



# IBI Group 2017 First-Quarter Financial Statements

---

THREE MONTHS ENDED  
MARCH 31, 2017

**UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF**

**IBI GROUP INC.**

**THREE MONTHS ENDED MARCH 31, 2017 AND 2016**

# IBI GROUP INC.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(unaudited)

<i>(thousands of Canadian dollars)</i>	NOTES	MARCH 31, 2017	DECEMBER 31, 2016
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	4	\$ 8,626	\$ 8,008
Accounts receivable	4,7	105,196	108,593
Work in process	3	84,555	87,052
Prepaid expenses and other current assets		14,733	12,842
Income taxes recoverable		517	507
<b>Total Current Assets</b>		<b>\$ 213,627</b>	<b>\$ 217,002</b>
Restricted cash	4,7	6,741	4,522
Other assets		421	421
Property and equipment		15,194	15,772
Intangible assets		7,603	7,672
Deferred tax assets		16,941	16,421
<b>TOTAL ASSETS</b>		<b>\$ 260,527</b>	<b>\$ 261,810</b>
<b>LIABILITIES AND DEFICIT</b>			
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	4,7	52,236	55,505
Deferred revenue	3	44,557	50,522
Income taxes payable		2,182	1,860
Finance lease obligation	4,7	37	37
Onerous lease provisions		1,042	1,018
<b>Total Current Liabilities</b>		<b>\$ 100,054</b>	<b>\$ 108,942</b>
Onerous lease provisions		1,983	2,270
Finance lease obligation	4,7	58	67
Credit facilities	4	74,382	73,184
Convertible debentures	4	44,643	43,876
Other financial liabilities	4	9,357	9,089
Deferred tax liabilities		5,814	4,176
<b>TOTAL LIABILITIES</b>		<b>\$ 236,291</b>	<b>\$ 241,604</b>
<b>EQUITY</b>			
<b>Shareholders' Equity</b>			
Share capital	6	279,679	279,667
Capital reserve	11	518	453
Contributed surplus	6	7,397	7,397
Deficit		(266,222)	(269,351)
Convertible debentures – equity component	4	561	561
Accumulated other comprehensive loss		(4,276)	(4,304)
<b>Total Shareholders' Equity</b>		<b>\$ 17,657</b>	<b>\$ 14,423</b>
Non-controlling interest	6	6,579	5,783
<b>TOTAL EQUITY</b>		<b>\$ 24,236</b>	<b>\$ 20,206</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 260,527</b>	<b>\$ 261,810</b>

See accompanying notes to the interim condensed consolidated financial statements.

# IBI GROUP INC.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

*(unaudited)*

THREE MONTHS ENDED MARCH 31

*(thousands of Canadian dollars, except per share amounts)*

	NOTES	2017	2016
Revenue		\$ 91,366	\$ 88,645
Expenses			
Salaries, fees and employee benefits	11	63,840	63,279
Rent		5,814	5,588
Other operating expenses		10,906	10,299
Foreign exchange loss (gain)	7(a)	(96)	7,247
Amortization of intangible assets		290	208
Depreciation of property and equipment		994	1,069
Increase in fair value of other financial liabilities		268	-
Impairment of financial assets	7	580	574
		<b>82,596</b>	<b>88,264</b>
<b>OPERATING INCOME</b>		<b>\$ 8,770</b>	<b>\$ 381</b>
Interest expense, net	7,9	2,681	4,051
Other finance costs	9	421	409
<b>FINANCE COSTS</b>		<b>\$ 3,102</b>	<b>\$ 4,460</b>
Share of loss of equity accounted investee, net of tax		-	32
<b>NET INCOME (LOSS) BEFORE TAX</b>		<b>\$ 5,668</b>	<b>\$ (4,111)</b>
Current tax expense	12	647	647
Deferred tax expense (recovery)	12	1,103	(921)
<b>INCOME TAXES</b>		<b>\$ 1,750</b>	<b>\$ (274)</b>
<b>NET INCOME (LOSS)</b>		<b>\$ 3,918</b>	<b>\$ (3,837)</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Items that are or may be reclassified to profit or loss</b>			
Gain on translating financial statements of foreign operations		35	1,925
<b>OTHER COMPREHENSIVE INCOME</b>		<b>35</b>	<b>1,925</b>
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>		<b>\$ 3,953</b>	<b>\$ (1,912)</b>
<b>NET INCOME (LOSS) ATTRIBUTABLE TO:</b>			
Common shareholders		3,261	(3,066)
Non-controlling interests	6	657	(771)
<b>NET INCOME (LOSS)</b>		<b>\$ 3,918</b>	<b>\$ (3,837)</b>
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>			
<b>ATTRIBUTABLE TO:</b>			
Common shareholders		\$ 3,290	\$ (1,528)
Non-controlling interests	6	663	(384)
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>		<b>\$ 3,953</b>	<b>\$ (1,912)</b>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO COMMON SHAREHOLDERS</b>			
Basic and diluted earnings per share	6	\$ 0.10	\$ (0.12)

See accompanying notes to the interim condensed consolidated financial statements.

