

Consolidated Financial Statements of

IBI INCOME FUND

Period from August 31, 2004 to December 31, 2004



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AUDITORS' REPORT TO THE UNITHOLDERS

We have audited the consolidated balance sheet of IBI Income Fund as at December 31, 2004 and the consolidated statements of earnings and deficit and cash flows for the period from August 31, 2004 to December 31, 2004. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2004 and the results of its operations and its cash flows for the period from August 31, 2004 to December 31, 2004 in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a single horizontal line that underlines the text.

Chartered Accountants

Toronto, Canada

March 17, 2005

IBI INCOME FUND

Consolidated Balance Sheet
(In thousands of dollars)

December 31, 2004

Assets

Current assets:

Accounts receivable (note 4)	\$ 21,103
Work in process	8,402
Prepaid expenses and other assets	1,209
	<hr/> 30,714

Cash held in priority capital account (note 8)	31,970
Deferred charges	570
Capital assets (note 5)	2,409
Intangible assets, including customer relationships	7,133
Goodwill (note 2)	73,153

\$ 145,949

Liabilities and Unitholders' Equity

Current liabilities:

Bank indebtedness	\$ 7,448
Accounts payable and accrued liabilities	6,336
Distributions payable	1,319
Due to related parties (notes 2 and 12)	5,752
Deferred revenue	893
Income taxes payable	68
	<hr/> 21,816

Deferred credit - leases (note 2)	1,463
Priority capital account (note 8)	31,970
Non-controlling interest (note 9)	48,126

Unitholders' equity (note 9):

Unit capital	50,258
Deficit	(7,712)
Cumulative foreign currency translation adjustment	28
	<hr/> 42,574

Commitments and contingencies (note 10)

\$ 145,949

See accompanying notes to consolidated financial statements.

On behalf of the Trustees:

"Marshall Cohen"

"Philip Beinhaker"

IBI INCOME FUND

Consolidated Statement of Earnings and Deficit
(In thousands of dollars)

Period from August 31, 2004 to December 31, 2004

Revenue:	
Fees	\$ 30,680
Expenses:	
Salaries, fees and employee benefits (note 12)	20,379
Rent (note 12)	1,764
Other operating	3,942
Amortization	4,825
	<hr/> 30,910
Loss before income taxes	(230)
Income taxes (note 7)	266
	<hr/>
Loss before non-controlling interest	(496)
Non-controlling interest	248
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Loss for the period	(248)
Distributions declared to Unitholders	(1,884)
Issue costs	(5,580)
	<hr/>
Deficit	\$ (7,712)
	<hr/>
Loss per unit	\$ (0.0494)
	<hr/>
Weighted average number of units outstanding	5,025,778

See accompanying notes to consolidated financial statements.

IBI INCOME FUND

Consolidated Statement of Cash Flows
(In thousands of dollars)

Period from August 31, 2004 to December 31, 2004

Cash provided by (used in):	
Operating activities:	
Loss for the period	\$ (248)
Non-controlling interest	(248)
Items not affecting cash:	
Amortization of capital assets	458
Amortization of intangible assets	4,367
Amortization of deferred credit - leases	(137)
Change in non-cash operating working capital	(23,957)
	<hr/>
	(19,765)
Financing activities:	
Increase in bank indebtedness	7,448
Distributions paid to Unitholders	(1,413)
Distributions paid to Class B subordinated Unitholders	(1,038)
Issuance of units (note 2)	50,258
Issue costs	(5,580)
Due to related parties	5,752
	<hr/>
	55,427
Investing activities:	
Purchase of capital assets	(484)
Cash used in business combination (note 2)	(35,178)
	<hr/>
	(35,662)
Cash, beginning and end of period	<hr/>
	\$ —
Supplemental cash flow information:	
Income taxes paid	\$ 198
Interest paid	36

See accompanying notes to consolidated financial statements.

IBI INCOME FUND

Notes to Consolidated Financial Statements
(In thousands of dollars)

Period from August 31, 2004 to December 31, 2004

1. Basis of presentation:

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and include all of the assets, liabilities, revenue and expenses of the following entities:

IBI Group (a Partnership)
IBI Group (U.S.) (a Partnership)
Cumming Cockburn Limited
CCL Consultants Inc.
InterBase Consultants Ltd.
Irwin Beinhaker InterBase Limited

These financial statements reflect only the activities carried on by IBI Income Fund (the "Fund"). Transactions and balances between the partnerships and the companies have been eliminated.

