



IBI Group 2020 Second-Quarter Financial Statements

THREE AND SIX MONTHS ENDED
JUNE 30, 2020 AND 2019

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF

IBI GROUP INC.

THREE AND SIX MONTHS ENDED JUNE 30, 2020 AND 2019

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

| <i>(thousands of Canadian dollars)</i> | NOTES | JUNE 30, 2020 | DECEMBER 31, 2019 |
|---|------------|-------------------|----------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash | 4(c) | \$ 13,491 | \$ 15,628 |
| Accounts receivable | 4(c), 7(b) | 117,132 | 109,581 |
| Contract assets | | 70,575 | 63,385 |
| Prepaid expenses and other current assets | | 22,155 | 14,436 |
| Lease receivable | 4(c) | 1,592 | 476 |
| Income taxes recoverable | | 1,796 | 1,421 |
| Total Current Assets | | \$ 226,741 | \$ 204,927 |
| Restricted cash | 4(c), 7 | 3,199 | 3,047 |
| Property and equipment | | 22,623 | 21,620 |
| Intangible assets | | 9,241 | 9,620 |
| Lease receivable | 4(c) | 5,213 | 6,252 |
| Right-of-use assets | 4(c) | 59,234 | 63,390 |
| Investment | | 199 | 199 |
| Deferred tax assets | | 8,161 | 9,248 |
| TOTAL ASSETS | | \$ 334,611 | \$ 318,303 |
| LIABILITIES AND DEFICIT | | | |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Accounts payable and accrued liabilities | 4(c), 7 | 46,833 | 45,180 |
| Contract liabilities | 7 | 48,221 | 41,387 |
| Income taxes payable | | 769 | 780 |
| Lease liability | 4(c) | 13,683 | 13,289 |
| Deferred consideration | 4(c) | 558 | 490 |
| Total Current Liabilities | | \$ 110,064 | \$ 101,126 |
| Credit facilities | 4(a) | 46,492 | 50,328 |
| Convertible debentures | 4(b) | 41,180 | 39,768 |
| Lease liability | 4(c) | 61,980 | 66,758 |
| Other financial liabilities | 4(b) | 1,264 | 2,842 |
| Deferred consideration | 4(c) | 1,241 | 1,241 |
| Deferred tax liabilities | | 5,049 | 4,702 |
| TOTAL LIABILITIES | | \$ 267,270 | \$ 266,765 |
| EQUITY | | | |
| Shareholders' Equity | | | |
| Share capital | 6 | 279,993 | 279,993 |
| Capital reserve | 6 | 4,429 | 4,205 |
| Contributed surplus | 6 | 7,958 | 7,958 |
| Deficit | | (238,633) | (248,907) |
| Accumulated other comprehensive loss | | (2,730) | (5,427) |
| Total Shareholders' Equity | | \$ 51,017 | \$ 37,822 |
| Non-controlling interest | 6 | 16,324 | 13,716 |
| TOTAL EQUITY | | \$ 67,341 | \$ 51,538 |
| TOTAL LIABILITIES AND EQUITY | | \$ 344,611 | \$ 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)

| | NOTES | THREE MONTHS ENDED | | SIX MONTHS ENDED | |
|---|--------|--------------------|------------------|-------------------|-------------------|
| | | JUNE 30, 2020 | JUNE 30, 2019 | JUNE 30, 2020 | JUNE 30, 2019 |
| <i>(thousands of Canadian dollars, except per share amounts)</i> | | | | | |
| Revenue | | | | | |
| Gross Revenue | | \$ 123,915 | \$ 117,760 | \$ 245,081 | \$ 231,434 |
| Less: Subconsultants and direct costs | | 24,017 | 20,940 | 48,502 | 40,881 |
| NET REVENUE | | \$ 99,898 | \$ 96,820 | \$ 196,579 | \$ 190,553 |
| Expenses | | | | | |
| Salaries, fees and employee benefits | 5,11 | 70,669 | 66,339 | 138,675 | 132,807 |
| Variable lease expense | | 2,550 | 2,254 | 5,288 | 4,684 |
| Other operating expenses | | 9,228 | 12,068 | 20,048 | 22,663 |
| Foreign exchange (gain) loss | 7(a) | (628) | 467 | 906 | 1,281 |
| Amortization of intangible assets | | 666 | 495 | 1,283 | 954 |
| Depreciation of property and equipment | | 1,493 | 1,146 | 2,828 | 2,406 |
| Depreciation of right-of-use assets | | 3,286 | 3,245 | 6,625 | 6,431 |
| Change in fair value of other financial liabilities | 4(b) | 484 | 851 | (1,578) | 1,724 |
| Impairment of financial assets | 7(b) | 643 | 637 | 960 | 1,007 |
| Impairment of right-of-use assets | | - | - | - | 394 |
| | | 88,391 | 87,502 | 175,035 | 174,351 |
| OPERATING INCOME | | \$ 11,507 | \$ 9,318 | \$ 21,544 | \$ 16,202 |
| Interest expense, net | 7(a),9 | 2,547 | 3,133 | 5,386 | 6,219 |
| Other finance costs | 9 | 196 | 186 | 388 | 379 |
| FINANCE COSTS | | \$ 2,743 | \$ 3,319 | \$ 5,774 | \$ 6,598 |
| NET INCOME BEFORE TAX | | \$ 8,764 | \$ 5,999 | \$ 15,770 | \$ 9,604 |
| Current tax expense | | 1,521 | 1,491 | 1,904 | 2,460 |
| Deferred tax expense | | 487 | 591 | 1,526 | 877 |
| INCOME TAXES | | \$ 2,008 | \$ 2,082 | \$ 3,430 | \$ 3,337 |
| NET INCOME | | \$ 6,756 | \$ 3,917 | \$ 12,340 | \$ 6,267 |
| OTHER COMPREHENSIVE INCOME | | | | | |
| Items that are or may be reclassified to profit or loss | | | | | |
| Gain (loss) on translating financial statements of foreign operations | | (3,093) | (1,879) | 3,239 | (3,949) |
| OTHER COMPREHENSIVE INCOME (LOSS) | | (3,093) | (1,879) | 3,239 | (3,949) |
| TOTAL COMPREHENSIVE INCOME | | \$ 3,663 | \$ 2,038 | \$ 15,579 | \$ 2,318 |
| NET INCOME ATTRIBUTABLE TO: | | | | | |
| Common shareholders | | 5,625 | 3,260 | 10,274 | 5,217 |
| Non-controlling interests | 6 | 1,131 | 657 | 2,066 | 1,050 |
| NET INCOME | | \$ 6,756 | \$ 3,917 | \$ 12,340 | \$ 6,267 |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO: | | | | | |
| Common shareholders | | 3,050 | 1,697 | 12,971 | 1,930 |
| Non-controlling interests | 6 | 613 | 341 | 2,608 | 388 |
| TOTAL COMPREHENSIVE INCOME | | \$ 3,663 | \$ 2,038 | \$ 15,579 | \$ 2,318 |
| EARNINGS PER SHARE ATTRIBUTABLE TO COMMON SHAREHOLDERS | | | | | |
| Basic & diluted earnings per share | 6 | \$ 0.18 | \$ 0.10 | \$ 0.33 | \$ 0.17 |

