IBI Group 2018 Second-Quarter Financial Statements

THREE AND SIX MONTHS ENDED
JUNE 30, 2018 AND 2017

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF

IBI GROUP INC.

THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017

IBI GROUP INC.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(unaudited)

(thousands of Canadian dollars)	NOTES	JUNE 30, 2018	DECEMBER 31, 2017 *(restated)*	JANUARY 1, 2017 *(restated)*
ASSETS				
Current Assets				
Cash	*5(c)*	**$ 6,405**	$ 9,833	$ 8,008
Accounts receivable	*5(c),8(b)*	**108,308**	107,229	104,603
Contract assets	*3,4*	**75,209**	67,319	75,331
Prepaid expenses and other current assets		**18,768**	16,446	12,842
Income taxes recoverable		**1,724**	2,324	507
Total Current Assets		**$ 210,414**	$ 203,151	$ 201,291
Restricted cash	*5(c),8(c)*	**3,087**	2,936	4,522
Other assets		**360**	360	421
Property and equipment		**16,845**	15,352	15,772
Intangible assets	*12*	**8,061**	7,639	7,672
Deferred tax assets		**12,784**	13,732	18,986
TOTAL ASSETS		**$ 251,551**	$ 243,170	$ 248,664
LIABILITIES AND DEFICIT				
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	*5(c),8,12*	**44,263**	48,782	55,505
Contract liabilities	*4*	**42,287**	43,186	50,522
Income taxes payable		**1,007**	1,486	1,860
Finance lease obligation	*5(c),8*	**35**	36	37
Onerous lease provisions		**2,602**	4,197	1,018
Convertible debentures	*5(b)*	**12,953**	–	-
Total Current Liabilities		**$ 103,147**	$ 97,687	$ 108,942
Onerous lease provisions		**730**	1,082	2,270
Finance lease obligation	*5(c),8*	**14**	31	67
Credit facilities	*5(a)*	**66,763**	63,842	73,184
Convertible debentures	*5(b)*	**36,068**	47,157	43,876
Other financial liabilities	*5(b)(c)*	**9,572**	13,011	9,089
Deferred tax liabilities		**5,922**	3,901	3,552
TOTAL LIABILITIES		**$ 222,216**	$ 226,711	$ 240,980
EQUITY				
Shareholders' Equity				
Share capital	*7*	**279,926**	279,679	279,667
Capital reserve	*7*	**2,103**	1,362	453
Contributed surplus	*7*	**7,397**	7,397	7,397
Deficit		**(265,792)**	(272,408)	(281,873)
Convertible debentures – equity component	*5(b)*	**561**	561	561
Accumulated other comprehensive loss		**(4,069)**	(7,232)	(4,304)
Total Shareholders' Equity		**$ 20,126**	$ 9,359	$ 1,901
Non-controlling interest	*7*	**9,209**	7,100	5,783
TOTAL EQUITY		**$ 29,335**	$ 16,459	$ 7,684
TOTAL LIABILITIES AND EQUITY		**$ 251,551**	$ 243,170	$ 248,664

See accompanying notes to the interim condensed consolidated financial statements.

IBI GROUP INC.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

(unaudited)

(thousands of Canadian dollars, except per share amounts)	NOTES	THREE MONTHS ENDED JUNE 30, 2018	THREE MONTHS ENDED JUNE 30, 2017	SIX MONTHS ENDED JUNE 30, 2018	SIX MONTHS ENDED JUNE 30, 2017
Revenue					
Gross Revenue		**$ 114,940**	$ 117,741	**$ 226,269**	$ 235,329
Less: Subconsultants and direct costs		**21,861**	24,413	**42,375**	50,635
NET REVENUE		**$ 93,079**	$ 93,328	**$ 183,894**	$ 184,694
Expenses					
Salaries, fees and employee benefits	*6,13*	**66,844**	63,698	**131,231**	127,538
Rent		**5,340**	5,860	**10,903**	11,674
Other operating expenses		**10,838**	10,263	**20,876**	21,169
Foreign exchange loss	*8(a)*	**1,432**	1,120	**1,983**	1,024
Amortization of intangible assets		**327**	293	**624**	583
Depreciation of property and equipment		**1,098**	992	**2,117**	1,986
Loss (gain) in fair value of other financial liabilities	*5(b)*	**628**	174	**(3,439)**	442
Impairment of financial assets	*8*	**468**	670	**842**	1,250
		86,975	83,070	**165,137**	165,666
OPERATING INCOME		**$ 6,104**	$ 10,258	**$ 18,757**	$ 19,028
Interest expense, net	*8,10*	**2,348**	2,538	**4,819**	5,219
Other finance costs	*10*	**303**	476	**565**	897
FINANCE COSTS		**$ 2,651**	$ 3,014	**$ 5,384**	$ 6,116
Share of loss of equity accounted investee, net of tax		**-**	348	**-**	348
NET INCOME BEFORE TAX		**$ 3,453**	$ 6,896	**$ 13,373**	$ 12,564
Current tax expense	*14*	**973**	1,192	**1,265**	1,839
Deferred tax expense	*14*	**1,251**	854	**3,323**	1,957
INCOME TAXES		**$ 2,224**	$ 2,046	**$ 4,588**	$ 3,796
NET INCOME		**$ 1,229**	$ 4,850	**$ 8,785**	$ 8,768
OTHER COMPREHENSIVE INCOME					
Items that are or may be reclassified to profit or loss					
Gain on translating financial statements of foreign operations		**841**	427	**3,800**	462
OTHER COMPREHENSIVE INCOME		**841**	427	**3,800**	462
TOTAL COMPREHENSIVE INCOME		**$ 2,070**	$ 5,277	**$ 12,585**	$ 9,230
NET INCOME ATTRIBUTABLE TO:					
Common shareholders		**1,023**	4,037	**7,313**	7,298
Non-controlling interests	*7*	**206**	813	**1,472**	1,470
NET INCOME		**$ 1,229**	$ 4,850	**$ 8,785**	$ 8,768
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:					
Common shareholders		**$ 1,723**	$ 4,393	**$ 10,477**	$ 7,683
Non-controlling interests	*7*	**347**	884	**2,108**	1,547
TOTAL COMPREHENSIVE INCOME		**$ 2,070**	$ 5,277	**$ 12,585**	$ 9,230
EARNINGS PER SHARE ATTRIBUTABLE TO COMMON SHAREHOLDERS					
Basic and diluted earnings per share	*7*	**$ 0.03**	$ 0.13	**$ 0.23**	$ 0.23

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 JUNE 30, 2018	THREE MONTHS ENDED JUNE 30, 2017	SIX MONTHS ENDED JUNE 30, 2018	SIX MONTHS ENDED JUNE 30, 2017
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES					
Net income		**$ 1,229**	$ 4,850	**$ 8,785**	$ 8,768
Items not affecting cash:					
Onerous lease provision		**(677)**	(166)	**(1,947)**	(430)
Depreciation of property and equipment		**1,098**	992	**2,117**	1,986
Amortization of intangible assets		**327**	293	**624**	583
Amortization of deferred financing costs	*10*	**133**	259	**271**	515
Impairment of financial assets	*8*	**468**	670	**842**	1,250
Share of loss of equity-accounted investee, net of tax		**-**	348	**-**	348
Foreign exchange loss	*8*	**1,432**	1,120	**1,983**	1,024
Interest expense, net	*10*	**2,348**	2,538	**4,819**	5,219
Deferred tax expense	*14*	**1,251**	854	**3,323**	1,957
Stock option expense	*13*	**408**	115	**743**	180
Loss (gain) on disposal of property and equipment		**(176)**	39	**-**	104
Loss (gain) in fair value of other financial liabilities	*5(b)*	**628**	174	**(3,439)**	442
Interest paid		**(938)**	(3,360)	**(1,211)**	(3,598)
Income taxes paid		**(471)**	171	**(1,042)**	558
Change in non-cash operating working capital	*9*	**(12,038)**	(10,051)	**(17,372)**	(17,797)
NET CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES		**$ (4,978)**	$ (1,154)	**$ (1,504)**	$ 1,109
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES					
Draws (payments) on principal of credit facilities	*5*	**4,163**	(3,478)	**2,063**	(2,430)
Deferred financing costs	*5*	**(2)**	(531)	**(57)**	(531)
Payments on principal of finance lease obligation		**(9)**	(10)	**(18)**	(19)
Proceeds from shares issued	*7*	**-**	-	**4**	8
NET CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES		**$ 4,152**	$ (4,019)	**$ 1,992**	$ (2,972)
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES					
Purchase of property and equipment		**(2,042)**	(907)	**(3,421)**	(1,405)
Purchase of intangible assets		**(299)**	(165)	**(524)**	(393)
Increase investment in equity-accounted investee	*19*	**-**	(348)	**-**	(348)
Restricted cash	*5*	**-**	3,624	**-**	1,381
NET CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES		**$ (2,341)**	$ 2,204	**$ (3,945)**	$ (765)
Effect of foreign exchange rate fluctuations on cash held	*8*	**(241)**	115	**29**	392
NET DECREASE IN CASH		**$ (3,408)**	$ (2,854)	**$ (3,428)**	$ (2,236)
Cash, beginning of period		**9,813**	8,626	**9,833**	8,008
CASH, END OF PERIOD		**$ 6,405**	$ 5,772	**$ 6,405**	$ 5,772

