

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*This management's discussion and analysis ("MD&A") should be read in conjunction with the consolidated financial statements and accompanying notes ("financial statements") of IBI Income Fund (the "Fund") for the period from January 1, 2005 to March 31, 2005. 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, first quarter reporting period, and, consequently, no comparative information is provided in the Fund's consolidated financial statements. However, in order to enhance the usefulness of this MD&A, certain financial and operating results of the Fund for the quarter ended March 31, 2005 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 three months ended March 31, 2004, 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.*

*This MD&A is dated as of May 6, 2005. Additional information that has been filed concerning the Fund, including the Fund's initial annual information form dated March 31, 2005 for the period from August 31, 2004 to December 31, 2004, is available on SEDAR at [www.sedar.com](http://www.sedar.com).*

### **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 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. These 5,025,778 Units are the only Units currently outstanding.

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. These 5,025,778 Non-Participating Voting Units are the only Non-Participating Voting Units currently outstanding.

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 Consolidated Financial Information

	1st Quarter 2005 Unaudited	1st Quarter 2004 <sup>(1)</sup> Unaudited	For the period from August 31 to September 30 2004 Unaudited	4 <sup>th</sup> Quarter 2004 Unaudited
in thousands except for per unit amounts				
<b>Revenues</b>	\$ 23,273	\$ 17,463	\$ 7,717	\$ 22,963
<b>Expenses</b>				
Salaries, fees and employee benefits	15,625	11,702	4,855	15,524
Other cash operating costs	4,024	3,516	1,509	4,298
	19,649	15,218	6,364	19,822
<b>Earnings before income taxes, interest and amortization</b>	3,624	2,245	1,353	3,141
Interest	183	83	-	36
Income taxes	306	103	163	103
Amortization	2,963	288	547	4,141
<b>Net earnings (loss) before non-controlling interest</b>	\$ 172	\$ 1,771	\$ 643	\$ (1,140)
Net earnings (loss)	\$ 86	\$ 1,771	\$ 322	\$ (570)
Basic and diluted net earnings (loss) per Unit	\$ 0.0171		\$ 0.0640	\$ (0.1134)

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**Distributable Cash**

Earnings before income taxes, interest and amortization	\$ 3,624	\$ 1,353	\$ 3,141
Capital expenditures	(363)	(33)	(451)
Interest	(183)	-	(36)
Taxes paid	(164)	(29)	(169)
Distributable cash	<u>\$ 2,914</u>	<u>\$ 1,291</u>	<u>\$ 2,485</u>
Basic and diluted distributable cash per Unit (2)	<u>\$ 0.2899</u>	<u>\$ 0.1284</u>	<u>\$ 0.2472</u>
Aggregate distributions declared	<u>\$ 2,827</u>	<u>\$ 942</u>	<u>\$ 2,827</u>
Basic and diluted aggregate distributions declared per Unit (2)	<u>\$ 0.2812</u>	<u>\$ 0.0937</u>	<u>\$ 0.2812</u>
Total assets	<u>\$ 123,852</u>	<u>\$ 134,252</u>	<u>\$ 145,949</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.

(2) Distributable cash per Unit amounts are calculated by including both the Class A partnership units and the Class B subordinated partnership units in the denominator.

**Non-GAAP Measures – Distributable Cash**

Distributable cash does not have a standardized meaning prescribed by GAAP, but is a measure generally used by Canadian open-ended income funds as an indicator of financial performance. The Fund defines distributable cash as net earnings before interest, depreciation, amortization, income taxes, and after interest paid, 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 method of calculating 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 quarter ended March 31, 2005 was up \$0.3 million to \$23.3 million compared to the prior quarter and up \$5.8 million compared with the quarter ended March 31, 2004. The increase in revenue over the prior quarter is due to one additional working day in the period. The increase over the prior year period arose due to the results of the three businesses acquired prior to the closing of the Fund's IPO, being Cumming Cockburn Limited, CCL Consultants Inc. and Marshall Cummings & Associates. Revenue from these three businesses

accounted for \$5.1 million of the increase. Revenue excluding revenue from the three acquired businesses was \$0.7 million or 4% higher than the prior year period.

The source of revenues were as follows; Canadian revenues accounted for \$15.8 million (68%), United States revenues accounted for \$5.5 million (24%) and international (non-United States) revenues accounted for \$2.0 million (8%). Canadian revenue, excluding revenue from the acquired businesses, was up \$1.1 million over the prior year period with the Toronto and Vancouver offices accounting for the increase. Revenue in the United States, excluding revenue from the business acquired in Florida, was down \$0.2 million compared with the prior year period. International revenues were down \$0.2 million compared with the prior year period.

**Salaries, fees and employee benefits** for the quarter were up \$0.1 million to \$15.6 million compared with the prior quarter and up \$3.9 million over the comparable period in 2004. The three acquired businesses accounted for \$3.6 million of the additional expenses in the current period compared to the prior year period.

**Other Operating costs** for the period were down \$0.3 million to \$4.0 million compared the prior quarter and up \$0.5 million compared with the prior year period. Additional costs of the acquired businesses accounted for all of the difference from the prior year period. The decrease in expenses over the prior quarter was the result of a reduction in the costs associated with the integration of the acquired firms and reduced legal and professional fees.

