

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 June 30, 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, second 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 June 30, 2005 and the six months ended June 30, 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 quarter ended June 30, 2004 and the six months ended June 30, 2005, respectively, 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 August 3, 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.

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 and Reconciliation of Non-GAAP Measures

	Three months ended June 30, 2005 Unaudited	Three months ended June 30, 2004 ⁽¹⁾ Unaudited	Six months ended June 30, 2005 Unaudited	Six months ended June 30, 2004 ⁽¹⁾ Unaudited
in thousands except for per unit amounts				
Revenues	\$ 23,905	\$ 18,069	\$ 47,178	\$ 35,532
Expenses				
Salaries, fees and employee benefits	16,050	11,951	31,675	23,653
Other cash operating costs	4,251	3,573	8,275	7,089
	20,301	15,524	39,950	30,742
Earnings before income taxes, interest and amortization	3,604	2,545	7,228	4,790
Interest	209	30	392	113
Income taxes	(66)	112	240	215
Amortization	981	186	3,944	474
Net earnings before non-controlling interest	\$ 2,480	\$ 2,217	\$ 2,652	\$ 3,988
Non-controlling interest	1,240		1,326	
Net earnings	\$ 1,240		\$ 1,326	
Basic and diluted net earnings per Unit	\$ 0.2467		\$ 0.2638	

Distributable Cash

Cash flow from operating activities	\$ 8,332	\$ 2,837
Add (deduct):		
Change in non-cash working capital	(4,872)	3,758
Capital expenditures	(392)	(755)
Income taxes	(66)	240
Taxes paid	(53)	(217)
Distributable cash	<u>\$ 2,949</u>	<u>\$ 5,863</u>
Basic and diluted distributable cash per Unit (2)	<u>\$ 0.2934</u>	<u>\$ 0.5833</u>
Aggregate distributions declared	<u>\$ 2,827</u>	<u>\$ 5,654</u>
Basic and diluted aggregate distributions declared per Unit (2)	<u>\$ 0.2812</u>	<u>\$ 0.5625</u>
Total assets	<u>\$ 123,098</u>	<u>\$ 123,098</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 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. A reconciliation of distributable cash to cash flow from operating activities has been provided under the heading "Selected Consolidated Financial Information and Reconciliation of Non-GAAP Measures".

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. Management of the Fund believes that distributable cash is a useful supplemental measure that may assist readers in assessing the return on an investment in Units.

References in this MD&A to "EBITDA" are to earnings before interest, income taxes, depreciation and amortization. Management of the Fund believes that in addition to net earnings, EBITDA is a useful supplemental measure as it provides readers with an indication of cash available for distribution prior to debt service, capital expenditures and income taxes. Readers should be cautioned, however, that EBITDA should not be construed as an alternative to net

earnings determined in accordance with GAAP as an indicator of the Fund's performance or to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows. EBITDA is not a recognized measure under GAAP and does not have a standardized meaning prescribed by GAAP, and the Fund's method of calculating EBITDA may differ from other issuers. Accordingly, EBITDA may not be comparable to similar measures used by other issuers. A reconciliation of net earnings with EBITDA has been provided under the heading Selected Consolidated Financial Information and Reconciliation of Non-GAAP Measures.

Results of Operations

Revenue for the quarter ended June 30, 2005 was up \$5.8 million compared with the quarter ended June 30, 2004. Year to date, revenue is up \$11.6 million compared with the same period in 2004. The increase over the prior year periods arose primarily 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 \$4.5 million of the increase in the quarter and \$9.6 million of the increase for the year to date. Revenue excluding revenue from the three acquired businesses was \$1.3 million or 7% higher than the prior year quarter and \$2.0 million or 5.6% higher than the prior year to date.

The source of revenues for the quarter were as follows. Canadian revenues accounted for \$17.4 million, United States revenues accounted for \$4.9 million, and international (non-United States) revenues accounted for \$1.5 million.

Salaries, fees and employee benefits for the quarter were up \$4.1 million to \$16.5 million compared with the quarter ended June 30, 2004. Year to date, salaries, fees and employee benefits are up \$8.0 million compared with the same period in 2004. The three acquired businesses accounted for \$3.8 million of the additional expenses in the quarter and \$7.4 million year to date.

