



IBI Group 2021 First-Quarter Financial Statements

THREE MONTHS ENDED
MARCH 31, 2021

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF

IBI GROUP INC.

THREE MONTHS ENDED MARCH 31, 2021 AND 2020

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

<i>(thousands of Canadian dollars)</i>	NOTES	MARCH 31, 2021	DECEMBER 31, 2020
ASSETS			
Current Assets			
Cash	4(c)	\$ 24,906	\$ 32,728
Accounts receivable	4(c),7(b)	132,850	127,347
Contract assets		68,894	68,137
Prepaid expenses and other current assets		20,333	20,575
Lease receivable	4(c),7(b)	2,166	2,167
Income taxes recoverable		2,528	2,817
Total Current Assets		\$ 251,677	\$ 253,771
Restricted cash	4(c),7(c)	2,952	2,992
Property and equipment		20,032	20,731
Goodwill		4,032	3,384
Intangible assets		11,388	11,356
Lease receivable	4(c),7(b)	2,931	3,320
Right-of-use assets		52,287	55,413
Investment	7(e)	333	333
Deferred tax assets		7,556	8,427
TOTAL ASSETS		\$ 353,188	\$ 359,727
LIABILITIES AND DEFICIT			
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	4(c),7(e)	59,108	57,979
Contract liabilities		64,409	61,022
Income taxes payable		1,757	1,069
Lease liability		14,422	14,099
Deferred consideration	4(c)	1,145	1,504
Convertible debentures	4(b)	–	46,000
Other financial liabilities		–	730
Total Current Liabilities		\$ 140,841	\$ 182,403
Credit facilities	4(a)	34,210	–
Senior unsecured debentures	4(b)	43,301	43,186
Lease liability		54,162	57,729
Deferred consideration	4(c)	1,382	1,241
Deferred tax liabilities		6,450	5,913
TOTAL LIABILITIES		\$ 280,346	\$ 290,472
EQUITY			
Shareholders' Equity			
Share capital	6	280,101	280,080
Capital reserve	6	5,166	4,913
Contributed surplus	6	7,958	7,958
Deficit		(230,606)	(234,184)
Accumulated other comprehensive loss		(6,878)	(6,059)
Total Shareholders' Equity		\$ 55,741	\$ 52,708
Non-controlling interest	6	17,101	16,547
TOTAL EQUITY		\$ 72,842	\$ 69,255
TOTAL LIABILITIES AND EQUITY		\$ 353,188	\$ 359,727

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				
<i>(thousands of Canadian dollars, except per share amounts)</i>		NOTES	2021	2020
Revenue				
Gross Revenue			\$ 132,932	\$ 121,166
Less: Subconsultants and direct costs			24,030	24,485
NET REVENUE			\$ 108,902	\$ 96,681
Expenses				
Salaries, fees, and employee benefits	5, 11		79,108	68,006
Variable lease expense			2,774	2,738
Other operating expenses			10,415	10,820
Foreign exchange (gain) loss	7(a)		494	1,534
Amortization of intangible assets			869	617
Depreciation of property and equipment			1,398	1,335
Depreciation of right-of-use assets			3,027	3,339
Change in fair value of other financial liabilities	4(b)		908	(2,062)
Impairment of financial assets	7(b)		819	317
			99,812	86,644
OPERATING INCOME			\$ 9,090	\$ 10,037
Interest expense, net	7(a), 9		1,983	2,839
Other finance costs	9		235	192
FINANCE COSTS			\$ 2,218	\$ 3,031
NET INCOME BEFORE TAX			\$ 6,872	\$ 7,006
Current tax expense			1,228	383
Deferred tax expense			1,347	1,039
INCOME TAXES			\$ 2,575	\$ 1,422
NET INCOME			\$ 4,297	\$ 5,584
OTHER COMPREHENSIVE INCOME				
Items that are or may be reclassified to profit or loss				
Gain (loss) on translating financial statements of foreign operations			(984)	6,332
OTHER COMPREHENSIVE INCOME (LOSS)			(984)	6,332
TOTAL COMPREHENSIVE INCOME			\$ 3,313	\$ 11,916
NET INCOME ATTRIBUTABLE TO:				
Common shareholders			3,578	4,649
Non-controlling interests	6		719	935
NET INCOME			\$ 4,297	\$ 5,584
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Common shareholders			2,759	9,921
Non-controlling interests	6		554	1,995
TOTAL COMPREHENSIVE INCOME			\$ 3,313	\$ 11,916
EARNINGS PER SHARE ATTRIBUTABLE TO COMMON SHAREHOLDERS				
Basic and diluted earnings per share	6		\$ 0.11	\$ 0.15