# IBI GROUP INC.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

THREE MONTHS ENDED MARCH 31

(thousands of Canadian dollars)

	NOTES	2017	2016
<b>CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>			
Net income		\$ 3,918	\$ (3,837)
Items not affecting cash:			
Onerous lease provision		(263)	(223)
Depreciation of property and equipment		994	1,069
Amortization of intangible assets		290	208
Amortization of deferred financing costs	4	255	259
Impairment of financial assets		580	574
Share of loss of equity-accounted investee, net of tax		-	32
Foreign exchange loss (gain)	7	(96)	7,247
Interest expense, net	9	2,681	4,051
Deferred tax expense (recovery)		1,103	(921)
Stock option expense	11	65	79
Increase in fair value of other financial liabilities		268	-
Interest paid		(238)	(909)
Income taxes refunded (paid)		387	(595)
Change in non-cash operating working capital	8	(7,746)	(1,227)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		<b>\$ 2,198</b>	<b>\$ 5,807</b>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>			
Payments on principal of notes payable		-	(292)
Payments on principal of credit facilities		1,048	(4,000)
Payments on principal of finance lease obligation		(9)	(119)
Proceeds from shares issued	6	8	-
<b>NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES</b>		<b>\$ 1,047</b>	<b>\$ (4,411)</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>			
Purchase of property and equipment		(433)	(976)
Purchase of intangible assets		(228)	(786)
Restricted cash	4	(2,243)	(3,259)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>\$ (2,904)</b>	<b>\$ (5,021)</b>
Effect of foreign exchange rate fluctuations on cash held	7	277	(691)
<b>NET INCREASE (DECREASE) IN CASH</b>		<b>\$ 618</b>	<b>\$ (4,316)</b>
Cash, beginning of period		8,008	7,968
<b>CASH, END OF PERIOD</b>		<b>\$ 8,626</b>	<b>\$ 3,652</b>

See accompanying notes to the interim condensed consolidated financial statements.

# IBI GROUP INC.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (DEFICIT)

*(unaudited)*

THREE MONTHS ENDED MARCH 31

*(thousands of Canadian dollars)*

	NOTES	2017	2016
<b>SHARE CAPITAL</b>			
Share capital, beginning of period		\$ 279,667	\$ 248,422
Shares issued	6	12	-
<b>SHARE CAPITAL, END OF PERIOD</b>		<b>\$ 279,679</b>	<b>\$ 248,422</b>
<b>CAPITAL RESERVE</b>			
Capital reserve, beginning of period		\$ 453	\$ -
Stock options granted	4,11	69	79
Stock options exercised	4,11	(4)	
<b>CAPITAL RESERVE, END OF PERIOD</b>		<b>\$ 518</b>	<b>\$ 79</b>
<b>CONTRIBUTED SURPLUS</b>			
Contributed surplus, beginning of period		7,397	3,002
<b>CONTRIBUTED SURPLUS, END OF PERIOD</b>		<b>\$ 7,397</b>	<b>\$ 3,002</b>
<b>DEFICIT</b>			
Deficit, beginning of period		(269,351)	(272,165)
Net income attributable to common shareholders		3,129	(3,066)
<b>DEFICIT, END OF PERIOD</b>		<b>\$ (266,222)</b>	<b>\$ (275,231)</b>
<b>CONVERTIBLE DEBENTURES – EQUITY COMPONENT</b>			
Convertible debentures, beginning of period	4(b)	561	4,956
<b>CONVERTIBLE DEBENTURES, END OF PERIOD</b>		<b>\$ 561</b>	<b>\$ 4,956</b>
<b>ACCUMULATED OTHER COMPREHENSIVE LOSS</b>			
Accumulated other comprehensive loss, beginning of period		(4,304)	(4,220)
Other comprehensive loss attributable to common shareholders		28	1,538
<b>ACCUMULATED OTHER COMPREHENSIVE LOSS, END OF PERIOD</b>		<b>\$ (4,276)</b>	<b>\$ (2,682)</b>
<b>TOTAL SHAREHOLDERS' EQUITY/(DEFICIT)</b>		<b>\$ 17,657</b>	<b>\$ (21,454)</b>
<b>NON-CONTROLLING INTEREST</b>			
Non-controlling interest, beginning of period		5,783	5,124
Total comprehensive income (loss) attributable to non-controlling interests	6	796	(384)
<b>NON-CONTROLLING INTEREST, END OF PERIOD</b>		<b>\$ 6,579</b>	<b>\$ 4,740</b>
<b>TOTAL EQUITY/(DEFICIT), END OF PERIOD</b>		<b>\$ 24,236</b>	<b>\$ (16,714)</b>

See accompanying notes to the interim condensed consolidated financial statements.