See accompanying notes to the interim condensed consolidated financial statements.

IBI GROUP INC.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

| | NOTES | THREE MONTHS ENDED | | SIX MONTHS ENDED | |
|--|-------|--------------------|-------------------|--------------------|------------------|
| | | JUNE 30, 2020 | JUNE 30, 2019 | JUNE 30, 2020 | JUNE 30, 2019 |
| <i>(thousands of Canadian dollars)</i> | | | | | |
| CASH FLOWS PROVIDED BY (USED IN) | | | | | |
| OPERATING ACTIVITIES | | | | | |
| Net income | | \$ 6,756 | \$ 3,917 | \$ 12,340 | 6,267 |
| Items not affecting cash: | | | | | |
| Depreciation of property, equipment, and other assets | | 1,493 | 1,146 | 2,828 | 2,406 |
| Amortization of intangible assets | | 666 | 495 | 1,283 | 954 |
| Depreciation of right of use assets | | 3,286 | 3,245 | 6,625 | 6,431 |
| Amortization of deferred financing costs | 9 | 113 | 113 | 225 | 229 |
| Impairment of financial assets | 7(b) | 643 | 637 | 960 | 1,007 |
| Impairment of right of use assets | | - | - | - | 394 |
| Foreign exchange loss | 7(a) | (628) | 467 | 906 | 1,281 |
| Interest expense, net | 9 | 2,547 | 3,133 | 5,386 | 6,219 |
| Deferred tax expense | | 487 | 591 | 1,526 | 877 |
| Share based compensation | 11 | 311 | 376 | 607 | 869 |
| Deferred share units issued | | 99 | 108 | 206 | 210 |
| Change in fair value of deferred share units | | 440 | (33) | (541) | 245 |
| Loss on disposal of property and equipment | | - | - | - | 46 |
| Non-cash change in lease receivable | | 349 | - | 349 | - |
| Change in fair value of other financial liabilities | 4(b) | 484 | 851 | (1,578) | 1,724 |
| Interest paid | | (2,498) | (1,866) | (3,980) | (3,745) |
| Income taxes paid | | (296) | (516) | (2,223) | (1,564) |
| Change in non-cash operating working capital | 8 | 1,204 | (7,632) | (9,856) | (13,718) |
| NET CASH FLOWS PROVIDED BY (USED IN) | | \$ 15,456 | \$ 5,032 | \$ 15,063 | 10,132 |
| OPERATING ACTIVITIES | | | | | |
| CASH FLOWS PROVIDED BY (USED IN) | | | | | |
| FINANCING ACTIVITIES | | | | | |
| Draws (Payments) on principal of credit facilities | 4(a) | (4,000) | 615 | (5,000) | (905) |
| Deferred financing costs | 4(a) | - | - | - | (84) |
| Payment of lease liabilities | | (3,607) | (964) | (7,344) | (1,444) |
| Redemption of performance share units | | (383) | - | (383) | - |
| Proceeds from shares issued | 6 | - | - | - | 15 |
| NET CASH FLOWS USED IN | | \$ (7,990) | \$ (349) | \$ (12,727) | (2,418) |
| FINANCING ACTIVITIES | | | | | |
| CASH FLOWS PROVIDED BY (USED IN) | | | | | |
| INVESTING ACTIVITIES | | | | | |
| Purchase of property and equipment | | (1,071) | (2,636) | (3,457) | (4,915) |
| Purchase of intangible assets | | (429) | (339) | (862) | (740) |
| Restricted cash | 7(c) | 12 | - | 12 | - |
| NET CASH FLOWS USED IN | | \$ (1,488) | \$ (2,975) | \$ (4,307) | (5,655) |
| INVESTING ACTIVITIES | | | | | |
| Effects of currency translation on cash and cash equivalents | 7(b) | 341 | (266) | (166) | (350) |
| NET (DECREASE) INCREASE IN CASH | | \$ 6,319 | \$ 1,442 | \$ (2,137) | 1,709 |
| Cash, beginning of period | | 7,172 | 9,729 | 15,628 | 9,460 |
| CASH, END OF PERIOD | | \$ 13,491 | \$ 11,171 | \$ 13,491 | 11,169 |

See accompanying notes to the interim condensed consolidated financial statements.