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	2021	2020
CASH FLOWS PROVIDED BY (USED IN)			
OPERATING ACTIVITIES			
Net income		\$ 4,297	\$ 5,584
Items not affecting cash:			
Depreciation of property, equipment, and other assets		1,398	1,335
Amortization of intangible assets		869	617
Depreciation of right of use assets		3,027	3,339
Amortization of deferred financing costs	9	129	112
Impairment of financial assets	7(b)	819	317
Foreign exchange loss	7(a)	494	1,534
Interest expense, net	9	1,983	2,839
Deferred tax expense		1,347	1,039
Share based compensation	11	261	296
Deferred share units issued		95	107
Change in fair value of deferred share units		808	(981)
Change in fair value of other financial liabilities	4(b)	908	(2,062)
Interest paid		(1,092)	(1,482)
Income taxes received (paid)		(248)	(1,927)
Change in non-cash operating working capital net of acquisition	8	(4,315)	(11,060)
NET CASH FLOWS PROVIDED BY (USED IN)		\$ 10,780	\$ (393)
OPERATING ACTIVITIES			
CASH FLOWS PROVIDED BY (USED IN)			
FINANCING ACTIVITIES			
Draws (Payments) on principal of credit facilities	4(a)	35,000	(1,000)
Redemption of convertible debentures	4(b)	(47,638)	-
Payment of lease liabilities		(2,759)	(3,737)
Proceeds from shares issued	6	13	-
NET CASH FLOWS USED IN		(15,384)	(4,737)
FINANCING ACTIVITIES			
CASH FLOWS PROVIDED BY (USED IN)			
INVESTING ACTIVITIES			
Purchase of property and equipment		(689)	(2,386)
Purchase of intangible assets		(940)	(433)
Earnout payments for acquisitions		(447)	-
Purchase of Peter's Energy Solutions Inc.	12	(507)	-
NET CASH FLOWS USED IN		(2,583)	(2,819)
INVESTING ACTIVITIES			
Effects of currency translation on cash and cash equivalents	7(a)	(635)	(507)
NET (DECREASE) INCREASE IN CASH		(7,822)	(8,456)
Cash, beginning of period		32,728	15,628
CASH, END OF PERIOD		\$ 24,906	\$ 7,172

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	2021	2020
SHARE CAPITAL			
Share capital, beginning of period		\$ 280,080	\$ 279,993
Shares issued	6	\$ 21	-
SHARE CAPITAL, END OF PERIOD		\$ 280,101	\$ 279,993
CAPITAL RESERVE			
Capital reserve, beginning of period		\$ 4,913	\$ 4,205
Stock options granted	11	\$ 155	199
Stock options exercised	11	\$ (8)	-
Performance share units granted	11	\$ 106	97
CAPITAL RESERVE, END OF PERIOD		\$ 5,166	\$ 4,501
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		\$ (234,184)	\$ (248,907)
Net income attributable to common shareholders		3,578	4,649
DEFICIT, END OF PERIOD		\$ (230,606)	\$ (244,258)
ACCUMULATED OTHER COMPREHENSIVE LOSS			
Accumulated other comprehensive loss, beginning of period		\$ (6,059)	\$ (5,427)
Other comprehensive income (loss) attributable to common shareholders		(819)	5,272
ACCUMULATED OTHER COMPREHENSIVE LOSS, END OF PERIOD		\$ (6,878)	\$ (155)
TOTAL SHAREHOLDERS' EQUITY		\$ 55,741	\$ 48,039
NON-CONTROLLING INTEREST			
Non-controlling interest, beginning of period		\$ 16,547	\$ 13,716
Total comprehensive income attributable to non-controlling interests	6	554	1,995
NON-CONTROLLING INTEREST, END OF PERIOD		\$ 17,101	\$ 15,711
TOTAL EQUITY, END OF PERIOD		\$ 72,842	\$ 63,750

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, 2021, the Company's common share capital consisted of 31,267,044 (December 31, 2020 –31,265,044) 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, 2021 would be 37,549,266 (December 31, 2020 – 37,547,266). If the Class B partnership units were converted, the Management Partnership and affiliated partnerships would hold 32.8% of the voting shares as at March 31, 2021 (December 31, 2020 –35.9%).

The table below summarizes the ownership of the Company by the Management Partnership and affiliated partnerships as at March 31, 2021:

	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	16.73%
Common shares held by the Management Partnership and affiliated partnerships	6,027,746	16.05%

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, 2021:

SECURITY	TRADING SYMBOL
Common shares	"IBG"
6.5% listed senior unsecured debentures, \$46,000 principal, matures on December 31, 2025 ("6.5% Debentures")	"IBG.DB.E"

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, 2020. 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, 2020.

