



IBI Group 2020 First-Quarter Financial Statements

THREE AND TWELVE MONTHS ENDED
MARCH 31, 2020

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF

IBI GROUP INC.

THREE MONTHS ENDED MARCH 31, 2020 AND 2019

IBI GROUP INC.
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(unaudited)

<i>(thousands of Canadian dollars)</i>	NOTES	MARCH 31, 2020	DECEMBER 31, 2019
ASSETS			
Current Assets			
Cash	4(c)	\$ 7,172	\$ 15,628
Accounts receivable	4(c), 7(b)	120,551	109,581
Contract assets		69,162	63,385
Prepaid expenses and other current assets		19,198	14,436
Lease receivable	4(c)	1,802	476
Income taxes recoverable		2,270	1,421
Total Current Assets		\$ 220,155	\$ 204,927
Restricted cash	4(c), 7	3,291	3,047
Property and equipment		23,195	21,620
Intangible assets		9,477	9,620
Lease receivable	4(c)	5,834	6,252
Right-of-use assets	4(c)	63,165	63,390
Investment		199	199
Deferred tax assets		9,138	9,248
TOTAL ASSETS		\$ 334,454	\$ 318,303
LIABILITIES AND DEFICIT			
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	4(c), 7	43,189	45,180
Contract liabilities	7	48,229	41,387
Income taxes payable		6	780
Lease liability	4(c)	14,436	13,289
Deferred consideration	4(c)	490	490
Total Current Liabilities		\$ 106,350	\$ 101,126
Credit facilities	4(a)	50,486	50,328
Convertible debentures	4(b)	40,462	39,768
Lease liability	4(c)	65,967	66,758
Other financial liabilities	4(b)	780	2,842
Deferred consideration	4(c)	1,241	1,241
Deferred tax liabilities		5,418	4,702
TOTAL LIABILITIES		\$ 270,704	\$ 266,765
EQUITY			
Shareholders' Equity			
Share capital	6	279,993	279,993
Capital reserve	6	4,501	4,205
Contributed surplus	6	7,958	7,958
Deficit		(244,258)	(248,907)
Accumulated other comprehensive loss		(155)	(5,427)
Total Shareholders' Equity		\$ 48,039	\$ 37,822
Non-controlling interest	6	15,711	13,716
TOTAL EQUITY		\$ 63,750	\$ 51,538
TOTAL LIABILITIES AND EQUITY		\$ 334,454	\$ 318,303

See accompanying notes to the interim condensed consolidated financial statements.

IBI GROUP INC.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

(unaudited)

THREE MONTHS ENDED MARCH 31

(thousands of Canadian dollars, except per share amounts)

	NOTES	2020	2019
Revenue			
Gross revenue		\$ 121,166	\$ 113,674
Less: subconsultants and direct costs		24,485	19,941
NET REVENUE		\$ 96,681	\$ 93,733
Expenses			
Salaries, fees and employee benefits	5,11	68,006	66,468
Variable lease expense		2,738	2,430
Other operating expenses		10,820	10,595
Foreign exchange loss	7(a)	1,534	814
Amortization of intangible assets		617	459
Depreciation of property, equipment, and other assets		1,335	1,260
Depreciation of right-of-use assets		3,339	3,186
Change in fair value of other financial liabilities	4(b)	(2,062)	872
Impairment of financial assets	7(b)	317	370
Impairment of right-of-use assets		-	394
		86,644	86,848
OPERATING INCOME		\$ 10,037	\$ 6,885
Interest expense, net	7(a),9	2,839	3,086
Other finance costs	9	192	193
FINANCE COSTS		\$ 3,031	\$ 3,279
NET INCOME BEFORE TAX		\$ 7,006	\$ 3,606
Current tax expense		383	969
Deferred tax expense		1,039	286
INCOME TAXES		\$ 1,422	\$ 1,255
NET INCOME		\$ 5,584	\$ 2,351
OTHER COMPREHENSIVE INCOME			
Items that are or may be reclassified to profit or loss			
Gain (loss) on translating financial statements of foreign operations		6,332	(2,070)
OTHER COMPREHENSIVE INCOME (LOSS)		6,332	(2,070)
TOTAL COMPREHENSIVE INCOME		\$ 11,916	\$ 281
NET INCOME ATTRIBUTABLE TO:			
Common shareholders		4,649	1,957
Non-controlling interests	6	935	394
NET INCOME		\$ 5,584	\$ 2,351
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Common shareholders		9,921	234
Non-controlling interests	6	1,995	47
TOTAL COMPREHENSIVE INCOME		\$ 11,916	\$ 281
EARNINGS PER SHARE ATTRIBUTABLE TO COMMON SHAREHOLDERS			
Basic & diluted earnings per share	6	\$ 0.15	\$ 0.06