**IBI GROUP INC.**

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands of Canadian dollars, except per share and share amounts)

---

**NOTE 1: ORGANIZATION AND DESCRIPTION OF THE BUSINESS**

IBI Group Inc. (the “Company”) is a company incorporated pursuant to the provisions of the Canada Business Corporations Act (the “CBCA”) on September 30, 2010 and is the successor to IBI Income Fund (the “Fund”), an unincorporated, open-ended limited purpose trust established under the laws of Ontario.

The Fund was created on July 23, 2004, to indirectly acquire the outstanding Class A partnership units of IBI Group Partnership (“IBI Group”), a general partnership formed and carrying on business under the laws of the Province of Ontario. As at March 31, 2017, the Company’s common share capital consisted of 31,190,153 (December 31, 2016 –31,186,819) 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 March 31, 2017 would be 37,472,375 (December 31, 2016 –37,469,041). If the Class B partnership units were converted, the Management Partnership and affiliated partnerships would hold 37.5% of the voting shares as at March 31, 2017 (December 31, 2016 –37.5%).

The table below summarizes the ownership of the Company by the Management Partnership and affiliated partnerships as at March 31, 2017:

---

	<b>NUMBER OF UNITS HELD</b>	<b>PERCENTAGE OF TOTAL OWNERSHIP</b>
Class B partnership units and non-participating voting shares held by the Management Partnership	6,282,222	16.76%
Common shares held by the Management Partnership and affiliated partnerships	7,763,329	20.72%

---

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.

**IBI GROUP INC.****NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
*(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 March 31, 2017:

<b>SECURITY</b>	<b>TRADING SYMBOL</b>
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, M5V 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, 2016 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, 2016. These interim financial statements were approved by the Company's Board of Directors on May 9, 2017.

**(b) USE OF ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of these interim financial statements requires management to exercise judgment 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 (loss) and comprehensive income (loss) ("interim statement of income and comprehensive income"). Actual amounts may differ from these estimates.

**(c) CHANGES IN ACCOUNTING POLICIES***Amendments to IAS 7 Statement of Cash Flows*

In January 2016, the IASB issued Disclosure Initiative (*Amendments to IAS 7*) ("IAS 7"). The amendments apply prospectively for annual periods beginning on or after January 1, 2017.



The Company adopted the amendments to IAS 7 in its financial statements for the annual period beginning on January 1, 2017. The adoption of these amendments did not have a material impact on the interim financial statements.

#### Amendments to IAS 12 *Income Taxes*

In January 2016, the IASB issued Amendments to IAS 12 *Income Taxes* ("IAS 12") to provide clarification on the requirements relating to the recognition of deferred tax assets for unrealized losses on debt instruments measured at fair value.

The Company adopted the amendments to IAS 12 in its financial statements for the annual period beginning on January 1, 2017. The adoption of these amendments did not have a material impact on the Company's financial statements as the Company does not have any debt instruments measured at fair value through profit and loss.

### **(d) FUTURE ACCOUNTING POLICY CHANGES**

#### IFRS 15 *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"). The new standard is effective for annual periods beginning on or after January 1, 2018 and is available for early adoption.

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

The new standard contains a single model that applies to contracts with customers and two approaches for recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of individual transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

In April 2016, the IASB issued *Clarifications to IFRS 15*, which is effective at the same time as IFRS 15.

The clarifications to IFRS 15 provide additional guidance with respect to the five-step analysis, transition, and the application of the standard to licenses of intellectual property.

The Company intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning January 1, 2018. The Company has set out a plan to review contracts in multiple operating segments that may be impacted by the adoption of this standard. The Company is in the initial phase of the project plan as it has identified a sample of significant contracts within each operating segment for initial review in accordance with IFRS 15. The extent of the impact of adoption of the standard has not yet been determined, but management expects the contracts that are accounted for as multiple-element arrangements will have the most complexity. The Company has not yet determined which transition method it will apply or whether it will use the optional exemptions or practical expedients available under the standard.

