IBI Group 2019
Second-Quarter Financial Statements

THREE AND SIX MONTHS ENDED
JUNE 30, 2019 AND 2018

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF

IBI GROUP INC.

THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

IBI GROUP INC.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(unaudited)

(thousands of Canadian dollars)	NOTES		JUNE 30, 2019		DECEMBER 31, 2018
ASSETS					
Current Assets					
Cash	*5(c)*	**$**	**11,169**	$	9,460
Accounts receivable	*5(c),8*		**112,514**		114,796
Contract assets	*4*		**76,974**		68,287
Prepaid expenses and other current assets	*3*		**15,419**		15,276
Lease receivable	*3,5(c)*		**1,553**		–
Income taxes recoverable			**546**		505
Total Current Assets		**$**	**218,175**	$	208,324
Restricted cash	*5(c),8*		**3,062**		3,190
Other assets			**300**		300
Property and equipment			**20,323**		18,084
Intangible assets			**7,720**		8,089
Lease receivable	*3,5(c)*		**6,212**		–
Right-of-use assets	*3*		**68,413**		–
Deferred tax assets			**10,804**		10,179
TOTAL ASSETS		**$**	**335,009**	$	248,166
LIABILITIES AND DEFICIT					
LIABILITIES					
Current Liabilities					
Accounts payable and accrued liabilities	*3,5(c),8*		**38,708**		39,671
Contract liabilities	*5(c),8*		**38,932**		40,394
Income taxes payable			**1,789**		1,999
Lease liability	*3,5(c)*		**13,789**		–
Onerous lease provisions	*3*		**–**		1,541
Total Current Liabilities		**$**	**93,218**	$	83,605
Onerous lease provisions			**–**		312
Credit facilities	*5(a)*		**74,241**		75,548
Convertible debentures	*5(b)*		**38,458**		37,213
Lease liability	*3,5(c)*		**71,126**		–
Other financial liabilities	*5(b)*		**5,718**		3,994
Deferred tax liabilities			**7,048**		5,496
TOTAL LIABILITIES		**$**	**289,809**	$	206,168
EQUITY					
Shareholders' Equity					
Share capital	*7*		**279,941**		279,926
Capital reserve	*7*		**3,600**		2,731
Contributed surplus	*7*		**7,958**		7,958
Deficit			**(252,987)**		(258,204)
Accumulated other comprehensive loss			**(5,285)**		(1,998)
Total Shareholders' Equity		**$**	**33,227**	$	30,413
Non-controlling interest	*7*		**11,973**		11,585
TOTAL EQUITY		**$**	**45,200**	$	41,998
TOTAL LIABILITIES AND EQUITY		**$**	**335,009**	$	248,166