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	2020	2019
CASH FLOWS PROVIDED BY (USED IN)			
OPERATING ACTIVITIES			
Net income		\$ 5,584	\$ 2,351
Items not affecting cash:			
Depreciation of property, equipment, and other assets		1,335	1,260
Amortization of intangible assets		617	459
Depreciation of right of use assets		3,339	3,186
Amortization of deferred financing costs	9	112	117
Impairment of financial assets	7(b)	317	370
Impairment of right of use assets		-	394
Foreign exchange loss	7(b)	1,534	814
Interest expense, net	9	2,839	3,086
Deferred tax expense		1,039	286
Share based compensation	11	296	493
Deferred share units issued		107	103
Change in fair value of deferred share units		(981)	278
Loss on disposal of property and equipment		-	46
Change in fair value of other financial liabilities	4(b)	(2,062)	872
Interest paid		(1,482)	(1,879)
Income taxes received (paid)		(1,927)	(1,048)
Change in non-cash operating working capital	8	(11,060)	(6,086)
NET CASH FLOWS PROVIDED BY (USED IN)		\$ (393)	\$ 5,102
OPERATING ACTIVITIES			
CASH FLOWS PROVIDED BY (USED IN)			
FINANCING ACTIVITIES			
Draws (Payments) on principal of credit facilities	4(a)	(1,000)	(1,520)
Deferred financing costs	4(a)	-	(84)
Payment of lease liabilities		(3,737)	(480)
Proceeds from shares issued	6	-	15
NET CASH FLOWS USED IN		\$ (4,737)	\$ (2,069)
FINANCING ACTIVITIES			
CASH FLOWS PROVIDED BY (USED IN)			
INVESTING ACTIVITIES			
Purchase of property and equipment		(2,386)	(2,279)
Purchase of intangible assets		(433)	(401)
NET CASH FLOWS USED IN		\$ (2,819)	\$ (2,680)
INVESTING ACTIVITIES			
Effects of currency translation on cash and cash equivalents	7(b)	(507)	(84)
NET (DECREASE) INCREASE IN CASH		\$ (8,456)	\$ 269
Cash, beginning of period		15,628	9,460
CASH, END OF PERIOD		\$ 7,172	\$ 9,729

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	2020	2019
SHARE CAPITAL			
Share capital, beginning of period		\$ 279,993	\$ 279,926
Shares issued	6	-	15
SHARE CAPITAL, END OF PERIOD		\$ 279,993	\$ 279,941
CAPITAL RESERVE			
Capital reserve, beginning of period		\$ 4,205	\$ 2,731
Stock options granted	11	199	237
Stock options exercised	11	-	(5)
Performance share units granted	11	97	261
CAPITAL RESERVE, END OF PERIOD		\$ 4,501	\$ 3,224
CONTRIBUTED SURPLUS			
Contributed surplus, beginning of period		\$ 7,958	\$ 7,958
CONTRIBUTED SURPLUS, END OF PERIOD		\$ 7,958	\$ 7,958
DEFICIT			
Deficit, beginning of period, as reported		\$ (248,907)	\$ (258,204)
Adjustments from prior period		-	(4,731)
Deficit, beginning of period, as adjusted		\$ (248,907)	\$ (262,935)
Net income attributable to common shareholders		4,649	1,957
DEFICIT, END OF PERIOD		\$ (244,258)	\$ (260,978)
ACCUMULATED OTHER COMPREHENSIVE LOSS			
Accumulated other comprehensive loss, beginning of period		\$ (5,427)	\$ (1,998)
Other comprehensive income (loss) attributable to common shareholders		5,272	(1,723)
ACCUMULATED OTHER COMPREHENSIVE LOSS, END OF PERIOD		\$ (155)	\$ (3,721)
TOTAL SHAREHOLDERS' EQUITY		\$ 48,039	\$ 26,424
NON-CONTROLLING INTEREST			
Non-controlling interest, beginning of period		\$ 13,716	\$ 11,585
Total comprehensive income attributable to non-controlling interests	6	1,995	47
NON-CONTROLLING INTEREST, END OF PERIOD		\$ 15,711	\$ 11,632
TOTAL EQUITY, END OF PERIOD		\$ 63,750	\$ 38,056

See accompanying notes to the interim condensed consolidated financial statements.

