

Consolidated Financial Statements of

IBI INCOME FUND

Years ended December 31, 2007 and 2006



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AUDITORS' REPORT TO THE UNITHOLDERS

We have audited the consolidated balance sheets of IBI Income Fund (the "Fund") as at December 31, 2007 and December 31, 2006 and the consolidated statements of earnings, changes in unitholders' equity, comprehensive income and cash flows for the years then ended. 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, 2007 and December 31, 2006 and the results of its operations and its cash flows for the years then ended 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 horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

March 26, 2008

IBI INCOME FUND

Consolidated Balance Sheets
(In thousands of dollars)

As at December 31, 2007 and December 31, 2006

	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 23,699	\$ –
Accounts receivable	62,752	49,593
Work in process	36,894	22,783
Prepaid expenses and other assets	3,761	2,435
Income taxes recoverable	–	374
	<u>127,106</u>	<u>75,185</u>
Future income tax asset	3,766	870
Deferred charges	156	543
Property and equipment (note 6)	6,838	5,145
Intangible assets (note 7)	10,790	11,118
Goodwill (note 8)	101,957	95,206
	<u>\$ 250,613</u>	<u>\$ 188,067</u>

Liabilities and Unitholders' Equity

Current liabilities:		
Bank indebtedness - net (note 9)	\$ –	\$ 4,641
Accounts payable and accrued liabilities	26,497	17,695
Distributions payable	1,894	1,917
Due to related parties (notes 1 and 15)	852	850
Notes payable (note 5)	7,419	4,706
Deferred revenue	10,193	7,887
Income taxes payable	538	–
Class C Unit (notes 5 and 15)	–	14,508
	<u>47,393</u>	<u>52,204</u>
Deferred credit - leases	413	703
Long-term debt (note 9)	24,000	10,000
Unrealized interest rates swap loss	415	–
Non-controlling interest (note 12)	49,290	46,818
Unitholders' equity (note 12):		
Unit capital	139,220	89,220
Deficit	(9,264)	(10,659)
Accumulated other comprehensive loss	(854)	(219)
	<u>129,102</u>	<u>78,342</u>
	<u>\$ 250,613</u>	<u>\$ 188,067</u>

Commitments, contingencies and guarantees (note 13)
Subsequent events (note 18)

See accompanying notes to consolidated financial statements.

On behalf of the Trustees:

(Signed) Allen Karp _____

(Signed) Philip H. Beinhaker _____

IBI INCOME FUND

Consolidated Statements of Earnings
(In thousands of dollars, except per unit amounts)

For the years ended December 31, 2007 and 2006

	2007	2006
Revenue:		
Fees	\$ 179,927	\$ 151,912
Expenses:		
Salaries, fees and employee benefits (note 15)	113,097	96,413
Rent (note 15)	9,258	7,990
Other operating	25,751	20,752
Amortization of property and equipment	2,606	2,198
Amortization of intangible assets	2,769	4,853
Amortization of deferred credit – leases	(290)	(360)
Interest	2,665	2,180
	<u>155,856</u>	<u>134,026</u>
Earnings before income taxes	24,071	17,886
Income tax expense (recoverable) (note 10)		
Current	1,596	1,046
Future	(2,966)	(298)
	<u>(1,370)</u>	<u>748</u>
Earnings before non-controlling interest (note 12)	25,441	17,138
Non-controlling interest	(9,374)	(6,660)
Net earnings	<u>\$ 16,067</u>	<u>\$ 10,478</u>
Basic and diluted earnings per unit	<u>\$ 1.8618</u>	<u>\$ 1.3208</u>
Weighted average number of units outstanding	<u>8,630,052</u>	<u>7,932,850</u>

See accompanying notes to consolidated financial statements.

