

Unaudited Interim Consolidated Financial Statements of

IBI INCOME FUND

Three months and six months ended June 30, 2006

IBI INCOME FUND

Interim Consolidated Balance Sheets
(In thousands of dollars)

June 30, 2006, with comparative figures as at December 31, 2005

	2006	2005
	(Unaudited)	
Assets		
Current assets:		
Accounts receivable	\$ 42,505	\$ 34,910
Work in process	21,971	14,629
Prepaid expenses and other assets	1,038	924
Income taxes recoverable	118	-
Future income tax asset	560	540
	<u>66,192</u>	<u>51,003</u>
Deferred charges	639	356
Capital assets	4,905	2,781
Intangible assets	6,150	4,505
Goodwill (note 3)	99,272	75,227
	<u>\$ 177,158</u>	<u>\$ 133,872</u>

Liabilities and Unitholders' Equity

Current liabilities:		
Bank indebtedness (note 4)	\$ 12,946	\$ 14,025
Accounts payable and accrued liabilities	14,133	17,950
Distributions payable	1,799	1,319
Due to related parties (notes 1 and 6)	167	6,530
Notes payable (note 3)	2,025	2,055
Deferred revenue	5,261	3,910
Income taxes payable	-	102
Class C Unit (note 3)	14,508	-
	<u>50,839</u>	<u>45,891</u>
Deferred credit - leases	883	1,063
Non-controlling interest (note 5)	46,814	46,258
Unitholders' equity (note 5):		
Unit capital	89,220	50,258
Deficit	(10,580)	(9,580)
Cumulative foreign currency translation adjustment	(18)	(18)
	<u>78,622</u>	<u>40,660</u>
	<u>\$ 177,158</u>	<u>\$ 133,872</u>

Contingencies (note 8)

See accompanying notes to the unaudited interim consolidated financial statements.

IBI INCOME FUND

Interim Consolidated Statements of Earnings and Deficit
(In thousands of dollars, except per unit amounts)
(Unaudited)

	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Revenue:				
Fees	\$ 37,161	\$ 23,905	\$ 72,559	\$ 47,178
Expenses:				
Salaries, fees and employee benefits (note 6)	22,862	16,050	45,264	31,675
Rent (note 6)	1,894	1,371	3,798	2,887
Other operating	5,643	2,880	10,856	5,389
Amortization of capital assets	647	306	1,023	560
Amortization of intangible assets	878	775	1,755	3,583
Amortization of deferred credit – leases	(90)	(100)	(180)	(200)
Interest, net	481	209	829	392
	32,315	21,491	63,345	44,286
Earnings before income taxes	4,846	2,414	9,214	2,892
Income taxes (recovery)				
Current	342	(66)	515	240
Earnings before non-controlling interest	4,504	2,480	8,699	2,652
Non-controlling interest (note 5)	1,665	1,240	3,540	1,326
Net earnings	2,839	1,240	5,159	1,326
Deficit, beginning of period	(10,741)	(9,040)	(9,580)	(7,712)
Distributions declared to Unitholders	(2,570)	(1,413)	(4,401)	(2,827)
Issue costs	(108)	–	(1,758)	–
Deficit, end of period	\$ (10,580)	\$ (9,213)	\$ (10,580)	\$ (9,213)
Basic and diluted net earnings per unit	\$ 0.3313	\$ 0.2467	\$ 0.7069	\$ 0.2638
Weighted average number of units outstanding	8,567,778	5,025,778	7,297,922	5,025,778

See accompanying notes to the unaudited interim consolidated financial statements.

