

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 six months ended June 30, 2006. Results are reported in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

This MD&A is dated as of August 9, 2006. Additional information that has been filed concerning the Fund, including the Fund's annual information form for the year ended December 31, 2005, 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. The Fund is entirely dependent upon the operations and assets of IBI Group in which it indirectly holds 8,567,778 Class A ordinary partnership units, representing 63% of the issued and outstanding Class A and Class B partnership units (the "Partnership Units") of IBI Group. IBI Group Management Partnership ("Management Partnership") holds 5,025,778 Class B subordinated partnership units of IBI Group, representing the remaining 37% of the issued and outstanding Partnership Units of IBI Group. In addition, the Management Partnership holds 5,025,778 non-participating voting units ("Non-Participating Voting Units") of the Fund which, together with the Class B subordinated partnership units of IBI Group, are exchangeable into trust units ("Units") of the Fund on a one for one basis, subject to adjustment, commencing on the date ("the Conversion 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 outstanding.

As a result of its holdings of Class B subordinated partnership units of IBI Group and Non-Participating Voting Units of the Fund, together with its holdings of 1,844,200 Units of the Fund, the Management Partnership holds an interest of approximately 50.5% in the Fund (on a fully-diluted basis). There are currently 8,567,778 Units issued and outstanding (13,593,556 Units issued and outstanding on a fully-diluted basis).

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, Western Europe and the Middle East, as well as in other international centers.

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

Cash consideration of \$13.9 million was paid on closing. The balance of consideration 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 the balance of the consideration for the assets (\$14.5 million) on January 31, 2007 together with an additional amount calculated by multiplying the prime interest rate quoted by IBI Group's bank lender by the balance of the consideration.

The cash payment made to DAA on closing was funded by a loan of \$13.9 million by the Management Partnership to IBI Group. The loan bore interest at the same rate as was then payable on IBI Group's operating line of credit with its bank lender, being prime plus 0.75%. The loan was subordinated to the Fund's indebtedness to its bank lender and was unsecured. The loan was repaid on March 6, 2006.

On September 1, 2005, IBI Group acquired Hancock Bruckner Eng & Wright ("HBEW"), a leading architectural practice in the design of high-density residential condominium environments with a total complement of 47 professional staff now integrated within the Vancouver-based architectural practice of IBI-HB Architects (British Columbia).

On August 31, 2005, IBI Group completed the acquisition of substantially all of the assets of Grey-Noble & Grey-Noble Architects ("GN"). The GN practice, which comprises ten people led by Norman and Helen Grey-Noble, specializes in the design of educational facilities throughout southern Ontario as well as internationally. The GN practice has been integrated into the Toronto and Ottawa offices of IBI Group Architects.

Selected Consolidated Financial Information and Reconciliation of Non-GAAP Measures

	Three months ended June 30, 2006 Unaudited	Three months ended June 30, 2005 Unaudited	Six months ended June 30, 2006 Unaudited	Six months ended June 30, 2005 Unaudited
in thousands except for per Unit amounts				
Revenue	\$ 37,161	\$ 23,905	\$ 72,559	\$ 47,178
Expenses				
Salaries, fees and employee benefits	22,862	16,050	45,264	31,675
Other cash operating costs (other than interest)	7,537	4,251	14,654	8,276
	30,399	20,301	59,918	39,951
Earnings before income taxes, interest and amortization (EBITDA)	6,762	3,604	12,641	7,227
Interest	481	209	829	392
Income taxes	342	(66)	515	240
Amortization of capital and intangible assets	1,525	1,081	2,778	4,143
Amortization of deferred credit - leases	(90)	(100)	(180)	(200)
Net earnings before non-controlling interest	\$ 4,504	\$ 2,480	\$ 8,699	\$ 2,652
Non-controlling interest	1,665	1,240	3,540	1,326
Net earnings	\$ 2,839	\$ 1,240	\$ 5,159	\$ 1,326
Basic and diluted net earnings per Unit	\$ 0.3313	\$ 0.2467	\$ 0.7069	\$ 0.2638
Distributable Cash				
Cash flow from operating activities	\$ (1,379)	\$ 8,302	\$ (7,001)	\$ 2,806
Add (deduct):				
Change in non-cash operating working capital	7,318	(4,841)	18,298	3,789
Capital expenditures	(842)	(393)	(1,429)	(755)
Income taxes	342	(66)	515	240
Income taxes paid	(613)	(53)	(615)	(217)
Distributable cash	\$ 4,826	\$ 2,949	\$ 9,768	\$ 5,863
Weighted average basic and diluted distributable cash per Unit (1)	0.3550	\$ 0.2934	\$ 0.7926	\$ 0.5833
Aggregate distributions declared	\$ 4,078	\$ 2,827	\$ 7,385	\$ 5,654
Basic and diluted aggregate distributions declared per Unit (1)	\$ 0.3000	\$ 0.2812	\$ 0.5941	\$ 0.5625
Total assets	\$ 177,158	\$ 123,098	\$ 177,158	\$ 123,098