IBI GROUP INC.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (DEFICIT)

(unaudited)

| | NOTES | THREE MONTHS ENDED | | SIX MONTHS ENDED | |
|---|-------|---------------------|---------------------|---------------------|---------------------|
| | | JUNE 30, 2020 | JUNE 30, 2019 | JUNE 30, 2020 | JUNE 30, 2019 |
| <i>(thousands of Canadian dollars)</i> | | | | | |
| SHARE CAPITAL | | | | | |
| Share capital, beginning of period | | \$ 279,993 | \$ 279,941 | \$ 279,993 | \$ 279,926 |
| Shares issued | 6 | - | - | - | 15 |
| SHARE CAPITAL, END OF PERIOD | | \$ 279,993 | \$ 279,941 | \$ 279,993 | \$ 279,941 |
| CAPITAL RESERVE | | | | | |
| Capital reserve, beginning of period | | \$ 4,501 | \$ 3,224 | \$ 4,205 | \$ 2,731 |
| Stock options granted | 11 | 215 | 260 | 414 | 497 |
| Stock options exercised | 11 | - | 0 | - | (5) |
| Performance share units granted | 11 | 96 | 116 | 193 | 377 |
| Performance share units redeemed | 11 | (383) | - | (383) | - |
| CAPITAL RESERVE, END OF PERIOD | | \$ 4,429 | \$ 3,600 | \$ 4,429 | \$ 3,600 |
| CONTRIBUTED SURPLUS | | | | | |
| Contributed surplus, beginning of period | | \$ 7,958 | \$ 7,958 | \$ 7,958 | \$ 7,958 |
| CONTRIBUTED SURPLUS, END OF PERIOD | | \$ 7,958 | \$ 7,958 | \$ 7,958 | \$ 7,958 |
| DEFICIT | | | | | |
| Deficit, beginning of period, as reported | | \$ (244,258) | \$ (260,978) | \$ (248,907) | \$ (258,204) |
| Adjustments from prior period | | - | - | - | (4,731) |
| Deficit, beginning of period, as adjusted | | \$ (244,258) | \$ (260,978) | \$ (248,907) | \$ (262,935) |
| Net income attributable to common shareholders | | 5,625 | 3,260 | 10,274 | 5,217 |
| DEFICIT, END OF PERIOD | | \$ (238,633) | \$ (257,718) | \$ (238,633) | \$ (257,718) |
| ACCUMULATED OTHER COMPREHENSIVE LOSS | | | | | |
| Accumulated other comprehensive loss, beginning of period | | \$ (155) | \$ (3,721) | \$ (5,427) | \$ (1,998) |
| Other comprehensive income (loss) attributable to common shareholders | | (2,575) | (1,564) | 2,697 | (3,287) |
| ACCUMULATED OTHER COMPREHENSIVE LOSS, END OF PERIOD | | \$ (2,730) | \$ (5,285) | \$ (2,730) | \$ (5,285) |
| TOTAL SHAREHOLDERS' EQUITY | | \$ 51,017 | \$ 28,496 | \$ 51,017 | \$ 28,496 |
| NON-CONTROLLING INTEREST | | | | | |
| Non-controlling interest, beginning of period | | \$ 15,711 | \$ 11,632 | \$ 13,716 | \$ 11,585 |
| Total comprehensive income attributable to non-controlling interests | 6 | 613 | 341 | 2,608 | 388 |
| NON-CONTROLLING INTEREST, END OF PERIOD | | \$ 16,324 | \$ 11,972 | \$ 16,324 | \$ 11,972 |
| TOTAL EQUITY, END OF PERIOD | | \$ 67,341 | \$ 40,468 | \$ 67,341 | \$ 40,468 |

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 June 30, 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 June 30, 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 June 30, 2020 (December 31, 2019 – 35.7%).

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

These unaudited interim condensed consolidated financial statements were approved and authorized for issuance by the Company's Board of Directors on August 6, 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 to the standard introduce requirements around the presentation of a liability when rights to defer settlement exist, classification of rollover facilities, and classification of convertible debt. The amendments are effective for annual periods on or after January 1, 2023 with early adoption permitted. The extent of the impact of the change has not yet been determined.

COVID-19 Related Rent Concessions (Amendment to IFRS 16)

On May 28, 2020, the IASB issued COVID-19 Related Rent Concessions, to update IFRS 16 to exempt lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. The standard applies to COVID-19 related rent concessions that reduce lease payments due on or before June 30, 2021. The Company has determined the impact of this amendment to be immaterial as at June 30, 2020.

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.