These consolidated financial statements were approved and authorized for issuance by the Company's Board of Directors on May 12, 2021.

(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, 2023, with early adoption permitted. The extent of the impact of the change has not yet been determined.

Reference to the Conceptual Framework (Amendments to IFRS 3)

On May 14, 2020, the IASB issued References to the Conceptual Framework (Amendments to IFRS 3). The announcements update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with early adoption permitted.

Definition of Accounting Estimates (Amendments to IAS 8)

On February 12, 2021, the IASB issued Definition of Accounting Estimates (Amendments to IAS 8). The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measure uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted.

Disclosure initiative – Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) The amendments help companies provide useful accounting policy disclosures. The key amendments include:

requiring companies to disclose their material accounting policies rather than their significant accounting policies;

clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and

clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted.

Annual Improvements to IFRS Standards 2018–2020

On May 14, 2020, the IASB issued Annual Improvements to IFRS Standards 2018–2020.

The amendments relate to the following:

- IFRS 1 First-time Adoption of International Financial Reporting Standards
Simplifies the application of IFRS 1 for a subsidiary that becomes a first-time adopter of IFRS later than its parent.
- IFRS 9 Financial Instruments

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

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

Clarifies which fees are included for the purpose of performing the '10 per cent test' for derecognition of financial liabilities.

– IFRS 16 Leases

Removes the illustration of payments from the lessor relating to leasehold improvements in the Illustrative Example 13.

The amendments are effective for annual periods beginning on or after January 1, 2022. Early adoption is permitted.

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, 2021, with comparatives as at December 31, 2020:

	AS AT MARCH 31, 2021				
	CANADA	UNITED STATES	UNITED KINGDOM	OTHER INTERNATIONAL	TOTAL
Property and equipment	\$ 14,549	\$ 4,313	\$ 546	\$ 624	\$ 20,032
Goodwill	4,032	-	-	-	4,032
Intangible assets	10,790	511	87	-	11,388
Contract assets	38,691	15,000	3,024	12,179	68,894
Contract liabilities	30,022	18,924	10,152	5,311	64,409
Total assets	208,568	76,347	23,243	45,030	353,188
Right-of-use assets	33,312	13,671	4,238	1,066	52,287
Lease receivable	3,253	1,720	-	124	5,097
Total assets excluding the impact of IFRS 16 transition	172,003	60,956	19,005	43,840	295,804

	AS AT DECEMBER 31, 2020				
	CANADA	UNITED STATES	UNITED KINGDOM	OTHER INTERNATIONAL	TOTAL
Property and equipment	\$ 15,041	\$ 4,424	\$ 634	\$ 632	\$ 20,731
Goodwill	3,384	-	-	-	3,384
Intangible assets	10,587	653	116	-	11,356
Contract assets	36,877	15,370	2,958	12,932	68,137
Contract liabilities	30,912	20,744	5,098	4,268	61,022
Total assets	208,085	81,340	21,361	48,941	359,727
Right-of-use assets	34,741	15,054	4,508	1,110	55,413
Lease receivable	3,518	1,823	-	146	5,487
Total assets excluding the impact of IFRS 16 transition	169,826	64,463	16,853	47,685	298,827

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, 2021 and 2020. The unallocated amounts pertain to interest on debentures, accretion expense on debentures, amortization of deferred financing cost, long term debt interest, change in fair value of other financial liabilities, changes in fair value of deferred share units and payout 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, 2021						
	CANADA	UNITED STATES	UNITED KINGDOM	OTHER INTERNATIONAL	UNALLOCATED CORPORATE COSTS ¹	TOTAL
Gross revenues	\$ 76,387	\$ 41,008	\$ 8,951	\$ 6,586	\$ -	\$ 132,932
Less: subconsultants and direct expenses	7,985	12,780	1,363	1,902	-	24,030
Net revenue	\$ 68,402	\$ 28,228	\$ 7,588	\$ 4,684	\$ -	\$ 108,902
Adjusted EBITDA ²	\$ 8,463	\$ 3,637	\$ 638	\$ 147	\$ -	\$ 12,885
Items excluded in calculation of Adjusted EBITDA ² :						
Interest expense, net	634	224	28	17	1,080	1,983
Amortization and depreciation	2,944	1,652	391	307	-	5,294
Foreign exchange (gain) loss	386	(61)	(24)	193	-	494
Change in fair value of other financial liabilities	-	-	-	-	908	908
Change in fair value of deferred share units	-	-	-	-	808	808
Payment of DSP	-	-	-	-	(380)	(380)
Stock based compensation	83	33	11	28	-	155
Performance share units	106	-	-	-	-	106
Deferred financing charges	-	-	-	-	129	129
IFRS 16 lease accounting adjustment	(1,637)	(1,388)	(316)	(143)	-	(3,484)
Net income (loss) before tax	\$ 5,947	\$ 3,177	\$ 548	\$ (255)	\$ (2,545)	\$ 6,872