IBI INCOME FUND

Consolidated Statements of Changes in Unitholders' Equity
(In thousands of dollars)

For the years ended December 31, 2007 and 2006

	2007	2006
Unit Capital:		
Unit capital, beginning of year	\$ 89,220	\$ 50,258
Units issued	50,000	38,962
Unit capital, end of year	139,220	89,220
Deficit:		
Deficit, beginning of year	(10,659)	(9,580)
Cumulative impact of implementing new accounting standards (note 4)	(315)	—
	(10,974)	(9,580)
Net earnings	16,067	10,478
Distributions declared to unitholders	(12,018)	(9,713)
Issue costs	(2,339)	(1,844)
Deficit, end of year	(9,264)	(10,659)
Accumulated other comprehensive loss (note 4):		
Balance, beginning of year	(219)	—
Cumulative impact of implementing new accounting standards	(648)	(219)
Unrealized gains and losses on translating financial statements of self sustaining foreign operations	(219)	—
Change in fair value of derivatives designated as cash flow hedges	232	—
Balance, end of year	(854)	(219)
Total unitholders' equity, end of year	\$ 129,102	\$ 78,342

Consolidated Statements of Comprehensive Income
(In thousands of dollars)

For the years ended December 31, 2007 and 2006

	2007	2006
Net earnings	\$ 16,067	\$ 10,478
Other comprehensive income (note 4):		
Unrealized gains and losses on translating financial statements of self sustaining foreign operations	(219)	—
Change in fair value of derivatives designated as cash flow hedges	232	—
Comprehensive Income	\$ 16,080	\$ 10,478

See accompanying notes to interim consolidated financial statements.

IBI INCOME FUND

Consolidated Statements of Cash Flows
(In thousands of dollars)

For the years ended December 31, 2007 and 2006

	2007	2006
Cash provided by (used in):		
Operating activities:		
Net earnings	\$ 16,067	\$ 10,478
Items not affecting cash:		
Amortization of property and equipment	2,606	2,198
Amortization of intangible assets	2,769	4,853
Amortization of deferred credit - leases	(290)	(360)
Future income tax asset	(2,966)	(330)
Non-controlling interest	9,374	6,660
Change in non-cash operating working capital (note 11)	(15,052)	(21,553)
	12,508	1,946
Financing activities:		
Notes payable	(2,939)	580
Long term debt	14,000	10,000
Repayment of Class C Unit	(14,508)	-
Distributions paid to Unitholders	(11,631)	(9,284)
Distributions paid to non-controlling interest	(7,312)	(5,931)
Issuance of units (note 12)	50,000	38,962
Issue costs	(2,339)	(1,844)
Due to related parties	2	(5,680)
	25,273	26,803
Investing activities:		
Purchase of capital assets	(3,588)	(2,647)
Acquisitions (note 5)	(5,905)	(16,527)
	(9,493)	(19,174)
Effect of foreign currency translation	52	(191)
Net increase in cash and cash equivalent	\$ 28,340	\$ 9,384
Bank indebtedness, beginning of year	(4,641)	(14,025)
Cash and cash equivalents (bank indebtedness), end of year	\$ 23,699	\$ (4,641)
Supplemental cash flow information:		
Income taxes paid	\$ 702	\$ 1,490
Interest paid	2,665	2,180

See accompanying notes to consolidated financial statements.

IBI INCOME FUND

Notes to Consolidated Financial Statements
(In thousands of dollars)

As at and for the years ended December 31, 2007 and 2006

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 partnership units to IBI Group Management Partnership (the "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 partnership units representing 32% of the issued and outstanding units of IBI Group and 2,280,746 units of the Fund, representing a total ownership of approximately 46.6% of IBI Group. The Management Partnership also holds 5,025,778 non-participating voting units of the Fund, which together with the 2,280,746 units of the Fund held by the Management Partnership, represent approximately 46.6% of the voting units of the Fund.

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. IBI Group also has a facilities management practice, which manages and operates recreational facilities on behalf of local municipalities. This practice is concentrated within the Province of Quebec.

On the closing of the Fund's initial public offering on August 31, 2004, the net working capital of the business of the Management Partnership was not acquired by the Fund. The remaining amount of such net working capital from the balance on hand at August 31, 2004 is being managed by the Fund and is being repaid to the Management Partnership as it is realized. As at December 31, 2007, \$852 (December 31, 2006 - \$850) had been realized, to be paid to the Management Partnership and is shown as a current liability.

2. 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 Fund and its subsidiaries.