(b) GEOGRAPHIC SEGMENTS

The following table demonstrates certain information contained in the consolidated statement of financial position segmented geographically as at June 30, 2020, with comparatives as at December 31, 2019:

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

| | AS AT JUNE 30, 2020 | | | | |
|---|----------------------------|----------------------|-----------------------|----------------------------|--------------|
| | CANADA | UNITED STATES | UNITED KINGDOM | OTHER INTERNATIONAL | TOTAL |
| Property and equipment | \$ 15,790 | \$ 5,374 | \$ 787 | \$ 672 | \$ 22,623 |
| Intangible assets | 8,114 | 958 | 169 | - | 9,241 |
| Contract assets | 30,417 | 20,736 | 3,832 | 15,590 | 70,575 |
| Contract liabilities | 27,306 | 12,307 | 4,421 | 4,187 | 48,221 |
| Total assets | 172,564 | 89,466 | 18,992 | 53,589 | 334,611 |
| Right-of-use assets | 37,323 | 18,411 | 2,009 | 1,491 | 59,234 |
| Lease receivable | 4,447 | 2,358 | - | - | 6,805 |
| Total assets excluding the impact of IFRS 16 transition | 130,794 | 68,697 | 16,983 | 52,098 | 268,572 |

| | 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 and six months ended June 30, 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 JUNE 30, 2020 | | | | | |
|---|----------------------------------|------------------|-----------------|---------------------|--|------------------|
| | CANADA | UNITED STATES | UNITED KINGDOM | OTHER INTERNATIONAL | UNALLOCATED CORPORATE COSTS ¹ | TOTAL |
| Gross revenues | \$ 66,313 | \$ 40,910 | \$ 8,216 | \$ 8,476 | \$ - | \$ 123,915 |
| Less: subconsultants and direct expenses | 8,857 | 10,050 | 1,780 | 3,330 | - | 24,017 |
| Net revenue | \$ 57,456 | \$ 30,860 | \$ 6,436 | \$ 5,146 | \$ - | \$ 99,898 |
| Adjusted EBITDA ² | \$ 7,806 | \$ 4,455 | \$ 417 | \$ 470 | \$ - | \$ 13,148 |
| Items excluded in calculation of Adjusted EBITDA ² : | | | | | | |
| Interest expense, net | 601 | 282 | 28 | 25 | 1,611 | 2,547 |
| Amortization and depreciation | 2,663 | 1,955 | 407 | 420 | - | 5,445 |
| Foreign exchange (gain) loss | (380) | (303) | 23 | 32 | - | (628) |
| Change in fair value of other financial liabilities | - | - | - | - | 484 | 484 |
| Change in fair value of deferred share units | - | - | - | - | 440 | 440 |
| Stock based compensation | 193 | 11 | 3 | 8 | - | 215 |
| Performance share units | 96 | - | - | - | - | 96 |
| Payment of performance share units | (383) | - | - | - | - | (383) |
| Deferred financing charges | - | - | - | - | 113 | 113 |
| IFRS 16 lease accounting adjustment | (1,882) | (1,548) | (339) | (176) | - | (3,945) |
| Net income (loss) before tax | \$ 6,898 | \$ 4,058 | \$ 295 | \$ 161 | \$ (2,648) | \$ 8,764 |

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

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)

| | SIX MONTHS ENDED JUNE 30, 2020 | | | | | | TOTAL |
|---|--------------------------------|------------------|------------------|---------------------|--|-------------------|-------|
| | CANADA | UNITED STATES | UNITED KINGDOM | OTHER INTERNATIONAL | UNALLOCATED CORPORATE COSTS ¹ | | |
| Gross Revenues | \$ 134,735 | \$ 78,332 | \$ 16,095 | \$ 15,919 | \$ - | \$ 245,081 | |
| Less: subconsultants and direct expenses | 20,531 | 19,691 | 2,866 | 5,414 | - | 48,502 | |
| Net revenue | \$ 114,204 | \$ 58,641 | \$ 13,229 | \$ 10,505 | \$ - | \$ 196,579 | |
| Adjusted EBITDA ² | \$ 14,774 | \$ 6,023 | \$ 680 | \$ 890 | \$ - | \$ 22,367 | |
| Items excluded in calculation of Adjusted EBITDA: | | | | | | | |
| Interest expense, net | 1,226 | 602 | 60 | 51 | 3,447 | 5,386 | |
| Amortization and depreciation | 5,294 | 3,824 | 821 | 797 | - | 10,736 | |
| Foreign exchange (gain) loss | 640 | 549 | 43 | (326) | - | 906 | |
| Change in fair value of other financial liabilities | - | - | - | - | (1,578) | (1,578) | |
| Change in fair value of deferred share units | - | - | - | - | (541) | (541) | |
| Stock based compensation | 371 | 21 | 5 | 17 | - | 414 | |
| Performance share units | 193 | - | - | - | - | 193 | |
| Payment of performance share units | (383) | - | - | - | - | (383) | |
| Deferred financing charges | - | - | - | - | 225 | 225 | |
| IFRS 16 lease accounting adjustment | (4,698) | (3,040) | (678) | (345) | - | (8,761) | |
| Net income (loss) before tax | \$ 12,131 | \$ 4,067 | \$ 429 | \$ 696 | \$ (1,553) | \$ 15,770 | |

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

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 three and six months ended June 30, 2020 and 2019.