See accompanying notes to the interim condensed consolidated financial statements.

IBI GROUP INC.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (DEFICIT)

(unaudited)

(thousands of Canadian dollars)	NOTES	THREE MONTHS ENDED JUNE 30, 2018	THREE MONTHS ENDED JUNE 30, 2017	SIX MONTHS ENDED JUNE 30, 2018	SIX MONTHS ENDED JUNE 30, 2017
SHARE CAPITAL					
Share capital, beginning of period		**$ 279,926**	$ 279,679	**$ 279,679**	$ 279,667
Shares issued	*7,13*	**-**	-	**247**	12
SHARE CAPITAL, END OF PERIOD		**$ 279,926**	$ 279,679	**$ 279,926**	$ 279,679
CAPITAL RESERVE					
Capital reserve, beginning of period		**$ 1,695**	$ 518	**$ 1,362**	$ 453
Stock options granted	*13*	**373**	115	**695**	$ 184
Stock options exercised	*13*	**-**	-	**(2)**	(4)
Performance share units granted	*13*	**35**	-	**48**	-
CAPITAL RESERVE, END OF PERIOD		**$ 2,103**	$ 633	**$ 2,103**	$ 633
CONTRIBUTED SURPLUS					
Contributed surplus, beginning of period		**$ 7,397**	$ 7,397	**$ 7,397**	7,397
CONTRIBUTED SURPLUS, END OF PERIOD		**$ 7,397**	$ 7,397	**$ 7,397**	$ 7,397
DEFICIT					
Deficit, beginning of period, as reported		**$ (266,815)**	$ (266,090)	**$ (259,886)**	(269,351)
Adjustment from adoption of IFRS 15 (net of tax)	*3*	**-**	(12,522)	**(12,522)**	(12,522)
Adjustment from adoption of IFRS 9 (net of tax)	*3*	**-**	-	**(697)**	-
Deficit, beginning of period, as restated		**$ (266,815)**	$ (278,612)	**$ (273,105)**	$ (281,873)
Net income attributable to common shareholders		**1,023**	4,037	**7,313**	7,298
DEFICIT, END OF PERIOD		**$ (265,792)**	$ (274,575)	**$ (265,792)**	$ (274,575)
CONVERTIBLE DEBENTURES – EQUITY COMPONENT					
Convertible debentures, beginning of period	*5(b)*	**$ 561**	$ 561	**561**	561
CONVERTIBLE DEBENTURES, END OF PERIOD		**$ 561**	$ 561	**$ 561**	$ 561
ACCUMULATED OTHER COMPREHENSIVE LOSS					
Accumulated other comprehensive loss, beginning of period		**$ (4,769)**	$ (4,275)	**$ (7,232)**	(4,304)
Other comprehensive income attributable to common shareholders		**700**	357	**3,163**	386
ACCUMULATED OTHER COMPREHENSIVE LOSS, END OF PERIOD		**$ (4,069)**	$ (3,918)	**$ (4,069)**	$ (3,918)
TOTAL SHAREHOLDERS' EQUITY		**$ 20,126**	$ 9,777	**$ 20,126**	$ 9,777
NON-CONTROLLING INTEREST					
Non-controlling interest, beginning of period		**$ 8,862**	$ 6,446	**$ 7,100**	5,783
Total comprehensive income attributable to non-controlling interests	*7*	**347**	884	**2,108**	1,547
NON-CONTROLLING INTEREST, END OF PERIOD		**$ 9,209**	$ 7,330	**$ 9,209**	$ 7,330
TOTAL EQUITY, END OF PERIOD		**$ 29,335**	$ 17,107	**$ 29,335**	$ 17,107

See accompanying notes to the 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 June 30, 2018, the Company's common share capital consisted of 31,220,877 (December 31, 2017 – 31,190,153) 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 partnership unit. Class B partnership units do not entitle the holder to voting rights at the meetings of shareholders of the Company.

If all of the outstanding Class B partnership units were converted to common shares, the common share capital as at June 30, 2018 would be 37,503,099 (December 31, 2017 – 37,472,375). If the Class B partnership units were converted, the Management Partnership and affiliated partnerships would hold 35.5% of the voting shares as at June 30, 2018 (December 31, 2017 – 35.2%).

The table below summarizes the ownership of the Company by the Management Partnership and affiliated partnerships as at June 30, 2018:

	NUMBER OF UNITS HELD	PERCENTAGE OF TOTAL OWNERSHIP
Class B partnership units and non-participating voting shares held by the Management Partnership	6,282,222	16.75%
Common shares held by the Management Partnership and affiliated partnerships	7,016,410	18.71%

Through IBI Group, the Company is an international, multi-disciplinary provider of a broad range of professional services focused on the physical development of cities. IBI Group's business is concentrated in three main areas of development, being intelligence, buildings and infrastructure. The professional services provided by IBI Group include planning, design, implementation, analysis of operations and other consulting services related to these three main areas of development.

(in thousands of Canadian dollars, except per share and share amounts)

The table below summarizes the trading symbols of the Company's securities which are listed on the Toronto Stock Exchange ("TSX") as at June 30, 2018:

SECURITY	TRADING SYMBOL
Common shares	"IBG"
7.0% convertible debentures (Option A), $14,755 principal, convertible at $19.17 per share, matures on June 30, 2019 ("7.0% Debentures")	"IBG.DB.C"
5.5% convertible debentures, $46,000 principal, convertible at $8.35 per share, matures on December 31, 2021 ("5.5% Debentures")	"IBG.DB.D"

The Company's registered head office is 55 St. Clair Ave. West, 7th Floor, Toronto, Ontario, M4V 2Y7.

NOTE 2: BASIS OF PREPARATION

(a) STATEMENT OF COMPLIANCE

These unaudited interim condensed consolidated financial statements ("interim financial statements') of the Company and its subsidiaries have been prepared in accordance with IAS 34, *Interim Financial Reporting,* as issued by the International Accounting Standards Board and accounting policies described in the Company's audited consolidated financial statements as at and for the year ended December 31, 2017 other than those described in (c) below. Certain information and footnote disclosures which are considered material to the understanding of the Company's interim financial statements and which are normally included in annual financial statements prepared in accordance with IFRS are provided in these notes. The interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Corporation's audited annual consolidated financial statements for the year ended December 31, 2017.

These interim financial statements were approved by the Company's Board of Directors on August 8, 2018.

(b) USE OF ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of these interim financial statements requires management to exercise judgement and make estimates and assumptions that affect the application of accounting policies on reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the interim condensed consolidated statement of financial position ("interim statement of financial position"), and the reported amounts of revenue and expenses for the period covered by the interim condensed consolidated statement of income and comprehensive income ("interim statement of income and comprehensive income"). Actual amounts may differ from these estimates.