(1) 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 is not a recognized measure under GAAP and does not have a standardized meaning prescribed by GAAP. The term is generally used by Canadian open-ended income funds as an indicator of financial performance. The Fund defines distributable cash as cash flow from operating activities before change in non-cash operating working capital and income taxes and after capital expenditures and income taxes paid. Reconciliations of distributable cash to cash flow from operating activities have been provided under the headings “Selected Consolidated Financial Information and Reconciliation of Non-GAAP Measures” and “Summary of Quarterly Results”.

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 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 the methods used by other similar entities. Accordingly, EBITDA may not be comparable to similar measures used by such entities. Reconciliations of net earnings to EBITDA have been provided under the headings “Selected Consolidated Financial Information and Reconciliation of Non-GAAP Measures” and “Summary of Quarterly Results”.

Results of Operations

Revenue for the three months ended June 30, 2006 was up \$13.3 million (55.5%) to \$37.2 million compared to \$23.9 million for the three months ended June 30, 2005. For the six months ended June 30, 2006, revenue was up \$25.4 million (53.8%) to \$72.6 million compared to \$47.2 million for the six months ended June 30, 2005. These increases over the prior year periods were the result of both strategic growth through acquisitions and organic growth. Revenue from strategic growth through acquisitions, together with synergies resulting from the integration of the acquired firms within the ongoing IBI practice, accounted for approximately \$10.4 million of the increase for the three months ended June 30, 2006 and \$20.4 million of the increase for the six months ended June 30, 2006. Organic growth of approximately \$2.9 million for the three months ended June 30, 2006 and \$5.1 million for the six months ended June 30, 2006 was achieved in the fee revenue of the continuing IBI core business. This growth in activity was accomplished by an increase of 10% in the average number of professional staff during the six months ended June 30, 2006, billing rate increases of approximately 4% and an

increase in the percentage of chargeable time compared with the six months ended June 30, 2005.

Salaries, fees and employee benefits for the three months ended June 30, 2006 were up \$6.8 million (42.4%) to \$22.9 million compared with \$16.1 million for the three months ended June 30, 2005. For the six months ended June 30, 2006, salaries, fees and employee benefits were up \$13.6 million (42.9%) to \$45.3 million compared with \$31.7 million for the six months ended June 30, 2005. These increases were at a level expected by management. Salaries, fees and employee benefits as a percentage of revenue for the three months ended June 30, 2006 were 61.5% compared with 67.1% for the three months ended June 30, 2005. For the six months ended June 30, 2006, the percentage was 62.4% compared with 67.1% for the six months ended June 30, 2005. These drops in percentages over the prior year periods were primarily the result of efficiencies achieved through the strategic acquisitions completed by the Fund since June 30, 2005, together with an increase in chargeable time. Another factor was the addition of the Sodem business as part of the merger with DAA. Sodem operates at a lower level of salaries, fees and employee benefits as a percentage of revenues (and at a higher level of other operating costs related to operating the physical plant of the recreational facilities they manage) than the rest of IBI Group. In addition, the Sodem business is more seasonal than the rest of the IBI Group business and Sodem employs a much higher number of staff in the summer months for the operation and maintenance of the recreational facilities that are managed by it.