2. Organization and description of the business:

The Fund is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario, created to indirectly acquire and hold the outstanding Class A partnership units of IBI Group, a general partnership formed under the laws of the Province of Ontario.

The Fund is a leading, international, multi-disciplinary provider of a broad range of professional services focused on the physical development of cities. IBI's business is concentrated in four main areas of development, being urban land, building facilities, transportation networks and systems technology. The professional services provided by IBI include planning, design, implementation, analysis of operations and other consulting services related to these four main areas of development.

On August 24, 2004, the Fund filed a final prospectus relating to the sale to the public of 5,025,778 trust units at a price of \$10.00 per unit for net proceeds of \$44,678 after deducting expenses of the offering (the "Offering") and underwriters' fees in the amount of \$5,580.

IBI INCOME FUND

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Period from August 31, 2004 to December 31, 2004

2. Organization and description of the business (continued):

On the closing of the Offering on August 31, 2004, IBI Group purchased certain assets (the "Acquisition") from IBI Group Management Partnership (the "Management Partnership"). These assets consisted of all customer contracts, employment agreements, leasehold interests, furniture and equipment, and the ownership of IBI Group U.S., Irwin Beinhaker InterBase Limited, Cumming Cockburn Limited, CCL Consultants Inc. and InterBase Consultants Limited, but excluded any net working capital as of the closing of the Offering. The purchase price of \$85,436 was paid by the issuance of 5,025,778 Class B subordinated partnership units of IBI Group. Included in the rights attaching to the Class B subordinated partnership units is the right to call for and be paid the priority capital account of \$35,178, \$3,569 of which was distributed to the Management Partnership on the closing of the Offering. The holder of the Class B units has also been issued 5,025,778 non-participating voting units of the Fund, resulting in the holder of the Class B subordinated partnership units of IBI Group holding 50% of the voting units of the Fund.

As the Unitholders have the right to appoint the majority of the trustees of the Fund, the Acquisition has been accounted for using the purchase method with the purchase price being allocated to the fair value of the assets and liabilities as follows:

Net assets acquired:	
Capital assets	\$ 2,383
Intangible assets, including customer relationships	11,500
Goodwill	73,153
Deferred credit - leases (note 12)	(1,600)
	<hr/>
	\$ 85,436
	<hr/>
Consideration:	
Class B subordinated partnership units of IBI Group	\$ 50,258
Cash	35,178
	<hr/>
	\$ 85,436

IBI INCOME FUND

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Period from August 31, 2004 to December 31, 2004

2. Organization and description of the business (continued):

The net working capital on hand at August 31, 2004 is still being managed by the Fund and is being repaid to the Management Partnership as it is realized. As at December 31, 2004, working capital relating to the Management Partnership amounted to:

Accounts receivable	\$ 11,254
Accounts payable and accrued liabilities	(4,969)
Other	(417)
	<hr/>
	\$ 5,868

This amount is not included in the consolidated financial statements. At December 31, 2004, \$5,752 had been realized, to be paid to the Management Partnership and is shown as a current liability.

3. Significant accounting policies:

The significant accounting policies followed by the Fund are summarized below:

(a) Revenue recognition and work in process:

Revenue is recognized at estimated net realizable value as services are rendered. Billings in excess of time value incurred on jobs in progress are included in deferred revenue on the consolidated balance sheet.

Work in process, representing fee revenue and recoverable disbursements which have not been billed, is valued at estimated net realizable value.

Accounts receivable are classified as to current or long-term based on anticipated repayment dates.

(b) Cash balances:

Cash balances, which the Fund has the ability and intent to offset, are used to reduce reported bank indebtedness.

IBI INCOME FUND

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Period from August 31, 2004 to December 31, 2004

3. Significant accounting policies (continued):

(c) Capital assets:

Capital assets are recorded at cost and amortized over their estimated useful lives as follows:

Asset	Basis	Rate
Office furniture and equipment	Diminishing balance	20%
Electronic data processing equipment	Straight line	2 years
Vehicles	Diminishing balance	20%
Leasehold improvements	Straight line	Term of lease

Capital assets are reviewed for impairment when events or circumstances indicate that their carrying value exceeds the sum of the undiscounted cash flows expected from their use and eventual disposal. An impairment loss is measured as the amount by which the capital assets' carrying value exceeds the fair value. Accordingly, the Fund reviews long-lived assets for impairment annually.