The significant judgements made by management in applying the Company's policies and key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for significant judgements and key sources of estimation uncertainty related to the application of IFRS 15 and IFRS 9, which are described in Note 3.

(c) FUTURE ACCOUNTING POLICIES

IFRS 16 *Leases*

In January 2016, the IASB issued IFRS 16 Leases (“IFRS 16”). The new standard is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 has been adopted.

IFRS 16 will replace IAS 17 Leases. The new standard requires all leases to be reported on the balance sheet unless certain criteria for exclusion are met. The Company intends to adopt IFRS 16 in its consolidated financial statements for the annual period beginning on January 1, 2019. The Company is in the process of collecting the necessary information on all of the operating leases as part of its transition plan to begin the process to quantify the impact of adopting the standard. The Company will evaluate the transition elections at that time. The extent of the impact of adoption of the interpretation has not yet been determined.

IFRIC 23 *Uncertainty over Income Tax Treatments*

On June 7, 2017, the IASB issued IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. The extent of the impact of adoption of the interpretation has not yet been determined.

Annual Improvements to IFRS (2015-2017) Cycles

On December 12, 2017, the IASB issued narrow-scope amendments to three standards as part of its annual improvements process. The amendments are effective on or after January 1, 2019, with early application permitted. Each of the amendments has its own specific transition requirements.

IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements* - to clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business;

IAS 12 *Income Taxes* – to clarify that all income tax consequences of dividends are recognized consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI, or equity; and

IAS 23 *Borrowing Costs* – to clarify that specific borrowings – i.e. funds borrowed specifically to finance the construction of a qualifying asset – should be transferred to the general borrowings pool once the construction of the qualifying asset has been completed.

The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the amendments has not yet been determined.

NOTE 3: CHANGES IN ACCOUNTING POLICIES

IFRS 15 REVENUE FROM CUSTOMER CONTRACTS

(a) IFRS 15 REVENUE RECOGNITION POLICY

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognizes revenue from all types of service contracts (fixed-fee; variable-fee and time-and-material) using the five step model framework:

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations of the contract
- Recognize revenue when (or as) the entity satisfies a performance obligation

The Company has adopted IFRS 15 as at January 1, 2018 using the full retrospective method to restate the prior reporting period presented as at January 1, 2017. The effect of initially applying these standards will result in deferral of revenue recognition due to the following:

- New definition of contract under IFRS 15
- Assessment of probability of approval of contract modifications

The extent of the impact of adoption of the standard on the amounts and timing of revenue recognized is a pre-tax increase of $15,711 to deficit as at January 1, 2017.

(in thousands of Canadian dollars, except per share and share amounts)

The following table summarizes the impact of transition to IFRS 15 on the Company's interim statement of financial position as at January 1, 2017 and December 31, 2017. There was no material impact on the Company's interim statement of income and comprehensive income or interim condensed consolidated statement of cash flows.

As at January 1, 2017	**Impact of changes in accounting policy**		
(thousands of Canadian dollars) (unaudited)	**As previously reported**	**Adjustment**	**As restated**
Assets			
Accounts receivable	108,593	(3,990)	104,603
Contract assets	87,052	(11,721)	75,331
Deferred income tax asset	16,421	2,565	18,986
Total assets	**261,810**	**(13,146)**	**248,664**
Liabilities			
Contract liabilities	50,522	-	50,522
Income tax payable	1,860	-	1,860
Deferred income tax liability	4,176	(624)	3,552
Total liabilities	241,604	(624)	240,980
Equity			
Deficit	(269,351)	(12,522)	(281,873)
Total shareholders' equity	20,206	(12,522)	7,684
Total liabilities and equity	**261,810**	**(13,146)**	**248,664**

As at December 31, 2017	**Impact of changes in accounting policy**		
(thousands of Canadian dollars) (unaudited)	**As previously reported**	**Adjustment**	**As restated**
Assets			
Accounts receivable	111,219	(3,990)	107,229
Contract assets	79,040	(11,721)	67,319
Deferred income tax asset	11,167	2,565	13,732
Total assets	**256,316**	**(13,146)**	**243,170**
Liabilities			
Contract liabilities	43,186	-	43,186
Income tax payable	1,486	-	1,486
Deferred income tax liability	4,525	(624)	3,901
Total liabilities	227,335	(624)	226,711
Equity			
Deficit	(259,886)	(12,522)	(272,408)
Total shareholders' equity	28,981	(12,522)	16,459
Total liabilities and equity	**256,316**	**(13,146)**	**243,170**

(b) CHANGES IN ESTIMATES AND JUDGEMENTS

The details of the new significant accounting policies and nature of the changes to previous accounting policies in relation to the Company's services are set out below.

REVENUE RECOGNITION

The Company enters into contracts with clients to provide professional services in three main areas intelligence, buildings and infrastructure. The professional services range from planning, design, implementation, analysis of operations and other consulting services as required by the customer.

The Company has determined that the customer controls all the work in progress as the deliverables are being created as the Company's standard contracting templates entitle the Company to reimbursement of cost incurred to the cancellation date including a reasonable profit margin. Revenue from these contracts are recognized over-time as services are rendered with invoices being issued based on the billing terms of the contract. Uninvoiced amounts are recognized as contract assets.

Certain contracts will include multiple deliverables and can span more than one fiscal period. Management applies judgement when assessing whether certain deliverables in a customer arrangement should be included or excluded as a separate performance obligation, and the allocation of transaction price to each identified performance obligation.

The Company recognizes revenue on performance obligations satisfied over time with reference to professional costs incurred to date as percentage of total professional costs for each performance obligation. Estimating total professional costs is subjective and requires the use of management's best estimate based on the information available at that point in time. Changes in the estimates are reflected in the period in which they are made and would affect the Company's revenue and contract assets.

The Company used to account for certain of its revenue in accordance with IAS 11 *Construction Contracts*, which required estimates to be made for contract costs and revenues and IAS 18 *Revenue* ("IAS 18"). In accordance with IAS 18, there was no requirement to identify components of a contract separately as performance obligations, and thus the measurement of revenue was not performed on separately identifiable components.

(c) DISAGGREGATION OF REVENUE

The Company considers economic factors that may impact the nature, amount, timing and uncertainty of revenue and cash flows on a geographical basis. Additional information on the disaggregation of revenue by geographic segment can be found in Note 4 – Segment Information.

(d) CONTRACT BALANCES

The contract assets primarily relate to the Company's rights to consideration for services rendered but not billed at the report date. The contract assets are transferred to accounts receivable when the rights become unconditional. This usually occurs when the Company issues an invoice to the customer. The contract liabilities relate to the advance consideration received from customers, for which revenue is recognized over time. The change in the Company's contract assets and accounts receivable from prior reporting periods is related to the adjustment on the timing of revenue recognized as at January 1, 2017, with all other changes as a result of the normal course of operations.

(e) COMMITTED REVENUE

At the end of June 30, 2018, the Company has $350,000 of work that is committed to performance obligations for the next five years.

IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities, and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39").

The new significant account policies and the nature and effect of the changes to previous accounting policies are set out below.

CLASSIFICATION AND MEASURMENT OF FINANCIAL ASSETS

IFRS 9 eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables, and available for sale.

Under IFRS 9, on initial recognition, a financial asset is classified and measured at: amortized cost; FVOCI – debt investment, FVOCI – equity investment; or FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company's financial assets are comprised of cash, restricted cash, and accounts receivable. Cash and restricted cash are measured at FVTPL. The accounts receivable do not include a significant financing component and are initially measured at the transaction price under IFRS 15. Accounts receivable are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by any impairment loss. Interest income, foreign exchange gains and losses, and impairment are recognized in profit and loss. Any gain or loss on derecognition is recognized in profit or loss.

CLASSIFICATION AND MEASUREMENT OF FINANCIAL LIABILITIES

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

Financial liabilities and equity

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

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

Financial liabilities at FVTPL

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

Financial liabilities at amortized cost

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

Compound financial instruments

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

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The derivative liability component is remeasured subsequent to initial recognition at fair value. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition. Upon derecognition, the equity component of a compound financial instrument is reclassified to contributed surplus.