Other cash operating costs (other than interest) for the three months ended June 30, 2006 were up \$3.3 million (77.3%) to \$7.5 million compared with \$4.3 million for the three months ended June 30, 2005. For the six months ended June 30, 2006, other cash operating costs (other than interest) were up \$6.4 million (77.1%) to \$14.7 million compared with \$8.3 million for the six months ended June 30, 2005. As a percentage of revenue, other operating costs (other than interest) for the three months ended June 30, 2006 were 20.3% compared with 17.8% for the three months ended June 30, 2005, and for the six months ended June 30, 2006 were 20.2% compared with 17.5% for six months ended June 30, 2005. These increases in other operating costs (other than interest) as a percentage of revenues were primarily due to the costs attributed to the Sodem business, which accounted for 1.7% of the year to date increase (due to the costs of operating the physical plant of the recreational facilities that they manage). In addition, there were increased costs related to the upgrading of the accounting software in the three months ended June 30, 2006 as well as incremental costs associated with the continued implementation of ISO 9001:2000 throughout the Canadian offices. This implementation program is expected to continue throughout the year in the Canadian offices and will continue into 2007 with the implementation of ISO 9001:2000 in IBI Group's offices in the US and is expected to enhance IBI Group's long term performance.

Amortization for the three months ended June 30, 2006 was \$1.4 million compared with \$1.0 million for the three months ended June 30, 2005. For the six months ended June 30, 2006, amortization was down \$1.3 million to \$2.6 million compared with \$3.9 million for the six months ended June 30, 2005. Amortization for the three months ended June 30, 2006 includes \$0.9 million of amortization expense on client relationships, contracts and non-competition provisions compared with \$0.8 million for the three months ended June 30, 2005. For the six months ended June 30, 2006, amortization expense on client relationships, contracts and non-competition provisions was \$1.8 million compared with \$3.6 million for the six months ended

June 30, 2005. The decrease in the amortization for the six months ended June 30, 2006 was due to amounts being fully amortized in the first quarter of 2006. Amortization of capital assets during the three months ended June 30, 2006 was \$0.6 million compared with \$0.3 million for the three months ended June 30, 2005 and was \$1.0 million for the six months ended June 30, 2006, compared with \$0.6 million for the six months ended June 30, 2005.

Net earnings before non-controlling interest of the Fund for the three months ended June 30, 2006 were \$4.5 million or \$0.3313 per Unit (on a fully diluted basis) compared with \$2.5 million or \$0.2467 per Unit for the three months ended June 30, 2005. For the six months ended June 30, 2006, net earnings before non-controlling interest were \$8.7 million or \$0.7069 per Unit (on a fully diluted basis) compared with \$2.7 million or \$0.2638 per Unit for the six months ended June 30, 2005. As a percentage of revenue, net earnings before non-controlling interest were 12.1% for the three months ended June 30, 2005, compared with 10.4% for the three months ended June 30, 2005. For the six months ended June 30, 2006, net earnings before non-controlling interest as a percentage of revenue were 12.0% compared with 5.6% for the six months ended June 30, 2005.

EBITDA for the three months ended June 30, 2006 was \$6.8 million, up \$3.2 million (87.6%) from \$3.6 million for the three months ended June 30, 2005. For the six months ended June 30, 2006, EBITDA was up \$5.4 million (74.9%) to \$12.6 million compared with \$7.2 million for the six months ended June 30, 2005. As a percentage of revenue, EBITDA was 18.2% for the three months ended June 30, 2006 compared with 15.1% for the three months ended June 30, 2005. For the six months ended June 30, 2006, EBITDA as a percentage of revenue was 17.4% compared with 15.3% for the six months ended June 30, 2005. The growth in revenue, together with the relative reduction in salaries, fees and employee benefits as a percentage of revenue, partially offset by the increase in other operating costs, accounted for the increases in the percentages for both the three month and six month periods ended June 30, 2006 as compared to the prior year periods.