IBI GROUP INC.**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 March 31, 2020, the Company's common share capital consisted of 31,240,044 (December 31, 2019 – 31,240,044) 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 March 31, 2020 would be 37,522,266 (December 31, 2019 – 37,522,266). If the Class B partnership units were converted, the Management Partnership and affiliated partnerships would hold 35.7% of the voting shares as at March 31, 2020 (December 31, 2019 – 35.7%).

The table below summarizes the ownership of the Company by the Management Partnership and affiliated partnerships as at March 31, 2020:

	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	16.74%
Common shares held by the Management Partnership and affiliated partnerships	7,105,910	18.94%

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.

IBI GROUP INC.**NOTES TO THE 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, 2020:

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 of the Company and its subsidiaries (the "consolidated group") 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, 2019. 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, 2019.

These consolidated financial statements were approved and authorized for issuance by the Company's Board of Directors on May 7, 2020.

(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 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.

(c) FUTURE ACCOUNTING POLICIES

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

On January 23, 2020, the IASB issued amendments to IAS 1 *Presentation of Financial Statements*, to clarify the classification of liabilities as current or non-current. The amendments are effective for annual periods on or after January 1, 2022 with early adoption permitted. The extent of the impact of the change has not yet been determined.

NOTE 3: 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.

IBI GROUP INC.**NOTES TO THE 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 consolidated statement of financial position segmented geographically as at March 31, 2020, with comparatives as at December 31, 2019:

	AS AT MARCH 31, 2020				
	CANADA	UNITED STATES	UNITED KINGDOM	OTHER INTERNATIONAL	TOTAL
Property and equipment	\$ 15,785	\$ 5,806	\$ 924	\$ 680	\$ 23,195
Intangible assets	8,282	990	205	-	9,477
Contract assets	30,158	19,046	4,364	15,594	69,162
Contract liabilities	28,256	10,791	5,374	3,808	48,229
Total assets	170,750	89,649	21,773	52,282	334,454
Right-of-use assets	38,754	20,402	2,361	1,648	63,165
Lease receivable	4,973	2,663	-	-	7,636
Total assets excluding the impact of IFRS 16 transition	127,023	66,584	19,412	50,634	263,653

	AS AT DECEMBER 31, 2019				
	CANADA	UNITED STATES	UNITED KINGDOM	OTHER INTERNATIONAL	TOTAL
Property and equipment	\$ 14,833	\$ 5,112	\$ 888	\$ 787	\$ 21,620
Intangible assets	8,356	1,035	229	-	9,620
Contract assets	28,901	14,325	3,808	16,351	63,385
Contract liabilities	26,913	8,263	3,559	2,652	41,387
Total assets	163,668	85,129	19,094	50,412	318,303
Right-of-use assets	40,024	19,039	2,582	1,745	63,390
Lease receivable	4,056	2,672	-	-	6,728
Total assets excluding the impact of IFRS 16 transition	119,588	63,418	16,512	48,667	248,185

The following table demonstrates certain information contained in the unaudited interim condensed consolidated statement of income and comprehensive income segmented geographically for the three months ended March 31, 2020 and 2019. The unallocated amounts 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.

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

THREE MONTHS ENDED MARCH 31, 2020						
	CANADA	UNITED STATES	UNITED KINGDOM	OTHER INTERNATIONAL	UNALLOCATED CORPORATE COSTS ¹	TOTAL
Gross revenue	\$ 68,422	\$ 37,422	\$ 7,879	\$ 7,443	\$ -	\$ 121,166
Less: subconsultants and direct expenses	11,674	9,641	1,086	2,084	-	24,485
Net revenue	\$ 56,748	\$ 27,781	\$ 6,793	\$ 5,359	\$ -	\$ 96,681
Adjusted EBITDA ²	\$ 6,969	\$ 1,567	\$ 263	\$ 420	\$ -	\$ 9,219
Items excluded in calculation of Adjusted EBITDA ² :						
Interest expense, net	625	320	32	26	1,836	2,839
Amortization and depreciation	2,631	1,869	414	377	-	5,291
Foreign exchange (gain) loss	1,020	852	20	(358)	-	1,534
Change in fair value of other financial liabilities	-	-	-	-	(2,062)	(2,062)
Change in fair value of deferred share units	-	-	-	-	(981)	(981)
Stock based compensation	178	10	2	9	-	199
Performance share units	97	-	-	-	-	97
Deferred financing charges	-	-	-	-	112	112
IFRS 16 lease accounting adjustment	(2,816)	(1,492)	(339)	(169)	-	(4,816)
Net income (loss) before tax	\$ 5,234	\$ 8	\$ 134	\$ 535	\$ 1,095	\$ 7,006
THREE MONTHS ENDED MARCH 31, 2019						
	CANADA	UNITED STATES	UNITED KINGDOM	OTHER INTERNATIONAL	UNALLOCATED CORPORATE COSTS ¹	TOTAL
Gross revenue	\$ 61,797	\$ 35,677	\$ 7,972	\$ 8,228	\$ -	\$ 113,674
Less: subconsultants and direct expenses	7,585	9,148	1,073	2,135	-	19,941
Net revenue	\$ 54,212	\$ 26,529	\$ 6,899	\$ 6,093	\$ -	\$ 93,733
Adjusted EBITDA ²	\$ 7,426	\$ 1,785	\$ 17	\$ 1,518	\$ -	\$ 10,746
Items excluded in calculation of Adjusted EBITDA ² :						
Interest expense, net	597	348	47	24	2,070	3,086
Amortization and depreciation	2,416	1,773	476	240	-	4,905
Foreign exchange (gain) loss	136	(240)	(94)	1,012	-	814
Change in fair value of other financial liabilities	-	-	-	-	872	872
Change in fair value of deferred share units	-	-	-	-	278	278
Stock based compensation	207	17	2	11	-	237
Performance share units	261	-	-	-	-	261
Deferred financing charges	-	-	-	-	117	117
IFRS 16 lease accounting adjustment	(1,343)	(1,609)	(335)	(143)	-	(3,430)
Net income (loss) before tax	\$ 5,152	\$ 1,496	\$ (79)	\$ 374	\$ (3,337)	\$ 3,606