IBI INCOME FUND

Interim Consolidated Statements of Cash Flows
(In thousands of dollars)
(Unaudited)

	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Cash provided by (used in):				
Operating activities:				
Net earnings	\$ 2,839	\$ 1,240	\$ 5,159	\$ 1,326
Non-controlling interest	1,665	1,240	3,540	1,326
Items not affecting cash:				
Amortization of capital assets	647	306	1,023	560
Amortization of intangible assets	878	775	1,755	3,583
Amortization of deferred credit - leases	(90)	(100)	(180)	(200)
Change in non-cash operating working capital	(7,318)	4,841	(18,298)	(3,789)
	(1,379)	8,302	(7,001)	2,806
Financing activities:				
Increase (decrease) in bank indebtedness	8,033	(3,085)	(1,079)	6,739
Distributions paid to Unitholders	(2,570)	(1,413)	(4,015)	(2,827)
Distributions paid to Class B subordinated Unitholders	(1,476)	(1,413)	(2,890)	(2,827)
Repayment of priority capital	—	—	—	(31,970)
Transfer of cash held in priority capital	—	—	—	31,970
Issuance of units	—	—	38,962	—
Issue costs	(658)	—	(1,758)	—
Due to related parties	(1,083)	(2,029)	(6,363)	(3,167)
	2,246	(7,940)	22,857	(2,082)
Investing activities:				
Purchase of capital assets	(842)	(393)	(1,429)	(755)
Acquisitions	(34)	—	(14,467)	—
	(876)	(393)	(15,896)	(755)
Effect of foreign currency translation	9	31	40	31
Decrease in cash, being cash, end of period	\$ —	\$ —	\$ —	\$ —
Supplemental cash flow information:				
Income taxes paid	\$ 613	\$ 53	\$ 615	\$ 217
Interest paid	481	209	829	392

See accompanying notes to the unaudited interim consolidated financial statements.

IBI INCOME FUND

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

(Unaudited)

1. 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, which was created on July 23, 2004 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. IBI Group also issued Class B subordinated partnership units to IBI Group Management Partnership ("Management Partnership"), the entity that carried on the Fund's business prior to its acquisition by the Fund. The Management Partnership holds 5,025,778 Class B subordinated partnership units and 1,844,200 units of the Fund, representing a total ownership of 50.5% of IBI Group.

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

The net working capital remaining from the balance 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 June 30, 2006, \$167 (December 31, 2005 - \$1,726) had been realized, to be paid to the Management Partnership and is shown as a current liability.

2. Basis of presentation:

The accounting principles used in these interim consolidated financial statements are consistent with those used in the annual consolidated financial statements. They do not include all the information and disclosure required by GAAP for annual financial statements, and should be read in conjunction with the annual financial statements for the year ended December 31, 2005.

3. Acquisitions:

On January 1, 2006, the business of Daniel Arbour & Associates ("DAA") was merged with the business of IBI Group. Based in Montreal, DAA is a provider of urban and regional planning, design and other professional services in the fields of housing, industrial, commercial and institutional uses. The merger with DAA included acquisition of Sodem Inc., which manages recreation facilities and parks for local governments and private owners in Quebec on the basis of long-term contracts.

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(Unaudited)

Cash consideration of \$13,938 was paid on closing. The remaining consideration of \$14,508 was funded by the issuance to the Management Partnership of a Class C Unit of IBI Group, classified as a current liability, which entitles the Management Partnership to be paid \$14,508 on January 31, 2007 together with an additional amount calculated by multiplying such amount by the prime interest rate quoted by IBI Group's lender.

On April 24, 2006, IBI Group entered into an interest rate swap contract with a notional value of \$14,000, which will commence on January 31, 2007 and will mature on December 31, 2011. The interest rate swap was entered into as a hedge of the \$14,508 that is due on January 31, 2007 when the amounts owing on the Class C Unit are paid utilising funds available from the credit facility. Under the terms of the interest rate swap, IBI Group will receive a variable interest rate and pay a fixed interest rate of 6.49%.

The merger was accounted for under the purchase method of accounting. Total costs were \$28,918. Amounts allocated to net working capital, capital assets, intangible assets and goodwill were \$(227), \$1,756, \$3,400 and \$23,989, respectively. The allocation of the purchase price related to the above merger is preliminary and will be finalized when all of the information relating to the merger is finalized and obtained. The results from DAA have been included from January 1, 2006, which was the effective date of the merger.