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

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Notes to Consolidated Financial Statements
(In thousands of dollars)

Year ended December 31, 2007 with comparative figures for December 31, 2006

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 based on the contractual terms of the agreement with the client adjusted to the estimated net realizable value as services are rendered. Billings in excess of time value incurred on jobs in progress, for which future services will be provided, are included in deferred revenue on the consolidated balance sheets.

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 payment dates.

(b) Cash and cash equivalents:

Cash and cash equivalents include cash and unrestricted investments with initial maturities of three months or less. Such investments are carried at fair value.

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

(c) Property and equipment:

Property and equipment 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

Property and equipment are reviewed for impairment when events or circumstances indicate that their carrying value exceeds the sum of the undiscounted cash flows expected

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Notes to Consolidated Financial Statements
(In thousands of dollars)

Year ended December 31, 2007 with comparative figures for December 31, 2006

from their use and eventual disposal. An impairment loss is measured as the amount by which the assets' carrying value exceeds the fair value.

d) Intangible assets:

Intangible assets comprise customer relationships, contracts and non-competition provisions acquired by the Fund. Amortization expense on the customer relationships, contracts and non-competition provisions, which have finite lives, has been recorded in the consolidated statements of earnings over their estimated economic lives being one to two years for contracts three to four years for non-competition provisions and 10 years for customer relationships.

(e) Deferred charges

Deferred charges comprise the costs incurred in connection with the operating and term debt facilities. Deferred charges are amortized on a straight-line basis over the terms of the related debt.

(f) Deferred credit - leases:

IBI Group leases its Toronto office space from corporations which are indirectly owned by the partners of the Management Partnership (note 15). 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, the date of the acquisition by the Fund. Amortization of the deferred credit is credited against rent expense over the life of the lease.

(g) 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 year. 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.

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Notes to Consolidated Financial Statements
(In thousands of dollars)

Year ended December 31, 2007 with comparative figures for December 31, 2006

(h) 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 and liabilities 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. Future income tax assets are evaluated and a valuation allowance, if required, is recorded against any future income tax asset if it is more likely than not that an asset will not be realized.

(i) 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 statements of earnings.

(j) 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 year. Significant estimates used in the preparation of these consolidated financial statements include the valuation of work in process, allowances for doubtful accounts receivable, the fair value of identifiable intangible assets acquired in business combinations and future cash flows used to estimate the fair value of reporting units for goodwill impairment purposes. Actual results could differ from those estimates.

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Notes to Consolidated Financial Statements
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Year ended December 31, 2007 with comparative figures for December 31, 2006

4. Changes in Accounting Policies

Effective January 1, 2007, the Fund adopted new accounting recommendations from the Canadian Institute of Chartered Accountants (CICA), Handbook Section 1530, Comprehensive Income, Section 1651, Foreign Currency translation, Section 3251, Equity, Section 3855, Financial Instruments – Recognition and Measurement, Section 3861, Financial Instruments – Disclosure and Presentation, and Section 3865 Hedges.

Section 1530 established standards for reporting and presenting a comprehensive income statement. The statement of comprehensive income shows a total of the net income recognized by the Fund, in addition to the other comprehensive income of the Fund. Other comprehensive income items are items which are being shown on the balance sheet at their fair value until the items are realized.

Section 3855 requires all financial assets and financial liabilities to be classified as one of five categories. Financial assets are to be classified as either held for trading, available for sale, held to maturity or loans and receivables. Financial liabilities are to be classified as either held for trading or other financial liabilities. All financial assets and financial liabilities are to be carried at fair value in the consolidated balance sheet, except held to maturity financial assets, loans and receivables and other financial liabilities which are measured at cost or amortized cost. The Fund has implemented the following classifications:

- Accounts receivable and work in process are classified as “Loans and Receivables”. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Fund, the measured amount corresponds to cost due to their short-term maturity.
- Bank indebtedness and cash balances are classified as “Financial Assets Held for Trading”. They are presented at their fair value and the gains/losses arising on the revaluation at each period end are included in consolidated income. The carrying value of bank indebtedness and cash is a reasonable estimate of their fair value due to their short-term maturity.
- Derivative financial instruments that are designated as cash flow hedges are classified as “Assets and Liabilities Available for Sale”. They are presented at their fair value, representing the approximate amount the Fund would receive or pay on settlement of these contracts at spot rates, and the gains/losses arising from the revaluation at the end of each period are included in other comprehensive income. The impact of remeasuring hedging derivatives on the consolidated financial statements on January 1, 2007 was to recognize unrealized interest rate swap losses in opening accumulated other comprehensive loss of \$648.
- Accounts payable and accrued liabilities, notes payable and long-term debt are classified as “Other Financial Liabilities”. They are initially presented at their cost or amortized cost. Subsequent measurements are at cost, net of amortization, using the

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effective interest rate method. For the Fund, that value corresponds to cost either as a result of their short term maturity, or the floating rate nature of some loans or because management estimates that the loans payable with fixed interest rates have no significant difference between their fair value and their carrying value, based on rates currently available to the Fund on loans with similar terms and remaining maturities.

Effective January 1, 2007, the Fund records all transaction costs for financial assets and financial liabilities in income as incurred. The Fund had previously deferred these costs and amortized them over the term of the related debt. The carrying value of transaction costs at December 31, 2006 of \$315 was charged to opening deficit on transition on January 1, 2007.

Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of foreign currency exposures of net investments in self sustaining foreign operations.

In accordance with these new standards there has been a retroactive adjustment to reclassify the \$18 of cumulative translation adjustment as of January 1, 2006 and \$219 as of January 1, 2007 as accumulated other comprehensive loss and therefore is reflected in cumulative impact of implementing new accounting standards.

The CICA issued a new accounting standard, Section 1535 Capital Disclosures, which requires the disclosure of both qualitative and quantitative information that provides users of financial statements with information to evaluate the entity's objectives, policies and processes for managing capital. This new section is effective for the Fund beginning January 1, 2008.

Two new accounting standards were issued by the CICA, Section 3862 Financial Instruments – Disclosures, and Section 3863 Financial Instruments – Presentation. These sections will replace Section 3861 Financial Instruments – Disclosure and Presentation once adopted. The objective of Section 3862 is to provide users with information to evaluate the significance of the financial instruments on the entity's financial position and performance, the nature and extent of risks arising from financial instruments, and how the entity manages those risks. The provisions of Section 3863 deal with the classification of financial instruments, related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. These new sections are effective for the Fund beginning January 1, 2008.

In January 2006, the Accounting Standards Board ("AcSB") adopted its strategic plan which includes the decision to move financial reporting for Canadian publicly accountable enterprises to a single set of globally accepted high-quality standards, namely, International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. This document outlines the AcSB's implementation plan for incorporating IFRS into Canadian GAAP, including identifying key decisions that the AcSB will need to make as it implements the strategic plan for publicly accountable enterprises. The Fund will follow the key events timeline proposed by the AcSB to obtain training and thorough knowledge of IFRS, finalize assessment

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Notes to Consolidated Financial Statements
(In thousands of dollars)

Year ended December 31, 2007 with comparative figures for December 31, 2006

of accounting policies with reference to IFRS and plan for convergence to be ready for the changeover planned in 2011.

5. Acquisitions:

Acquisitions are accounted for under the purchase method of accounting, and the results of operations since the respective dates of acquisition are included in the consolidated statements of earnings. From time to time, as a result of the timing of acquisitions in relation to the Fund's reporting schedule, certain of the purchase allocations may not be finalized at the time of reporting. Purchase price allocations are completed after the vendors' final financial statements and income tax returns have been prepared and accepted by the Fund. Such preliminary purchase price allocations are based on management's best estimates of the fair value of the acquired assets and liabilities. Upon finalization, adjustments to the initial estimates may be required. The purchase prices of acquisitions are generally subject to price adjustment clauses included in the purchase agreements. Such purchase price adjustments generally result in an increase or reduction to the promissory note consideration recorded at acquisition to reflect either more or less net working capital realized than was originally expected.

IBI Group has made the following acquisitions:

2007

- Effective December 1, 2007, IBI Group acquired the practice of Landplan Associates.
- Effective December 1, 2007, IBI Group acquired the practice of Bearsch, Compeau, Knudson Architects and Engineers.
- Effective September 1, 2007, IBI Group acquired the practice of Planning & Engineering Initiatives Limited.
- Effective May 1, 2007, IBI Group acquired the practice of The RMPK Group, Inc.