| <i>(in thousands of Canadian dollars)</i> <i>(unaudited)</i> | THREE MONTHS ENDED JUNE 30, 2020 | | | | |
|---|----------------------------------|------------------|------------------|-------------------|------------------|
| | INTELLIGENCE | BUILDINGS | INFRASTRUCTURE | CORPORATE | TOTAL |
| Gross revenues | \$ 25,427 | \$ 63,787 | \$ 34,661 | \$ 40 | \$ 123,915 |
| Less: subconsultants and direct expenses | 4,725 | 12,868 | 6,412 | 12 | 24,017 |
| Net revenue | \$ 20,702 | \$ 50,919 | \$ 28,249 | \$ 28 | \$ 99,898 |
| Adjusted EBITDA ¹ | \$ 3,953 | \$ 8,072 | \$ 2,896 | \$ (1,773) | \$ 13,148 |
| Items excluded in calculation of Adjusted EBITDA ¹ : | | | | | |
| Interest expense, net | 148 | 439 | 291 | 1,669 | 2,547 |
| Amortization and depreciation | 1,501 | 1,931 | 1,724 | 289 | 5,445 |
| Foreign exchange (gain) loss | (110) | (55) | (181) | (282) | (628) |
| Change in fair value of other financial liabilities | - | - | - | 484 | 484 |
| Change in fair value of deferred share units | - | - | - | 440 | 440 |
| Stock based compensation | 26 | 26 | 36 | 127 | 215 |
| Performance share units | - | - | - | 96 | 96 |
| Payment of performance share units | - | - | - | (383) | (383) |
| Deferred financing charges | - | - | - | 113 | 113 |
| IFRS 16 lease accounting adjustment | (701) | (1,994) | (1,240) | (10) | (3,945) |
| Net income before tax | \$ 3,089 | \$ 7,725 | \$ 2,266 | \$ (4,316) | \$ 8,764 |

| <i>(in thousands of Canadian dollars)</i> <i>(unaudited)</i> | THREE MONTHS ENDED JUNE 30, 2019 | | | | |
|---|----------------------------------|------------------|------------------|-------------------|------------------|
| | INTELLIGENCE | BUILDINGS | INFRASTRUCTURE | CORPORATE | TOTAL |
| Gross revenues | \$ 21,750 | \$ 63,020 | \$ 32,779 | \$ 211 | \$ 117,760 |
| Less: subconsultants and direct expenses | 4,168 | 11,987 | 4,764 | 21 | 20,940 |
| Net revenue | \$ 17,582 | \$ 51,033 | \$ 28,015 | \$ 190 | \$ 96,820 |
| Adjusted EBITDA ¹ | \$ 1,752 | \$ 9,052 | \$ 3,208 | \$ (1,837) | \$ 12,175 |
| Items excluded in calculation of Adjusted EBITDA ¹ : | | | | | |
| Interest expense, net | 151 | 497 | 314 | 2,171 | 3,133 |
| Amortization and depreciation | 861 | 2,311 | 1,494 | 220 | 4,886 |
| Foreign exchange (gain) loss | 346 | (85) | 128 | 78 | 467 |
| Change in fair value of other financial liabilities | - | - | - | 851 | 851 |
| Change in fair value of deferred share units | - | - | - | (33) | (33) |
| Stock based compensation | 35 | 31 | 58 | 136 | 260 |
| Performance share units | - | - | - | 116 | 116 |
| Deferred financing charges | - | - | - | 112 | 112 |
| IFRS 16 lease accounting adjustment | (573) | (1,760) | (1,044) | (239) | (3,616) |
| Net income before tax | \$ 932 | \$ 8,058 | \$ 2,258 | \$ (5,249) | \$ 5,999 |

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> | SIX MONTHS ENDED JUNE 30, 2020 | | | | |
|---|--------------------------------|------------------|------------------|-------------------|-------------------|
| | INTELLIGENCE | BUILDINGS | INFRASTRUCTURE | CORPORATE | TOTAL |
| Gross revenues | \$ 49,099 | 125,370 | 70,365 | 247 | \$ 245,081 |
| Less: subconsultants and direct expenses | 8,111 | 25,421 | 14,946 | 24 | 48,502 |
| Net revenue | \$ 40,988 | \$ 99,949 | \$ 55,419 | \$ 223 | \$ 196,579 |
| Adjusted EBITDA ¹ | \$ 7,761 | 14,013 | 4,868 | (4,275) | \$ 22,367 |
| Items excluded in calculation of Adjusted EBITDA ¹ : | | | | | |
| Interest expense, net | 307 | 922 | 592 | 3,565 | 5,386 |
| Amortization and depreciation | 2,616 | 4,251 | 3,307 | 562 | 10,736 |
| Foreign exchange (gain) loss | (75) | (410) | 204 | 1,187 | 906 |
| Change in fair value of other financial liabilities | - | - | - | (1,578) | (1,578) |
| Change in fair value of deferred share units | - | - | - | (541) | (541) |
| Stock based compensation | 52 | 48 | 73 | 241 | 414 |
| Performance share units | - | - | - | 193 | 193 |
| Payment of performance share units | - | - | - | (383) | (383) |
| Deferred financing charges | - | - | - | 225 | 225 |
| IFRS 16 lease accounting adjustment | (1,474) | (4,320) | (2,631) | (336) | (8,761) |
| Net income before tax | \$ 6,335 | \$ 13,522 | \$ 3,323 | \$ (7,410) | \$ 15,770 |

| <i>(in thousands of Canadian dollars)</i> <i>(unaudited)</i> | SIX MONTHS ENDED JUNE 30, 2019 | | | | |
|---|--------------------------------|-------------------|------------------|--------------------|-------------------|
| | INTELLIGENCE | BUILDINGS | INFRASTRUCTURE | CORPORATE | TOTAL |
| Gross revenues | \$ 42,710 | \$ 124,741 | \$ 63,610 | \$ 373 | \$ 231,434 |
| Less: subconsultants and direct expenses | 8,184 | 22,511 | 10,142 | 44 | 40,881 |
| Net revenue | \$ 34,526 | \$ 102,230 | \$ 53,468 | \$ 329 | \$ 190,553 |
| Adjusted EBITDA ¹ | \$ 4,208 | \$ 19,091 | \$ 4,418 | \$ (4,796) | \$ 22,921 |
| Items excluded in calculation of Adjusted EBITDA ¹ : | | | | | |
| Interest expense, net | 306 | 990 | 627 | 4,296 | 6,219 |
| Amortization and depreciation | 1,738 | 4,583 | 3,030 | 440 | 9,791 |
| Foreign exchange (gain) loss | 706 | (268) | 584 | 259 | 1,281 |
| Change in fair value of other financial liabilities | - | - | - | 1,724 | 1,724 |
| Change in fair value of deferred share units | - | - | - | 245 | 245 |
| Stock based compensation | 66 | 57 | 109 | 265 | 497 |
| Performance share units | - | - | - | 377 | 377 |
| Deferred financing charges | - | - | - | 229 | 229 |
| IFRS 16 lease accounting adjustment | (1,153) | (3,566) | (2,122) | (205) | (7,046) |
| Net income before tax | \$ 2,545 | \$ 17,295 | \$ 2,190 | \$ (12,426) | \$ 9,604 |