The cash payment made to DAA on closing was funded by a loan of \$13,938 by the Management Partnership to IBI Group. The loan bore interest at the same rate as was then payable on IBI Group's operating line of credit with its bank lender, being prime plus 0.75%. The loan was subordinated to the Fund's indebtedness to its bank lender and was unsecured. The loan was repaid on March 6, 2006.

On September 1, 2005, the Fund acquired the architectural partnership of Hancock, Bruckner, Eng & Wright ("HBEW"), which is an architectural practice in the design of high-density residential condominium environments now integrated within the practice of IBI-HB Architects, based in Vancouver, British Columbia. On August 31, 2005, the Fund acquired substantially all of the assets of Grey-Noble & Grey-Noble, Architects ("GN"), which specializes in the design of education facilities throughout southern Ontario as well as internationally. The GN practice has been integrated within the practice of IBI Group Architects.

These acquisitions were accounted for under the purchase method of accounting. Total consideration was \$6,829. Amounts allocated to net working capital, capital assets, intangible assets and goodwill were \$(162), \$168, \$2,697 and \$2,131 respectively. The allocation of the purchase price related to the above acquisitions is preliminary and will be finalized when all of the information relating to the acquisitions is finalized and obtained. The results from these acquisitions have been included from the dates of acquisition.

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Total cash consideration relating to these acquisitions was \$6,829, of which \$4,804 was paid on closing. The \$2,025, which remains owing, is being funded by notes payable to the vendors bearing interest at the prime rate quoted by IBI Group's bank lender. The notes are payable in the third quarter of 2006.

4. Bank indebtedness:

Bank indebtedness consists of two credit facilities totalling \$50 million, consisting of a \$15,000 operating facility and \$35,000 term facility (amended from one credit facility totalling \$26,000 on June 30, 2006). The operating facility of up to \$15 million is a revolving facility to be used by IBI Group for working capital purposes, to normalize distributions to holders of Class A partnership units and Class B subordinated partnership units of IBI Group and to finance certain payments by IBI Group in respect of certain acquisitions previously made by it. As of June 30, 2006, \$14,850 of the operating facility was utilized (2005 - \$15,850). The term facility (the "Term Facility") of up to \$35 million is a revolving facility to be used to finance new acquisitions and certain payments by IBI Group in respect of certain acquisitions previously made by it, and to refinance up to \$10 million of IBI Group's indebtedness under its previous operating facility. This \$10 million refinancing was completed on July 20, 2006. No amounts were drawn on the term facility as at June 30, 2006. Currently, borrowings under the operating facility bear interest at the bank's prime lending rate per annum. A bid bond guarantee facility of up to US\$1 million continues to be made available to IBI Group by the bank to be used by IBI Group to meet certain project requirements calling for the issuance of bid bonds to international customers, none of which was utilized as at June 30, 2006. The operating facility and the bid bond facility will mature on June 30, 2009 and the term facility will mature on June 30, 2011. Each of the facilities is secured by guarantees from certain subsidiaries of IBI Group as well as IBI Group Architects (Ontario), and a first ranking security interest in all of the assets of IBI Group and the guarantors, subject to certain permitted encumbrances.

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

5. Unitholders' equity and non-controlling interest:

	2006		2005	
	Units	Amount	Units	Amount
Balance, beginning of period	5,025,778	\$ 50,258	5,025,778	\$ 50,258
Units issued from treasury	3,542,000	38,962	-	-
Balance, as at June 30	8,567,778	\$ 89,220	5,025,778	\$ 50,258

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During the first quarter of 2006, 3,542,000 units were issued through a public offering at \$11 per unit, for gross proceeds of \$38,962. The Management Partnership acquired 1,730,000 of the units issued and now holds 1,844,200 units.

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.

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 March 31, 2006, the units issued on such exchange would have represented a 37% interest in the Fund. Distributions on the Class B subordinated partnership units are 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, distributions in excess of \$0.05625 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 of the Class B subordinated partnership units, one Non-Participating Voting unit of the Fund was issued to the holder 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.