THREE MONTHS ENDED MARCH 31, 2020						
	CANADA	UNITED STATES	UNITED KINGDOM	OTHER INTERNATIONAL	UNALLOCATED CORPORATE COSTS ¹	TOTAL
Gross revenues	\$ 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)
Payment of DSP	-	-	-	-	-	-
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

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, 2021 and 2020.

<i>(in thousands of Canadian dollars)</i>	THREE MONTHS ENDED MARCH 31, 2021				
<i>(unaudited)</i>	INTELLIGENCE	BUILDINGS	INFRASTRUCTURE	CORPORATE	TOTAL
Gross revenues	\$ 23,652	67,716	41,020	544	\$ 132,932
Less: subconsultants and direct expenses	3,761	14,424	5,778	67	24,030
Net revenue	\$ 19,891	\$ 53,292	\$ 35,242	\$ 477	\$ 108,902
Adjusted EBITDA ¹	\$ 3,909	9,195	4,239	(4,458)	\$ 12,885
Items excluded in calculation of Adjusted EBITDA ¹ :					
Interest expense, net	132	412	306	1,133	1,983
Amortization and depreciation	1,013	2,332	1,697	252	5,294
Foreign exchange (gain) loss	(60)	683	201	(330)	494
Change in fair value of other financial liabilities	-	-	-	908	908
Change in fair value of deferred share units	-	-	-	808	808
Payment of DSP	-	-	-	(380)	(380)
Stock based compensation	19	22	21	93	155
Performance share units	-	-	-	106	106
Deferred financing charges	-	-	-	129	129
IFRS 16 lease accounting adjustment	(554)	(1,655)	(1,051)	(224)	(3,484)
Net income before tax	\$ 3,359	\$ 7,401	\$ 3,065	\$ (6,953)	\$ 6,872

<i>(in thousands of Canadian dollars)</i>	THREE MONTHS ENDED MARCH 31, 2020				
<i>(unaudited)</i>	INTELLIGENCE	BUILDINGS	INFRASTRUCTURE	CORPORATE	TOTAL
Gross revenues	\$ 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)
Payment of DSP	-	-	-	-	-
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.

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, 2021, the interest rate on Canadian dollar borrowings was 2.45% (March 31, 2020 – 3.20%). As at March 31, 2021 the Company has no U.S dollar borrowings (March 31, 2020 – 4.00%).

As at March 31, 2021, IBI Group has borrowings of \$35,000 (December 31, 2020 - \$nil) under the credit facilities, which has been recorded on the balance sheet net of deferred financing costs of \$790 (December 31, 2020 - \$nil).

As at March 31, 2021, IBI Group has letters of credit outstanding of \$10,624 (December 31, 2020 – 10,811), of which \$9,850 (December 31, 2020 - \$10,068) 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, LIBOR or Banker's Acceptance rates plus, in each case, an applicable margin. At March 31, 2021, \$35,000 was outstanding under Bankers' Acceptance (December 31, 2020 - \$nil).

As at March 31, 2021, IBI Group has surety bonds outstanding of \$4,554 (December 31, 2020 - \$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, 2021.

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	
	MARCH 31, 2021	MARCH 31, 2020
Balance at January 1	\$ -	\$ 50,328
Draws on credit facilities	35,000	-
Payments on principal of credit facilities	-	(1,000)
Cash movement	\$ 35,000	\$ 49,328
Deferred financing capitalization	(919)	-
Amortization of deferred financing costs	129	112
Impact of foreign exchange	-	1,046
Non-cash movement	\$ (790)	\$ 1,158
Ending Balance	\$ 34,210	\$ 50,486

(b) DEBENTURES

	LIABILITY COMPONENT	OTHER FINANCIAL LIABILITY COMPONENT	TOTAL
5.5% Debentures (Redeemed on January 15, 2021)			
Balance at December 31, 2020	\$ 46,000	\$ 730	\$ 46,730
Change in fair value of other financial liabilities	-	908	908
Redemption of 5.5% Debentures	(46,000)	(1,638)	(47,638)
BALANCE, MARCH 31, 2021	\$ -	\$ -	\$ -

6.5% Debentures (matures on December 31, 2025)