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.

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 June 30, 2020, the interest rate on Canadian dollar borrowings was 3.20% (June 30, 2019 – 4.95%) and 4.00% on U.S dollar borrowings (June 30, 2019 – 6.50%).

As at June 30, 2020, IBI Group has borrowings of \$47,505 (December 31, 2019 - \$51,566) under the credit facilities, which has been recorded on the balance sheet net of deferred financing costs of \$1,013 (December 31, 2019 - \$1,238). Included within the \$46,492 borrowings, the Company has borrowed \$nil USD (December 31, 2019 - \$10,000 USD) under a swing line facility with a carrying value as at June 30, 2020 of \$nil CAD (December 31, 2019 - \$13,066).

As at June 30, 2020, IBI Group has letters of credit outstanding of \$10,045 (December 31, 2019 - \$3,953), of which \$9,615 (December 31, 2019 - \$3,537) is issued under a \$20,000 facility which matures on June 30, 2021 and supports letters of credit back stopped by Export Development Canada. Advances under the revolver facility bear interest at a rate based on the Canadian dollar prime rate or U.S dollar base rate, LIBOR or Banker's Acceptance rates plus, in each case, an applicable margin. At June 30, 2020, \$47,505 was outstanding under Bankers' Acceptance (December 31, 2019 - \$51,566), with the remaining borrowed as prime rate debt.

As at June 30, 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 June 30, 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.

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

| | AS AT | |
|--|------------------|------------------|
| | JUNE 30, 2020 | JUNE 30, 2019 |
| Balance at January 1 | \$ 50,328 | \$ 75,548 |
| Payments on principal of credit facilities | (5,000) | (905) |
| Deferred financing capitalization | - | (84) |
| Amortization of deferred financing costs | 225 | 229 |
| Impact of foreign exchange | 939 | (547) |
| Ending Balance | \$ 46,492 | \$ 74,241 |

(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 | 1,412 | - | 1,412 |
| Change in fair value of other financial liabilities | - | (1,578) | (1,578) |
| BALANCE, JUNE 30, 2020 | \$ 41,180 | \$ 1,264 | \$ 42,444 |

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.

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

The 5.5% Debentures are recorded as a hybrid financial instrument. The non-derivative debt (interest and principal portion) was recorded at fair value on the date of issue and was recognized at \$32,498 which was net of deferred financing costs of \$2,594, estimated using discounted future cash flows at an estimated discount rate 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 June 30, 2020, the fair value of the derivative component was \$1,264 (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 June 30, 2020, based on a Level 1 quoted market price, is as follows:

| | Carrying Value | | Fair Value |
|-------------------------------|-----------------------|-----------|-------------------|
| 5.5% Debentures | \$ 41,180 | \$ | 46,000 |
| BALANCE, JUNE 30, 2020 | \$ 41,180 | \$ | 46,000 |

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 cash, restricted cash, accounts receivable, and 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.

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 June 30, 2020 are as follows:

| | FINANCIAL ASSETS AND LIABILITIES AT FVTPL | AMORTIZED COST | TOTAL |
|--|--|---------------------------|-------------------|
| FINANCIAL ASSETS | | | |
| Cash | \$ 13,491 | \$ - | \$ 13,491 |
| Restricted cash | 3,199 | - | 3,199 |
| Accounts receivable | - | 117,132 | 117,132 |
| Investment | 199 | - | 199 |
| TOTAL | \$ 16,889 | \$ 117,132 | \$ 134,021 |
| FINANCIAL LIABILITIES | | | |
| Accounts payable and accrued liabilities | \$ - | \$ 44,362 | \$ 44,362 |
| Deferred share plan liability | 2,471 | - | 2,471 |
| Credit facilities | - | 46,492 | 46,492 |
| Convertible debentures | - | 41,180 | 41,180 |
| Other financial liabilities | 1,264 | - | 1,264 |
| Deferred consideration | 1,799 | - | 1,799 |
| TOTAL | \$ 5,534 | \$ 132,034 | \$ 137,568 |

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 June 30, 2020 and December 31, 2019:

| | AS AT JUNE 30, 2020 | | |
|-------------------------------|----------------------------|-------------------|-------------------|
| | LEVEL 1 | LEVEL 2 | LEVEL 3 |
| Cash | \$ 13,491 | \$ - | \$ - |
| Restricted cash | 3,199 | - | - |
| Investment | - | - | 199 |
| Deferred share plan liability | - | (2,471) | - |
| Other Financial Liabilities | - | (1,264) | - |
| Deferred consideration | - | - | (1,799) |
| | \$ 16,690 | \$ (3,735) | \$ (1,600) |

| | 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) |
| | \$ 18,675 | \$ (5,551) | \$ (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 and six months ended June 30, 2020 was \$3,566 and \$7,263, respectively (three and six months ended June 30, 2019 - \$3,592 and \$7,323, respectively). As at June 30, 2020, there were 44 partners (June 30, 2019 – 46 partners). As at June 30, 2020, the amount payable to the Management Partnership was \$16 (December 31, 2019 - \$Nil).