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.

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

The following table demonstrates certain information contained in the consolidated statement of income and comprehensive income segmented by business unit for the three months ended March 31, 2020 and 2019.

<i>(in thousands of Canadian dollars)</i> <i>(unaudited)</i>	THREE MONTHS ENDED MARCH 31, 2020				
	INTELLIGENCE	BUILDINGS	INFRASTRUCTURE	CORPORATE	TOTAL
Gross revenue	\$ 23,672	\$ 61,583	\$ 35,704	\$ 207	\$ 121,166
Less: subconsultants and direct expenses	3,386	12,553	8,533	13	24,485
Net revenue	\$ 20,286	\$ 49,030	\$ 27,171	\$ 194	\$ 96,681
Adjusted EBITDA ¹	\$ 3,808	\$ 5,939	\$ 1,972	\$ (2,500)	\$ 9,219
Items excluded in calculation of Adjusted EBITDA ¹ :					
Interest expense, net	159	483	302	1,895	2,839
Amortization and depreciation	1,116	2,319	1,583	273	5,291
Foreign exchange (gain) loss	34	(355)	385	1,470	1,534
Change in fair value of other financial liabilities	-	-	-	(2,062)	(2,062)
Change in fair value of deferred share units	-	-	-	(981)	(981)
Stock based compensation	26	22	36	115	199
Performance share units	-	-	-	97	97
Deferred financing charges	-	-	-	112	112
IFRS 16 lease accounting adjustment	(774)	(2,327)	(1,391)	(324)	(4,816)
Net income before tax	\$ 3,247	\$ 5,797	\$ 1,057	\$ (3,095)	\$ 7,006

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; 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 INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(in thousands of Canadian dollars, except per share and share amounts)*

<i>(in thousands of Canadian dollars)</i> <i>(unaudited)</i>	THREE MONTHS ENDED MARCH 31, 2019				
	INTELLIGENCE	BUILDINGS	INFRASTRUCTURE	CORPORATE	TOTAL
Gross revenue	\$ 20,961	\$ 61,721	\$ 30,831	\$ 161	\$ 113,674
Less: subconsultants and direct expenses	4,016	10,524	5,378	23	19,941
Net revenue	\$ 16,945	\$ 51,197	\$ 25,453	\$ 138	\$ 93,733
Adjusted EBITDA ¹	\$ 2,456	\$ 10,039	\$ 1,211	\$ (2,960)	\$ 10,746
Items excluded in calculation of Adjusted EBITDA ¹ :					
Interest expense, net	155	493	313	2,125	3,086
Amortization and depreciation	877	2,272	1,536	220	4,905
Foreign exchange (gain) loss	360	(183)	456	181	814
Change in fair value of other financial liabilities	-	-	-	872	872
Change in fair value of deferred share units	-	-	-	278	278
Stock based compensation	31	26	52	128	237
Performance share units	-	-	-	261	261
Deferred financing charges	-	-	-	117	117
IFRS 16 lease accounting adjustment	(580)	(1,806)	(1,078)	34	(3,430)
Net income before tax	\$ 1,613	\$ 9,237	\$ (68)	\$ (7,176)	\$ 3,606

NOTE 4: 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 March 31, 2020, the interest rate on Canadian dollar borrowings was 3.20% (March 31, 2019 – 5.20%) and 4.00% on U.S dollar borrowings (March 31, 2019 – 6.75%).