Balance at December 31, 2020	\$ 43,186	\$ -	\$ 43,186
Accretion of 6.5% Debentures	115	-	115
BALANCE, MARCH 31, 2021	\$ 43,301	\$ -	\$ 43,301

5.5% DEBENTURES (\$46,000 PRINCIPAL, REDEEMED ON JANUARY 15, 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 were 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 were not redeemable at the option of the Company before December 31, 2019. The 5.5% Debentures were 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 was given, was 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 were redeemable by the Company at a price of \$1,000 per 5.5% Debenture, plus accrued and unpaid interest. The 5.5% Debentures bore interest 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 were 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 was 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 was unique to this issuance of convertible debt given IBI had 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, 2021, the fair value of the derivative component was \$nil (December 31, 2020 - \$730). The movement in fair value was impacted by the redemption of the 5.5% debentures in January 2021.

On December 15, 2020, the Company issued a redemption notice pursuant to the convertible debenture indenture dated September 2016 (the "Indenture") to redeem the entire aggregate principal amount of the outstanding 5.5% convertible unsecured subordinated debentures due December 31, 2021 and having a conversion price of \$8.35 per common share, which are listed for trading on the Toronto Stock Exchange under symbol "IBG.DB.D" in accordance with the terms of the Debentures. The Company satisfied its obligation to pay to the holders of the Debentures the Redemption Price in cash through available funds. The Debentures were redeemed on January 15, 2021 (Redemption Date) for a total consideration of \$47,638. The total redemption amount paid for each \$ principal amount of the debentures equals a redemption price of \$1 plus all accrued and unpaid interest up to but excluding the Redemption Date.

IBI GROUP INC.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(in thousands of Canadian dollars, except per share and share amounts)***6.5% DEBENTURES (\$46,000 PRINCIPAL, MATURES ON DECEMBER 31, 2025**

On October 02, 2020, the Company issued 6.5% senior, unsecured Debentures of \$46,000 with a maturity date of December 31, 2025. The Debentures bear interest at the rate of 6.5% per annum, payable semi-annually in arrears on June 30 and December 31 of each year, commencing December 31, 2020. The intended use of the net proceeds was to repay the 5.5% Debentures.

On or after December 31 2023, but prior to December 31, 2024, the 6.5% Debentures are redeemable, in whole or in part from time to time at the option of the Company at a price equal to 103.25% of the principal amount of the Debentures redeemed plus accrued and unpaid interest . On or after December 31, 2024 but prior to the maturity date of December 31, 2025, the Debentures are redeemable at a price equal to their principal amount plus accrued and unpaid interest.

On redemption or at maturity on December 31, 2025, the Company has the option to repay the debentures in either cash or freely tradable voting shares of the Company obtained by dividing \$1 by 95% of the current market price of the share on the date fixed for redemption or the maturity date.

In the event of a change in control, as defined in the indenture, on or after December 31, 2023 but before December 31, 2024, the Company will be required to make an offer to the holders of the debentures to repurchase the debentures at a price equal to 103.25% of the principal amount plus accrued and unpaid interest. On or after December 31, 2024 the price is equal to the principal plus accrued and unpaid interest.

Each embedded feature was evaluated separately, and it was determined that the economic and risk characteristics are not closely related to the host contract. It has been assessed that the identified embedded derivative as at the date of issuance and March 31, 2021 had nominal value and therefore were not accounted for as separate financial instruments.

The 6.5% Debentures were therefore recorded as a financial instrument. The debt was recorded at carrying value of \$46,000 net of deferred financing costs of \$2,921 at the date of issuance.

The 6.5% Debentures are measured subsequently at amortized cost using the effective interest method over the life of the debenture.

The fair value of the convertible debentures as at March 31, 2021, based on a Level 1 quoted market price, is as follows:

	Carrying Value	Fair Value
5.5% Debentures	\$ -	\$ -
6.5% Debentures	43,301	47,495
BALANCE, MARCH 31, 2021	\$ 43,301	\$ 47,495

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, 2020, based on a Level 1 quoted market price, is as follows:

	Carrying Value	Fair Value
5.5% Debentures	\$ 46,000	\$ 46,000
6.5% Debentures	43,186	46,920
BALANCE, DECEMBER 31, 2020	\$ 89,186	\$ 92,920

(c) FINANCIAL ASSETS AND LIABILITIES

The fair values of accounts receivable, current, and non-current lease 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, 2021 are as follows:

	FINANCIAL ASSETS AND LIABILITIES AT FVTPL	AMORTIZED COST	TOTAL
FINANCIAL ASSETS			
Cash	\$ 24,906	\$ -	\$ 24,906
Restricted cash	2,952	-	2,952
Accounts receivable	-	132,850	132,850
Investment	333	-	333
TOTAL	\$ 28,191	\$ 132,850	\$ 161,041
FINANCIAL LIABILITIES			
Accounts payable and accrued liabilities	\$ -	\$ 54,428	\$ 54,428
Deferred share plan liability	4,680	-	4,680
Credit facilities	-	34,210	34,210
Debentures	-	43,301	43,301
Other financial liabilities	-	-	-
Deferred consideration	2,527	-	2,527
TOTAL	\$ 7,207	\$ 131,939	\$ 139,146

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, 2020 are as follows:

	FINANCIAL ASSETS AND LIABILITIES AT FVTPL	AMORTIZED COST	TOTAL
FINANCIAL ASSETS			
Cash	\$ 32,728	\$ -	32,728
Restricted cash	2,992	-	2,992
Accounts receivable	-	127,347	127,347
Investment	333	-	333
TOTAL	\$ 36,053	\$ 127,347	163,400
FINANCIAL LIABILITIES			
Accounts payable and accrued liabilities	\$ -	\$ 53,894	53,894
Deferred share plan liability	4,085	-	4,085
Credit facilities	-	-	-
Debentures	-	89,186	89,186
Other financial liabilities	730	-	730
Deferred consideration	2,745	-	2,745
TOTAL	\$ 7,560	\$ 143,080	150,640

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, 2021 and December 31, 2020:

	AS AT MARCH 31, 2021		
	LEVEL 1	LEVEL 2	LEVEL 3
Cash	\$ 24,906	\$ -	\$ -
Restricted cash	2,952	-	-
Investment	-	-	333
Deferred share plan liability	-	(4,680)	-
Other Financial Liabilities	-	-	-
Deferred consideration	-	-	(2,527)
	\$ 27,858	\$ (4,680)	\$ (2,194)

	AS AT DECEMBER 31, 2020		
	LEVEL 1	LEVEL 2	LEVEL 3
Cash	\$ 32,728	\$ -	\$ -
Restricted cash	2,992	-	-
Investment	-	-	333
Deferred share plan liability	-	(4,085)	-
Other Financial Liabilities	-	(730)	-
Deferred consideration	-	-	(2,745)
	\$ 35,720	\$ (4,815)	\$ (2,412)

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, 2021 was \$3,343 (three months ended March 31, 2020 - \$3,697). As at March 31, 2021, there were 41 partners (March 31, 2020 – 45 partners). As at March 31, 2021, the amount payable to the Management Partnership was \$84 (December 31, 2020 - \$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 March 31, 2021, the Company's common share capital consisted of 31,267,044 shares issued and outstanding (December 31, 2020 –31,265,044 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, 2021, the units issued on such exchange would have represented a 16.73% 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, 2021.

SHARE ISSUANCES

During the period ended March 31, 2021 the Company issued 2,000 common shares as a result of exercises of stock options granted in July 2017.

EARNINGS PER SHARE

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,	
	2021	2020
Net income	\$ 4,297	\$ 5,584
Net income attributable to common shareholders	\$ 3,578	\$ 4,649
Weighted average common shares outstanding	31,266	31,240
Dilutive effect of Class B partnership units	6,282	6,282
Dilutive effect of stock options granted	862	322
Diluted weighted average common shares outstanding	38,410	37,844
Basic & Diluted earnings per common share	\$ 0.11	\$ 0.15

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, 2021.

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

	THREE MONTHS ENDED	
	MARCH 31,	
	2021	2020
Net income	\$ 4,297	\$ 5,584
Non-controlling interest share of ownership	16.73%	16.74%
Net income attributable to non-controlling interest	\$ 719	\$ 935

	THREE MONTHS ENDED	
	MARCH 31,	
	2021	2020
Total comprehensive income	\$ 3,313	\$ 11,916
Non-controlling interest share of ownership	16.73%	16.74%
Total comprehensive income attributable to non-controlling interest	\$ 554	\$ 1,995

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.

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

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

To date, the Company has been able to operate under normal business conditions, however the broader implications of COVID-19 on the Company's 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 IBI Group, the Company's customers, suppliers, and third party business partners conduct business. The Company may experience curtailed customer demand that could have a material adverse impact 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, LIBOR or banker's acceptance rates, plus, in each case, an applicable margin.

If the interest rate on the Company's variable rate loan balance as at March 31, 2021, had been 50 basis points higher or lower, with all other variables held constant, net income for the three months ended March 31, 2021 would have decreased or increased by approximately \$128.

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, 2021, with all other variables held constant, total comprehensive income would have increased or decreased by \$47 for the three months ended March 31, 2021. If the exchange rates had been 100 basis points higher or lower as at March 31, 2021, with all other variables held constant, net income would have increased or decreased by \$9 for the three months ended March 31, 2021.