Distributable Cash

During the three months ended June 30, 2006, the Fund generated \$4.8 million of distributable cash, up \$1.9 million (63.6%) as compared with \$2.9 million for the three months ended June 30, 2005. On a per Unit basis, based on the weighted average number of Units outstanding, distributable cash was \$0.3550 for the three months ended June 30, 2006, compared with \$0.2934 for the three months ended June 30, 2005. This represents a 21.0% increase in distributable cash per Unit over the quarter ended June 30, 2005 and a payout ratio of 84.5% for the three months ended June 30, 2006. For the six months ended June 30, 2006, the Fund generated \$9.8 million of distributable cash, compared with \$5.9 million for the six months ended June 30, 2005. Actual distributions declared for the six months ended June 30, 2006 were \$7.4 million. Distributable cash was impacted in the second quarter of 2006 by tax instalments paid in the amount of \$0.6 million relating to both the first and second quarter of 2006. In February 2006, the Fund increased the monthly distribution from \$0.09375 to \$0.10 per Unit.

On July 20, 2006, a distribution of \$0.10 per Unit was declared to each Unitholder of record at July 31, 2006, which is payable on August 31, 2006. In addition, on July 20, 2006 IBI

Group declared a distribution of \$0.05625 per Class B subordinated partnership unit of IBI Group payable to each holder of Class B subordinated partnership units of record at July 31, 2006 which is payable on August 31, 2006. The total cash requirement for these distributions is \$1.1 million.

Liquidity and Capital Resources

During the quarter ended June 30, 2006, the Fund's bank indebtedness increased by \$8.0 million. This increase is due to the growth in working capital resulting from the strategic and organic growth of IBI Group. The acquisition of DAA accounted for \$3.0 million in the growth in working capital. DAA became part of IBI Group without any working capital and has been building up its working capital to what is now a sustainable level.

During the six months ended June 30, 2006, the Fund's bank indebtedness decreased by \$1.0 million with the increase in the bank indebtedness of the second quarter offset by the \$9.0 million decrease in bank indebtedness from the first quarter. This decrease was due to the application of the proceeds of \$39.0 million from an equity offering completed during March 2006 of 3,542,000 Units at a price of \$11.00 per Unit. The proceeds of this offering, after deducting \$1.6 million for expenses of the offering and the underwriters' fee, were used to repay (a) the \$4.8 million of debt to the Management Partnership incurred by IBI Group in connection with the acquisition of HBEW; (b) the \$13.9 million of debt to the Management Partnership incurred by IBI Group in connection with the merger of the business of DAA with the business of IBI Group; and (c) \$18.7 million of indebtedness owing by IBI Group on its line of credit with its bank lender.

Current assets increased \$7.4 million during the three months ended June 30, 2006 to \$66.2 million. This increase was a result of the merger of the business of IBI Group with the business of DAA, which accounted for \$3.5 million of the increase in current assets with the balance of the increase a result of the organic growth in the business. Capital expenditures during the three months ended June 30, 2006 were \$0.8 million, up from \$0.4 million for the three months ended June 30, 2005. For the six months ended June 30, 2006, capital expenditures were up \$0.6 million to \$1.4 million compared with \$0.8 million for the six months ended June 30, 2005. The increase in capital expenditures was due to the increase in the number of staff as well as upgrades to the networking capabilities of IBI Group's offices as part of implementation of ISO 9001:2000.

On June 30, 2006, IBI Group amended the terms of its credit facilities with its bank lender. Pursuant to this amendment the \$26 million operating facility previously made available to IBI Group has been replaced by two facilities totalling \$50 million, consisting of a \$15 million operating facility and \$35 million term facility. The amount of available borrowing under the amended credit facilities is no longer tied to the amount of accounts receivable and work in process. The availability of each of the credit facilities is subject to compliance with certain financial and other covenants. The revised credit facilities are expected to provide sufficient capital resources through which the business can continue to grow organically as well as providing for improved flexibility in the financing of future acquisitions over the terms of the facilities. See "Forward Looking Statements and Risk Factors". In addition, the amendment will

result in lower cost of borrowing on certain types of advances by reason of lower applicable margins above the applicable prime or LIBOR rate.