DERECOGNITION OF FINANCIAL INSTRUMENTS

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire or when the Company transfers the financial asset to another party without retaining control or substantially all the risks and rewards of ownership of the assets. Any interest in transferred assets that are created or retained by the Company is recognized as a separate asset or liability.

A financial liability is derecognized when the underlying contractual obligation is legally discharged, cancelled or expires.

(in thousands of Canadian dollars, except per share and share amounts)

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and liabilities as at January 1, 2018.

(thousands of Canadian dollars)	**Original classification under IAS 39**	**New classification under IFRS 9**	**Original carrying amount under IAS 39**	**New carrying amount under IFRS 9**
FINANCIAL ASSETS				
Cash	FVTPL	FVTPL	$ 9,833	$ 9,833
Restricted cash	FVTPL	FVTPL	2,936	2,936
Accounts receivable	Loan and receivables	Amortized cost	107,229	107,229
TOTAL			$ 119,998	$ 119,998
FINANCIAL LIABILITIES				
Accounts payable and accrued liabilities	Other liabilities	Amortized cost	$ 45,934	$ 45,934
Deferred share plan liability	FVTPL	FVTPL	2,848	2,848
Finance lease obligation	Other liabilities	Amortized cost	67	67
Credit facilities	Other liabilities	Amortized cost	63,842	63,842
Convertible debentures	Other liabilities	Amortized cost	47,157	47,157
Other Financial Liabilities	FVTPL	FVTPL	13,011	13,011
TOTAL			$ 172,859	$ 172,859

IMPAIRMENT OF FINANCIAL ASSETS

IFRS 9 replaces the 'incurred loss" model in IAS 39 with an 'expected credit loss' ("ECL") model. The new impairment model applies to financial assets measured at amortized cost and contract assets. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

The Company has elected to measure loss allowances for accounts receivables and contract assets at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

(in thousands of Canadian dollars, except per share and share amounts)

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimate future cash flows of the financial assets have occurred.

Presentation of impairment

Loss allowances for financial assets measured at amortize cost are deducted from the gross carrying amount of the assets.

Impairment losses related to trade receivables and contract assets, are presented separately in profit or loss.

The Company considers the model and some of the assumptions used in calculating these ECLs as key sources of estimation uncertainty.

The following table provides information about the exposure to credit risk and ECLs for accounts receivable as at January 1, 2018.

(thousands of Canadian dollars)		Gross Carrying Amount	Weighted-average loss rate		Loss Allowance	Credit-Impaired
		(restated)				
Current	$	42,780	0.01%	$	3	No
30 to 90 days		38,405	0.01%		2	No
Over 90 Days		35,014	25.60%		8,965	Yes
TOTAL	$	116,199		$	8,970	

As at January 1, 2018, the Company determined a weighted-average loss rate of 1.69% on contract assets and recorded a pre-tax increase of $948 in deficit ($697 after tax).

TRANSITION

The Company has adopted IFRS 9 retrospectively, with an initial application date of January 1, 2018. The Company did not restate comparative information for prior periods; accordingly the information presented for 2017 reflects the requirements of IAS 39.

Amendments to IFRS 2 *Classification and Measurement of Share-Based Payment Transactions*

In June 2016, the IASB issued Amendments to IFRS 2 *Share-Based Payments* ("IFRS 2"), clarifying how to account for certain types of share-based payment transactions. The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively or retrospectively, with early application permitted if information is available without the use of hindsight.

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share based payment transactions with a net settlement feature for withholding tax obligations, and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The Company has adopted the amendments to IFRS 2 in its consolidated financial statements for the annual period beginning January 1, 2018. Currently, the Company's share based awards are all equity settled awards and do not contain cash-settled share-based payment features. The Company has adopted the interpretation in its financial statements for the annual period beginning January 1, 2018. The adoption of these amendments did not have a material impact on the interim financial statements.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

On December 8, 2016 the IASB issued IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration* ("IFRIC 22"). The Interpretation clarifies which date should be used for translation when a foreign currency transaction involves an advance payment or receipt. The adoption of these amendments did not have a material impact on the interim financial statements.

(in thousands of Canadian dollars, except per share and share amounts)

NOTE 4: 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., the U.K., and internationally.

(b) GEOGRAPHIC SEGMENTS

The following table demonstrates certain information contained in the interim statement of financial position segmented geographically as at June 30, 2018, with comparatives as at December 31, 2017:

	AS AT JUNE 30, 2018				
	CANADA	UNITED STATES	UNITED KINGDOM	OTHER INTERNATIONAL	TOTAL
Property and equipment	$ 11,517	$ 3,194	$ 1,516	$ 618	$ 16,845
Intangible assets	5,895	1,760	406	-	8,061
Contract assets	30,174	15,494	4,777	24,764	75,209
Contract liabilities	26,046	7,494	3,619	5,128	42,287
Total assets	116,482	54,877	19,721	60,471	251,551

	AS AT DECEMBER 31, 2017				
	CANADA	UNITED STATES	UNITED KINGDOM	OTHER INTERNATIONAL	TOTAL
Property and equipment	$ 10,557	$ 2,969	$ 1,363	$ 463	$ 15,352
Intangible assets	5,285	1,901	453	-	7,639
Contract assets (restated)[1]	25,968	15,067	5,278	21,006	67,319
Contract liabilities	25,023	8,320	3,767	6,076	43,186
Total assets (restated)	114,349	53,158	21,187	54,476	243,170

[1] See Note 3 – Changes in Accounting Policies

The following table demonstrates certain information contained in the interim statement of income and comprehensive income segmented geographically for three and six months ended June 30, 2018 and 2017. The unallocated amounts for the three and six months ended June 30, 2018 and 2017 pertain to interest on convertible debentures, accretion expense on convertible debentures, amortization of deferred financing cost, long term debt interest, loss (gain) in fair value of other financial liabilities, and loss (gain) in fair value of deferred share units.

(in thousands of Canadian dollars, except per share and share amounts)

	THREE MONTHS ENDED JUNE 30, 2018					
	CANADA	UNITED STATES	UNITED KNGDOM	OTHER INTERNATIONAL	UNALLOCATED CORPORATE COSTS[1]	TOTAL
Gross revenues	$ 63,950	$ 32,936	$ 8,738	$ 9,316	$ -	$ 114,940
Less: subconsultants and direct expenses	7,465	8,718	1,324	4,354	-	21,861
Net revenue	$ 56,485	$ 24,218	$ 7,414	$ 4,962	$ -	$ 93,079
Adjusted EBITDA[2]	$ 10,007	$ (1,984)	$ 345	$ 712	$ -	$ 9,080
Items excluded in calculation of Adjusted EBITDA:						
Interest expense, net	(185)	1	14	37	2,481	2,348
Amortization and depreciation	740	413	236	36	-	1,425
Foreign exchange (gain) loss	587	244	(57)	658	-	1,432
Gain in fair value of other financial liabilities	-	-	-	-	628	628
Change in fair value of deferred share units	-	-	-	-	(70)	(70)
Stock based compensation	364	5	-	4	-	373
Performance share units	35	-	-	-	-	35
Deferred financing charges	-	-	-	-	133	133
Change in onerous lease provision	(677)	-	-	-	-	(677)
Net income (loss) before tax	$ 9,143	$ (2,647)	$ 152	$ (23)	$ (3,172)	$ 3,453