2006

- Effective September 1, 2006, IBI Group acquired the practice of Thomas Blurock Architects Inc.
- Effective September 1, 2006, IBI Group acquired the practice of Scharf & Associates Incorporated.
- Effective June 1, 2006, IBI Group acquired the practice of Tomasino & Associates, Inc.
- Effective May 1, 2006, IBI Group acquired the urban environmental practice in which DAA held an indirect 50% interest at the time of the merger of the business of DAA with the business of IBI Group.

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Notes to Consolidated Financial Statements
(In thousands of dollars)

Year ended December 31, 2007 with comparative figures for December 31, 2006

- Effective January 1, 2006, the business of Daniel Arbour & Associates (“DAA”) was merged with the business of IBI Group. The merger with DAA included acquisition of Sodem Inc.

During the third quarter of 2007, the Fund adjusted the purchase price on the Hancock, Bruckner, Eng & Wright acquisition pursuant to price adjustment clauses included in the purchase agreements. The adjustment resulted in a reduction of the goodwill in the amount of \$269.

The aggregate consideration for these acquisitions was allocated as follows:

	2007		2006	
Cash consideration	\$	5,905	\$	16,527
Notes payable issued, due 2007 through to 2010		5,864		2,071
Class C Unit, due 2007		–		14,508
Purchase price	\$	11,769	\$	33,106
Net working capital	\$	1,452	\$	(264)
Property and equipment		851		1,925
Intangible assets		2,446		11,466
Goodwill		7,020		19,979
Net assets acquired	\$	11,769	\$	33,106

6. Property and equipment:

	2007		2006	
	Cost	Accumulated amortization	Net book value	Net book value
Office furniture and equipment	\$ 4,972	\$ 2,255	\$ 2,717	\$ 2,230
Electronic data processing equipment	6,186	4,045	2,141	1,753
Vehicles	221	83	138	104
Leasehold improvements	2,732	890	1,842	1,058
	\$ 14,111	\$ 7,273	\$ 6,838	\$ 5,145

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Notes to Consolidated Financial Statements
(In thousands of dollars)

Year ended December 31, 2007 with comparative figures for December 31, 2006

7. Intangibles:

	2007		2006	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Contract backlog	\$14,835	\$14,211	\$13,934	\$13,266
Client relationships	9,671	1,570	8,857	523
Other intangible assets	3,604	1,539	2,873	757
	\$28,110	\$17,320	\$25,664	\$14,546
Net book value	\$10,790		\$11,118	

8. Goodwill:

	2007	2006
Goodwill, beginning of year	\$ 95,206	\$ 75,227
Current year acquisitions	7,020	19,979
Adjustment to prior year acquisition	(269)	–
Goodwill, end of year	\$ 101,957	\$ 95,206

9. Bank indebtedness and long-term debt:

IBI Group has credit facilities totalling \$65,000, consisting of a \$15,000 operating facility (the "Operating Facility") and \$50,000 term facility (the "Term Facility"). The availability of each of the credit facilities is subject to compliance with certain financial and other covenants, including but not limited to, debt to EBITDA ratio, fixed charge coverage ratio and current ratio. The Fund was in compliance with all covenants under this agreement as at and throughout the years ended December 31, 2007 and 2006.

The Operating Facility 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 at December 31, 2007, IBI Group had borrowings of \$950 (2006 - \$8,300) under the Operating Facility, term deposits of \$20,000 (2006 – nil) and cash balances of \$4,649 (2006 – \$3,659).

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Year ended December 31, 2007 with comparative figures for December 31, 2006

The Term Facility is a revolving facility to be used by IBI Group to finance new acquisitions and certain payments by IBI Group in respect of certain acquisitions previously made by it, and to refinance up to \$10,000 of IBI Group's indebtedness under its previous operating facility. As at December 31, 2007, IBI Group had borrowings of \$24,000 (2006 – \$10,000) under the Term Facility.