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, 2019	THREE MONTHS ENDED JUNE 30, 2018	SIX MONTHS ENDED JUNE 30, 2019	SIX MONTHS ENDED JUNE 30, 2018
Revenue					
Gross Revenue		**$ 117,760**	$ 114,940	**$ 231,434**	$ 226,269
Less: Subconsultants and direct costs		**20,940**	21,861	**40,881**	42,375
NET REVENUE		**$ 96,820**	$ 93,079	**$ 190,553**	$ 183,894
Expenses					
Salaries, fees and employee benefits	*6,12*	**66,339**	66,844	**132,807**	131,231
Base rent	*3*	**-**	3,107	**-**	5,870
Variable lease expense	*3*	**2,254**	2,233	**4,684**	5,033
Other operating expenses		**12,068**	10,838	**22,663**	20,876
Foreign exchange loss	*8(a)*	**467**	1,432	**1,281**	1,983
Amortization of intangible assets		**495**	327	**954**	624
Depreciation of property and equipment		**1,146**	1,098	**2,406**	2,117
Depreciation of right-of-use assets	*3*	**3,245**	-	**6,431**	-
Change in fair value of other financial liabilities	*5(b)*	**851**	628	**1,724**	(3,439)
Impairment of financial assets	*8*	**637**	468	**1,007**	842
Impairment of right-of-use assets	*3*	**-**	-	**394**	-
		87,502	86,975	**174,351**	165,137
OPERATING INCOME		**$ 9,318**	$ 6,104	**$ 16,202**	$ 18,757
Interest expense, net	*3,8,10*	**3,133**	2,348	**6,219**	4,819
Other finance costs	*10*	**186**	303	**379**	565
FINANCE COSTS		**$ 3,319**	$ 2,651	**$ 6,598**	$ 5,384
NET INCOME BEFORE TAX		**$ 5,999**	$ 3,453	**$ 9,604**	$ 13,373
Current tax expense	*13*	**1,491**	973	**2,460**	1,265
Deferred tax expense	*13*	**591**	1,251	**877**	3,323
INCOME TAXES		**$ 2,082**	$ 2,224	**$ 3,337**	$ 4,588
NET INCOME		**$ 3,917**	$ 1,229	**$ 6,267**	$ 8,785
OTHER COMPREHENSIVE INCOME					
Items that are or may be reclassified to profit or loss					
Gain (loss) on translating financial statements of foreign operations		**(1,879)**	841	**(3,949)**	3,800
OTHER COMPREHENSIVE INCOME (LOSS)		**(1,879)**	841	**(3,949)**	3,800
TOTAL COMPREHENSIVE INCOME		**$ 2,038**	$ 2,070	**$ 2,318**	$ 12,585
NET INCOME ATTRIBUTABLE TO:					
Common shareholders		**3,260**	1,023	**5,217**	7,313
Non-controlling interests	*7*	**657**	206	**1,050**	1,472
NET INCOME		**$ 3,917**	$ 1,229	**$ 6,267**	$ 8,785
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO*:*					
Common shareholders		**1,697**	1,723	**$ 1,930**	$ 10,476
Non-controlling interests	*7*	**341**	347	**388**	2,108
TOTAL COMPREHENSIVE INCOME		**$ 2,038**	$ 2,070	**$ 2,318**	$ 12,585
EARNINGS PER SHARE ATTRIBUTABLE TO COMMON SHAREHOLDERS					
Basic and diluted earnings per share	*7*	**$ 0.10**	$ 0.03	**$ 0.17**	$ 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, 2019	THREE MONTHS ENDED JUNE 30, 2018	SIX MONTHS ENDED JUNE 30, 2019	SIX MONTHS ENDED JUNE 30, 2018
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES					
Net income		**$ 3,917**	$ 1,229	**$ 6,267**	$ 8,785
Items not affecting cash:					
Onerous lease provision	*3*	**-**	(677)	**-**	(1,947)
Depreciation of property and equipment		**1,146**	1,098	**2,406**	2,117
Amortization of intangible assets		**495**	327	**954**	624
Depreciation of right of use assets	*3*	**3,245**	-	**6,431**	-
Amortization of deferred financing costs		**113**	133	**229**	271
Impairment of financial assets	*8*	**637**	468	**1,007**	842
Impairment of right of use assets		**-**	-	**394**	-
Foreign exchange loss (gain)	*8*	**467**	1,432	**1,281**	1,983
Interest expense, net	*3,10*	**3,133**	2,348	**6,219**	4,819
Deferred tax expense	*13*	**591**	1,251	**877**	3,323
Share based compensation	*12*	**376**	408	**869**	743
Deferred share units issued		**108**	153	**210**	288
Change in fair value of deferred share units		**(33)**	(70)	**245**	(319)
Loss on disposal of property and equipment		**-**	(176)	**46**	-
Change in fair value of other financial liabilities	*5(b)*	**851**	628	**1,724**	(3,439)
Interest paid		**(1,866)**	(938)	**(3,745)**	(1,211)
Income taxes paid		**(516)**	(471)	**(1,564)**	(1,042)
Change in non-cash operating working capital	*9*	**(6,674)**	(12,121)	**(10,322)**	(17,341)
NET CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES		**$ 5,990**	$ (4,978)	**$ 13,528**	$ (1,504)
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES					
Draws (Payments) on principal of credit facilities	*5(a)*	**615**	4,163	**(905)**	2,063
Deferred financing costs	*5(a)*	**-**	(2)	**(84)**	(57)
Payment of lease liabilities	*3*	**(2,583)**	(9)	**(5,206)**	(18)
Proceeds from shares issued	*7*	**-**	-	**15**	4
NET CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES		**$ (1,968)**	$ 4,152	**$ (6,180)**	$ 1,992
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES					
Purchase of property and equipment		**(2,636)**	(2,042)	**(4,915)**	(3,421)
Purchase of intangible assets		**(339)**	(299)	**(740)**	(524)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**$ (2,975)**	$ (2,341)	**$ (5,655)**	$ (3,945)
Effects of currency translation on cash and cash equivalents	*8*	**393**	(241)	**16**	29
NET INCREASE (DECREASE) IN CASH		**$ 1,440**	$ (3,408)	**$ 1,709**	$ (3,428)
Cash, beginning of period		**9,729**	9,813	**9,460**	9,833
CASH, END OF PERIOD		**$ 11,169**	$ 6,405	**$ 11,169**	$ 6,405

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, 2019	THREE MONTHS ENDED JUNE 30, 2018	SIX MONTHS ENDED JUNE 30, 2019	SIX MONTHS ENDED JUNE 30, 2018
SHARE CAPITAL					
Share capital, beginning of period		**$ 279,941**	$ 279,926	**$ 279,926**	$ 279,679
Shares issued	*7*	**-**	-	**15**	247
SHARE CAPITAL, END OF PERIOD		**$ 279,941**	$ 279,926	**$ 279,941**	$ 279,926
CAPITAL RESERVE					
Capital reserve, beginning of period		**$ 3,224**	$ 1,695	**$ 2,731**	$ 1,362
Stock options granted	*12*	**260**	373	**497**	695
Stock options exercised	*12*	**-**	-	**(5)**	(2)
Performance share units granted	*12*	**116**	35	**377**	48
CAPITAL RESERVE, END OF PERIOD		**$ 3,600**	$ 2,103	**$ 3,600**	$ 2,103
CONTRIBUTED SURPLUS					
Contributed surplus, beginning of period		**$ 7,958**	$ 7,397	**$ 7,958**	$ 7,397
CONTRIBUTED SURPLUS, END OF PERIOD		**$ 7,958**	$ 7,397	**$ 7,958**	$ 7,397
DEFICIT					
Deficit, beginning of period		**$ (256,247)**	$ (266,815)	**$ (258,204)**	$ (273,105)
Net income attributable to common shareholders		**3,260**	1,023	**5,217**	7,313
DEFICIT, END OF PERIOD		**$ (252,987)**	$ (265,792)	**$ (252,987)**	$ (265,792)
CONVERTIBLE DEBENTURES – EQUITY COMPONENT					
Convertible debentures, beginning of period	*5(b)*	**$ -**	$ 561	**$ -**	$ 561
CONVERTIBLE DEBENTURES, END OF PERIOD		**$ -**	$ 561	**$ -**	$ 561
ACCUMULATED OTHER COMPREHENSIVE LOSS					
Accumulated other comprehensive loss, beginning of period		**$ (3,721)**	$ (4,769)	**$ (1,998)**	$ (7,232)
Other comprehensive income (loss) attributable to common shareholders		**(1,564)**	700	**(3,287)**	3,163
ACCUMULATED OTHER COMPREHENSIVE LOSS, END OF PERIOD		**$ (5,285)**	$ (4,069)	**$ (5,285)**	$ (4,069)
TOTAL SHAREHOLDERS' EQUITY		**$ 33,227**	$ 20,126	**$ 33,227**	$ 20,126
NON-CONTROLLING INTEREST					
Non-controlling interest, beginning of period		**$ 11,632**	$ 8,862	**$ 11,585**	$ 7,100
Total comprehensive income attributable to non-controlling interests	*7*	**341**	347	**388**	2,108
NON-CONTROLLING INTEREST, END OF PERIOD		**$ 11,973**	$ 9,209	**$ 11,973**	$ 9,209
TOTAL EQUITY, END OF PERIOD		**$ 45,200**	$ 29,335	**$ 45,200**	$ 29,335