	SIX MONTHS ENDED JUNE 30, 2018					
	CANADA	UNITED STATES	UNITED KNGDOM	OTHER INTERNATIONAL	UNALLOCATED CORPORATE COSTS[1]	TOTAL
Gross revenues	$ 123,369	$ 66,277	$ 17,240	$ 19,383	$ -	$ 226,269
Less: subconsultants and direct expenses	14,954	17,062	2,762	7,597	-	42,375
Net revenue	$ 108,415	$ 49,215	$ 14,478	$ 11,786	$ -	$ 183,894
Adjusted EBITDA[2]	$ 17,545	$ (2,913)	$ 390	$ 3,201	$ -	$ 18,223
Items excluded in calculation of Adjusted EBITDA:						
Interest expense, net	(90)	3	26	62	4,818	4,819
Amortization and depreciation	1,353	846	473	69	-	2,741
Foreign exchange (gain) loss	469	476	104	934	-	1,983
Gain in fair value of other financial liabilities	-	-	-	-	(3,439)	(3,439)
Change in fair value of deferred share units	-	-	-	-	(319)	(319)
Stock based compensation	643	31	3	16	-	693
Performance share units	48	-	-	-	-	48
Deferred financing charges	-	-	-	-	271	271
Change in onerous lease provision	(1,947)	-	-	-	-	(1,947)
Net income (loss) before tax	$ 17,069	$ (4,269)	$ (216)	$ 2,120	$ (1,331)	$ 13,373

[1] Unallocated corporate costs represent costs not associated with a particular operating segment and are bared by the Company as a whole. These costs include interest on credit facility, interest and accretion on convertible debentures, the change in fair value on other financial liabilities, the change in fair value in deferred share units, and the amortization of deferred financing costs associated with the credit facilities.
[2] As defined in the credit facilities agreement, references to "Adjusted EBITDA" is to earnings before interest, income taxes, depreciation and amortization; adjusted for gain/loss arising from extraordinary, unusual or non-recurring items; acquisition costs and deferred consideration revenue; non-cash expenses; gain/loss realized upon the disposal of capital property; gain/loss on foreign exchange translation; gain/loss on purchase or redemption of securities issued; gain/loss on fair valuation of financial instruments; amounts attributable to minority equity investments; and interest income. Adjusted EBITDA is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS, and the Company's method of calculating Adjusted EBITDA may differ from the methods used by other similar entities.

(in thousands of Canadian dollars, except per share and share amounts)

	THREE MONTHS ENDED JUNE 30, 2017					
	CANADA	UNITED STATES	UNITED KNGDOM	OTHER INTERNATIONAL	UNALLOCATED CORPORATE COSTS[3]	TOTAL
Gross Revenues	$ 57,611	$ 40,757	$ 8,406	$ 10,967	$ -	$ 117,741
Less: subconsultants and direct expenses	7,983	11,494	1,155	3,781	-	24,413
Net revenue	$ 49,628	$ 29,263	$ 7,251	$ 7,186	$ -	$ 93,328
Adjusted EBITDA[4]	$ 6,182	$ 1,407	$ 419	$ 3,742	$ -	$ 11,750
Items excluded in calculation of Adjusted EBITDA:						
Interest expense, net	31	3	11	-	2,493	2,538
Amortization and depreciation	693	402	170	20	-	1,285
Foreign exchange (gain) loss	1,101	(146)	15	150	-	1,120
Gain in fair value of other financial liabilities	-	-	-	-	174	174
Change in fair value of deferred share units	-	-	-	-	27	27
Payment of DSP	-	-	-	-	(846)	(846)
Stock based compensation	107	6	-	2	-	115
Deferred financing charges	-	-	-	-	259	259
Change in onerous lease provision	(166)	-	-	-	-	(166)
Share of loss of equity accounted investee, net of tax	-	-	-	-	348	348
Net income (loss) before tax	$ 4,416	$ 1,142	$ 223	$ 3,570	$ (2,455)	$ 6,896

	SIX MONTHS ENDED JUNE 30, 2017					
	CANADA	UNITED STATES	UNITED KINGDOM	OTHER INTERNATIONAL	UNALLOCATED CORPORATE COSTS[1]	TOTAL
Gross Revenues	$ 118,228	$ 78,170	$ 16,383	$ 22,548	$ -	$ 235,329
Less: subconsultants and direct expenses	15,875	19,104	2,475	13,181	-	50,635
Net revenue	$ 102,353	$ 59,066	$ 13,908	$ 9,367	$ -	$ 184,694
Adjusted EBITDA[2]	$ 16,629	$ 2,938	$ 349	$ 1,994	$ -	$ 21,910
Items excluded in calculation of Adjusted EBITDA:						
Interest expense, net	77	5	25	-	5,112	5,219
Amortization and depreciation	1,383	828	326	32	-	2,569
Foreign exchange (gain) loss	722	(156)	(15)	473	-	1,024
Gain in fair value of other financial liabilities	-	-	-	-	442	442
Change in fair value of deferred share units	-	-	-	-	325	325
Payment of DSP	-	-	-	-	(846)	(846)
Stock based compensation	165	10	2	3	-	180
Deferred financing charges	-	-	-	-	515	515
Change in onerous lease provision	(430)	-	-	-	-	(430)
Share of loss of equity accounted investee, net of tax	-	-	-	-	348	348
Net income (loss) before tax	$ 14,712	$ 2,251	$ 11	$ 1,486	$ (5,896)	$ 12,564

[3] Unallocated corporate costs represent costs not associated with a particular operating segment and are bared by the Company as a whole. These costs include interest on credit facility, interest and accretion on convertible debentures, the change in fair value on other financial liabilities, the change in fair value in deferred share units, and the amortization of deferred financing costs associated with the credit facilities.
[4] As defined in the credit facilities agreement, references to "Adjusted EBITDA" is to earnings before interest, income taxes, depreciation and
amortization; adjusted for gain/loss arising from extraordinary, unusual or non-recurring items; acquisition costs and deferred consideration revenue; non-cash expenses; gain/loss realized upon the disposal of capital property; gain/loss on foreign exchange translation; gain/loss on purchase or redemption of securities issued; gain/loss on fair valuation of financial instruments; amounts attributable to minority equity investments; and interest income. Adjusted EBITDA is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS, and the Company's method of calculating Adjusted EBITDA may differ from the methods used by other similar entities.

(in thousands of Canadian dollars, except per share and share amounts)

NOTE 5: FINANCIAL INSTRUMENTS

(a) INDEBTEDNESS

On June 30, 2017, IBI Group secured an agreement to refinance its credit facilities under the existing banking agreement with its senior lenders. The arrangement consists of a $130,000 revolver facility, of which a maximum of $10,000 is available under a swing line facility and will mature on June 30, 2021. The commitment under the swing line facility will reduce availability under the revolver facility on a dollar-for-dollar basis. As at June 30, 2018, the interest rate on Canadian dollar borrowings was 4.70% (June 30, 2017 – 3.95%) and 6.00% on U.S dollar borrowings (June 30, 2017 – 5.25%).

As at June 30, 2018, IBI Group has borrowings of $68,359 (December 31, 2017 - $65,651) under the credit facilities, which has been recognized net of deferred financing costs of $1,596 (December 31, 2017 - $1,809). As at June 30, 2018, IBI Group has letters of credit outstanding of $7,686 (December 31, 2017 - $6,538), of which $7,445 (December 31, 2017 - $6,021) is issued under a $30,000 facility which matures on June 30, 2020 and supports letters of credit backstopped by Export Development Canada. Advances under the revolver facility bear interest at a rate based on the Canadian dollar prime rate or U.S dollar base rate, LIBOR or Banker’s Acceptance rates plus, in each case, an applicable margin. At June 30, 2018, $62,196 was outstanding under Bankers’ Acceptance with the remainder borrowed as prime rate debt (December 31, 2017 - $65,651).

This facility is subject to compliance with certain financial, reporting and other covenants. The financial covenants under the agreement include a leverage ratio, interest coverage ratio, and restrictions on distributions, if certain conditions are not met. IBI Group was in compliance with its credit facility covenants as at June 30, 2018.