(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.

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

The Company provides services to diverse clients in various industries and sectors of the economy, and its credit risk is not concentrated in any particular client, industry, economic or geographic sector. In addition, management reviews accounts receivable past due on an ongoing basis with the objective of identifying matters that could potentially delay the collection of funds (at an early stage). The Company monitors accounts receivable with an internal target of working days of revenue in accounts receivable (a non-IFRS measure). At March 31, 2021 there were 62 working days of revenue in accounts receivable, one day less than December 31, 2020. 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, 2021	DECEMBER 31, 2020
Current	\$ 56,734	\$ 56,843
30 to 90 days	\$ 37,238	36,241
Over 90 days	45,992	40,885
Gross accounts receivable	139,964	133,969
Allowance for impairment losses	(7,114)	(6,622)
Total	\$ 132,850	\$ 127,347

Changes in the allowance for impairment losses were as follows:

	AS AT	
	MARCH 31, 2021	DECEMBER 31, 2020
Balance at beginning of period	\$ (6,622)	\$ (4,065)
Provision for doubtful accounts	(853)	(3,857)
Amounts written-off	319	1,215
Effect of foreign currency exchange rate changes	42	85
Total	\$ (7,114)	\$ (6,622)

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, 2021 was 1.52% on contract assets for impairment loss of \$1,060 (December 31, 2020 – loss rate of 1.52% and impairment loss of \$1,051).

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, 2021, 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 the Company's 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 the Company's current business plan and revenue prospects, the Company believes that the existing cash and cash equivalents, anticipated cash flows from operations, and available credit facility will be sufficient to meet the working capital and operating resource expenditure requirements.

On September 27, 2018, IBI Group signed an amendment to refinance its credit facilities with its senior lenders. (refer to Note 4 – Financial Instruments).

As at March 31, 2021, a foreign subsidiary of the Company issued letters of credit in the amount of U.S \$2,300, which is equal to CAD \$2,941 (December 31, 2020 – CAD \$2,981). The Company has pledged U.S \$2,300 (December 31, 2020 – 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, 2021, a foreign subsidiary of the Company issued letters of credit in the amount of INR 650, which is equal to CAD \$11 (December 31, 2020 – CAD \$11). The Company has pledged INR 650 (December 31, 2020 – INR 650) 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, 2021, the Company has letters of credit outstanding of \$10,624 (December 31, 2020 - \$10,811), of which \$774 (December 31, 2020 - \$743) are outstanding with foreign institutions with the remaining \$9,850 (December 31, 2020 - \$10,068) 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 March 31, 2021, IBI Group has surety bonds outstanding of \$4,554 (December 31, 2020 - \$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, 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, 2021.

(e) FAIR VALUE MEASUREMENTS

The fair values of accounts receivable, accounts payable, accrued liabilities, and investments 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.

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

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, 2021 or year ended December 31, 2020.

NOTE 8: CHANGE IN NON-CASH OPERATING WORKING CAPITAL

	THREE MONTHS ENDED	
	MARCH 31,	
	2021	2020
Accounts receivable	\$ (7,159)	\$ (7,768)
Contract assets	(1,509)	(3,560)
Prepaid expenses and other assets	(957)	(4,368)
Accounts payable and accrued liabilities	284	(1,572)
Contract liabilities	3,802	5,875
Net income taxes payable	1,224	333
Change in non-cash operating working capital	\$ (4,315)	\$ (11,060)

IBI GROUP INC.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(in thousands of Canadian dollars, except per share and share amounts)***NOTE 9: FINANCE COSTS**

	THREE MONTHS ENDED	
	MARCH 31,	
	2021	2020
Interest on credit facilities	84 \$	510
Interest on debentures	880	631
Non-cash accretion of debentures	115	694
Interest on lease liability	882	1,070
Interest on lease receivable	(60)	(90)
Other	82	24
INTEREST EXPENSE	\$ 1,983	\$ 2,839
Amortization of deferred financing costs	\$ 129	\$ 112
Other	106	80
OTHER FINANCE COSTS	\$ 235	\$ 192
FINANCE COSTS	\$ 2,218	\$ 3,031

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.

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

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

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

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%
March 10, 2021	86,096	\$ 3.51 - 4.29	\$ 9.42	\$ 9.07	41.1 - 47.4%	5.5 - 6.5 years	0%	0.97 - 1.08%

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.

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For the three months ended March 31, 2021, the Company has recognized an expense of \$155 (three months ended March 31, 2020 - \$199) in salaries, fees and employee benefits for stock options in the consolidated statement of income and comprehensive income.