The operating facility (the “Operating Facility”) of up to \$15 million is a revolving facility provided to IBI Group 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.

The term facility (the “Term Facility”) of up to \$35 million is a revolving facility to be used to finance new acquisitions and certain payments by IBI Group in respect of certain acquisitions previously made by it, and to refinance up to \$10 million of IBI Group’s indebtedness under its previous operating facility. The \$10 million refinancing was completed on July 20, 2006.

In addition, a bid bond guarantee facility (the “Bid Bond Facility”) of up to USD\$1 million 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. Prior to these amendments to the credit facilities, IBI Group’s credit facilities were scheduled to expire on August 30, 2008.

The indebtedness and obligations of IBI Group under the Operating Facility, the Term Facility and the Bid Bond Facility (the “Facilities”) 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.

As at June 30, 2006, IBI Group had borrowings of \$14.9 million under its Operating Facility and there had not been any amounts drawn on the Term Facility.

Summary of Quarterly Results

The following table provides quarterly historical financial data for the Fund since its inception 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 of dollars except for per Unit amounts	2nd Qtr 2006 Unaudited	1st Qtr 2006 Unaudited	4th Qtr 2005 Unaudited	3rd Qtr 2005 Unaudited	2nd Qtr 2005 Unaudited	1st Qtr 2005 Unaudited	4th Qtr 2004 Unaudited	For the period from August 31 to September 30, 2004 Unaudited
Revenue	\$ 37,161	\$ 35,398	\$ 26,208	\$ 24,943	\$ 23,905	\$ 23,273	\$ 22,963	\$ 7,717
Net Earnings (loss)	2,839	2,320	1,333	1,127	1,240	86	(570)	322
Non-controlling interest	1,665	1,875	1,333	1,127	1,240	86	(570)	321
Interest	481	348	271	244	209	183	36	-
Income taxes	342	173	(137)	186	(66)	306	103	163
Amortization of capital and intangible assets	1,525	1,253	1,284	1,131	1,081	3,063	4,244	581
Amortization of deferred credit - leases	(90)	(90)	(100)	(100)	(100)	(100)	(103)	(34)
Earnings before income taxes, interest and amortization (EBITDA)	6,762	5,879	3,983	3,715	3,604	3,624	3,140	1,353
EBITDA as a percentage of Revenue	18.2%	16.6%	15.2%	14.9%	15.1%	15.6%	13.7%	17.5%
Distributable cash reconciliation								
Cash flow from operating activities	(1,379)	(5,622)	3,697	4,180	8,302	(5,495)	(15,088)	(4,677)
Add (deduct):								
Change in non-cash operating working capital	7,318	10,980	153	(895)	(4,841)	8,630	18,090	5,867
Capital expenditures	(842)	(587)	(415)	(329)	(393)	(363)	(451)	(33)
Income taxes	342	173	(137)	186	(66)	306	103	163
Income taxes paid	(613)	(2)	(91)	(147)	(53)	(164)	(169)	(29)
Distributable cash	4,826	4,942	3,207	2,995	2,949	2,914	2,485	1,291
Basic and diluted distributable cash per Unit	0.3550	0.4395	0.3190	0.2980	0.2934	0.2899	0.2472	0.1284
Basic and diluted aggregate distributions declared per Unit	0.3000	0.2941	0.2812	0.2812	0.2812	0.2812	0.2812	0.09375
Pay out ratio	84.5%	66.9%	88.2%	94.4%	95.8%	97.0%	113.8%	73.0%
Basic and diluted net earnings (loss) per Unit	0.3313	0.3730	0.2652	0.2242	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 the Management Partnership which owns all of the Class B subordinated partnership units of IBI Group, representing 37% of the outstanding partnership units of IBI Group, and which holds an interest in the Fund of approximately 50.5% (on a fully-diluted basis). The leases were entered into in 2002 at then current market rates of approximately \$1.8 million per annum, and expire on December 31, 2012. Effective January 1, 2006, IBI Group leased approximately 14,000 square feet of additional space under these leases at then current market rates, bringing the total annual lease payments under these leases to approximately \$2.2 million.