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

	AS AT	
	JUNE 30, 2018	**JUNE 30, 2017**
Balance at January 1	$ 63,842	$ 73,184
Draws on credit facilities	6,163	1,580
Payments on principal of credit facilities	(4,100)	(4,010)
Deferred financing capitalization	(57)	(531)
Amortization of deferred financing costs	271	515
Impact of foreign exchange	644	(404)
Ending Balance	$ 66,763	$ 70,334

(in thousands of Canadian dollars, except per share and share amounts)

(b) CONVERTIBLE DEBENTURES

	LIABILITY COMPONENT	EQUITY COMPONENT	OTHER FINANCIAL LIABILITY COMPONENT	TOTAL
7.0% Debentures (matures on June 30, 2019)				
Balance at January 1, 2018	12,182	561	-	12,743
Accretion of 7.0% Debentures	771	-	-	771
Balance at June 30, 2018	12,953	561	-	13,514
5.5% Debentures (matures on December 31, 2021)				
Balance at January 1, 2018	34,975	-	13,011	47,986
Accretion of 5.5% Debentures	1,093	-	-	1,093
Gain in fair value of other financial liabilities	-	-	(3,439)	(3,439)
Balance at June 30, 2018	36,068	-	9,572	45,640
BALANCE, JUNE 30, 2018	$ 49,021	$ 561	$ 9,572	$ 59,154

7.0% DEBENTURES ($46,000 PRINCIPAL, OPTION A MATURES ON JUNE 30, 2019 AND OPTIONS B AND C REDEEMED DECEMBER 31, 2016)

On July 23, 2014, the Company 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 were repaid on December 31, 2016.

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.

On October 31, 2016, the Company redeemed the 7.0% Debentures under Options B and C (“IBG.DB”). The holders of $29,988 principal of the 7.0% Debentures had exercised the $5 share conversion option and received 5,997,600 shares. For the balance of $1,257 principal of the 7.0% Debentures, the Company issued 222,476 shares. The consent fee notes issued under Option A and B were paid in full upon maturity as at December 31, 2016.

(in thousands of Canadian dollars, except per share and share amounts)

5.5% DEBENTURES ($46,000 PRINCIPAL, MATURES ON DECEMBER 31, 2021)

In September 2016, the Company issued 5.5% Debentures of $46,000 with a maturity date of December 31, 2021. The 5.5% Debentures are convertible into common shares of the Company at the option of the holder at a conversion price of $8.35 per common share. The 5.5% Debentures are not redeemable at the option of the Company before December 31, 2019. The 5.5% Debentures are redeemable by the Company at a price of $1,000 per 5.5% Debenture, plus accrued and unpaid interest, on or after December 31, 2019 and prior to December 31, 2020 (provided that the volume 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 $8.35 per share). On or after December 31, 2020 and prior to the maturity date, the 5.5% Debentures are redeemable by the Company at a price of $1,000 per 5.5% Debenture, plus accrued and unpaid interest. The 5.5% Debentures bear interest from the date of issue at 5.5% per annum, payable in equal semi-annual payments in arrears on June 30th and December 31st of each year, commencing June 30, 2017.

The 5.5% Debentures are recorded as a hybrid financial instrument. The non-derivative debt (interest and principal portion) was recorded at fair value on the date of issue and was recognized at $32,498 which was net of deferred financing costs of $2,594, estimated using discounted future cash flows at an estimated discount rate discount rate of 11.5%. Subsequently the non-derivative debt component is measured at amortized cost using the effective interest method over the life of the debenture.

The derivative component of this hybrid financial instrument representing the conversion feature of the 5.5% Debentures was measured at fair value of $10,908 at the date of issuance, and recorded as part of Other financial liabilities in the interim statement of financial position. This conversion feature is unique to this issuance of convertible debt given IBI has the right to settle any request to convert debentures to IBI shares by the Debenture holders for an equivalent amount of cash. As at June 30, 2018, the fair value of the derivative component was $9,572 (December 31, 2017 - $13,011). The movement in fair value is impacted by several factors which include IBI share price, the Canadian risk free rate and IBI's credit risk.

The fair value of the convertible debentures as at June 30, 2018, based on a Level 1 quoted market price, is as follows:

	Carrying Value	Fair Value
5.5% Debentures	$ 36,068	$ 48,300
7.0% Debentures	12,953	14,836
BALANCE, JUNE 30, 2018	$ 49,021	$ 63,136

(in thousands of Canadian dollars, except per share and share amounts)

The fair value of the convertible debentures as at December 31, 2017, based on a Level 1 quoted market price, is as follows:

	Carrying Value	Fair Value
5.5% Debentures	$ 34,975	$ 51,175
7.0% Debentures	12,182	15,198
BALANCE, DECEMBER 31, 2017	$ 47,157	$ 66,373

(c) FINANCIAL ASSETS AND LIABILITIES

The fair values of accounts receivable, accounts payable and accrued liabilities, and finance lease obligation approximate their carrying amounts due to their short-term maturity. The fair value of the credit facilities approximate its carrying amount due to the variable rate of interest.

The carrying amount of the Company's financial instruments as at June 30, 2018 are as follows:

	FINANCIAL ASSETS AND LIABILITIES AT FVTPL	AMORTIZED COST	TOTAL
FINANCIAL ASSETS			
Cash	$ 6,405	$ -	$ 6,405
Restricted cash	3,087	-	3,087
Accounts receivable	-	108,308	108,308
TOTAL	$ 9,492	$ 108,308	$ 117,800
FINANCIAL LIABILITIES			
Accounts payable and accrued liabilities	$ -	$ 41,949	$ 41,949
Deferred share plan liability	2,314	-	2,314
Finance lease obligation	-	49	49
Credit facilities	-	66,763	66,763
Convertible debentures	-	49,021	49,021
Other Financial Liabilities	9,572	-	9,572
TOTAL	$ 11,886	$ 157,782	$ 169,668

(in thousands of Canadian dollars, except per share and share amounts)

The carrying amount of the Company's financial instruments as at December 31, 2017 are as follows:

	FINANCIAL ASSETS AND LIABILITIES AT FVTPL	AMORTIZED COST	TOTAL
FINANCIAL ASSETS			
Cash	$ 9,833	$ -	$ 9,833
Restricted cash	2,936	-	2,936
Accounts receivable (restated)	-	107,229	107,229
TOTAL	$ 12,769	$ 107,229	$ 119,998
FINANCIAL LIABILITIES			
Accounts payable and accrued liabilities	$ -	$ 45,934	$ 45,934
Deferred share plan liability	2,848	-	2,848
Finance lease obligation	-	67	67
Credit facilities	-	63,842	63,842
Convertible debentures	-	47,157	47,157
Other Financial Liabilities	13,011	-	13,011
TOTAL	$ 15,859	$ 157,000	$ 172,859

(in thousands of Canadian dollars, except per share and share amounts)

The following tables summarize the Company's fair value hierarchy for those assets and liabilities that are measured at fair value on a recurring basis as at June 30, 2018 and December 31, 2017:

	AS AT JUNE 30, 2018		
	LEVEL 1	**LEVEL 2**	**LEVEL 3**
Cash	$ 6,405	$ -	$ -
Restricted cash	3,087	-	-
Deferred share plan liability	-	(2,314)	-
Other Financial Liabilities	-	(9,572)	-
	$ 9,492	$ (11,886)	$ -

	AS AT DECEMBER 31, 2017		
	LEVEL 1	**LEVEL 2**	**LEVEL 3**
Cash	$ 9,833	$ -	$ -
Restricted cash	2,936	-	-
Deferred share plan liability	-	(2,848)	-
Other Financial Liabilities	-	(13,011)	-
	$ 12,769	$ (15,859)	$ -

NOTE 6: RELATED PARTY TRANSACTIONS

Pursuant to the Administration Agreement, IBI Group and certain of its subsidiaries are paying to the Management Partnership an amount representing the base compensation for the services of the partners of the Management Partnership. The amount paid for such services during the three months ended June 30, 2018 was $3,915 (three months ended June 30, 2017 - $5,471) and $7,831 for the six months ended June 30, 2018 (six months ended June 30, 2017 - $10,947). As at June 30, 2018, there were 51 partners (December 31, 2017 – 60 partners)

IBI Group from time to time makes a monthly distribution to each Class B partnership unit holder equal to the dividend per share (on a pre-tax basis) declared to each shareholder. All of the Class B partnership units are held by the Management Partnership. As at June 30, 2018 and December 31, 2017, the amount of distributions payable to the Management Partnership were $nil.