In addition, a bid bond guarantee facility (the "Bid Bond Facility") of up to USD\$1,000 continues to be made available to IBI Group to be used by IBI Group to meet certain project requirements calling for the issuance of bid bonds to international customers.

The Operating Facility and the Bid Bond Facility will mature on June 30, 2009 and the Term Facility will mature on June 30, 2011.

The indebtedness and obligations of IBI Group under the Operating Facility, the Term Facility and the Bid Bond Facility are 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. The indebtedness secured by these security interests will rank senior to all other security over the assets of IBI Group and the guarantors, subject to certain permitted encumbrances.

Advances under both the Operating Facility and the Term Facility bear interest at a rate based on the Canadian dollar or United States dollar prime rate, LIBOR or banker's acceptance rates, plus, in each case, an applicable margin. Letters of credit and letters of guarantee on customary terms for credit facilities of this nature are also available under the Operating Facility. The Bid Bond Facility is only available by way of such instruments.

At December 31, 2007, the Fund had \$24,000 (2006 - \$10,000) of interest-rate swap agreements outstanding. The terms of these swaps correspond to the terms of the underlying hedged interest payments on the term facility.

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

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Notes to Consolidated Financial Statements
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Year ended December 31, 2007 with comparative figures for December 31, 2006

10. Income taxes:

The provision for income taxes in the consolidated statement of earnings represents an effective tax rate different than the Canadian enacted or substantively enacted statutory rate of approximately 36% (2006 - 36%). The differences are as follows:

	2007	2006
Expected income tax expense	\$ 8,666	\$ 6,439
Income tax effect of:		
Income of the Fund taxed directly to Unitholders	(7,101)	(5,584)
Future tax related to change in tax law and rates	(2,940)	–
Operating in countries with different tax rates	(26)	(99)
Valuation allowance	40	142
Non-deductible expenses	106	96
Other	(115)	(246)
Income tax (recovery) expense	\$ (1,370)	\$ 748

The tax effect of temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases that give rise to significant portions of the future tax assets at December 31, 2007 and 2006 are presented below:

	2007	2006
Property and equipment	\$ 415	\$ 321
Non-capital loss	182	142
Reserves not currently deductible	413	549
Unitholders' equity – issuance costs	138	–
Intangible assets and deferred lease credit	2,800	–
	3,948	1,012
Less valuation allowance	(182)	(142)
Future income tax asset	\$ 3,766	\$ 870

The Fund is a mutual fund trust for income tax purposes. As such, the Fund is subject to current income taxes on taxable income not distributed to its Unitholders. For 2007 the Fund has distributed all current taxable income to its Unitholders and plans to continue to distribute all future current taxable income to its Unitholders. Accordingly, no provision for current income taxes or for future income taxes on temporary differences reversing prior to 2011 has been made in these consolidated financial statements with respect to the income earned directly by the Fund and its flow-through subsidiaries.

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On June 22, 2007, legislation (the "SIFT Rules") relating to the federal income taxation of publicly traded trusts and partnerships received royal assent. The SIFT Rules apply to a publicly-traded trust that is a specified investment flow-through entity (a "SIFT") which existed before November 1, 2006 ("Existing Trust") commencing with taxation years ending in 2011.

Under the SIFT Rules, distributions of certain income by a SIFT will not be deductible in computing the SIFT's taxable income, and the SIFT will be subject to tax on such income at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. Distributions paid by a SIFT as returns of capital will not be subject to this tax. There will be circumstances where an existing trust may lose its transitional relief, and hence be taxed before 2011, where its equity capital grows beyond certain dollar limits measured by reference to the existing trust's market capitalization at the close of trading on October 31, 2006. As at December 31, 2007, the Fund has not and does not intend to exceed these growth limits.

The Fund is a SIFT as defined in the SIFT Rules. Accordingly, commencing January 1, 2011, the Fund will be subject to taxes on distributions of certain income earned from investments in its subsidiaries. The Fund has recognized future income tax assets and liabilities with respect to the temporary differences between the carrying amount and tax bases of its assets and liabilities and those of its flow-through subsidiaries that are expected to reverse in or after 2011. The Fund expects that its distributions will not be subject to this tax prior to 2011 and accordingly has not provided for future income taxes on the temporary differences expected to reverse prior to then.