Pursuant to the Administration Agreement entered into in connection with the closing of the Fund's initial public offering of Units, IBI Group and certain of its subsidiaries are paying to the Management Partnership an amount representing the base compensation for the services of the principals of the partners of the Management Partnership. The amount paid for such services during the three months ended June 30, 2006 was \$2.4 million and the amount paid for such services during the six months ended June 30, 2006 was \$4.7 million.

The acquisition of HBEW was partially funded by a \$4.8 million loan from the Management Partnership to IBI Group. The loan bore interest at the same rate as was then payable on IBI Group's operating line of credit with its bank lender, being prime plus 0.75%. The loan was subordinated to the Fund's indebtedness to its bank lender and was unsecured. The loan was repaid on March 6, 2006.

The cash payment made to DAA on closing of the merger of the business of DAA with the business of IBI Group was funded by a loan of \$13.9 million by the Management Partnership to IBI Group. The loan bore interest at the same rate as was then payable on IBI Group's operating line of credit with its bank lender, being prime plus 0.75%. The loan was subordinated to the Fund's indebtedness to its bank lender and was unsecured. The loan was repaid on March 6, 2006.

The balance of consideration owing to DAA in connection with the merger of the business of DAA with the business of IBI Group 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 the balance of the consideration for the assets (\$14.5 million) on January 31, 2007 together with an additional amount calculated by multiplying the prime interest rate quoted by IBI Group's bank lender by the balance of the consideration.

IBI Group is managing the working capital of the 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, 2006, \$0.2 million had been realised and is shown on the Fund's balance sheet as a current liability.

Subsequent transaction

On July 21, 2006, IBI Group completed the acquisition of substantially all of the assets of Tomasino & Associates, Inc (“Tomasino”), for consideration of approximately \$0.5 million. Tomasino is a consulting firm of engineers, planners, designers and surveyors with in-house capabilities for total project development from planning through design, construction and start-up services, which has been serving government as well as private clients in Florida from its office in the Tampa Bay area for over thirty five years. The Tomasino practice, which comprises twenty-one people led by Paul Tomasino, has been integrated into the Florida practice of IBI Group, Inc.

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 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.

Another 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, while maintaining targeted chargeable time for staff on revenue producing contracts.

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 has acquired and which it may acquire in the future 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 operating, 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 (v) 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 25% of its revenues outside of Canada (75% within Canada) while approximately 70% 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 annual information form for the year ended December 31, 2005.

Forward Looking Statements and Risk Factors

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 (collectively, the “Fund”), or the industry in which they operate, 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 related to: (i) the Fund’s ability to maintain profitability and manage its growth; (ii) the Fund’s reliance on its key professionals; (iii) competition in the industry in which the Fund operates; (iv) timely completion by the Fund of projects and performance by the Fund of its obligations; (v) reliance on fixed-price contracts; (vi) the general state of the economy; (vii) acquisitions by the Fund; (viii) risk of future legal proceedings against the Fund; (ix) the international operations of the Fund; (x) reduction in the Fund’s backlog; (xi) fluctuations in interest rates; (xii) fluctuations in currency exchange rates; (xiii) potential undisclosed liabilities associated with acquisitions; (xiv) increased assumption by risk by the Fund; (xv) limits under the Fund’s insurance policies; (xvi) the Fund’s reliance on distributions from its subsidiary entities and, as a result, its susceptibility to fluctuations in the performance of the Fund’s subsidiary entities; (xvii) unpredictability and volatility of the price of Units; (xviii) the degree to which the Fund is leveraged may affect its operations; (xix) cash distributions are not guaranteed and will fluctuate with the Fund’s performance; (xx) the nature of the Units; (xxi) the possibility of the distribution of securities on redemption or termination of the Fund; (xxii) the possibility that the Fund may issue additional Units diluting existing Unitholders’ interests; (xxiii) the potential liability of Unitholders for obligations of the Fund; (xxiv) the continued investment eligibility of the Units; and (xxv) income tax matters. These risk factors are discussed in detail under the heading “Risk Factors” in the Fund’s annual information form for its year ended December 31, 2005. 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.