As at March 31, 2020, IBI Group has borrowings of \$51,612 (December 31, 2019 - \$51,566) under the credit facilities, which has been recorded on the balance sheet net of deferred financing costs of \$1,126 (December 31, 2019 - \$1,238). Included within the \$51,612 borrowings, the Company has borrowed \$10,000 USD (December 31, 2019 - \$10,000 USD) under a swing line facility with a carrying value as at March 31, 2020 of \$14,112 CAD (December 31, 2019 - \$13,066).

As at March 31, 2020, IBI Group has letters of credit outstanding of \$5,113 (December 31, 2019 - \$3,953), of which \$4,673 (December 31, 2019 - \$3,537) 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

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; 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 INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(in thousands of Canadian dollars, except per share and share amounts)*

March 31, 2020, \$50,612 was outstanding under Bankers' Acceptance (December 31, 2019 - \$51,566), with the remaining borrowed as prime rate debt.

As at March 31, 2020, IBI Group has surety bonds outstanding of \$4,554 (December 31, 2019 - \$4,554), with Liberty Mutual Insurance. These bonds are security agreements necessary to backstop certain Intelligence projects in the U.S segment.

This facility is subject to compliance with certain financial, reporting and other covenants. The financial covenants under the agreement include a leverage ratio, interest coverage ratio, and restrictions on distributions, if certain conditions are not met. IBI Group was in compliance with its credit facility covenants as at March 31, 2020.

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. As in the past, IBI Group will carefully monitor its compliance with the covenants and will seek waivers, subject to lender approval, as may become necessary from time to time.

	AS AT	
	MARCH 31, 2020	MARCH 31, 2019
Balance at January 1	\$ 50,328	\$ 75,548
Payments on principal of credit facilities	(1,000)	(1,520)
Deferred financing capitalization	-	(84)
Amortization of deferred financing costs	112	117
Impact of foreign exchange	1,046	(287)
Ending Balance	\$ 50,486	\$ 73,774

(b) CONVERTIBLE DEBENTURES

	LIABILITY COMPONENT	OTHER FINANCIAL LIABILITY COMPONENT	TOTAL
5.5% Debentures (matures on December 31, 2021)			
Balance at December 31, 2019	\$ 39,768	\$ 2,842	\$ 42,610
Accretion of 5.5% Debentures	694	-	694
Change in fair value of other financial liabilities	-	(2,062)	(2,062)
BALANCE, MARCH 31, 2020	\$ 40,462	\$ 780	\$ 41,242

IBI GROUP INC.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(in thousands of Canadian dollars, except per share and share amounts)***5.5% DEBENTURES (\$46,000 PRINCIPAL, MATURES ON DECEMBER 31, 2021)**

In September 2016, the Company issued 5.5% Debentures of \$46,000 with a maturity date of December 31, 2021. The 5.5% Debentures are convertible into common shares of the Company at the option of the holder at a conversion price of \$8.35 per common share. The 5.5% Debentures are not redeemable at the option of the Company before December 31, 2019. The 5.5% Debentures are redeemable by the Company at a price of \$1,000 per 5.5% Debenture, plus accrued and unpaid interest, on or after December 31, 2019 and prior to December 31, 2020 (provided that the volume weighted average trading price of the shares of the Company on the TSX for the 20 consecutive trading days ending five trading days preceding the date on which notice of redemption is given, is not less than 125% of the conversion price of \$8.35 per share). On or after December 31, 2020 and prior to the maturity date, the 5.5% Debentures are redeemable by the Company at a price of \$1,000 per 5.5% Debenture, plus accrued and unpaid interest. The 5.5% Debentures bear at 5.5% per annum, payable in equal semi-annual payments in arrears on June 30th and December 31st of each year.