Other Operating costs for the quarter were up \$0.7 million to \$4.25 million compared with the quarter ended June 30, 2004. Year to date, costs are up \$1.2 million to \$8.3 million compared with the same period in 2004. Additional costs of the acquired businesses accounted for all of the difference from the prior year periods.

EBITDA for the quarter was \$3.6 million, up \$1.1 million from \$2.5 million for the quarter ended June 30, 2004. Year to date, EBITDA is up \$2.4 million to \$7.2 million compared with the same period in 2004. The acquired businesses accounted for \$0.6 million of the increase over the quarter and \$1.3 million of the increase over the prior year to date. The growth in revenues accounted for the balance of the increase in both the quarter and year to date results.

Amortization for the period was \$1.0 million compared with \$0.2 million for the quarter ended June 30, 2004. Year to date, amortization is up \$3.4 million to \$3.9 million compared with the same period in 2004. The current quarter includes \$0.7 million (\$3.4 million year to date) 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. Depreciation of capital assets during the quarter was \$0.3 million (\$0.56 million year to

date) of which \$0.08 million (\$0.16 million year to date) was related to depreciation of the assets of the acquired businesses.

Net earnings of the Fund for the quarter were \$2.5 million or \$0.2467 per Unit (on a fully diluted basis) compared with \$2.2 million for the quarter ended June 30, 2004. Year to date, net earnings were \$2.7 million or \$0.2638 per Unit (on a fully diluted basis) compared with \$3.9 million for the same period in 2004.

Distributable Cash

During the quarter ended June 30, 2005, the Fund generated \$2.95 million of distributable cash as compared with the amount anticipated in the Fund's prospectus for the quarter of \$2.82 million. On a per Unit basis, distributable cash was \$0.2934 for the quarter, compared with \$0.2812 anticipated in the Fund's prospectus. This represents a 4.3% increase in distributable cash over what was anticipated in the Fund's prospectus and an actual payout ratio of 96% for the quarter. Year to date, the Fund has generated \$5.86 million in distributable cash compared with \$5.65 million in actual distributions declared and paid. This represents a payout ratio for the year to date of 96%.

On July 20, 2005, a distribution of \$0.09375 per Unit was declared to each Unitholder of record at July 29, 2005 which is payable on August 30, 2005. In addition, on July 20, 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 July 29, 2005 which is payable on August 30, 2005. Total cash requirement for these distributions was \$0.75 million.

Liquidity and Capital Resources

During the quarter ended June 30, 2005, the Fund had positive cash flow of \$3.1 million. This positive cash flow was the result of an increase in current liabilities. Current assets were stable through the quarter at \$43.3 million. Capital expenditures during the quarter were at \$0.4 million.

Year to date the Fund has had negative cash flow \$6.7 million. This negative cash flow is the result of the Fund building its level of working capital in the first quarter. Working capital levels have now stabilised and the Fund believes that it will be able to continue 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 June 30, 2005, IBI Group had borrowings of \$15.9 million under the credit facility.

Summary of Quarterly Results

This table provides the historical financial data since the inception of IBI Income Fund on August 31, 2004. This information should be read in conjunction with the applicable interim unaudited and annual audited consolidated financial statements and related notes thereto.

in thousands except for per unit amounts	2nd Quarter	1st Quarter	4th Quarter	For the period from August 31 to September 30,
	2005 Unaudited	2005 Unaudited	2004 Unaudited	2004 Unaudited
Revenues	\$ 23,905	\$ 23,273	\$ 22,963	\$ 7,717
Net Earnings (loss)	\$ 2,480	\$ 172	\$ (1,139)	\$ 643
Basic and diluted net earnings (loss) per Unit	\$ 0.2467	\$ 0.0171	\$ (0.1133)	\$ 0.0640

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 ended June 30, 2005 was \$2.2 million and the amount paid for the year to date was \$4.3 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 June 30, 2005, \$2.6 million had been realised and is shown on the financial statements as a current liability.

Key Factors Affecting the Business of IBI Group

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 of IBI Group; (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 30% of its revenues outside of Canada (70% 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.

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