**IFRS 9 *Financial Instruments***

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* ("IFRS 9"), with a mandatory effective date for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

The new standard brings together the classification and measurements, impairment and hedge accounting phases of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. In addition to the new requirements for classification and measurement of financial assets, a new general hedge accounting model and other amendments issued in previous versions of IFRS 9, the standard also introduces new impairment requirements that are based on a forward-looking expected credit loss model.

The Company intends to adopt IFRS 9 in its consolidated financial statements for the annual period beginning January 1, 2018. The extent of the impact of the adoption of IFRS 9 has not yet been determined.

**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 extent of the impact of adoption of the standard has not yet been determined.

**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.

**IBI GROUP INC.****NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
*(in thousands of Canadian dollars, except per share and share amounts)*

---

The Company intends to adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period beginning January 1, 2018. The extent of the impact of the adoption of the standard has not yet been determined.

**IFRIC 22 Foreign Currency Transactions and Advance Consideration**

In December 2016, the IASB issued IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration. The Interpretation clarifies which date should be used for translation when a foreign currency transaction involves an advance payment or receipt. The Interpretation is applicable for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Company intends to adopt the Interpretation in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the interpretation has not yet been determined.

***Annual Improvements to IFRS (2014 - 2016) Cycles***

In December 2016, the IASB issued narrow-scope amendments to three standards as part of its annual improvements process. The IASB uses the annual improvements process to make non-urgent but necessary amendments to IFRS.

The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the amendments has not yet been determined.

**NOTE 3: SEGMENT INFORMATION**

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

**(a) OPERATING SEGMENTS**

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

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

**IBI GROUP INC.**
**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
*(in thousands of Canadian dollars, except per share and share amounts)*
**(b) GEOGRAPHIC SEGMENTS**

The following table demonstrates certain information contained in the interim statement of financial position segmented geographically as at March 31, 2017, with comparatives as at December 31, 2016:

	<b>AS AT MARCH 31, 2017</b>			
	<b>CANADA</b>	<b>U.S.</b>	<b>INTERNATIONAL</b>	<b>TOTAL</b>
Property and equipment	\$ 10,134	3,688	\$ 1,372	\$ 15,194
Intangible assets	4,693	2,379	531	7,603
Work in process	55,882	13,568	23,807	93,257
Reserve for work in process	(8,702)	-	-	(8,702)
Work in process, net	47,180	13,568	23,807	84,555
Deferred revenue	28,605	4,983	10,969	44,557
Total assets	139,433	57,565	63,529	260,527

	<b>AS AT DECEMBER 31, 2016</b>			
	<b>CANADA</b>	<b>U.S.</b>	<b>INTERNATIONAL</b>	<b>TOTAL</b>
Property and equipment	\$ 10,431	\$ 3,837	\$ 1,504	\$ 15,772
Intangible assets	4,599	2,519	554	7,672
Work in process	53,082	12,121	30,895	96,098
Reserve for work in process	(8,788)	-	(258)	(9,046)
Work in process, net	44,294	12,121	30,637	87,052
Deferred revenue	31,064	6,504	12,954	50,522
Total assets	125,844	64,037	71,929	261,810

The following table demonstrates certain information contained in the interim statement of income and comprehensive income segmented geographically for the three months ended March 31, 2017, with comparatives for the three months ended March 31, 2016. The unallocated amounts for the three months ended March 31, 2017, pertain to interest on convertible debentures, accretion expense on convertible debentures, amortization of deferred financing costs and long term debt interest. The unallocated amounts for the three months ended March 31, 2016, pertain to interest on convertible debentures, accretion expense on convertible debentures, amortization of deferred financing costs, long term debt interest and interest on consent fee note.

**IBI GROUP INC.**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands of Canadian dollars, except per share and share amounts)

	<b>THREE MONTHS ENDED MARCH 31, 2017</b>					
	<b>UNALLOCATED CORPORATE COSTS</b>	<b>CANADA</b>	<b>U.S.</b>	<b>INTERNATIONAL</b>	<b>TOTAL</b>	
Revenues	\$	-	\$ 52,725	\$ 29,803	\$ 8,838	\$ 91,366
Net income (loss) before tax	\$	(2,875)	\$ 9,730	\$ 1,109	\$ (2,296)	\$ 5,668
Foreign exchange loss (gain)		-	(379)	(10)	293	(96)
Net income (loss) before tax and foreign exchange	\$	(2,875)	\$ 9,351	\$ 1,099	\$ (2,003)	\$ 5,572