(d) Intangible assets:

Intangible assets comprise customer relationships and contracts that were acquired by the Fund from IBI Group Management Partnership. Amortization expense on the customer relationships and contracts, which have finite lives, has been recorded in the consolidated statement of earnings over their estimated economic lives being one year for contracts and 10 years for customer relationships.

(e) Deferred credit - leases:

IBI Group leases its Toronto office space from corporations which are indirectly owned by the partners of the Management Partnership (note 12). The leases were entered into in 2002 at the market rental rate at that time. A deferred credit has been set up, representing the difference between the actual rental rate and the estimated market rental rate at August 31, 2004. Amortization of the deferred credit is credited against rent expense over the life of the lease.

IBI INCOME FUND

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Period from August 31, 2004 to December 31, 2004

3. Significant accounting policies (continued):

(f) Foreign exchange:

Assets and liabilities of self-sustaining foreign operations denominated in foreign currencies are translated into Canadian dollars at the exchange rates in effect at each period-end date. Revenue and expenses denominated in foreign currencies are translated into Canadian dollars at the average foreign currency exchange rate for the period. The resulting exchange gains or losses on translation are recognized as part of equity in cumulative foreign currency translation adjustment.

Foreign exchange gains and losses on other transactions are recorded in income in the year in which they occur.

(g) Income taxes:

The Fund uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future income tax assets are recognized for the future income tax consequences attributable to differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

(h) Goodwill:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values.

Goodwill is not amortized and is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. When the carrying amount of goodwill exceeds the implied fair value of goodwill, an impairment loss is recognized in the amount equal to the excess and is presented as a separate line item in the consolidated statement of earnings.

IBI INCOME FUND

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Period from August 31, 2004 to December 31, 2004

3. Significant accounting policies (continued):

(i) Measurement uncertainty:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

4. Concentrations of credit risk:

Accounts receivable balances that potentially subject the Fund to concentrations of credit risk are primarily generated from work performed for clients on active projects of the Fund. The Fund performs ongoing credit evaluations of its clients' financial conditions. The Fund considers its concentration of credit risk with specific clients in determining its estimates of reserves for credit losses.

The following table details the Fund's revenue and accounts receivable balances allocated by geographical region:

Fees:	
Canada	\$ 21,240
United States	6,331
International (non-United States)	3,109
	<hr/>
	\$ 30,680
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Accounts receivable:	
Canada	\$ 11,512
United States	3,937
International (non-United States)	5,654
	<hr/>
	\$ 21,103

IBI INCOME FUND

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Period from August 31, 2004 to December 31, 2004

5. Capital assets:

	Cost	Accumulated amortization	Net book value
Office furniture and equipment	\$ 1,152	\$ 138	\$ 1,014
Electronic data processing equipment	1,109	263	846
Vehicles	87	5	82
Leasehold improvements	519	52	467
	<u>\$ 2,867</u>	<u>\$ 458</u>	<u>\$ 2,409</u>

6. Bank indebtedness:

Bank indebtedness consists of an authorized line of credit of \$17,000, of which \$9,800 was utilized as at December 31, 2004. The line of credit bears interest at the bank's prime lending rate plus 0.5% per annum. The credit facility has a term of three years and is secured by guarantees from certain of the subsidiaries of IBI Group and a first ranking security interest in all of the assets of IBI Group, subject to certain permitted encumbrances. The indebtedness secured by this security interest will rank senior to all other security over the assets of IBI Group, subject to certain permitted encumbrances.

7. Income taxes:

The significant differences between the income taxes paid by the Fund and that payable by multiplying earnings before taxes by the applicable statutory rate of approximately 36% is as follows:

Expected income tax recoverable	\$ (83)
Income of the Fund distributed directly to Unitholders	(1,329)
Income earned in taxable jurisdictions	266
Permanent difference related to amortization	1,522
Other	(110)
<u>Income taxes</u>	<u>\$ 266</u>

IBI INCOME FUND

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Period from August 31, 2004 to December 31, 2004

8. Priority capital account:

The Class B subordinated partnership units of IBI Group have a preferred entitlement to the capital of the Fund represented by the priority capital account. The holder of the Class B subordinated partnership units of IBI Group shall be entitled at any time to direct the Fund to distribute to it all or any part of the priority capital account then outstanding.