Under the existing SIFT Rules, although not entirely clear, certain flow-through subsidiaries of the Fund may also meet the definition of a SIFT. If it is determined that these flow-through subsidiaries of the Fund meet the definition of a SIFT, there would be no impact on the future tax assets and liabilities of the Fund. On December 20, 2007, the Minister of Finance announced proposed technical amendments to the SIFT Rules which clarify that, in certain circumstances, flow-through subsidiaries of a SIFT will not meet the definition of a SIFT. Under such technical amendments, if enacted in the form announced, the Fund's subsidiaries would not themselves be SIFTs.

The SIFT Rules do not affect the current and future tax amounts of the Fund's corporate subsidiaries.

The Fund and its flow-through subsidiaries have assets with an accounting bases that exceeds their tax bases by \$5,805 (2006 the tax bases exceeded the accounting basis by \$7,640), which are not included in future tax assets and liabilities reported above.

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11. Change in non-cash operating working capital:

	2007	2006
Accounts receivable	\$ (13,159)	\$(14,683)
Work in process	(14,111)	(8,154)
Prepaid expenses and other assets	(1,326)	(1,511)
Deferred charges	72	(187)
Accounts payable	8,802	(255)
Deferred revenue	2,306	3,977
Income taxes payable	912	(476)
Acquisition of working capital (deficiency)	1,452	(264)
	<u>\$ (15,052)</u>	<u>\$(21,553)</u>

12. Unitholders' equity and non-controlling interest:

	2007		2006	
	Units	Amount	Units	Amount
Balance, beginning of year	8,567,778	\$ 89,220	5,025,778	\$ 50,258
Units issued	2,083,333	50,000	3,542,000	38,962
<u>Balance, end of year</u>	<u>10,651,111</u>	<u>\$ 139,220</u>	<u>8,567,778</u>	<u>\$ 89,220</u>

During the year, 2,083,333 units were issued through a bought deal at \$24 per unit, for gross proceeds of \$50,000. The Management Partnership acquired 416,666 the units issued and now holds 2,280,746 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 of the Fund 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, 2007, the units issued on such exchange would have represented a 32% interest in the Fund.

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Class B 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 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 partnership unit held. The Class B partnership units have been recorded as a non-controlling interest in the consolidated financial statements.

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

	2007	2006
Balance, beginning of year	\$ 46,818	\$ 46,258
Earnings for the year	9,374	6,660
Distributions	(6,902)	(6,100)
Balance, end of year	\$ 49,290	\$ 46,818

13. Commitments, contingencies guarantees:

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

2008	\$ 11,925
2009	11,225
2010	10,255
2011	9,337
2012	6,632
Thereafter	8,049

(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.

(c) In the normal course of business, the Fund 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 Fund also indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Fund to the extent permitted by law. These indemnifications may require the Fund 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 Fund from making a reasonable estimate of the maximum potential amount that it could be required to pay to counterparties. The Fund carries liability

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insurance, subject to certain deductibles and policy limits that provides protection against certain insurable indemnifications. Historically, the Fund has not made any significant payments under such indemnifications, and no amounts have been accrued in the accompanying consolidated financial statements with respect to these indemnifications.

14. Financial instruments:

Fair value

As at December 31, 2007, the carrying amounts of term deposits, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, due to related parties, distributions payable, notes payable and long-term debt approximate their fair values due to their short-term nature or to variable interest rates.

Credit risk

Financial instruments that subject the Fund to credit risk consist primarily of cash and cash equivalents and accounts receivable. The Fund maintains an allowance for estimated credit losses. It 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.

Interest rate risk

The Fund is subject to interest rate cash flow risk to the extent that its credit facilities are based on floating rates of interest. The Fund has entered into interest rate swap agreements to mitigate this risk.