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 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 consolidated 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 March 31, 2020, the fair value of the derivative component was \$780 (December 31, 2019 - \$2,842). 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 March 31, 2020, based on a Level 1 quoted market price, is as follows:

	Carrying Value		Fair Value	
5.5% Debentures	\$	40,462	\$	40,480
BALANCE, MARCH 31, 2020	\$	40,462	\$	40,480

IBI GROUP INC.**NOTES TO THE 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, 2019, based on a Level 1 quoted market price, is as follows:

	Carrying Value	Fair Value
5.5% Debentures	\$ 39,768	\$ 46,598
BALANCE, DECEMBER 31, 2019	\$ 39,768	\$ 46,598

(c) FINANCIAL ASSETS AND LIABILITIES

The fair values of accounts receivable, accounts payable and accrued liabilities 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, 2020 are as follows:

	FINANCIAL ASSETS AND LIABILITIES AT FVTPL	AMORTIZED COST	TOTAL
FINANCIAL ASSETS			
Cash	\$ 7,172	\$ -	\$ 7,172
Restricted cash	3,291	-	3,291
Accounts receivable	-	120,551	120,551
Investment	199	-	199
TOTAL	\$ 10,662	\$ 120,551	\$ 131,213
FINANCIAL LIABILITIES			
Accounts payable and accrued liabilities	\$ -	\$ 41,252	\$ 41,252
Deferred share plan liability	1,937	-	1,937
Credit facilities	-	50,486	50,486
Convertible debentures	-	40,462	40,462
Other financial liabilities	780	-	780
Deferred consideration	1,731	-	1,731
TOTAL	\$ 4,448	\$ 132,200	\$ 136,648

IBI GROUP INC.**NOTES TO THE 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, 2019 are as follows:

	FINANCIAL ASSETS AND LIABILITIES AT FVTPL	AMORTIZED COST	TOTAL
FINANCIAL ASSETS			
Cash	\$ 15,628	\$ -	\$ 15,628
Restricted cash	3,047	-	3,047
Accounts receivable	-	109,581	109,581
Investment	199	-	199
TOTAL	\$ 18,874	\$ 109,581	\$ 128,455
FINANCIAL LIABILITIES			
Accounts payable and accrued liabilities	\$ -	\$ 42,471	\$ 42,471
Deferred share plan liability	2,709	-	2,709
Credit facilities	-	50,328	50,328
Convertible debentures	-	39,768	39,768
Other financial liabilities	2,842	-	2,842
Deferred consideration	1,731	-	1,731
TOTAL	\$ 7,282	\$ 132,567	\$ 139,849

IBI GROUP INC.**NOTES TO THE 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, 2020 and December 31, 2019:

	AS AT MARCH 31, 2020		
	LEVEL 1	LEVEL 2	LEVEL 3
Cash	\$ 7,172	\$ -	\$ -
Restricted cash	-	3,291	-
Investment	-	-	199
Deferred share plan liability	-	(1,937)	-
Other Financial Liabilities	-	(780)	-
Deferred consideration	-	-	(1,731)
	\$ 7,172	\$ 574	\$ (1,532)

	AS AT DECEMBER 31, 2019		
	LEVEL 1	LEVEL 2	LEVEL 3
Cash	\$ 15,628	\$ -	\$ -
Restricted cash	-	3,047	-
Investment	-	-	199
Deferred share plan liability	-	(2,709)	-
Other Financial Liabilities	-	(2,842)	-
Deferred consideration	-	-	(1,731)
	\$ 15,628	\$ (2,504)	\$ (1,532)

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 three months ended March 31, 2020 was \$3,697 (three months ended March 31, 2019 - \$3,730). As at March 31, 2020, there were 45 partners (March 31, 2019 – 47 partners). As at March 31, 2020, the amount payable to the Management Partnership was \$75 (December 31, 2019 - \$39).

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.

IBI GROUP INC.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(in thousands of Canadian dollars, except per share and share amounts)***NOTE 6: EQUITY****(a) SHAREHOLDERS' EQUITY**

The Company is authorized to issue an unlimited number of common shares. As at March 31, 2020, the Company's common share capital consisted of 31,240,044 shares issued and outstanding (December 31, 2019 –31,240,044 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 March 31, 2020, the units issued on such exchange would have represented a 16.74% 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 these unaudited interim condensed consolidated financial statements as at March 31, 2020.

SHARE ISSUANCES

During the period ended March 31, 2020 there were no shares issued.

EARNINGS PER SHARE

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

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

	THREE MONTHS ENDED	
	MARCH 31,	
	2020	2019
Net income	\$ 5,584	\$ 2,351
Net income attributable to common shareholders	\$ 4,649	\$ 1,957
Weighted average common shares outstanding	31,240	31,222
Dilutive effect of Class B partnership units	6,282	6,282
Dilutive effect of stock options granted	322	235
Diluted weighted average common shares outstanding	37,844	37,739
Basic and diluted earnings per common share	\$ 0.15	\$ 0.06

IBI GROUP INC.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(in thousands of Canadian dollars, except per share and share amounts)***(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 consolidated statement of changes in equity (deficit) for the three months ended March 31, 2020.