	<b>THREE MONTHS ENDED MARCH 31, 2016</b>					
	<b>UNALLOCATED CORPORATE COSTS</b>	<b>CANADA</b>	<b>U.S.</b>	<b>INTERNATIONAL</b>	<b>TOTAL</b>	
Revenues	\$	-	\$ 46,389	\$ 29,622	\$ 12,634	\$ 88,645
Net income (loss) before tax	\$	(4,240)	\$ (1,916)	\$ 1,214	\$ 831	\$ (4,111)
Foreign exchange loss (gain)		-	7,280	2	(35)	7,247
Net income (loss) before tax and foreign exchange	\$	(4,240)	\$ 5,364	\$ 1,216	\$ 796	\$ 3,136

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

On October 5, 2015, IBI Group secured an agreement to refinance its credit facilities under the existing banking agreement with its senior lenders. The arrangement consists of a \$90,000 revolver facility, of which a maximum of \$10,000 is available under a swing line facility and will mature on June 30, 2018. The commitment under the swing line facility will reduce availability under the revolver facility on a dollar-for-dollar basis. As at March 31, 2017, the interest rate on Canadian dollar borrowings was 4.95% (March 31, 2016 – 4.95%) and 6.25% on U.S dollar borrowings (March 31, 2016 – 6.25%).

The additional deposits in the Sinking Fund are pledged to repay the credit facilities or convertible debentures, and as security in the event of default. IBI Group made the required deposit to the Sinking

**IBI GROUP INC.****NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
*(in thousands of Canadian dollars, except per share and share amounts)*

---

Fund of \$2,240 for March 31, 2017, which has been recognized in restricted cash in the interim statement of financial position. As at March 31, 2017, the Company's Sinking Fund balance is \$3,624. IBI Group will earn interest on the deposits in the Sinking Fund based on the Canadian dollar prime rate less an applicable margin. Deposits to the Sinking Fund have been recognized inclusive of interest earned as an investing activity in the interim condensed consolidated statement of cash flows.

As at March 31, 2017, IBI Group has borrowings of \$75,680 (December 31, 2016 - \$74,737) under the credit facilities, which have been recognized net of deferred financing costs of \$1,298 (December 31, 2016 - \$1,553). As at March 31, 2017, IBI Group has letters of credit outstanding of \$8,492 (December 31, 2016 - \$8,034), of which \$6,880 (December 31, 2016 - \$5,816) were issued under a \$7,500 facility which matures on June 30, 2017 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 March 31, 2017, \$72,248 was outstanding under Bankers' Acceptance with the remainder borrowed as prime rate debt (December 31, 2016 - \$32,117).

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, minimum Adjusted EBITDA<sup>1</sup> threshold, and restrictions on distributions, if certain conditions are not met. IBI Group was in compliance with its credit facility covenants as at March 31, 2017.

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.

---

<sup>1</sup> 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.

**IBI GROUP INC.**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands of Canadian dollars, except per share and share amounts)**(b) CONVERTIBLE DEBENTURES**

	LIABILITY COMPONENT	EQUITY COMPONENT	OTHER FINANCIAL LIABILITY COMPONENT	TOTAL
<b>7.0% Debentures (matures on June 30, 2019)</b>				
Balance at January 1, 2017	10,858	561	-	11,419
Accretion of 7.0% Debentures	301	-	-	301
Balance at March 31, 2017	11,159	561	-	11,720
<b>5.5% Debentures (matures on December 31, 2021)</b>				
Balance at January 1, 2017	33,018	-	9,089	42,107
Accretion of 5.5% Debentures	466	-	-	466
Increase in fair value of other financial liabilities	-	-	268	268
Balance at March 31, 2017	33,484	-	9,357	42,841
<b>BALANCE, MARCH 31, 2017</b>	<b>\$ 44,643</b>	<b>\$ 561</b>	<b>\$ 9,357</b>	<b>\$ 54,561</b>

**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 30<sup>th</sup> and December 31<sup>st</sup> 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 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 represent the Company's right to settle any request to convert 5.5% Debentures to IBI shares by the Debenture holders for an equivalent amount of cash. At the date of issuance, the conversion feature of the 5.5% Debentures was measured at fair value of \$10,908 and recorded as part of Other financial liabilities in the statement of financial position. Subsequently the derivative component is measured at fair value through profit or loss ("FVTPL"). As at March 31, 2017, the fair value of the derivative component was \$9,357.