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, 2019, the Company's common share capital consisted of 31,225,044 (December 31, 2018 – 31,220,877) issued and outstanding shares. Each common 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 common 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 number of outstanding common shares as at June 30, 2019 would be 37,507,266 (December 31, 2018 – 37,503,099). If the Class B partnership units were converted, the Management Partnership and affiliated partnerships would hold 35.6% of the voting shares as at June 30, 2019 (December 31, 2018 – 35.6%).

The table below summarizes the ownership of the Company by the Management Partnership and affiliated partnerships as at June 30, 2019:

	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	7,084,410	18.89%

Through IBI Group, the Company is a global design and technology firm, who provides 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 and technology 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, 2019:

SECURITY	TRADING SYMBOL
Common shares	"IBG"
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, 2018 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, 2018.

On January 1, 2019, the Company adopted and applied IFRS 16. Changes to significant accounting policies are described in Note 3.

These interim financial statements were approved and authorized for issue by the Company's Board of Directors on August 8, 2019.

(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 the new significant judgements and key sources of estimation uncertainty related to the application of IFRS 16, which are described in Note 3.

(c) FUTURE ACCOUNTING POLICIES

Amendments to References to the Conceptual Framework in IFRS Standards

On March 29, 2018 the IASB issued a revised version of its *Conceptual Framework for Financial Reporting* (the Framework), that underpins IFRS Standards. The IASB also issued *Amendments to References to the Conceptual Framework in IFRS Standards* (the Amendments) to update references in IFRS Standards to the previous version of the Conceptual Framework. Both documents are effective from January 1, 2020 with earlier application permitted. The extent of the impact of the change has not yet been determined.

Definition of a business (Amendments to IFRS 3)

On October 22, 2018, the IASB issued amendments to IFRS 3 *Business Combinations*, that seek to clarify whether a transaction results in an asset or a business acquisition. The amendments apply to businesses acquired in annual reporting periods beginning on or after January 1, 2020. The extent of the impact of the change has not yet been determined.

Definition of Material (Amendments to IAS 1 and IAS 8)

On October 31, 2018, the IASB refined its definition of material and removed the definition of material omissions or misstatements from IAS 8. The amendments are effective for the annual periods beginning on or after January 1, 2020. The extent of the impact of the change has not yet been determined.

NOTE 3: CHANGES IN ACCOUNTING POLICIES

IFRS 16 LEASES

(a) DEFINITION OF A LEASE

If a contract gives right to control the use of an identified asset for a period of time in exchange for consideration the Company will establish a right-of-use asset and lease liability. The standard requires a lessee to recognize a right-of-use asset (“ROU”) representing its right to use the underlying leased asset and a corresponding lease liability representing its obligation to make lease payments for all leases.

The Company has adopted IFRS 16 as at January 1, 2019, using the modified retrospective method upon transition with no restatement of comparative financial information. The Company recognized a lease liability at the present value of the remaining lease payments discounted using the Company’s incremental borrowing rate at January 1, 2019 and a right-of-use asset at its carrying amount discounted using the Company's incremental borrowing rate at January 1, 2019.

(b) APPLICATION BY LESSEE

As a lessee, the Company previously classified leases as operating or finance leases based on whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Company adopts the method of recognizing leases on-balance sheet, by setting up a right-of-use asset and lease liabilities for most of its leases.

The Company will apply the following transitional practical expedients:

- Exclude leases of low dollar value assets and leases with a remaining term of less than 12 months at January 1, 2019.

- Apply any provision for onerous contracts previously recognized to the associated ROU asset recognized upon transition to IFRS 16. In these cases, no impairment assessment will be made under IAS 36 Impairment *of Assets*.

- Exclude initial direct costs from measuring the right-of-use asset at the date of transition.

- Use of hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The Company's right-of-use assets presented as a separate line item on the statement of financial position includes real estate leases for office space, equipment leases and vehicle leases. The Company applied a provision against the initial recognition of the right-of-use asset of real estate leases to account for the contract that was determined to be onerous prior to January 1, 2019. This adjustment is applied against the right-of-use asset as at January 1, 2019, therefore the prior period balance of the onerous lease is presented separately on the statement of financial position. Assets presented as right-of-use were previously classified off-balance sheet as operating leases under IAS 17.