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 June 30, 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 June 30, 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 June 30, 2020.

SHARE ISSUANCES

For the three and six months ended June 30, 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 | | SIX MONTHS ENDED | |
|--|---------------------|-------------|-------------------------|-------------|
| | JUNE 30, | | JUNE 30, | |
| | 2020 | 2019 | 2020 | 2019 |
| Net income | \$ 6,756 | \$ 3,917 | \$ 12,340 | \$ 6,267 |
| Net income attributable to common shareholders | \$ 5,625 | \$ 3,260 | \$ 10,274 | \$ 5,217 |
| Weighted average common shares outstanding | 31,240 | 31,225 | 31,240 | 31,224 |
| Dilutive effect of Class B partnership units | 6,282 | 6,282 | 6,282 | 6,282 |
| Dilutive effect of stock options granted | 223 | 243 | 279 | 243 |
| Diluted weighted average common shares | 37,745 | 37,750 | 37,801 | 37,749 |
| Basic and diluted earnings per common share | \$ 0.18 | \$ 0.10 | \$ 0.33 | \$ 0.17 |

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 unaudited interim condensed consolidated statement of changes in equity (deficit) for the three months ended June 30, 2020.

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

| | THREE MONTHS ENDED | | SIX MONTHS ENDED | |
|---|--------------------|----------|------------------|----------|
| | JUNE 30, | | JUNE 30, | |
| | 2020 | 2019 | 2020 | 2019 |
| Net income | \$ 6,756 | \$ 3,917 | \$ 12,340 | \$ 6,267 |
| Non-controlling interest share of ownership | 16.74% | 16.75% | 16.74% | 16.75% |
| Net income attributable to non-controlling interest | \$ 1,131 | \$ 657 | \$ 2,066 | \$ 1,050 |

| | THREE MONTHS ENDED | | SIX MONTHS ENDED | |
|---|--------------------|----------|------------------|----------|
| | JUNE 30, | | JUNE 30, | |
| | 2020 | 2019 | 2020 | 2019 |
| Total comprehensive income | \$ 3,663 | \$ 2,038 | \$ 15,579 | \$ 2,318 |
| Non-controlling interest share of ownership | 16.74% | 16.75% | 16.74% | 16.75% |
| Total comprehensive income attributable to non-controlling interest | \$ 613 | \$ 341 | \$ 2,608 | \$ 388 |

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.

To date the Company has been able to operate under normal business conditions, however the broader implications of COVID-19 on our 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 we, our customers, suppliers, and third party business partners conduct business. We may experience curtailed customer demand that could have a material adverse impact on our business,

results of operations, and overall financial performance of future periods, specifically we 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 our 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 June 30, 2020, had been 50 basis points higher or lower, with all other variables held constant, net income for the six months ended June 30, 2020 would have decreased or increased by approximately \$175.

CURRENCY RISK

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

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

If the exchange rates had been 100 basis points higher or lower as at June 30, 2020, with all other variables held constant, total comprehensive income would have increased or decreased by \$117 for the six months ended June 30, 2020. If the exchange rates had been 100 basis points higher or lower as at June 30, 2020, with all other variables held constant, net income would have increased or decreased by \$29 for the six months ended June 30, 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 addition, management reviews accounts receivable past due on an ongoing basis with the objective of

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

identifying matters that could potentially delay the collection of funds (at an early stage). The Company monitors accounts receivable with an internal target of working days of revenue in accounts receivable (a non-IFRS measure). At June 30, 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 | |
|---------------------------------|--------------------------|------------------------------|
| | JUNE 30, 2020 | DECEMBER 31, 2019 |
| Current | \$ 46,413 | \$ 43,838 |
| 30 to 90 days | 32,038 | 36,642 |
| Over 90 days | 43,039 | 33,166 |
| Gross accounts receivable | 121,490 | 113,646 |
| Allowance for impairment losses | (4,358) | (4,065) |
| Total | \$ 117,132 | \$ 109,581 |

Changes in the allowance for impairment losses were as follows:

| | AS AT | |
|--|--------------------------|------------------------------|
| | JUNE 30, 2020 | DECEMBER 31, 2019 |
| Balance at beginning of year | \$ (4,065) | \$ (10,148) |
| Provision for doubtful accounts | (960) | (2,375) |
| Amounts written-off | 772 | 8,236 |
| Effect of foreign currency exchange rate changes | (105) | 222 |
| Total | \$ (4,358) | \$ (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 June 30, 2020 was 1.84% 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 and working with our customers to assess whether additional impairments and reserves are required. The Company has not identified any increased risk in collections at this time.

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 June 30, 2020, no changes in credit risk were identified.

(c) LIQUIDITY RISK

The Company strives to maintain sufficient financial liquidity to withstand sudden adverse changes in economic circumstances. Management forecasts cash flows for its current and subsequent fiscal years to identify financing requirements. These requirements are then addressed through a combination of committed credit facilities (as described in Note 4 – Financial Instruments) and access to capital markets.

As a result of COVID-19 our existing cash and cash equivalents may fluctuate as a result of increased collection risk and the risk of a slowdown in work to be completed and billed. However, based on our current business plan and revenue prospects, we believe that our existing cash and cash equivalents, our anticipated cash flows from operations, and available credit facility will be sufficient to meet our working capital and operating resource expenditure requirements.