**IBI GROUP INC.****NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
*(in thousands of Canadian dollars, except per share and share amounts)***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 30<sup>th</sup> and December 31<sup>st</sup> 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 7.0% 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 financial liability being redeemed under Options B and C were accreted to the full principal value, resulting in total accretion expense of \$12,485 being recognized in the consolidated statement of comprehensive income (loss) during the year ended December 31, 2016.

The fair value of the remaining 7.0% Debentures under Option A is \$15,124 (December 31, 2016 - \$15,043) with a face value of \$14,755, should they be redeemed for cash prior to or at maturity. The consent fee notes issued under Option A and B were paid in full upon maturity as at December 31, 2016.

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

	<b>Carrying Value</b>		<b>Fair Value</b>	
5.5% Debentures	\$	33,484	\$	47,495
7.0% Debentures		11,159		15,124
<b>BALANCE, MARCH 31, 2017</b>	<b>\$</b>	<b>44,643</b>	<b>\$</b>	<b>62,619</b>



**IBI GROUP INC.**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands of Canadian dollars, except per share and share amounts)

The fair value of the convertible debentures as at December 31, 2016, based on a Level 1 quoted market price, is as follows:

	Carrying Value	Fair Value
5.5% Debentures	\$ 33,018	\$ 46,920
7.0% Debentures	10,858	15,043
<b>BALANCE, DECEMBER 31, 2016</b>	<b>\$ 43,876</b>	<b>\$ 61,963</b>

**(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 March 31, 2017 are as follows:

	FINANCIAL ASSETS AND LIABILITIES AT FVTPL	LOANS AND RECEIVABLES	OTHER FINANCIAL LIABILITIES	TOTAL
<b>FINANCIAL ASSETS</b>				
Cash	\$ 8,626	\$ -	\$ -	\$ 8,626
Restricted cash	6,741	-	-	6,741
Accounts receivable	-	105,196	-	105,196
<b>TOTAL</b>	<b>\$ 15,367</b>	<b>\$ 105,196</b>	<b>\$ -</b>	<b>\$ 120,563</b>
<b>FINANCIAL LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 49,475	\$ 49,475
Deferred share plan liability	2,761	-	-	2,761
Finance lease obligation	-	-	95	95
Credit facilities	-	-	74,382	74,382
Convertible debentures	-	-	44,643	44,643
Other Financial Liabilities	9,357	-	-	9,357
<b>TOTAL</b>	<b>\$ 12,118</b>	<b>\$ -</b>	<b>\$ 168,595</b>	<b>\$ 180,713</b>

**IBI GROUP INC.**
**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
*(in thousands of Canadian dollars, except per share and share amounts)*

The carrying amount of the Company's financial instruments as at December 31, 2016 are as follows:

	<b>FINANCIAL ASSETS AND LIABILITIES AT FVTPL</b>		<b>LOANS AND RECEIVABLES</b>	<b>OTHER FINANCIAL LIABILITIES</b>	<b>TOTAL</b>
<b>FINANCIAL ASSETS</b>					
Cash	\$	8,008	\$	-	\$ 8,008
Restricted cash		4,522		-	4,522
Accounts receivable		-	108,593	-	108,593
<b>TOTAL</b>	<b>\$</b>	<b>12,530</b>	<b>\$</b>	<b>108,593</b>	<b>\$ 121,123</b>
<b>FINANCIAL LIABILITIES</b>					
Accounts payable and accrued liabilities	\$	-	\$	-	\$ 53,145
Deferred share plan liability		2,360		-	2,360
Finance lease obligation		-		-	104
Credit facilities		-		-	73,184
Convertible debentures		-		-	43,876
Other Financial Liabilities		9,089		-	9,089
<b>TOTAL</b>	<b>\$</b>	<b>11,449</b>	<b>\$</b>	<b>-</b>	<b>\$ 170,309</b>

**IBI GROUP INC.**
**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
*(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 March 31, 2017 and December 31, 2016:

	<b>AS AT MARCH 31, 2017</b>		
	<b>LEVEL 1</b>	<b>LEVEL 2</b>	<b>LEVEL 3</b>
Cash	\$ 8,626	\$ -	\$ -
Restricted cash	6,741	-	-
Deferred share plan liability	-	(2,761)	-
Other Financial Liabilities	-	(9,357)	-
	<b>\$ 15,367</b>	<b>\$ (12,118)</b>	<b>\$ -</b>

	<b>AS AT DECEMBER 31, 2016</b>		
	<b>LEVEL 1</b>	<b>LEVEL 2</b>	<b>LEVEL 3</b>
Cash	\$ 8,008	\$ -	\$ -
Restricted cash	4,522	-	-
Deferred share plan liability	-	(2,360)	-
Other Financial Liabilities	-	(9,089)	-
	<b>\$ 12,530</b>	<b>\$ (11,449)</b>	<b>\$ -</b>

**NOTE 5: 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 March 31, 2017 was \$5,475 (three months ended March 31, 2016 - \$6,225). As at March 31, 2017, the Company advanced \$1,274 to the Management Partnership for payment of future compensation for the services of the partners (March 31, 2016 – \$nil). As at March 31, 2017, there were 87 partners (December 31, 2016 – 87 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 March 31, 2017 and December 31, 2016, the amount of distributions payable to the Management Partnership were \$nil.