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

	2006	Year ended December 31, 2005
Balance, beginning of period	\$ 46,258	\$ 48,126
Earnings for the period	3,540	3,786
Distributions	(2,984)	(5,654)
Balance, end of period	\$ 46,814	\$ 46,258

6. Related party transactions:

- (a) 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 5,025,778 Class B subordinated partnership units and 1,844,200 units of the Fund, representing a total ownership of 50.5% of IBI Group. The leases were entered into in 2002 at then current market rates of approximately \$1.8 million per annum, and expire on December 31, 2012. Effective January 1, 2006, IBI Group leased approximately 14,000 square feet of additional space under these leases at the then current market rates, bringing the total annual lease payments under these leases to approximately \$2.2 million.
- (b) Pursuant to the Administration Agreement entered into in connection with the closing of the Offering, 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 \$2,400 for the three months ended June 30, 2006 (2005 - \$2,200).
- (c) The cash payment due on the closing of the acquisition of HBEW (note 3) was funded by a loan of \$4,804 by the Management Partnership to IBI Group. The loan bore interest at the same rate as was then payable on IBI Group's operating line of credit with its bank lender, being prime plus 0.75%. The loan was subordinated to the Fund's indebtedness to its bank lender and was unsecured. The loan was repaid on March 6, 2006.
- (d) The cash payment due on the closing of the merger of the business of DAA with the business of IBI Group (note 3) was funded by a loan of \$13,938 by the Management Partnership to IBI Group. The loan bore interest at the same rate as was then payable on IBI Group's operating line of credit with its bank lender, being prime plus 0.75%. The loan was subordinated to the Fund's indebtedness to its bank lender and was unsecured. The loan was repaid on March 6, 2006.

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(e) The balance of consideration owing to DAA (note 3) of \$14,508 was funded by the issuance to the Management Partnership of a Class C Unit of IBI Group, classified as a current liability, which entitles the Management Partnership to be paid \$14,508 on January 31, 2007 together with an additional amount calculated by multiplying such amount by the prime interest rate quoted by IBI Group's bank lender.

7. Segment information:

The Fund is an international, multi-disciplinary provider of a broad range of professional services focused on the physical development of cities. The Fund considers the basis on which it is organized, including geographic areas and service offerings, in identifying its reportable segments. Operating segments of the Fund are defined as components of the Fund for which separate financial information is available that is evaluated regularly in allocating resources and assessing performance by the chief operating decision maker, who is the Chief Executive Officer of IBI Group.

All operations of the Fund are included in one reportable segment - consulting services, that provides services throughout North America and internationally.

	2006		2005	
	Fees for the six months ended June 30,	Capital Assets, Goodwill, Intangible Assets at June 30,	Fees for the six months ended June 30,	Capital Assets, Goodwill, Intangible Assets at December 31,
Canada	\$ 55,519	\$ 99,496	\$ 33,223	\$ 71,887
United States	12,647	8,769	10,478	8,744
International	4,393	2,062	3,477	1,882
	<u>\$ 72,559</u>	<u>\$ 110,327</u>	<u>\$ 47,178</u>	<u>\$ 82,513</u>

Gross revenue is attributed to countries based on the location of the work performed.

Customers

The Fund has a large number of clients in various industries and sectors of the economy. Gross revenue is not concentrated in any particular client.

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(In thousands of dollars)

(Unaudited)

8. Contingencies:

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.

9. Subsequent Events:

On July 21, 2006, IBI Group completed the acquisition of substantially all of the assets of Tomasino & Associates, Inc ("Tomasino"), for consideration of approximately \$500. Tomasino is a consulting firm of engineers, planners, designers and surveyors with in-house capabilities for total project development from planning through design, construction and start-up services which has been serving government as well as private clients in Florida from its office in the Tampa Bay area for over thirty five years. The Tomasino practice, which comprises twenty-one people led by Paul Tomasino, has been integrated into the Florida practice of IBI Group, Inc.