On the closing of the Offering, a distribution of \$3,569 was made to the holders of the Class B subordinated partnership units of IBI Group. The balance of the net proceeds raised, less \$9,500, which was retained by IBI Group to fund its initial working capital, is being held for the holders of the Class B subordinated partnership units of IBI Group as the priority capital account.

Subsequent to year end, priority capital of \$32,000 was distributed to the holders of Class B subordinated partnership units of IBI Group.

9. Unitholders' equity:

	Units	Amount
Units outstanding, end of period	5,025,778	\$ 50,258

Each unit represents an equal undivided beneficial interest in the Fund and any distributions from the Fund. Each unit is transferable, entitles the holder thereof to participate equally in distributions of the Fund, is not subject to future calls or assessments and entitles the holder to rights to redemption.

Each unit entitles the holder to one vote at all meetings of Unitholders and Non-Participating Unitholders.

IBI INCOME FUND

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Period from August 31, 2004 to December 31, 2004

9. Unitholders' equity (continued):

The Class B subordinated partnership units of IBI Group are indirectly exchangeable for units on the basis of one unit for each Class B subordinated partnership unit. If all such Class B subordinated partnership units of IBI Group had been exchanged for units on December 31, 2004, the units issued on such exchange would have represented a 50% interest in the Fund. Distributions on the Class B subordinated partnership units, other than the distributions of income earned by IBI Group in respect of the priority capital account which shall be made in priority to any other distributions, will be subordinated to distributions on the units until the "Conversion Date." The "Conversion Date" means the first date on which the Trustees of the Fund approve audited financial statements for a fiscal year of the Fund commencing with the fiscal year ending December 31, 2006, in which (a) average monthly distributions have been paid or are payable on each of the units in an amount which is not less than \$0.09375 per unit (on a diluted basis, including the exchange of the Class B subordinated partnership units), and (b) the Fund achieved earnings before interest, income taxes, depreciation and amortization ("EBITDA"), in such fiscal year of not less than \$14,242. During such period, 40% of the distributions which would otherwise be made monthly on the Class B subordinated partnership units will be subordinated and will be paid quarterly, subject to distributions for such fiscal year on each unit having been made in an aggregate amount equal to the initially targeted distribution level of \$0.09375 for each month in that fiscal year up to the relevant quarter end.

Class B subordinated partnership units do not entitle the holder to voting rights at the meetings of Unitholders and Non-Participating Unitholders. At the time of issuance, one Non-Participating Voting unit of the Fund was issued to holders of the Class B subordinated partnership units for each Class B subordinated partnership unit held. The Class B subordinated partnership units have been recorded as a non-controlling interest in the consolidated financial statements.

The significant movements in non-controlling interest are set out below:

Balance, September 1, 2004	\$ 50,258
Loss for the period	(248)
Distributions	(1,884)
Balance, December 31, 2004	\$ 48,126

IBI INCOME FUND

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Period from August 31, 2004 to December 31, 2004

10. Commitments and contingencies:

(a) Minimum annual rental payments for existing operating leases are as follows:

2005	\$ 4,621
2006	4,382
2007	4,229
2008	3,587
2009	3,278
Thereafter	9,041

(b) In the normal course of business, the Fund 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 consolidated financial statements.

11. Fair values of financial instruments:

As at December 31, 2004, the carrying amounts of accounts receivable, bank indebtedness, accounts payable and accrued liabilities, due to related parties, and distributions payable approximate their fair values due to their short-term nature.

The priority capital account approximates fair value as it bears interest at market rates.

12. Related party transactions:

IBI Group leases its Toronto office space from corporations which are indirectly owned by the partners of the Management Partnership, which owns all of the Class B subordinated partnership units of the IBI Group, representing 50% of the outstanding partnership units of IBI Group. The leases were entered into in 2002 at then current market rates. Annual rental payments due on these leases are approximately \$1,800, which expire on December 31, 2012.

Pursuant to the Administration Agreement entered into in connection with the closing of the Fund's IPO, IBI Group and certain of its subsidiaries are paying to the Management Partnership an amount, representing the base compensation for the services of the principals of the partners of the Management Partnership. This amount was \$654 per month.