Similarly, the obligation of monthly lease payments recognized as a lease liability includes lease payments related to base rent of office space and equipment. Vehicle lease payments include non-lease components in the determination of lease liability. Under IAS 17, monthly lease payments were recorded as an expense to the statement of profit and loss.

The Company has applied judgement to determine the incremental borrowing rate and the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which affects the amount of lease liabilities and right-of-use assets recognized.

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

(c) TRANSITION IMPACT

The following table represents the impact on January 1, 2019 upon adoption of IFRS 16:

	Impact of changes in accounting policy		
	December 31, 2018	Increase / (Decrease)	January 1, 2019
Right-of-use assets	$ -	$ 74,661	$ 74,661
Lease receivable	-	7,072	7,072
Prepaid expenses and other current	15,276	(1,097)	14,179
Total Assets	$ 248,166	$ 80,636	$ 328,802
Accounts payable and accrued liabilities	$ 39,671	$ (2,611)	$ 37,060
Lease liabilities	-	85,100	85,100
Onerous lease provision	1,853	(1,853)	-
Total Liabilities	$ 206,168	$ 80,636	$ 286,804

The following table represents the carrying value of the right-of-use assets as at January 1, 2019 and June 30, 2019:

	Right-of-Use Assets			
	Real Estate Lease	Equipment	Vehicles	Total
Balance as at January 1, 2019	$ 72,532	$ 1,931	$ 198	$ 74,661
Additions	2,962	154	-	3,116
Allocation to lease receivable due to new sublease agreements	(1,330)	-	-	(1,330)
Depreciation	(5,972)	(427)	(32)	(6,431)
Impairment	(394)	-	-	(394)
Foreign exchange gain (loss)	(1,143)	(85)	19	(1,209)
Balance as at June 30, 2019	$ 66,655	$ 1,573	$ 185	$ 68,413

The following table represents the total lease commitments as disclosed in the December 31, 2018 annual audited consolidated financial statements as well as the comparative lease liability under IFRS 16 net of exemptions taken:

	January 1, 2019
Operating lease commitment at December 31, 2018 as disclosed in the Company's annual consolidated financial statements	$ 117,221
Weighted-average incremental borrowing rate	5.15%
Discounted using the incremental borrowing rate at January 1, 2019	$ 87,847
Less: Recognition exemption for leases of low value assets	(1,455)
Less: Recognition exemption for leases with less than 12 months of remaining lease term at transition	(1,292)
Lease liabilities recognized at January 1, 2019	$ 85,100

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

The application of IFRS 16 on leases that were previously classified as operating leases resulted in the Company to recognize right-of-use assets of $74,661, and lease liability of $85,100. The following table provides a reconciliation of right-of-use assets and lease liabilities at date of transition as at January 1, 2019:

Right-of-use asset / Lease liability reconciliation (Add / (Deduct))		
Right-of-use asset	$	74,661
Lease receivable		7,072
Accrued liabilities		2,611
Onerous lease		1,853
Prepaid Assets		(1,097)
Lease liability	$	85,100

As a result of adopting IFRS 16 at January 1, 2019 with the practical expedient applied, the Company reclassified the onerous lease provision at December 31, 2018 as a reduction to the right-of-use-asset. In addition, the Company as a lessor concluded the sub-lease was a finance lease, which resulted in a lease receivable that will be recovered over the remaining lease period.

(d) PERIOD IMPACT

During the period for the three and six months ended June 30, 2019, the Company recognized on the statement of profit and loss a depreciation expenses of $3,245 and $6,431 respectively on its right-of-use asset and net interest expense of $991 and $1,963 respectively on its lease liabilities.

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

NOTE 4: SEGMENT INFORMATION

The Company is a global design and technology firm, 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, 2019, with comparatives as at December 31, 2018:

	AS AT JUNE 30, 2019				
	CANADA	UNITED STATES	UNITED KINGDOM	OTHER INTERNATIONAL	TOTAL
Property and equipment	$ 14,567	$ 4,080	$ 1,030	$ 646	$ 20,323
Intangible assets	6,169	1,273	278	-	7,720
Contract assets	34,007	18,642	4,269	20,056	76,974
Contract liabilities	24,400	6,757	3,808	3,967	38,932
Total assets	173,099	89,412	18,665	53,833	335,009
Right-of-use assets	40,739	22,966	3,083	1,625	68,413
Lease receivable	6,086	1,679	-	-	7,765
Total assets excluding the impact of IFRS 16 transition	126,274	64,767	15,582	52,208	258,831

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

	AS AT DECEMBER 31, 2018				
	CANADA	UNITED STATES	UNITED KINGDOM	OTHER INTERNATIONAL	TOTAL
Property and equipment	$ 12,229	$ 3,734	$ 1,339	$ 782	$ 18,084
Intangible assets	6,169	1,572	348	-	8,089
Contract assets	26,146	17,676	3,807	20,658	68,287
Contract liabilities	26,395	5,324	3,407	5,268	40,394
Total assets	115,368	56,955	18,435	57,408	248,166

The following table demonstrates certain information contained in the interim statement of income and comprehensive income segmented geographically for the three and six months ended June 30, 2019 and 2018. The unallocated amounts for the three and six months ended June 30, 2019 and 2018 pertain to interest on convertible debentures, accretion expense on convertible debentures, amortization of deferred financing cost, long term debt interest, change in fair value of other financial liabilities, and change in fair value of deferred share units.

