preparation of the Company's consolidated financial statements requires management to make certain estimates and assumptions. The estimates and assumptions are based on the Company's experience combined with management's understanding of current facts and circumstances. These estimates may differ from actual results, and certain estimates are considered critical, as they are both important to reflect the Company's financial position and results of operations, and require significant or complex judgement on the part of management using accounting policies derived therein consistent with the Company's audited December 31, 2013 consolidated financial statements.

Forward looking statements and risk factors

Certain statements in this MD&A may constitute “forward-looking” statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company and its subsidiary entities, including IBI Group (collectively, the “Company”), or the industry in which they operate, to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this MD&A, such statements use words such as “may”, “will”, “expect”, “believe”, “plan” and other similar terminology. These statements reflect management’s current expectations regarding future events and operating performance and speak only as of the date of this MD&A. These forward-looking statements involve a number of risks and uncertainties, including those related to: (i) the Company’s ability to maintain profitability and manage its growth; (ii) the Company’s reliance on its key professionals; (iii) competition in the industry in which the Company operates; (iv) timely completion by the Company of projects and performance by the Company of its obligations; (v) reliance on fixed-price contracts; (vi) the general state of the economy; (vii) acquisitions by the Company; (viii) risk of future legal proceedings against the Company; (ix) the international operations of the Company; (x) reduction in the Company’s backlog; (xi) fluctuations in interest rates; (xii) fluctuations in currency exchange rates; (xiii) potential undisclosed liabilities associated with acquisitions; (xiv) upfront risk of time invested in participating in consortia bidding on large projects; (xv) limits under the Company’s insurance policies; (xvi) the Company’s reliance on distributions from its subsidiary entities and, as a result, its susceptibility to fluctuations in the performance of the Company’s subsidiary entities; (xvii) unpredictability and volatility of the price of Common Shares; (xviii) the degree to which the Company is leveraged may affect its operations; (xix) dividends are not guaranteed and will fluctuate with the Company’s performance; (xx) the possibility that the Company may issue additional Common Shares diluting existing Shareholders’ interests; (xxi) income tax matters; (xxii) approval of the recapitalization plan by the Company’s lending syndicate which is required by March 31, 2015 and achieving the specified requirements per the amended agreement. These risk factors are discussed in detail under the heading “Risk Factors” in the Company’s annual information form for the year ended December 31, 2013. New risk factors may arise from time to time and it is not possible for management of the Company to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance or achievements of the Company to be materially different from those contained in forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this MD&A.

The factors used to develop revenue forecast in this MD&A include the total amount of work the Company has signed an agreement with its clients to complete, the timeline in which that work will be completed based on the current pace of work the company achieved over the last 12 months and expects to achieve over the next 12 months. The Company updates these assumptions at each reporting period and adjusts its forward looking information as necessary.

Definition of non-IFRS measures

Non-IFRS measures do not have a standardized meaning within IFRS and are therefore unlikely to be comparable to additional measures presented by other issuers. In commentary and tables within this document IFRS measures are presented along with non-IFRS measures. Where non-IFRS measures are used, there is a reconciliation to IFRS amounts provided. Any changes in the definition of non-IFRS are disclosed and quantified.

1. *Adjusted EBITDA*

The Company believes that Adjusted EBITDA, defined below, is an important measure for investors to understand the Company's ability to generate cash to honour its obligations. Management of the Company believes that in addition to net income (loss), Adjusted EBITDA is a useful supplemental measure as it provides readers with an indication of cash available for debt service, capital expenditures, income taxes and dividends. Readers should be cautioned, however, that EBITDA should not be construed as an alternative to net income (loss) determined in accordance with IFRS as an indicator of the Company's performance or to cash flows from operating activities as a measure of liquidity and cash flows.

The Company defines Adjusted EBITDA in accordance with what is required in its lending agreements with its senior lenders.

References in this MD&A to Adjusted EBITDA are based on net income adjusted for the following items:

- Gain/loss arising from extraordinary, unusual or non-recurring items, such as debt extinguishments.
- Acquisition costs and deferred consideration revenue (i.e. restructuring costs, integration costs, compensation expenses, transaction fees and expenses).
- Non-cash expenses (i.e. grant of stock options, restricted share units or Capital stock to employees as compensation)
- Gain/Loss realized upon the disposal of capital property.
- Gain/loss on foreign exchange translation
- Gain/loss on purchase or redemption of securities issued by that person or any subsidiary.
- Amounts attributable to minority equity investments
- Interest income

Adjusted EBITDA is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS, and the Company's method of calculating Adjusted EBITDA may differ from the methods used by other similar entities. Accordingly, Adjusted EBITDA may not be comparable to similar measures used by such entities. Reconciliations of net income (loss) to Adjusted EBITDA have been provided under the headings "Results of Operations".

2. *Adjusted Revenue*

Adjusted revenue is equal to revenue plus or minus the impact of any adjustments to unbilled WIP deemed non recoverable. Management believes that Adjusted Revenue is a relevant measure for investors as it indicates the operating revenue levels of the business in any particular period.

3. Adjusted Net Income

Adjusted net income (loss) is equal to the net income (loss) for the period plus the after tax impact of any impairments to goodwill and intangible assets as well as any adjustments to unbilled WIP and uncollectible accounts receivable. Management believes that Adjusted Net Income is a relevant measure for investors as it indicates the operating net income levels of the business in any particular period.

4. Adjusted basic and diluted net earnings per share

Adjusted basic and diluted net earnings per share is equal to the adjusted net income (loss) attributable to the owners for the period divided by the weighted average number of common shares outstanding during the period. Management believes that Adjusted basic and diluted net earnings per share is a relevant measure for investors as it indicates the operating earnings per share of the business in any particular period.

5. *Working capital measured in Number of Days of Gross Billings*

Included in working capital of the Company are amounts reflecting project costs and sub-consultant expenses. The Company only reports its net fee volume as revenue, which would not include the billings for the recovery of these incurred costs. Therefore to measure number of days outstanding of working capital, the gross billings, which include the billings for recovery of project expenses, would result in a more consistent calculation.

The information included is calculated based on working days on a twelve month trailing basis, measured as days outstanding on gross billings, which over the last two years has been approximately 25% greater than net fee volume.

The Company believes that informing investors of its progress in managing its accounts receivable, work-in-process and deferred revenue is important for investors to anticipate cash flows from the business and to compare the Company with other businesses that operate in the same industry.