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

	THREE MONTHS ENDED	
	MARCH 31,	
	2020	2019
Net income	\$ 5,584	\$ 2,351
Non-controlling interest share of ownership	16.74%	16.75%
Net income attributable to non-controlling interest	\$ 935	\$ 394

	THREE MONTHS ENDED	
	MARCH 31,	
	2020	2019
Total comprehensive income	\$ 11,916	\$ 281
Non-controlling interest share of ownership	16.74%	16.75%
Total comprehensive income attributable to non-controlling interest	\$ 1,995	\$ 47

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 consolidated 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

In December 2019, a novel coronavirus disease ("COVID-19") was reported and in January 2020, the World Health Organization ("WHO") declared it as a Public Health Emergency of International Concern. On February 28, 2020 the WHO raised its assessment of the COVID-19 threat from high to very high at a global level due to the continued increase in the number of cases and affected countries. On March 11, 2020, the WHO characterized COVID-19 as a pandemic.

The Company was able to operate under normal business conditions for substantially all of the first quarter of 2020, however the broader implications of COVID-19 on the results of operations and overall financial performance remain uncertain. The COVID-19 pandemic and its adverse effects have become more prevalent in the locations where the Company, its customers, suppliers, and third party business partners conduct business. The Company may as a result, experience curtailed customer demand that

could have a material adverse impact on the business, results of operations, and overall financial performance of future periods, specifically the Company may experience impacts from customers delaying consulting services and reduced market spending.

The duration and extent of the impact from the COVID-19 pandemic depends on future developments that cannot be accurately predicted at this time, such as the severity and transmission rate of the virus, the extent and effectiveness of containment actions, and the impact of these and other factors on the Company's employees, customers, partners, and vendors.

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.

In response to the COVID-19 pandemic the Canadian dollar and US dollar prime rates were drastically decreased by the respective governing bodies.

If the interest rate on the Company's variable rate loan balance as at March 31, 2020, had been 50 basis points higher or lower, with all other variables held constant, net income for the three months ended March 31, 2020 would have decreased or increased by approximately \$190.

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, 2020, with all other variables held constant, total comprehensive income would have increased or decreased by \$45 for the three months ended March 31, 2020. If the exchange rates had been 100 basis points higher or lower as at March 31, 2020, with all other variables held constant, net income would have increased or decreased by \$5 for the three months ended March 31, 2020.

(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

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

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, 2020 there were 63 working days of revenue in accounts receivable, which remained unchanged from December 31, 2019. The maximum exposure to credit risk, at the date of the consolidated 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 consolidated 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.

The aging of the accounts receivable are detailed below:

	AS AT	
	MARCH 31, 2020	DECEMBER 31, 2019
Current	\$ 49,186	\$ 43,838
30 to 90 days	35,713	36,642
Over 90 days	40,200	33,166
Gross accounts receivable	125,099	113,646
Allowance for impairment losses	(4,548)	(4,065)
Total	\$ 120,551	\$ 109,581

Changes in the allowance for impairment losses were as follows:

	AS AT	
	MARCH 31, 2020	DECEMBER 31, 2019
Balance at beginning of year	\$ (4,065)	\$ (10,148)
Provision for doubtful accounts	(317)	(2,375)
Amounts written-off	32	8,236
Effect of foreign currency exchange rate changes	(198)	222
Total	\$ (4,548)	\$ (4,065)

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 March 31, 2020 was 1.83% on contract assets for impairment loss of \$1,323 (December 31, 2019 – loss rate of 2.04% and impairment loss of \$1,323).

As a result of the COVID-19 pandemic the Company is closely monitoring its outstanding receivables and unbilled effort. As of the balance sheet date, the Company had no indication that the historical credit loss model required any material modification in determining the allowance for impairment losses.

The Company continues to monitor the impact of the global pandemic and working with its customers to assess whether changes to the expected credit loss model are required.

The Company, upon entering into 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 months ended March 31, 2020, no changes in credit risk were identified and the Company collected the full contractual rent due on April 1, 2020 and May 1, 2020.

(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.

As a result of COVID-19 existing cash and cash equivalents may fluctuate as a result of delays in collecting receivables and the risk of a slowdown in work to be completed and billed. However, based on the Company's current business plan and revenue prospects, the Company believes that its existing cash and cash equivalents, anticipated cash flows from operations, and available credit facility will be sufficient to meet its working capital and operating resource expenditure requirements.

