

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*This management's discussion and analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes ("interim financial statements") of IBI Income Fund for the period from August 31, 2004 to September 30, 2004. Results are reported in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles.*

*This MD&A is in respect of the Fund's first reporting period, and consequently, no comparative information is provided in the Fund's consolidated interim financial statements. However, in order to enhance the usefulness of this MD&A, certain financial and operating results of the Fund for the period from August 31, 2004 to September 30, 2004 are compared to the unaudited results of IBI Group Management Partnership, the entity which carried the business now carried on by IBI Income Fund through IBI Group for the month ended September 30, 2003, prepared on a pro forma basis reflecting the new financial structure of the Fund. Such information is for reference purposes only and is not intended to represent a comprehensive comparison of the consolidated financial results.*

### **Overview of the Fund**

The Fund is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario pursuant to the Fund's Declaration of Trust. On August 31, 2004, the Fund completed an initial public offering ("IPO") of trust units ("Units"). Pursuant to the IPO, including on the exercise by the underwriters of an over-allotment option to purchase up to 225,778 Units, the Fund issued a total of 5,025,778 Units to the public for gross proceeds of \$50.3 million.

The Fund is entirely dependent upon the operations and assets of IBI Group in which it indirectly holds 5,025,778 Class A ordinary partnership units, representing 50% of the issued and outstanding partnership units of IBI Group. The owner of the business of IBI Group prior to the completion of the IPO, IBI Group Management Partnership, holds 5,025,778 Class B subordinated partnership units of IBI Group, representing the remaining 50% of the issued and outstanding partnership units of IBI Group. In addition, IBI Group Management Partnership holds 5,025,778 Non-Participating Voting Units of the Fund which, together with the Class B subordinated partnership units of IBI Group, are exchangeable into Units on a one for one basis, subject to adjustment, commencing on the date upon 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 certain financial targets are met by the Fund.

IBI Group is a leading, 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 include planning, design, implementation, analysis of operations and other consulting services related to these four main areas of development.

IBI Group's professionals have a broad range of academic backgrounds and experience in urban design and planning, architecture, civil engineering, transportation engineering, traffic engineering, systems engineering, urban geography, real estate analysis, landscape architecture, communications engineering, software development and many other areas of expertise, all contributing to the four areas in which IBI Group practices.

The firm's clients include national, provincial, state and local government agencies and public institutions, as well as leading companies in the real estate building, land and infrastructure development, transportation and communication industries and in other business areas. IBI Group provides these services in major cities across Canada, the United States and Western Europe, as well as in other international centers.

Immediately prior to the closing of the IPO, IBI Group Management Partnership completed the acquisition of Cumming Cockburn Limited, CCL Consultants Limited and Marshall Cummings & Associates which then formed part of the assets transferred by IBI Group Management Partnership to IBI Group on the closing of the IPO.

### **Selected Unaudited Consolidated Financial Information**

(in thousands of dollars)	<u>For the period from August 31 to September 30,</u> 2004	<u>For the month ended September 30,</u> 2003 <sup>(1)</sup>
<b>Revenue</b>	\$7,717	\$6,279
<b>Expenses</b>		
Salaries, fees and employee benefits	4,855	3,885
Other operating costs	<u>1,509</u>	<u>985</u>
	6,364	4,870
<b>Earnings before income taxes and amortization</b>	1,353	1,409
Income taxes	163	123
Amortization	<u>547</u>	<u>97</u>
<b>Net Earnings</b>	<u>\$643</u>	<u>\$1,189</u>
 <b>Distributable Cash</b>		
Earnings before income taxes and amortization	\$1,353	
Capital expenditures	(33)	
Taxes paid	<u>(29)</u>	
Distributable cash earned	<u>\$1,291</u>	
Distributable cash earned per Unit (fully diluted)	<u>\$0.1284</u>	

(1) The results of operations of IBI Group Management Partnership have been adjusted on a *pro forma* basis to reflect the Fund's current structure.

## **Non-GAAP Measures – Distributable Cash**

Distributable cash of the Fund is a non-GAAP measure generally used by Canadian open-ended income funds as an indicator of financial performance. The Fund defines distributable cash as net earnings before depreciation, amortization, income taxes, and after capital expenditures, taxes paid and contributions to any reserves that the Trustees of the Fund deem to be reasonable and necessary for the operation of the Fund.