**NOTE 6: EQUITY****(a) SHAREHOLDERS' EQUITY**

The Company is authorized to issue an unlimited number of common shares. As at March 31, 2017, the Company's common share capital consisted of 31,190,153 shares issued and outstanding (December 31, 2016 – 31,186,819 shares).

**IBI GROUP INC.**
**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
*(in thousands of Canadian dollars, except per share and share amounts)*

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 March 31, 2017, the units issued on such exchange would have represented a 16.76% 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 March 31, 2017.

**SHARE ISSUANCES**

During the three months ended March 31, 2017, the Company issued 3,334 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.

	<b>THREE MONTHS ENDED</b>	
	<b>MARCH 31,</b>	
	<b>2017</b>	<b>2016</b>
Net income (loss)	\$ 3,918	\$ (3,837)
Net income (loss) attributable to owners of the Company	\$ 3,261	\$ (3,066)
Weighted average common shares outstanding	31,188	24,967
Dilutive effect of Class B partnership units	6,282	-
Dilutive effect of stock options granted	356	-
<b>Diluted weighted average common shares outstanding</b>	<b>37,826</b>	<b>24,967</b>
Basic and diluted earnings per common share	\$ 0.10	\$ (0.12)

**(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 March 31, 2017.

**IBI GROUP INC.**
**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
*(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:

	<b>THREE MONTHS ENDED</b>	
	<b>MARCH 31,</b>	
	<b>2017</b>	<b>2016</b>
Net income (loss)	\$ 3,918	\$ (3,837)
Non-controlling interest share of ownership	16.76%	20.10%
<b>Net income (loss) attributable to non-controlling interest</b>	<b>\$ 657</b>	<b>\$ (771)</b>

	<b>THREE MONTHS ENDED</b>	
	<b>MARCH 31,</b>	
	<b>2017</b>	<b>2016</b>
Total comprehensive income (loss)	\$ 3,953	\$ (1,912)
Non-controlling interest share of ownership	16.76%	20.10%
<b>Total comprehensive income (loss) attributable to non-controlling interest</b>	<b>\$ 663</b>	<b>\$ (384)</b>

**NOTE 7: FINANCIAL RISK MANAGEMENT**

The Company has exposure to market, credit and liquidity risk. The Company's primary risk management objective is to protect the Company's 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 March 31, 2017, had been 50 basis points higher or lower, with all other variables held constant, net income for the three months ended March 31, 2017 would have decreased or increased by approximately \$315.

#### 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 March 31, 2017, with all other variables held constant, total comprehensive income would have increased or decreased by \$96 for the three months ended March 31, 2017. If the exchange rates had been 100 basis points higher or lower as at March 31, 2017, with all other variables held constant, net income would have increased or decreased by \$9 for the three months ended March 31, 2017.

#### **(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 March 31, 2017 there were 58 working days of revenue in accounts receivable, compared to 60 days at December 31, 2016. 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.

**IBI GROUP INC.****NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
*(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	
	MARCH 31, 2017	DECEMBER 31, 2016
Current	\$ 47,630	\$ 46,057
30 to 90 days	25,434	29,315
Over 90 days	41,839	43,097
Allowance for impairment losses	(9,707)	(9,876)
<b>TOTAL</b>	<b>\$ 105,196</b>	<b>\$ 108,593</b>

**(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 4 – Financial Instruments) and access to capital markets.

On October 5, 2015, IBI Group signed an amendment to refinance its credit facilities with its senior lenders (refer to Note 4 – Financial Instruments).

As at March 31, 2017, a foreign subsidiary of the Company had issued letters of credit in the amount of U.S \$2,300. The Company has pledged U.S \$2,300 (December 31, 2016 – 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 March 31, 2017, the Company has letters of credit outstanding to foreign institutions of \$1,612 (December 31, 2016 – \$2,217).

**(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<sup>1</sup> threshold,

<sup>1</sup> 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.