**Earnings before income taxes, interest and amortization** for the period were \$3.6 million compared with \$3.1 million for the prior quarter and \$2.2 million for the comparable period for the prior year. The acquired businesses accounted for \$0.7 million of the increase over the comparable prior year period.

**Amortization** for the period was \$3.0 million compared with \$4.1 million for the prior quarter and \$0.3 million for the comparable period in the prior year. The current period includes \$2.7 million of amortization expense on the customer relationships and contracts arising from the acquisition of assets by IBI Group from IBI Group Management Partnership on the closing of the IPO compared with \$3.2 million for the prior quarter. Depreciation of capital assets during the period was \$0.3 million.

**Net earnings** of the Fund for the period were \$0.17 million or \$0.0171 per Unit (on a fully diluted basis) compared with \$(1.14) million or \$(0.1133) per Unit for the prior quarter and \$1.8 million for the comparable prior year period. The fluctuation in net earnings is primarily the result of the amortization of the intangible assets in the current and prior quarter.

### **Distributable Cash**

During the quarter ended March 31, 2005, the Fund generated \$2.91 million of distributable cash as compared with the amount anticipated in the Fund's prospectus for a quarter of \$2.82 million. On a per Unit basis, distributable cash was \$0.2899 for the period, compared with \$0.2812 anticipated in the Fund's prospectus. This represents a 3.1% increase in distributable cash over what was anticipated in the Fund's prospectus and an actual payout ratio of 97% for the quarter.

On April 21, 2005, a distribution of \$0.09375 per Unit was declared to each Unitholder of record at April 29, 2005 which is payable on May 30, 2005. In addition, on April 21, 2005 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 April 29, 2005 which is payable on May 30, 2005. Total cash requirement for these distributions was \$0.75 million.

### **Liquidity and Capital Resources**

During the quarter ended March 31, 2005, the Fund had negative cash flow of \$9.8 million. This was expected as the Fund commenced operations on August 31, 2004 without any non-cash working capital and now has \$43.3 million in current assets and \$17.2 million of current liabilities excluding bank indebtedness. Capital expenditures during the quarter were at \$0.4 million. This cash outflow was funded out of the Fund's credit facility.

Working capital levels have now stabilised and the Fund believes that it will be able to finance distributions to Unitholders through the cash generated through operations.

IBI Group has in place a credit facility comprised of (i) up to \$17 million ("Facility 1") to be used for working capital purposes and to normalize distributions to holders of Class A Units and Class B Units, and (ii) up to US\$1 million ("Facility 2") to be used to meet certain project requirements calling for the issuance of bid bonds to international customers. 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 ranks senior to all other security over the assets of IBI Group, subject to certain permitted encumbrances. As at March 31, 2005, IBI Group had borrowings of \$16.0 million under the credit facility.

### **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. The amount paid during the quarter was \$2.0 million.

IBI Group is managing the working capital of IBI Group Management Partnership that was on hand as at August 31, 2004. This working capital is being repaid to the Management Partnership as it is realized. As at March 31, 2005, \$4.6 million had been realised and is shown on the financial statements as a current liability.

During the quarter, priority capital of \$32 million was distributed to the holders of the Class B subordinated partnership units of IBI Group.

### **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 network 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 will face a number of challenges associated with integrating the businesses of firms which it may acquire as part of its growth strategy. Risks associated with integration of these businesses which could adversely affect IBI Group’s results of operations, financial condition and distributable cash include: (i) the risk that management may not be able to successfully manage the acquired operations and the integration may place significant demands on management, diverting their attention from existing operations; (ii) the risk that IBI Group’s

operation, financial and management systems may be incompatible with or inadequate to effectively integrate and manage acquired systems; (iii) the risk that acquisitions may require substantial financial resources that otherwise could be used in the development of other aspects of the Business; (iv) the risk that major clients of the acquired firms may not be retained following the acquisition of such firms; and (iv) the risk that acquisitions may result in liabilities and contingencies which could be significant to the operations of IBI Group.

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 the Fund's results of operations, financial condition or distributable cash by reducing IBI Group's relative share in the areas it serves.

IBI Group earns approximately 32% of its revenues outside of Canada (68% within Canada) while approximately 67% of its expenses are payable in Canadian dollars. As a result, it has some degree of exposure 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.

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.

In addition to the risks referred to above, the business of IBI Group is subject to a number of other risks on an ongoing basis. The principal risks to which the business of IBI Group is subject are set out under the heading "Risk Factors" in the Fund's initial annual information form dated March 31, 2005 for the period from August 31, 2004 to December 31, 2004.

### **Forward Looking Statements**

Certain statements in this MD&A may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Fund and its subsidiary entities, including IBI Group, or the industry, to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this

MD&A, such statements use words such as “may”, “will”, “expect”, “believe”, “plan” and other similar terminology. These statements reflect management’s current expectations regarding future events and operating performance and speak only as of the date of this MD&A. These forward-looking statements involve a number of risks and uncertainties, including those set out under the heading “Risk Factors” in the Fund’s initial annual information form dated March 31, 2005 for the period from August 31, 2004 to December 31, 2004. New risk factors may arise from time to time and it is not possible for management of the Fund to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance or achievements of the Fund to be materially different from those contained in forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, the Fund cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this MD&A, and the Fund assumes no obligations to update or revise them to reflect new events or circumstances.