

## 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 nine months ended September 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 November 8, 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](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. 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.

### **Changes in Tax Legislation**

On October 31, 2006, the Minister of Finance (Canada), proposed certain changes to Canada's taxation system which will subject income trusts to a distribution tax regime designed to ensure that the taxation of business income and unitholder distributions approximates the tax treatment of corporations and their shareholders. For income trusts that were publicly traded on October 31, 2006, including the Fund, the new tax will first apply to the trusts' 2011 taxation year. At this time, it is premature to determine the extent to which the proposed changes will affect the Fund. Management of the Fund will be giving consideration to these proposals as more detailed legislative measures are released in order to assess their impact on the Fund and its unitholders and develop an appropriate course of action to address such impact. The business fundamentals of the Fund are strong and continue to strengthen and management will continue to build the business of the Fund to fulfill the objective of creating long term sustainable value for the unitholders of the Fund.

### **Operating Highlights**

IBI Group continued to implement its strategy of combined growth through organic growth and acquisitions in the third quarter of 2006. This was accomplished through four acquisitions that were completed during the quarter, along with the organic growth of the continuing IBI Group practice. The total cost of the four acquisitions was \$4.1 million, subject to adjustments. Cash consideration of \$2.1 million in the aggregate was paid on the closing of these acquisitions with the balance of the consideration being issued in the form of promissory notes.

Effective September 1, 2006, IBI Group acquired the practice of Thomas Blurock Architects Inc. ("Blurock"). Blurock is an architectural practice led by Thomas Blurock and four additional shareholders, with a full complement of professional and technical staff totalling 25 personnel, which served clients in southern California for over twenty-two years. The Blurock practice specializes in architectural practice for a diverse range of educational facilities including high schools, primary schools, vocational schools and colleges for a broad client base of school districts in the Los Angeles area and other counties of southern California. The practice also provides architectural services for a variety of other types of facilities. The agreements entered into in connection with the acquisition of the Blurock practice provide for the continued provision of services to the practice by all five shareholders for a minimum of three years and for the continued provision of services to the practice by all of the other personnel.

Effective September 1, 2006, IBI Group acquired the practice of Scharf & Associates Incorporated (“Scharf”) of Fort Lauderdale, Florida. Scharf was a firm of architects and planners led by Marvin Scharf, AIA, who has over 42 years of experience in design and project administration. Scharf was incorporated in 1986 and had extensive experience in the design of health care facilities, education buildings, passenger terminals, recreation facilities, administration facilities, emergency operation centres, banking facilities and industrial buildings. The Scharf practice provides comprehensive planning services, including master planning, site planning, facility planning, space planning and interior design, as well as full architectural services from design through construction phase services and building commissioning. The agreements entered into in connection with the acquisition of the Scharf practice provide for the continued provision of services to the practice by Marvin Scharf for a minimum of three years and for the continued provision of services to the practice by all of the other personnel.

Effective June 1, 2006, IBI Group acquired the practice of Tomasino & Associates, Inc. (“Tomasino”). Tomasino was 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 served 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.

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.

Effective May 1, 2006, IBI Group acquired the urban environmental practice in which DAA held an indirect 50% interest at the time of the merger of the business of DAA with the business of IBI Group. This practice was carried out by a corporation which was owned 50% by DAA and 50% by a third party, which specialized in environmental studies in resource development. In connection with the merger of the business of DAA with the business of IBI Group, IBI Group made an offer to acquire all of the shares of this corporation. IBI Group was a party to a shareholders agreement relating to this corporation which contained rights of refusal and buy/sell arrangement which had to be complied with and this precluded this transaction from being consummated at the same time as the merger of the business of DAA with the business of IBI Group. Ultimately, the third party exercised its rights to acquire DAA’s 50% interest in the corporation, but wanted to concentrate exclusively on the practice of environmental studies in resource development and, as a result, transferred the urban environmental practice to DAA as part of the transaction. The residual urban environmental practice was then acquired by IBI Group effective May 1, 2006.

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.