**IBI GROUP INC.**
**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
*(in thousands of Canadian dollars, except per share and share amounts)*

and restrictions on distributions, if certain conditions are not met. The Company was in compliance with the credit facility covenants as at March 31, 2017.

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

	<b>THREE MONTHS ENDED</b>	
	<b>MARCH 31,</b>	
	<b>2017</b>	<b>2016</b>
Accounts receivable	\$ 3,776	\$ 879
Work in process	3,366	(7,188)
Prepaid expenses and other assets	(2,256)	(1,432)
Accounts payable and accrued liabilities	(5,695)	1,832
Deferred revenue	(7,294)	3,711
Net income taxes payable	357	971
<b>Change in non-cash operating working capital</b>	<b>\$ (7,746)</b>	<b>\$ (1,227)</b>

**NOTE 9: FINANCE COSTS**

	<b>THREE MONTHS ENDED</b>	
	<b>MARCH 31,</b>	
	<b>2017</b>	<b>2016</b>
Interest on credit facilities	\$ 970	\$ 821
Interest on convertible debentures	882	1,668
Interest on consent fee notes payable	-	62
Non-cash accretion of convertible debentures	767	1,315
Non-cash accretion of consent fee notes payable	-	115
Other	62	70
<b>INTEREST EXPENSE, NET</b>	<b>\$ 2,681</b>	<b>\$ 4,051</b>
Amortization of deferred financing costs	255	259
Other	166	150
<b>OTHER FINANCE COSTS</b>	<b>\$ 421</b>	<b>\$ 409</b>
<b>FINANCE COSTS</b>	<b>\$ 3,102</b>	<b>\$ 4,460</b>



**NOTE 10: 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 11: SHARE-BASED COMPENSATION**

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 March 31, 2017, an expense of \$298 was recognized (three months ended March 31, 2016 – recovery of \$620) due to market movement in the share price.

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. All options are to be settled by the physical delivery of shares.

On January 15, 2016, the Company granted 535,000 stock options to management under the terms of the Company's stock option plan at an exercise price of \$2.33 per share. The fair value of the stock

**IBI GROUP INC.**
**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
*(in thousands of Canadian dollars, except per share and share amounts)*

option plan at the grant date has been measured using the Black-Scholes model. The following inputs were used in the measurement of the fair values at the grant date of the options:

	<b>TRANCHE 1</b>	<b>TRANCHE 2</b>	<b>TRANCHE 3</b>
Fair value at grant date	\$ 1.14	\$ 1.16	\$ 1.17
Share price at grant date	\$ 2.13	\$ 2.13	\$ 2.13
Exercise price	\$ 2.33	\$ 2.33	\$ 2.33
Expected volatility (weighted average)	64.2%	62.1%	60.2%
Expected life (weighted average)	5.5 years	6.0 years	6.5 years
Expected dividends	0%	0%	0%
Risk-free interest rate	0.64%	0.72%	0.81%

On May 25, 2016, the Company granted 99,213 stock options to management under the terms of the Company's stock options plan at an exercise price of \$4.49 per share. The fair value of the stock option plan at the grant date has been measured using the Black-Scholes model. The following inputs were used in the measurement of the fair values at the grant date of the options:

	<b>TRANCHE 1</b>	<b>TRANCHE 2</b>	<b>TRANCHE 3</b>
Fair value at grant date	\$ 2.47	\$ 2.49	\$ 2.52
Share price at grant date	\$ 4.34	\$ 4.34	\$ 4.34
Exercise price	\$ 4.49	\$ 4.49	\$ 4.49
Expected volatility (weighted average)	66.9%	64.3%	62.3%
Expected life (weighted average)	5.5 years	6.0 years	6.5 years
Expected dividends	0%	0%	0%
Risk-free interest rate	0.86%	0.92%	0.99%

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 March 31, 2017, the Company has recognized an expense of \$69 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 March 31, 2017:

Grant date	Expiry date	Options outstanding	Options exercised	Options exercisable	Exercise price	Fair value at grant date
15-Jan-16	15-Jan-26	535,000	3,334	174,995	\$2.33	\$ 618,816
25-May-16	25-May-26	99,213	-	-	\$4.49	\$ 247,371
		634,213	3,334	174,995		\$ 866,187

**NOTE 12: INCOME TAXES**

Income taxes for the three months ended March 31, 2017 was \$1,750 (three months ended March 31, 2016 – recovery of \$274) and the effective income tax rate was 30.9% (three months ended March 31, 2016 – recovery of 6.7%). The increase in the effective income tax rate was primarily due to non-deductible items and result of operations in various jurisdictions.