As at June 30, 2020, a foreign subsidiary of the Company issued letters of credit in the amount of U.S \$2,300, which is equal to CAD \$3,187 (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 June 30, 2020, a foreign subsidiary of the Company issued letters of credit in the amount of INR 650,000, which is equal to CAD \$12 (December 31, 2019 – CAD \$nil). The Company has pledged INR 650,000 (December 31, 2020 – INR \$nil) of cash as security for these letters of credit issued by a foreign financial institution on behalf of the foreign subsidiary.

As at June 30, 2020, the Company has letters of credit outstanding of \$10,045 (December 31, 2019 - \$3,953), of which \$430 (December 31, 2019 - \$416) are outstanding with foreign institutions with the remaining \$9,615 (December 31, 2019 - \$3,537) being issued under a \$20,000 facility which matures on June 30, 2021 and supports letters of credit back stopped by Export Development Canada.

As at June 30, 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 June 30, 2020.

(e) FAIR VALUE MEASUREMENTS

The fair values of cash, restricted cash, accounts receivable, and accounts payable and accrued liabilities 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).

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.

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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 six months ended June 30, 2020 or year ended December 31, 2019.

NOTE 8: CHANGE IN NON-CASH OPERATING WORKING CAPITAL

| | THREE MONTHS ENDED | | SIX MONTHS ENDED | |
|--|--------------------|------------|------------------|-------------|
| | JUNE 30, | | JUNE 30, | |
| | 2020 | 2019 | 2020 | 2019 |
| Accounts receivable | \$ 1,141 | \$ (3,576) | \$ (6,627) | \$ (478) |
| Contract assets | (2,379) | (2,611) | (5,939) | (10,495) |
| Prepaid expenses and other assets | (3,318) | (2,527) | (7,686) | (1,462) |
| Accounts payable and accrued liabilities | 3,647 | 1,292 | 2,075 | (158) |
| Contract liabilities | 603 | (1,163) | 6,478 | (891) |
| Net income taxes payable | 1,510 | 953 | 1,843 | (234) |
| Change in non-cash operating working | \$ 1,204 | \$ (7,632) | \$ (9,856) | \$ (13,718) |

NOTE 9: FINANCE COSTS

| | THREE MONTHS ENDED | | SIX MONTHS ENDED | |
|---|--------------------|----------|------------------|----------|
| | JUNE 30, | | JUNE 30, | |
| | 2020 | 2019 | 2020 | 2019 |
| Interest on credit facilities | \$ 263 | \$ 853 | \$ 773 | \$ 1,683 |
| Interest on convertible debentures | 631 | 631 | 1,262 | 1,255 |
| Non-cash accretion of convertible debenture | 718 | 630 | 1,412 | 1,245 |
| Interest on lease liability | 982 | 1,092 | 2,052 | 2,169 |
| Interest on lease receivable | (70) | (101) | (160) | (206) |
| Other | 23 | 28 | 47 | 73 |
| INTEREST EXPENSE | \$ 2,547 | \$ 3,133 | \$ 5,386 | \$ 6,219 |
| Amortization of deferred financing costs | \$ 113 | \$ 113 | \$ 225 | \$ 229 |
| Other | 83 | 73 | 163 | 150 |
| OTHER FINANCE COSTS | \$ 196 | \$ 186 | \$ 388 | \$ 379 |
| FINANCE COSTS | \$ 2,743 | \$ 3,319 | \$ 5,774 | \$ 6,598 |

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.

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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% |
| May 6, 2020 | 139,000 | \$ 1.79 - 2.25 | \$ 4.00 | \$ 4.11 | 48.3 - 58.2% | 5.5 - 6.5 years | 0% | 0.43 - 0.44% |
| May 13, 2020 | 15,000 | \$ 1.72 - 2.19 | \$ 3.76 | \$ 4.00 | 47.6 - 58.2% | 5.5 - 6.5 years | 0% | 0.38 - 0.39% |

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 and six months ended June 30, 2020, the Company has recognized an expense of \$215 and \$414, respectively (three and six months ended June 30, 2019 - \$260 and \$497, respectively) in salaries, fees and employee benefits for stock options in the consolidated statement of income and comprehensive income.

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The following stock option arrangements were in existence as at June 30, 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 | 69,107 | \$ 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 | 46,333 | \$ 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 | 30,167 | \$ 4.98 | \$ 257,110 |
| 4-Mar-20 | 4-Mar-30 | 131,485 | - | - | 131,485 | - | \$ 5.16 | \$ 327,398 |
| 6-May-20 | 6-May-30 | 139,000 | - | - | 139,000 | - | \$ 4.11 | \$ 278,371 |
| 13-May-20 | 13-May-30 | 15,000 | - | - | 15,000 | - | \$ 4.00 | \$ 29,050 |
| | | 1,771,026 | 24,167 | 41,667 | 1,705,192 | 1,076,367 | \$ 4.74 | \$ 4,668,175 |

Performance share units

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

The Company has recognized for the three and six months ended June 30, 2020, an expense of \$96 and \$193, respectively (three and six months ended June 30, 2019 – \$116 and \$377, respectively) 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 and six months ended June 30, 2020 was \$2,008 and \$3,430, respectively (three and six months ended June 30, 2019 - \$2,082 and \$3,337, respectively). The effective income tax rate for the three and six months ended June 30, 2020 was 22.9% and 21.8%, respectively (three and six months ended June 30, 2019 – 34.7%). The change in the effective income tax rate was primarily due to non-deductible items and result of operations in various jurisdictions.