The Fund's distributable cash may differ from similar computations as reported by other similar entities and, accordingly, may not be comparable to distributable cash as reported by such entities. The Fund believes that its distributable cash is a useful supplemental measure that may assist prospective investors in assessing the return on their investment in Units.

## **Results of Operations**

**Revenue** for the month ended September 30, 2004 was \$7.7 million compared to \$6.3 million for the month ended September 30, 2003. The increase in revenue arose from a combination of the results of the acquired businesses; Cumming Cockburn Limited, CCL Consultants Inc. and Marshall Cummings & Associates, prior to the closing of the Fund's IPO and revenue, excluding the three acquired businesses, which came close to the results achieved in the comparable period in 2003 where staff utilization was higher than the annual average.

As this was the first month of operations for the Fund, revenues were made up primarily of the net realisable value of the services provided for the month. Revenues were slightly better than expected with Canadian revenues accounting for \$5.1 million or 66% of the total, United States revenues accounting for \$1.8 million or 23% of the total and international (non-United States) revenues accounting for \$0.9 million or 11% of the total.

**Salaries, fees and employee benefits** for the period were \$4.9 million compared with \$3.9 million for the comparable period. The three acquired businesses accounted for all of the additional expense in the current period.

**Other Operating costs** for the period were \$1.5 million compared with \$1.0 million for the prior year period. Additional costs of the acquired businesses accounted for \$0.4 million of this difference.

**Earnings before income taxes and amortization** for the period were \$1.35 million compared with \$1.4 million for the comparable period for the prior year and ahead of the monthly average for the prior year.

**Amortization** for the period was \$0.5 million compared with \$0.1 million for the comparable period. The current period includes \$0.4 million of amortization of intangible assets arising from the acquisition of IBI Group by the Fund.

**Net earnings** of the Fund for the period were \$0.6 million or \$0.064 per Unit (on a fully diluted basis) compared with \$1.2 million of the comparable period. The reduction in net earnings is primarily the result of the amortization of the intangible assets in the current period.

## Distributable Cash

During the period ended September 30, 2004, the Fund generated \$1.29 million of distributable cash as compared with the anticipated monthly amount in the Fund's prospectus of \$0.94 million. On a per Unit basis, distributable cash was \$0.1284 for the period, compared with \$0.09375 anticipated in the Fund's prospectus. This represents a 37% increase in distributable cash over what was anticipated in the Fund's prospectus.

On October 29, 2004, the Fund distributed \$0.09375 to each Unitholder of record at September 30, 2004. In addition, IBI Group distributed \$0.09375 per Class B subordinated partnership unit on the same date. This distribution met the targeted distribution set forth in the prospectus for the Fund's IPO and the total cash requirement for these distributions was \$0.9 million. On October 20, 2004, a distribution of \$0.09375 per Unit was declared to each Unitholder of record at October 29, 2004 payable on November 30, 2004. In addition, on October 20, 2004 IBI Group declared a distribution of \$0.05625 per Class B subordinated partnership unit of IBI Group (representing 60% of the amount declared on each Unit of the Fund) payable to each holder of Class B subordinated partnership units of record at October 29, 2004 payable on November 30, 2004. Total cash requirement for these distributions was \$0.75 million.

## Liquidity and Capital Resources

During the period ended September 30, 2004, the Fund had negative cash from operations of \$4.7 million. This was expected as the Fund commenced operations on August 31, 2004 without any non-cash working capital. Capital expenditures during the period were lower than expected at \$0.03 million. This cash outflow was funded out of the Fund's initial cash balance on the closing of the IPO of \$9.5 million.

IBI Group has in place a \$17 million credit facility to be used to fund working capital and normalize distributions. 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. As at September 30, 2004, IBI Group had not borrowed funds under the credit facility.

IBI Group has future contractual obligations relating to existing facilities and office equipment operating leases as follows:

	<u>Total</u>	<u>Less than 1 year</u>	<u>2 – 3 years</u>	<u>4 – 5 years</u>	<u>Thereafter</u>
Operating Leases	\$26,193	\$4,343	\$7,886	\$6,001	\$7,963

## Transactions with Related Parties

IBI Group leases its Toronto office space from corporations, which are indirectly owned by the partners of IBI Group Management Partnership which owns all of the Class B subordinated partnership units of 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 \$1.8 million, 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 IBI Group Management Partnership an amount, representing the base compensation for the services of the principals of the partners of IBI Group Management Partnership. This amount is currently \$0.65 million per month.