NOTE 7: EQUITY

(a) SHAREHOLDERS' EQUITY

The Company is authorized to issue an unlimited number of common shares. As at June 30, 2018, the Company's common share capital consisted of 31,220,877 shares issued and outstanding (December 31, 2017 – 31,190,153 shares).

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

The 6,282,222 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 partnership unit. If all such

(in thousands of Canadian dollars, except per share and share amounts)

Class B partnership units of IBI Group had been exchanged for shares on June 30, 2018, the units issued on such exchange would have represented a 16.75% 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. The Class B partnership units have been recorded as a non-controlling interest in the interim financial statements as at June 30, 2018.

SHARE ISSUANCES

During the six months ended June 30, 2018, the Company issued 1,666 common shares as a result of exercises of stock options granted in January 2016.

During the six months ended June 30, 2018, the Company issued 29,058 common shares as a result of an exercise of deferred share units by a member of the Board of Directors upon departure from the board.

EARNINGS PER SHARE

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

For the purposes of calculating diluted earnings per share, any impact of the stock options are included in the calculation of net income per common share or weighted average number of common shares outstanding.

	THREE MONTHS JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2018	**2017**	**2018**	**2017**
Net income	$ 1,229	$ 4,850	$ 8,785	$ 8,768
Net income attributable to common shareholders	$ 1,023	$ 4,037	$ 7,313	$ 7,298
Weighted average common shares outstanding	31,221	31,190	31,215	31,188
Dilutive effect of Class B partnership units	6,282	6,282	6,282	6,282
Dilutive effect of stock options granted	530	373	549	356
Diluted weighted average common shares	38,033	37,845	38,046	37,826
Basic and diluted earnings per common share	$ 0.03	$ 0.13	$ 0.23	$ 0.23

(b) NON-CONTROLLING INTEREST

Non-controlling interest in the Company's subsidiaries is exchangeable into the common shares of the Company on a one for one basis, subject to certain conditions. The movement in non-controlling interest is shown in the interim condensed consolidated statement of changes in equity for the three and six months ended June 30, 2018 and 2017.

(in thousands of Canadian dollars, except per share and share amounts)

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2018	**2017**	**2018**	**2017**
Net income	$ 1,229	$ 4,850	$ 8,785	$ 8,768
Non-controlling interest share of ownership	16.75%	16.77%	16.75%	16.77%
Net income attributable to non-controlling interest	$ 206	$ 813	$ 1,472	$ 1,470

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2018	**2017**	**2018**	**2017**
Total comprehensive income	$ 2,070	$ 5,277	$ 12,585	$ 9,230
Non-controlling interest share of ownership	16.75%	16.77%	16.75%	16.77%
Total comprehensive income attributable to non-controlling interest	$ 347	$ 884	$ 2,108	$ 1,547

NOTE 8: 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 interim statement of financial position, income and comprehensive income and cash flow in support of sustainable growth and earnings. The Company’s financial risk management activities are governed by financial policies that cover risk identification, tolerance, measurement, authorization levels, and reporting.

(a) MARKET RISK

INTEREST RATE RISK

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

If the interest rate on the Company’s variable rate loan balance as at June 30, 2018, had been 50 basis points higher or lower, with all other variables held constant, net income for the six months ended June 30, 2018 would have decreased or increased by approximately $229.

CURRENCY RISK

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

Foreign exchange gains or losses in the Company's net income arise on the translation of foreign-denominated intercompany loans held in the Company's Canadian operations and financial assets and liabilities held in the Company's foreign operations. The Company minimizes its exposure to foreign exchange fluctuations on these items by matching U.S dollar liabilities when possible.

If the exchange rates had been 100 basis points higher or lower as at June 30, 2018, with all other variables held constant, total comprehensive income would have increased or decreased by $134 for the six months ended June 30, 2018. If the exchange rates had been 100 basis points higher or lower as at June 30, 2018, with all other variables held constant, net income would have increased or decreased by $28 for the six months ended June 30, 2018.

(b) CREDIT RISK

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

The Company provides services to diverse clients in various industries and sectors of the economy, and its credit risk is not concentrated in any particular client, industry, economic or geographic sector. In addition, management reviews accounts receivable past due on an ongoing basis with the objective of identifying matters that could potentially delay the collection of funds (at an early stage). The Company monitors accounts receivable with an internal target of working days of revenue in accounts receivable (a non-IFRS measure). At June 30, 2018 there were 57 working days of revenue in accounts receivable, compared to 58 days at December 31, 2017. The maximum exposure to credit risk, at the date of the interim 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 interim statement of financial position.

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

(in thousands of Canadian dollars, except per share and share amounts)

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

	AS AT	
	JUNE 30, 2018	**DECEMBER 31, 2017**
		(restated)
Current	$ 48,212	$ 42,780
30 to 90 days	27,869	38,405
Over 90 days	41,628	35,014
Gross accounts receivable	117,709	116,199
Allowance for impairment losses	(9,401)	(8,970)
TOTAL	$ 108,308	$ 107,229

(c) LIQUIDITY RISK

The Company strives to maintain sufficient financial liquidity to withstand sudden adverse changes in economic circumstances. Management forecasts cash flows for its current and subsequent fiscal years to identify financing requirements. These requirements are then addressed through a combination of committed credit facilities (as described in Note 5 – Financial Instruments) and access to capital markets.

On June 30, 2017, IBI Group signed an amendment to refinance its credit facilities with its senior lenders (refer to Note 5 – Financial Instruments).

As at June 30, 2018, a foreign subsidiary of the Company had issued letters of credit in the amount of U.S $2,300, which is equal to CAD $3,087 (December 31, 2017 – CAD $2,936). The Company has pledged U.S $2,300 (December 31, 2017 – U.S $2,300) of cash as security for these letters of credit issued by a foreign financial institution on behalf of the foreign subsidiary.

As at June 30, 2018, the Company has letters of credit outstanding to foreign institutions of $241 (December 31, 2017 - $517).

(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 facilities, convertible debentures and equity.

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

(in thousands of Canadian dollars, except per share and share amounts)

The Company has used the credit facilities to fund working capital. The credit facilities contain financial covenants including a leverage ratio, interest coverage ratio, minimum Adjusted EBITDA[5] threshold, and restrictions on distributions, if certain conditions are not met. The Company was in compliance with the credit facility covenants as at June 30, 2018.

NOTE 9: CHANGE IN NON-CASH OPERATING WORKING CAPITAL

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2018	**2017**	**2018**	**2017**
Accounts receivable	$ (12,440)	$ 12,420	$ 583	$ 16,196
Contract assets	(1,562)	(9,793)	(7,314)	(6,427)
Prepaid expenses and other assets	(1,171)	(4,041)	(1,792)	(6,297)
Accounts payable and accrued liabilities	1,100	(5,650)	(7,445)	(11,345)
Contract liabilities	1,601	(4,076)	(1,552)	(11,370)
Net income taxes payable	434	1,089	148	1,445
Change in non-cash operating working capital	$ (12,038)	$ (10,051)	$ (17,372)	$ (17,798)

NOTE 10: FINANCE COSTS

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2018	**2017**	**2018**	**2017**
Interest on credit facilities	$ 644	$ 790	$ 1,182	$ 1,760
Interest on convertible debentures	889	889	1,771	1,771
Non-cash accretion of convertible debentures	948	814	1,864	1,581
Other	(133)	45	2	107
INTEREST EXPENSE	$ 2,348	$ 2,538	$ 4,819	$ 5,219
Amortization of deferred financing costs	133	259	271	515
Other	170	217	294	382
OTHER FINANCE COSTS	$ 303	$ 476	$ 565	$ 897
FINANCE COSTS	$ 2,651	$ 3,014	$ 5,384	$ 6,116

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

NOTE 11: CONTINGENCIES

(a) LEGAL MATTERS

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

(b) INDEMNIFICATIONS

The Company provides indemnifications and, in very limited circumstances, bonds, which are often standard contractual terms, to counterparties in transactions such as purchase and sale contracts for assets or shares, service agreements, and leasing transactions. The Company also indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law. These indemnifications may require the Company to compensate the counterparty for costs incurred as a result of various events, including changes in or in the interpretation of laws and regulations, or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnifications will vary based upon the contract, the nature of which prevents the Company from making a reasonable estimate of the maximum potential amount that it could be required to pay to counterparties. The Company carries liability insurance, subject to certain deductibles and policy limits 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 interim financial statements with respect to these indemnifications as it is not probable that there will be an outflow of resources.