The following stock option arrangements were in existence as at March 31, 2021:

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	49,167	35,000	450,833	450,833	\$ 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	2,000	26,500	288,000	288,000	\$ 6.63	\$ 1,245,954
9-Aug-17	9-Aug-27	77,315	-	-	77,315	77,315	\$ 6.79	\$ 310,550
20-Mar-18	20-Mar-28	71,942	-	-	71,942	71,942	\$ 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	104,309	\$ 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	43,828	\$ 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
10-Mar-21	10-Mar-31	86,096	-	-	86,096	-	\$ 9.07	\$ 336,721
		1,857,122	51,167	61,500	1,744,455	1,281,047	\$ 4.99	\$ 5,004,896

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, 2021 an expense of \$106 (three months ended March 31, 2020 – \$97) in salaries, fees and employee benefits for PSUs in the consolidated statement of income and comprehensive income.

NOTE 12: ACQUISITIONS**2021 TRANSACTIONS**

On February 2, 2021, the Company acquired 100% of the issued and outstanding shares in Peter's Energy Solutions Inc. (Peter's Energy) for consideration of \$737. Peter's Energy is a consulting firm focused on renewable energy solutions including solar, wind and energy storage, and the environmental, regulatory and economic considerations of planning, designing and delivering green energy solutions.

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The acquisition complements the Company's existing energy management business and augments the firm's work in sustainable community development.

The Company recognizes identifiable assets acquired and liabilities assumed in a business combination.

Assets acquired and liabilities assumed are generally measured at their acquisition date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the fair value of consideration transferred over the acquisition date fair values of identifiable net assets.

Included in the consideration is an estimated amount of deferred consideration over a three-year period based on a percentage of Adjusted EBITDA¹. Goodwill recognized on the acquisition of \$648 relates to the expected growth, synergies and value of Peter's Energy workforce which cannot be separately recognized as an intangible asset. The goodwill is not expected to be deducted for tax purposes.

2020 TRANSACTIONS

On November 27, 2020, the Company completed the purchase of net assets of Cole Engineering Group Ltd. ("Cole"). Cole provides a complementary fit for the Company, offering consulting and advisory services in the water, transportation, urban development, and environmental sectors.

The Company recognizes identifiable assets acquired and liabilities assumed in a business combination. Assets acquired and liabilities assumed are generally measured at their acquisition date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the fair value of consideration transferred over the acquisition date fair values of identifiable net assets.

The preliminary purchase equation and the preliminary fair value of net assets recognised as a result of the acquisition are as follows;

Amount settled in cash	7,742
Deferred consideration	<u>950</u>
Total Purchase consideration	8,692

Recognized amounts of identifiable net assets

Property, plant & equipment	498
Prepaid expenses	284
Intangible assets	2,241
Trade & other receivables	4,980
Contract assets	2,357
Contract liabilities	693
Trade & other payables	4,359
Net Identifiable assets acquired	<u>5,308</u>
Goodwill	3,384

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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DEFERRED CONSIDERATION

The purchase agreement included an additional consideration of one third of the operating earnings of Cole, (calculated on a consistent basis with Cole practices). Preliminary calculations suggest this amount to be \$950, subject to agreement with the seller. The \$950 deferred consideration liability was recognized on the acquisition date. As at March 31, 2021, there have been no changes in the deferred consideration payable as the final calculations are still being determined under Cole's private company accounting practices as required by the purchase and sale agreement.

IDENTIFIABLE NET ASSETS

At November 27, 2020, the fair values of the acquired intangible assets amounted to \$2,241. The preliminary fair value of the trade and other receivables and work in progress acquired as part of the business combination amounted to \$4,980 and \$2,357 respectively.

GOODWILL

Goodwill recognized on the acquisition relates to the expected growth, synergies and value of Cole's workforce which cannot be separately recognized as an intangible asset. The goodwill is not expected to be deducted for tax purposes.

NOTE 13: INCOME TAXES

Income taxes for the three months ended March 31, 2021 was \$2,575 (three months ended March 31, 2020 - \$1,422). The effective income tax rate for the three months ended March 31, 2021 was 37.5% (three months ended March 31, 2020 – 20.3%). The change in the effective income tax rate was primarily due to a non- taxable gain related to the change in fair value of other financial liabilities for the three months ended March 31, 2020 that was deducted for tax purposes, reducing the effective tax rate. This same deduction is not applicable in the current period as the 5.5% debentures were redeemed in January 2021. The cash premium paid on the settlement of the conversion option on the 5.5% debentures is non-deductible and therefore increased the effective tax rate in the current period. This is considered a one-time occurrence.