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

	THREE MONTHS ENDED JUNE 30, 2019					
	CANADA	UNITED STATES	UNITED KNGDOM	OTHER INTERNATIONAL	UNALLOCATED CORPORATE COSTS[1]	TOTAL
Gross revenues	$ 64,453	$ 36,451	$ 7,886	$ 8,970	$ -	$ 117,760
Less: subconsultants and direct expenses	7,204	9,488	1,029	3,219	-	20,940
Net revenue	$ 57,249	$ 26,963	$ 6,857	$ 5,751	$ -	$ 96,820
Adjusted EBITDA[2]	$ 9,401	$ 1,459	$ 237	$ 1,078	$ -	$ 12,175
Items excluded in calculation of Adjusted EBITDA[2]:						
Interest expense, net	608	340	43	27	2,115	3,133
Amortization and depreciation	2,350	1,851	474	211	-	4,886
Foreign exchange (gain) loss	(13)	(250)	17	713	-	467
Gain in fair value of other financial liabilities	-	-	-	-	851	851
Change in fair value of deferred share units	-	-	-	-	(33)	(33)
Payment of DSP	-	-	-	-	-	-
Stock based compensation	228	17	3	12	-	260
Performance share units	116	-	-	-	-	116
Deferred financing charges	-	-	-	-	112	112
IFRS 16 lease accounting adjustment	(1,548)	(1,585)	(338)	(145)	-	(3,616)
Net income (loss) before tax	$ 7,660	$ 1,086	$ 38	$ 260	$ (3,045)	$ 5,999

	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]	$ 10,161	$ (2,051)	$ 299	$ 671	$ -	$ 9,080
Items excluded in calculation of Adjusted EBITDA[2]:						
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	$ 9,297	$ (2,714)	$ 106	$ (64)	$ (3,172)	$ 3,453

[1] Unallocated corporate costs represent costs not associated with a particular operating segment and are borne 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; IFRS lease accounting adjustments; 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)

	SIX MONTHS ENDED JUNE 30, 2019					
	CANADA	UNITED STATES	UNITED KNGDOM	OTHER INTERNATIONAL	UNALLOCATED CORPORATE COSTS[1]	TOTAL
Gross Revenues	$ 126,249	$ 72,129	$ 15,858	$ 17,198	$ -	$ 231,434
Less: subconsultants and direct expenses	14,788	18,636	2,102	5,355	-	40,881
Net revenue	$ 111,461	$ 53,493	$ 13,756	$ 11,843	$ -	$ 190,553
Adjusted EBITDA[2]	$ 16,761	$ 3,310	$ 254	$ 2,596	$ -	$ 22,921
Items excluded in calculation of Adjusted EBITDA[2]:						
Interest expense, net	1,206	688	90	51	4,184	6,219
Amortization and depreciation	4,766	3,624	950	451	-	9,791
Foreign exchange (gain) loss	123	(490)	(77)	1,725	-	1,281
Change in fair value of other financial liabilities	-	-	-	-	1,724	1,724
Change in fair value of deferred share units	-	-	-	-	245	245
Stock based compensation	435	34	5	23	-	497
Performance share units	377	-	-	-	-	377
Deferred financing charges	-	-	-	-	229	229
IFRS 16 lease accounting adjustment	(2,957)	(3,128)	(673)	(288)	-	(7,046)
Net income (loss) before tax	$ 12,811	$ 2,582	$ (41)	$ 634	$ (6,382)	$ 9,604

	SIX MONTHS ENDED JUNE 30, 2018					
	CANADA	UNITED STATES	UNITED KINGDOM	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]	$ 17,979	$ (3,092)	$ 300	$ 3,036	$ -	$ 18,223
Items excluded in calculation of Adjusted EBITDA[2]:						
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
Change 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	$ 17,503	$ (4,448)	$ (306)	$ 1,955	$ (1,331)	$ 13,373

[1] Unallocated corporate costs represent costs not associated with a particular operating segment and are borne 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; IFRS lease accounting adjustments; 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 5: FINANCIAL INSTRUMENTS

(a) INDEBTEDNESS

On September 27, 2018, IBI Group entered into an amended agreement on its credit facilities extending the maturity date to September 27, 2022, and increasing the swing line facility maximum available amount to $20,000. The total revolver facility remains unchanged at $130,000. As at June 30, 2019, the interest rate on Canadian dollar borrowings was 4.95% (June 30, 2018 – 4.70%) and 6.50% on U.S dollar borrowings (June 30, 2018 – 6.00%).

As at June 30, 2019, IBI Group has borrowings of $75,707 (December 31, 2018 - $77,159) under the credit facilities, which has been recorded on the balance sheet net of deferred financing costs of $1,466 (December 31, 2018 - $1,611). Inclusive of the $75,707 borrowings, the Company has borrowed $10,000 USD (December 31, 2018 - $10,000 USD) under a swing line facility with a carrying value as at June 30, 2019 of 13,087 CAD (December 31, 2018 - $13,634).

As at June 30, 2019, IBI Group has letters of credit outstanding of $4,804 (December 31, 2018 - $4,681), of which $3,430 (December 31, 2018 - $4,428) is issued under a $30,000 facility which matures on June 30, 2020 and supports letters of credit back stopped 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, 2019, $75,087 was outstanding under Bankers' Acceptance with the remainder borrowed as prime rate debt (December 31, 2018 - $74,834).