15. 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 2,280,746 units of the Fund, representing a total ownership of 46.6% of IBI Group. The leases were entered into in 2002 at then current market rates of approximately \$1,800 per annum, and expire on December 31, 2012. Effective January 1, 2007, 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 \$2,200.
- (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

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Partnership an amount representing the base compensation for the services of the principals of the partners of the Management Partnership. This amount was \$11,600 for the year (2006 - \$9,400). In addition, IBI Group pays a separate management fee to the Management Partnership representing compensation paid to the partners of DAA through the Management Partnership as compensation for such partners providing their services to IBI Group through Management Partnership. The amount of this management fee paid in 2007 was \$1,100 (2006 - \$1,300).

- (c) The cash payment due on the closing of the acquisition of HBEW (note 5) 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, 2007.
- (d) The cash payment due on the closing of the merger of the business of DAA with the business of IBI Group (note 5) 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, 2007.
- (e) The balance of consideration owing in respect of the merger of the business of DAA with the business of IBI Group (note 5) 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. These amounts were distributed to the holder of the Class C Unit on January 31, 2007.
- (f) During the year, IBI Group Management Partnership advanced a total of \$9,000 to IBI Group. The loan bore interest at the same rate as the operating line of credit that IBI Group has with its bank lender, less any commitment fees payable to its bank lender. The loan was subordinated to the Fund's indebtedness to its bank lender and is unsecured. The loan was repaid on December 20, 2007.

16. Segment information:

Business segments:

The Fund is an international, multi-disciplinary provider of a broad range of professional services focused on the physical development of cities. In addition, the Fund has a facilities

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management practice. 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.

The Fund operates in two reportable segments - consulting services and facilities management. Consulting services provide services throughout North America and internationally. Facilities management manages and operates recreational facilities on behalf of local municipalities.

	2007		
	Consulting Services	Facilities Management	Total
Fees	\$ 163,925	\$ 16,002	\$ 179,927
Earnings before under-noted	31,323	498	31,821
Amortization and depreciation	4,933	152	5,085
Interest	2,665	-	2,665
Income taxes	(1,453)	83	(1,370)
Earnings before non-controlling interest	25,178	263	25,441
Total assets	244,844	5,769	250,613
Goodwill	101,957	-	101,957
Intangible assets	10,790	-	10,790
Capital expenditures	3,291	297	3,588
	2006		
	Consulting Services	Facilities Management	Total
Fees	\$ 141,164	\$ 10,748	\$ 151,912
Earnings before under-noted	26,643	114	26,757
Amortization and depreciation	6,580	111	6,691
Interest	2,180	-	2,180
Income taxes	748	-	748
Earnings before non-controlling interest	17,136	2	17,138
Total assets	185,893	2,174	188,067
Goodwill	95,206	-	95,206
Intangible assets	11,118	-	11,118
Capital expenditures	2,398	249	2,647

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Geographic segments:

	2007		2006	
	Fees	Property and equipment, goodwill, intangible assets	Fees	Property and equipment, goodwill, intangible assets
Canada	\$ 137,162	\$100,043	\$114,761	\$ 97,353
United States	31,817	17,044	27,169	12,063
International	10,948	2,498	9,982	2,053
	<u>\$ 179,927</u>	<u>\$119,585</u>	<u>\$151,912</u>	<u>\$111,469</u>

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

17. Comparative Figures:

Certain comparative figures have been reclassified to conform to the presentation adopted for the current year.

18. Subsequent Events:

On January 31, 2008, IBI Group completed the acquisition of Young + Wright Architects Limited of Toronto and Lawrence Doyle, Young + Wright Architects of Vancouver. (Collectively referred to as "Y+W"). Y+W is a very broadly based architectural practice comprising institutional buildings for education, community facilities for worship and other community purposes, commercial retail, entertainment and sports, work place and residential facilities. The firms constituting the Y+W practice have been serving a broad base of public and private clientele from operating offices in Toronto and Vancouver for some 30 years

On February 1, 2008, IBI Group completed the acquisition of Piranha Tendances, Conseil Strategique et Communications Inc. ("Piranha"). Piranha is a consulting firm focused on the practice of strategy, communications, market research and branding of facilities, products and services. The Firm has been serving both public and private clients, from its offices in Montreal for the past nine years.

On February 22, 2008 IBI Group completed the acquisition of the practice of Gescona Inc. Gescona, based in Montreal, provides consulting services to clients in the tourism, resorts and leisure industries.