As at March 31, 2020, a foreign subsidiary of the Company issued letters of credit in the amount of U.S \$2,300, which is equal to CAD \$3,291 (December 31, 2019 – CAD \$3,047). The Company has pledged U.S \$2,300 (December 31, 2019 – 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, 2020, the Company has letters of credit outstanding of \$5,113 (December 31, 2019 - \$3,953), of which \$440 (December 31, 2019 - \$416) are outstanding with foreign institutions with the remaining \$4,673 (December 31, 2019 - \$3,537) being issued under a \$30,000 facility which matures on June 30, 2020 and supports letters of credit back stopped by Export Development Canada.

As at March 31, 2020, IBI Group has surety bonds outstanding of \$4,554 (December 31, 2019 - \$4,554), with Liberty Mutual Insurance. These bonds are security agreements necessary to backstop certain Intelligence projects in the U.S segment.

(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 EBITDA¹ threshold, and restrictions on distributions, if certain conditions are not met. The Company was in compliance with the credit facility covenants as at March 31, 2020.

(e) FAIR VALUE MEASUREMENTS

The fair values of cash, restricted cash, 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 Company's credit facilities (net of deferred financing costs) approximate carrying value due to the variable rate of interest of the debt.

IFRS 7 *Financial Instruments – Disclosures*, requires disclosure of all financial instruments at fair value other than short term and carried at amortized cost, grouped in Levels 1 to 3, in the fair value hierarchy, based on the degree to which the fair value is observable. The three levels of the fair value hierarchy are:

- Level 1 – inputs derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 – fair value derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For financial instruments recognized at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization at the end of each reporting period. There were no transfers between Level 1 and Level 2 for the three months ended March 31, 2020 or year ended December 31, 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; 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 INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(in thousands of Canadian dollars, except per share and share amounts)***NOTE 8: CHANGE IN NON-CASH OPERATING WORKING CAPITAL**

	THREE MONTHS ENDED	
	MARCH 31,	
	2020	2019
Accounts receivable	\$ (7,768)	\$ 3,098
Contract assets	(3,560)	(7,884)
Prepaid expenses and other assets	(4,368)	1,065
Accounts payable and accrued liabilities	(1,572)	(1,450)
Contract liabilities	5,875	272
Net income taxes payable	333	(1,187)
Change in non-cash operating working capital	\$ (11,060)	\$ (6,086)

NOTE 9: FINANCE COSTS

	THREE MONTHS ENDED	
	MARCH 31,	
	2020	2019
Interest on credit facilities	\$ 510	\$ 830
Interest on convertible debentures	631	624
Non-cash accretion of convertible debentures	694	616
Interest on lease liability	1,070	1,077
Interest on lease receivable	(90)	(105)
Other	24	44
INTEREST EXPENSE	\$ 2,839	\$ 3,086
Amortization of deferred financing costs	\$ 112	\$ 117
Other	80	76
OTHER FINANCE COSTS	\$ 192	\$ 193
FINANCE COSTS	\$ 3,031	\$ 3,279

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 unaudited interim condensed consolidated 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 unaudited interim condensed consolidated 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

EQUITY SETTLED TRANSACTIONS

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.

IBI GROUP INC.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(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%
March 4, 2020	131,485	\$ 2.49	\$ 5.12	\$ 5.16	50.3%	6 years	0%	1.28%

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, 2020, the Company has recognized an expense of \$199 (three months ended March 31, 2019 - \$237) in salaries, fees and employee benefits for stock options in the consolidated statement of income and comprehensive income.

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

The following stock option arrangements were in existence as at March 31, 2020:

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	24,167	27,500	483,333	478,333	\$ 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	-	14,167	302,333	201,555	\$ 6.63	\$ 1,245,954
9-Aug-17	9-Aug-27	77,315	-	-	77,315	51,543	\$ 6.79	\$ 310,550
20-Mar-18	20-Mar-28	71,942	-	-	71,942	47,961	\$ 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	52,155	\$ 4.49	\$ 406,650
9-May-19	9-May-29	90,500	-	-	90,500	-	\$ 4.98	\$ 257,110
4-Mar-20	4-Mar-30	131,485	-	-	131,485	-	\$ 5.16	\$ 327,398
		1,617,026	24,167	41,667	1,551,192	999,998	\$ 4.81	\$ 4,360,754

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 March 31, 2020 an expense of \$97 (three months ended March 31, 2019 – \$261) in salaries, fees and employee benefits for PSUs in the consolidated statement of income and comprehensive income.

NOTE 12: INCOME TAXES

Income taxes for the three months ended March 31, 2020 was \$1,422 (three months ended March 31, 2019 - \$1,255). The effective income tax rate for the three months ended March 31, 2020 was 20.3% (three months ended March 31, 2019 – 34.8%). The change in the effective income tax rate was primarily due to non-deductible items and result of operations in various jurisdictions.