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, all of which the Company has met. Upon completing certain administrative matters with respect to registering security for certain entities, the lender and the Company agreed that the Company was in compliance with its covenants as at June 30, 2019.

Continued compliance with the covenants under the amended credit facilities is dependent on IBI Group achieving revenue forecasts, continued profitability, executing contracts for clients and continued monitoring 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. The Company will continue to carefully monitor its compliance with the covenants and reporting requirements and will seek waivers, subject to lender approval, as may become necessary.

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

	AS AT	
	JUNE 30, 2019	**JUNE 30, 2018**
Balance at January 1	$ 75,548	$ 63,842
Draws on credit facilities	-	6,163
Payments on principal of credit facilities	(905)	(4,100)
Deferred financing capitalization	(84)	(57)
Amortization of deferred financing costs	229	271
Impact of foreign exchange	(547)	644
Ending Balance	$ 74,241	$ 66,763

(b) CONVERTIBLE DEBENTURES

	LIABILITY COMPONENT	OTHER FINANCIAL LIABILITY COMPONENT	TOTAL
5.5% Debentures (matures on December 31, 2021)			
Balance at December 31, 2018	$ 37,213	$ 3,994	$ 41,207
Accretion of 5.5% Debentures	1,245	-	1,245
Change in fair value of other financial liabilities	-	1,724	1,724
BALANCE, JUNE 30, 2019	$ 38,458	$ 5,718	$ 44,176

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 Toronto Stock Exchange 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 at 5.5% per annum, payable in equal semi-annual payments in arrears on June 30th and December 31st of each year.

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

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, 2019, the fair value of the derivative component was $5,718 (December 31, 2018 - $3,994). 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, 2019, based on a Level 1 quoted market price, is as follows:

	Carrying Value	Fair Value
5.5% Debentures	$ 38,458	$ 49,220
BALANCE, JUNE 30, 2019	$ 38,458	$ 49,220

The fair value of the convertible debentures as at December 31, 2018, based on a Level 1 quoted market price, is as follows:

	Carrying Value	Fair Value
5.5% Debentures	$ 37,213	$ 45,995
BALANCE, DECEMBER 31, 2018	$ 37,213	$ 45,995

(c) FINANCIAL ASSETS AND LIABILITIES

The fair values of accounts receivable, current lease receivable, accounts payable and accrued liabilities, and current lease liability approximate their carrying amounts due to their short-term maturity. The lease liability approximates the fair value as the incremental borrowing rate used at January 1, 2019 to determine the liability did not materially change during the three or six months ended June 30, 2019. The fair value of the credit facilities approximate its carrying amount due to the variable rate of interest.

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

The carrying amount of the Company's financial instruments as at June 30, 2019 are as follows:

	FINANCIAL ASSETS AND LIABILITIES AT FVTPL	AMORTIZED COST	TOTAL
FINANCIAL ASSETS			
Cash	$ 11,169	$ -	$ 11,169
Restricted cash	3,062	-	3,062
Accounts receivable	-	112,514	112,514
Lease receivable[1]	-	7,765	7,765
TOTAL	$ 14,231	$ 120,279	$ 134,510
FINANCIAL LIABILITIES			
Accounts payable and accrued liabilities	$ -	$ 36,513	$ 36,513
Deferred share plan liability	2,195	-	2,195
Lease liability[1]	-	84,915	84,915
Credit facilities	-	74,241	74,241
Convertible debentures	-	38,458	38,458
Other financial liabilities	5,718	-	5,718
TOTAL	$ 7,913	$ 234,127	$ 242,040

[1] Upon adoption of IFRS 16 the following financial instruments were recognized, lease receivable and lease liability with a carrying value as at June 30, 2019 of $7,765 and $84,915 respectively. In addition to the financial instruments a right-of-use capital asset was recognized with a carrying value of $68,413 as at June 30, 2019.

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

The carrying amount of the Company's financial instruments as at December 31, 2018 are as follows:

	FINANCIAL ASSETS AND LIABILITIES AT FVTPL	AMORTIZED COST	TOTAL
FINANCIAL ASSETS			
Cash	$ 9,460	$ -	$ 9,460
Restricted cash (restated)	3,190	-	3,190
Accounts receivable	-	114,796	114,796
TOTAL	$ 12,650	$ 114,796	$ 127,446
FINANCIAL LIABILITIES			
Accounts payable and accrued liabilities	$ -	$ 37,990	$ 37,990
Deferred share plan liability	1,681	-	1,681
Credit facilities	-	75,548	75,548
Convertible debentures	-	37,213	37,213
Other financial liabilities	3,994	-	3,994
TOTAL	$ 5,675	$ 150,751	$ 156,426

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, 2019 and December 31, 2018:

	AS AT JUNE 30, 2019		
	LEVEL 1	LEVEL 2	LEVEL 3
Cash	$ 11,169	$ -	$ -
Restricted cash	-	3,062	-
Deferred share plan liability	-	(2,195)	-
Other Financial Liabilities	-	(5,718)	-
	$ 11,169	$ (4,851)	$ -

	AS AT DECEMBER 31, 2018		
	LEVEL 1	LEVEL 2	LEVEL 3
Cash	$ 9,460	$ -	$ -
Restricted cash	-	3,190	-
Deferred share plan liability	-	(1,681)	-
Other Financial Liabilities	-	(3,994)	-
	$ 9,460	$ (2,485)	$ -

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, 2019 was $3,592 (three months ended June 30, 2018 - $3,915) and $7,323 for the six months ended June 30, 2019 (six months ended June 30, 2018 - $7,831). As at June 30, 2019, there were 46 partners (June 30, 2018 – 51 partners). As at June 30, 2019, the amount payable to the Management Partnership was $61 (December 31, 2018 - $233).