### **Critical Accounting Estimates**

Management considers that the valuation of its work in process is the Fund's only critical accounting estimate. Work in process is valued based on the time and materials that have been charged into each particular project. The amount for each project is reviewed on a periodic basis by the financial management of the Fund together with the senior management of IBI Group responsible for the project to determine whether or not the amount shown is a true reflection of the amount that will be invoiced on the project. Where there is a determination that there are differences between the work in process for the project and the amount that can be invoiced, adjustments are made to the work in process. The valuation of the work in process involves estimates of the amount of work required to complete the project. Errors in the estimation of work required to complete the projects could lead to the overvaluation of work in process.

### **Key Factors Affecting the Business**

The Fund believes that IBI Group has a strategy that will allow it to adapt to current trends affecting the manner in which professional services are provided in the industries in which it operates. One such trend involves the growth in private finance initiatives ("PFI") and outsourcing in the public sector. In PFI and outsourcing projects, competing entities are required to make financial offers for the provision of a facility to be privately financed with the capital to be recouped through future revenue streams or capital repayments. Participation in bids for work of this kind requires IBI Group to undertake enough professional work to responsibly estimate the capital and operating costs of the project. IBI Group's work in such circumstances is partially or wholly at risk until it is awarded the project. IBI Group's increasing size will allow it to devote more resources to obtaining work of this nature. However, both the participation in these larger projects and the assumption of greater degrees of upfront risk for time invested in participating in consortiums for large projects which may ultimately not be recoverable could have a material effect on the Fund's business, financial condition and results of operations.

Another trend affecting the manner in which professional services are provided in the industries in which IBI Group operates is the increasing concentration developing in the ownership and management of real estate portfolios. This has resulted in growing concentration of ownership and management in fewer client groups with a tendency to acquire services strategically from fewer larger providers. IBI Group, through its regional networks of offices, is well positioned to provide services on a strategic basis to such clients for their national portfolios and the Fund believes that IBI Group's growth will continue to facilitate this.

The health of the economies in each of the regions in which IBI Group operates and the levels of professional fees related to capital expenditures in each of IBI Group's four main areas of practice have represented, and are expected to continue to represent key determinants of the IBI Group's profitability and cash flow. The industries in which IBI Group operates are affected by general economic conditions, including international, national, regional or local economic conditions, all of which are outside of IBI Group's control. Economic slowdowns or downturns, adverse economic conditions, cyclical trends, increases in interest rates, variations in currency exchange rates, reduced client spending and other factors could have a material adverse effect on the results of operations, financial condition and cash flow of IBI Group and the Fund.

IBI Group's financial results are expected to be affected by its ability to retain senior management and professional staff and effectively control expenses incurred to deliver its services.

IBI Group faces competition in each of the four main areas in which it operates. This competition is based on quality of service, reputation, expertise, local presence, the ability to provide services in different localities and price. IBI Group's success is based on combining a local presence based on a local/regional model, through which relationships are developed with governments and businesses in specific localities in Canada, the United States, western Europe and the Middle East, with developed excellence in functional skills in the four main areas in which it operates. This model is designed to enable IBI Group to effectively deploy its functional skills in areas of specialization to different regions in which IBI Group is based and to strengthen its regional role by importing such specializations to other regions. However, some of IBI Group's competitors have achieved substantially more market penetration in certain of the areas in which IBI Group competes. In addition, some of IBI Group's competitors have substantially more financial resources and/or financial flexibility than IBI Group. These competitive forces could have a material adverse effect on IBI Group's results of operations, financial condition or distributable cash by reducing IBI Group's relative share in the areas it serves.

IBI earns approximately 45% of its revenues outside of Canada while approximately 65% of its expenses are payable in Canadian dollars. As a result, it is exposed to variations in exchange rates, which may have an adverse effect on its results of operations, financial condition and distributable cash.

Inflation has not had a significant impact on IBI to date and IBI does not expect it to have a significant impact on its results of operations, financial condition or distributable cash in the foreseeable future.

Pursuant to the Administration Agreement IBI Group may be exposed to fluctuations in interest rates under its borrowings, including its credit facility. Increases in interest rates may have an adverse effect on the results of operations, financial condition and distributable cash of IBI Group and the Fund.