NOTE 12: ACQUISITIONS

On May 18, 2018, the Company entered into an asset purchase agreement with Green Owl Solutions Inc. and GreenOwl Mobile, Inc. to purchase the intellectual property rights of various mobile applications for $450, which is to be paid over a three year period. The agreement provides for additional consideration of up to $1,800 to be paid based on the achievement of certain future performance metrics of the business acquired. This acquisition has been recorded as a business combination given the asset acquired with the processes assumed meets the definition of a business combination in accordance with IFRS 3 *Business Combination*. The significant asset acquired is the intellectual property that has been recorded as an intangible asset with an amortization period of three years. There is no working capital or any other liabilities assumed.

NOTE 13: SHARE-BASED COMPENSATION

EQUITY SETTLED TRANSACTIONS

Deferred Share Units

The Company has a share-based compensation plan which allows directors to receive director fees in the form of deferred shares rather than cash. These awards are accounted for as financial liabilities at FVTPL. On the grant date, the deferred shares are measured at fair value based on the market price with subsequent changes to the fair value until settlement recorded as salaries, fees and employee benefit expenses. The change in fair value of the deferred shares is recognized in other operating expenses in the interim statement of income and comprehensive income. During the three and six months ended June 30, 2018, a recovery of $70 and $319 was recognized, respectively (three and six months ended June 30, 2017 – expense of $27 and $325, respectively) due to market movement in the share price. On January 5, 2018 a member of the Board of Directors settled 62,697 deferred share units for 29,058 common shares upon their departure from the Board.

Stock Options

The Company has an equity-settled stock option plan. The grant-date fair value of the stock options is recognized as salaries, fees and employee expenses, with a corresponding increase to capital reserve over the vesting period of the stock options. Market conditions are reflected in the initial measurement of fair-value, with no subsequent true-up for differences between expected and actual outcomes.

Under the terms of the Company's stock option plan, the options vest evenly over a three year period on each of the first, second and third anniversary dates of the grant, and expire on the tenth anniversary of the date of the grant, and are measured using the Black-Scholes model.

(in thousands of Canadian dollars, except per share and share amounts)

The following inputs were used in the measurement of the fair values at the grant date of the options:

Grant date	Options issued	Fair value at grant date	Share price at grant date	Exercise price	Expected volatility (weighted average)	Expected life (weighted average)	Expected dividends	Risk-free interest rate
January 15, 2016								
Tranche 1	178,333	$ 1.14	$ 2.13	$ 2.33	64.2%	5.5 years	0%	0.64%
Tranche 2	178,333	$ 1.16	$ 2.13	$ 2.33	62.1%	6.0 years	0%	0.72%
Tranche 3	178,334	$ 1.17	$ 2.13	$ 2.33	60.2%	6.5 years	0%	0.81%
	535,000							
May 25, 2016								
Tranche 1	33,071	$ 2.63	$ 4.53	$ 4.49	66.9%	5.5 years	0%	0.86%
Tranche 2	33,071	$ 2.63	$ 4.53	$ 4.49	64.3%	6.0 years	0%	0.92%
Tranche 3	33,071	$ 2.67	$ 4.53	$ 4.49	62.3%	6.5 years	0%	0.99%
	99,213							
May 12, 2017								
Tranche 1	23,036	$ 4.31	$ 7.30	$ 7.01	67.1%	5.5 years	0%	1.07%
Tranche 2	23,036	$ 4.36	$ 7.30	$ 7.01	65.1%	6.0 years	0%	1.14%
Tranche 3	23,035	$ 4.39	$ 7.30	$ 7.01	62.8%	6.5 years	0%	1.20%
	69,107							
July 17, 2017								
Tranche 1	105,500	$ 3.88	$ 6.63	$ 6.63	67.0%	5.5 years	0%	1.55%
Tranche 2	105,500	$ 3.95	$ 6.63	$ 6.63	65.2%	6.0 years	0%	1.60%
Tranche 3	105,500	$ 3.97	$ 6.63	$ 6.63	62.8%	6.5 years	0%	1.64%
	316,500							
August 9, 2017								
Tranche 1	25,772	$ 3.97	$ 6.77	$ 6.79	67.0%	5.5 years	0%	1.57%
Tranche 2	25,772	$ 4.02	$ 6.77	$ 6.79	65.0%	6.0 years	0%	1.61%
Tranche 3	25,771	$ 4.05	$ 6.77	$ 6.79	62.8%	6.5 years	0%	1.66%
	77,315							
March 20, 2018								
Tranche 1	23,981	$ 4.26	$ 7.24	$ 7.24	66.6%	5.5 years	0%	2.00%
Tranche 2	23,981	$ 4.32	$ 7.24	$ 7.24	64.5%	6.0 years	0%	2.01%
Tranche 3	23,980	$ 4.37	$ 7.24	$ 7.24	62.7%	6.5 years	0%	2.03%
	71,942							
May 9, 2018								
Tranche 1	23,167	$ 4.56	$ 7.65	$ 7.49	66.6%	5.5 years	0%	2.22%
Tranche 2	23,167	$ 4.62	$ 7.65	$ 7.49	64.6%	6.0 years	0%	2.24%
Tranche 3	23,166	$ 4.66	$ 7.65	$ 7.49	62.4%	6.5 years	0%	2.26%
	69,500							

Expected volatility is based on an evaluation of the historical volatility of the Company's share price over the historical period commensurate with the expected term. The expected term of the instruments has been based on general option-holder behavior.

(in thousands of Canadian dollars, except per share and share amounts)

For the three and six months ended June 30, 2018, the Company has recognized an expense of $373 and $695, respectively (three and six months ended June 30, 2017 - $115 and $184, respectively) in salaries, fees and employee benefits for stock options in the interim statement of income and comprehensive income.

The following stock option arrangements were in existence as at June 30, 2018:

Grant date	Expiry date	Options issued	Options exercised	Options cancelled/ forfeited	Options outstanding	Options exercisable	Exercise price	Fair value at grant date
15-Jan-16	15-Jan-26	535,000	5,000	20,000	510,000	338,000	$ 2.33	$ 618,816
25-May-16	25-May-26	99,213	-	-	99,213	66,142	$ 4.49	$ 262,253
16-May-17	16-May-27	69,107	-	-	69,107	23,036	$ 7.01	$ 300,846
17-Jul-17	17-Jul-27	316,500	-	-	316,500	-	$ 6.63	$ 1,245,954
9-Aug-17	9-Aug-27	77,315	-	-	77,315	-	$ 6.79	$ 310,550
20-Mar-18	20-Mar-28	71,942	-	-	71,942	-	$ 7.24	$ 310,550
9-May-18	9-May-28	69,500	-	-	69,500	-	$ 7.49	$ 320,627
		1,238,577	5,000	20,000	1,213,577	427,178		$ 3,369,596

Performance share units

On August 9, 2017, the Company adopted a PSU plan for senior executives. Under that plan, the Board of Directors may grant PSUs to participants which entitles them to receive one common share for each PSU. The vesting and performance conditions are determined by the Board of Directors at the time of each grant.

The Company has recognized for the three and six months ended June 30, 2018 an expense of $35 and $48, respectively, (three and six months ended June 30, 2017 - $nil, respectively), in salaries, fees and employee benefits for PSUs in the interim statement of income and comprehensive income.

NOTE 14: INCOME TAXES

Income taxes for the three and six months ended June 30, 2018 was $2,224 and $4,588, respectively (three and six months ended June 30, 2017 – $2,046 and $3,796, respectively). The effective income tax rate for the three and six months ended June 30, 2018 was 64.4% and 34.3%, respectively (three and six months ended June 30, 2017 – 29.6% and 30.2%, respectively). The increase in the effective income tax rate was primarily due to non-deductible items and result of operations in various jurisdictions.