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. No distributions have been made (2018 - $nil).

NOTE 7: EQUITY

(a) SHAREHOLDERS' EQUITY

The Company is authorized to issue an unlimited number of common shares. As at June 30, 2019, the Company's common share capital consisted of 31,225,044 shares issued and outstanding (December 31, 2018 – 31,220,877 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 Class B partnership units of IBI Group had been exchanged for shares on June 30, 2019, 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, 2019.

SHARE ISSUANCES

During the six months ended June 30, 2019, the Company issued 4,167 common shares as a result of exercises of stock options granted in January 2016.

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.

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

	THREE MONTHS JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2019	**2018**	**2019**	**2018**
Net income	$ 3,917	$ 1,229	$ 6,267	$ 8,785
Net income attributable to common shareholders	$ 3,260	$ 1,023	$ 5,217	$ 7,313
Weighted average common shares outstanding	31,225	31,221	31,224	31,215
Dilutive effect of Class B partnership units	6,282	6,282	6,282	6,282
Dilutive effect of stock options granted	243	530	243	549
Diluted weighted average common shares outstanding	37,750	38,033	37,749	38,046
Basic and dilutive earnings per common share	$ 0.10	$ 0.03	$ 0.17	$ 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 months ended June 30, 2019.

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,	
	2019	**2018**	**2019**	**2018**
Net income	$ 3,917	$ 1,229	$ 6,267	$ 8,785
Non-controlling interest share of ownership	16.75%	16.75%	16.75%	16.75%
Net income attributable to non-controlling interest	$ 657	$ 206	$ 1,050	$ 1,472

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2019	**2018**	**2019**	**2018**
Total comprehensive income	$ 2,038	$ 2,070	$ 2,318	$ 12,585
Non-controlling interest share of ownership	16.75%	16.75%	16.75%	16.75%
Total comprehensive income attributable to non-controlling interest	$ 341	$ 347	$ 388	$ 2,108

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, 2019, had been 50 basis points higher or lower, with all other variables held constant, net income for the six months ended June 30, 2019 would have decreased or increased by approximately $276.

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, 2019, with all other variables held constant, total comprehensive income would have increased or decreased by $48 for the six months ended June 30, 2019. If the exchange rates had been 100 basis points higher or lower as at June 30, 2019, with all other variables held constant, net income would have increased or decreased by $33 for the six months ended June 30, 2019.

(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, 2019 there were 63 working days of revenue in accounts receivable, compared to 63 days at December 31, 2018. 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.

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

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.

The aging of the accounts receivable are detailed below:

	AS AT	
	JUNE 30, 2019	**DECEMBER 31, 2018**
Current	$ 45,509	$ 40,327
30 to 90 days	32,403	40,451
Over 90 days	44,139	44,166
Gross accounts receivable	122,051	124,944
Allowance for impairment losses	(9,537)	(10,148)
Total	$ 112,514	$ 114,796

Changes in the allowance for impairment losses were as follows:

	AS AT	
	JUNE 30, 2019	**DECEMBER 31, 2018**
Balance at beginning of year	$ (10,148)	$ (8,970)
Provision for doubtful accounts	(775)	(1,247)
Amounts written-off	1,113	559
Effect of foreign currency exchange rate changes	273	(490)
Total	**(9,537)**	**(10,148)**

Impairment loss provision of contract assets is determined by applying a weighted average loss rate based on the Company's historical experience and informed credit assessment. The weighted average loss rate as at June 30, 2019 was 1.70% on contract assets for impairment loss of $1,330 (December 31, 2018 – loss rate of 1.58% and impairment loss of $1,098).

The Company, upon entering in a contract as the lessor assesses the credit risk of the lease receivable balance at the inception of the contract. The impact of the credit risk is included as part of the discount rate upon recording the asset on the statement of financial position. The Company assesses the asset for changes in the credit risk at each reporting period, with the impact of any gains and losses recognized on the statement of financial position. For the three and six months ended June 30, 2019, no changes in credit risk were identified.

(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 September 27, 2018, IBI Group signed an amendment to refinance its credit facilities with its senior lenders. (refer to Note 5 – Financial Instruments).

As at June 30, 2019, a foreign subsidiary of the Company had issued letters of credit in the amount of U.S $2,300, which is equal to CAD $3,062 (December 31, 2018 – CAD $3,190). The Company has pledged U.S $2,300 (December 31, 2018 – 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, 2019, the Company has letters of credit outstanding to foreign institutions of $1,374 (December 31, 2018 - $253).

(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.

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[1] 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, 2019.

[1] 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; IFRS lease accounting adjustments; IFRS lease accounting adjustment; 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 9: CHANGE IN NON-CASH OPERATING WORKING CAPITAL

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2019	**2018**	**2019**	**2018**
Accounts receivable	$ (3,576)	$ (12,440)	$ (478)	$ 583
Contract assets	(2,611)	(1,562)	(10,495)	(7,314)
Prepaid expenses and other assets	(2,527)	(1,171)	(1,462)	(1,792)
Lease receivable	(10)	-	(1,302)	-
Right-of-use assets	(1,123)	-	(2,171)	-
Accounts payable and accrued liabilities	1,291	1,017	(158)	(7,414)
Lease liability	2,092	-	6,869	-
Contract liabilities	(1,163)	1,601	(891)	(1,552)
Net income taxes payable	953	434	(234)	148
Change in non-cash operating working capital	$ (6,674)	$ (12,121)	$ (10,322)	$ (17,341)

NOTE 10: FINANCE COSTS

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2019	**2018**	**2019**	**2018**
Interest on credit facilities	$ 853	$ 644	$ 1,683	$ 1,182
Interest on convertible debentures	631	889	1,255	1,771
Non-cash accretion of convertible debentures	630	948	1,245	1,864
Interest on lease liability	1,092	-	2,169	-
Interest on lease receivable	(101)	-	(206)	-
Other	28	(133)	73	2
INTEREST EXPENSE	$ 3,133	$ 2,348	$ 6,219	$ 4,819
Amortization of deferred financing costs	$ 113	$ 133	$ 229	$ 271
Other	73	170	150	294
OTHER FINANCE COSTS	$ 186	$ 303	$ 379	$ 565
FINANCE COSTS	$ 3,319	$ 2,651	$ 6,598	$ 5,384

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: 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 months ended June 30, 2019, a recovery of $33 was recognized (three months ended June 30, 2018 – recovery of $70) and an expense of $245 for the six months ended June 30, 2019 (six months ended June 30, 2018 – recovery of $319) due to market movement in the share price.

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	535,000	$ 1.14 - 1.17	$ 2.13	$ 2.33	60.2 - 64.2%	5.5 - 6.5 years	0%	0.64 - 0.81%
May 25, 2016	99,213	$ 2.63 - 6.67	$ 4.53	$ 4.49	62.3 - 66.9%	5.5 - 6.5 years	0%	0.86 - 0.99%
May 12, 2017	69,107	$ 4.31 - 4.39	$ 7.30	$ 7.01	62.8 - 67.1%	5.5 - 6.5 years	0%	1.07 - 1.20%
July 17, 2017	316,500	$ 3.88 - 3.97	$ 6.63	$ 6.63	62.8 - 67.0%	5.5 - 6.5 years	0%	1.55 - 1.64%
August 9, 2017	77,315	$ 3.97 - 4.05	$ 6.77	$ 6.79	62.8 - 67.0%	5.5 - 6.5 years	0%	1.57 - 1.66%
March 20, 2018	71,942	$ 4.26 - 4.37	$ 7.24	$ 7.24	62.7 - 66.6%	5.5 - 6.5 years	0%	2.00 - 2.03%
May 9, 2018	69,500	$ 4.56 - 4.66	$ 7.65	$ 7.49	62.4 - 66.6%	5.5 - 6.5 years	0%	2.22 - 2.26%
March 6, 2019	156,464	$ 2.47 - 2.70	$ 4.41	$ 4.49	61.2 - 63.7%	5.5 - 6.5 years	0%	1.70 - 1.72%
May 9, 2019	90,500	$ 2.68 - 2.97	$ 4.96	$ 4.98	60.3 - 63.1%	5.5 - 6.5 years	0%	1.56 - 1.59%

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.

For the three months ended June 30, 2019, the Company has recognized an expense of $260 (three months ended June 30, 2018 - $373) and an expense of $497 for the six months ended June 30, 2019 (six months ended June 30, 2018 - $693) in salaries, fees and employee benefits for stock options in the interim statement of income and comprehensive income.

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

The following stock option arrangements were in existence as at June 30, 2019:

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	9,167	22,500	503,333	503,333	$ 2.33	$ 618,816
25-May-16	25-May-26	99,213	-	-	99,213	99,213	$ 4.49	$ 262,253
16-May-17	16-May-27	69,107	-	-	69,107	46,071	$ 7.01	$ 300,846
17-Jul-17	17-Jul-27	316,500	-	7,334	309,166	103,055	$ 6.63	$ 1,245,954
9-Aug-17	9-Aug-27	77,315	-	-	77,315	25,772	$ 6.79	$ 310,550
20-Mar-18	20-Mar-28	71,942	-	-	71,942	23,981	$ 7.24	$ 310,550
9-May-18	9-May-28	69,500	-	-	69,500	23,167	$ 7.49	$ 320,627
6-Mar-19	6-Mar-29	156,464	-	-	156,464	-	$ 4.49	$ 406,650
9-May-19	9-May-29	90,500	-	-	90,500	-	$ 4.98	$ 257,110
		1,485,541	9,167	29,834	1,446,540	824,592	$ 4.75	4,033,356

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 months ended June 30, 2019 an expense of $116 (three months ended June 30, 2018 - $35), and an expense of $377 for the six months ended June 30, 2019 (six months ended June 30, 2018 – $48) in salaries, fees and employee benefits for PSUs in the interim statement of income and comprehensive income.

NOTE 13: INCOME TAXES

Income taxes for the three and six months ended June 30, 2019 were $2,082 and $3,337, respectively (three and six months ended June 30, 2018 - $2,224 and $4,588, respectively). The effective income tax rate for the three and six months ended June 30, 2019 was 34.7% (three and six months ended June 30, 2018 – 64.4% and 34.3%, respectively). The change in the effective income tax rate was primarily due to non-deductible items and result of operations in various jurisdictions.