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 September 30, 2006 Unaudited	Three months ended September 30, 2005 Unaudited	Nine months ended September 30, 2006 Unaudited	Nine months ended September 30, 2005 Unaudited
in thousands except for per Unit amounts				
<b>Revenue</b>	\$ 39,477	\$ 24,943	\$ 112,036	\$ 72,121
<b>Expenses</b>				
Salaries, fees and employee benefits	25,141	16,260	70,405	47,935
Other cash operating costs (other than interest)	7,043	4,968	21,697	13,244
	32,184	21,228	92,102	61,179
<b>Earnings before income taxes, interest and amortization (EBITDA)</b>	7,293	3,715	19,934	10,942
Interest	540	244	1,369	636
Income taxes	494	186	1,009	426
Amortization of capital and intangible assets	1,427	1,131	4,205	5,274
Amortization of deferred credit - leases	(90)	(100)	(270)	(300)
<b>Net earnings before non-controlling interest</b>	\$ 4,922	\$ 2,254	\$ 13,621	\$ 4,906
Non-controlling interest	1,820	1,127	5,360	2,453
Net earnings	\$ 3,102	\$ 1,127	\$ 8,261	\$ 2,453
Basic and diluted net earnings per Unit	\$ 0.3621	\$ 0.2242	\$ 1.0699	\$ 0.4880
<b>Distributable Cash</b>				
Cash flow from operating activities	\$ 4,628	\$ 4,182	\$ (2,373)	\$ 7,029
Add (deduct):				
Change in non-cash operating working capital	1,631	(897)	19,929	2,851
Capital expenditures	(534)	(329)	(1,963)	(1,084)
Income taxes	494	186	1,009	426
Income taxes paid	(314)	(147)	(929)	(364)
Distributable cash	\$ 5,905	\$ 2,995	\$ 15,673	\$ 8,858
Weighted average basic and diluted distributable cash per Unit (1)	0.4344	\$ 0.2980	\$ 1.2289	\$ 0.8813
Aggregate distributions declared	\$ 4,146	\$ 2,827	\$ 11,531	\$ 8,841
Basic and diluted aggregate distributions declared per Unit (1)	\$ 0.3050	\$ 0.2812	\$ 0.8988	\$ 0.8437
Total assets	\$ 187,906	\$ 131,739	\$ 187,906	\$ 131,739

(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 September 30, 2006 was up \$14.5 million (58.3%) to \$39.5 million compared to \$24.9 million for the three months ended September 30, 2005. For the nine months ended September 30, 2006, revenue was up \$39.9 million (55.3%) to \$112.0 million compared to \$72.1 million for the nine months ended September 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 was approximately \$10.8 million for three months ended September 30, 2006, of which approximately \$1.0 million was the result of integration and synergy with the ongoing IBI Group practice resulting in organic growth within the acquired firms, and \$31.9 million for the nine months ended September 30, 2006, of which approximately \$2.5 million was growth through integration and synergy with the ongoing IBI Group practice resulting in organic growth within the acquired firms. IBI Group achieved organic growth of approximately \$3.7 million (14.9%) for the three months ended September 30, 2006 and \$8.0 million (11.1%) for the nine months ended September 30, 2006. The combined organic growth of IBI Group and within the acquired firms

was a total of \$4.7 million (18.9%) for the three months ended September 30, 2006 and \$10.5 million (14.6%) for the nine months ended September 30, 2006. The overall growth in activity was accomplished by a 51.0% increase in the average number of staff from 775 during the nine months ended September 30, 2005 to 1,170 during the nine months ended September 30, 2006. The number of staff as of September 30, 2006 was 1,282, up from 825 as of September 30, 2005. In addition IBI Group's standard billing rates increased by approximately 4% compared with the nine months ended September 30, 2005 and the percentage of time spent by IBI Group personnel on chargeable time projects increased compared with the nine months ended September 30, 2005.

**Salaries, fees and employee benefits** for the three months ended September 30, 2006 were up \$8.9 million (54.6%) to \$25.1 million compared with \$16.3 million for the three months ended September 30, 2005. For the nine months ended September 30, 2006, salaries, fees and employee benefits were up \$22.5 million (46.9%) to \$70.4 million compared with \$47.9 million for the nine months ended September 30, 2005. These increases were at a level below the increase in fee revenue. Salaries, fees and employee benefits as a percentage of revenue for the three months ended September 30, 2006 were 63.7% compared with 65.2% for the three months ended September 30, 2005. For the nine months ended September 30, 2006, the percentage was 62.8% compared with 66.5% for the nine months ended September 30, 2005. The decrease in percentages over the prior year periods were primarily the result of synergies achieved through the strategic acquisitions completed by the Fund since September 30, 2005, resulting in more effective utilization of time with the growth and diversification of the practice.

**Other cash operating costs (other than interest)** for the three months ended September 30, 2006 were up \$2.1 million (41.8%) to \$7.0 million compared with \$5.0 million for the three months ended September 30, 2005. For the nine months ended September 30, 2006, other cash operating costs (other than interest) were up \$8.5 million (63.8%) to \$21.7 million compared with \$13.2 million for the nine months ended September 30, 2005. As a percentage of revenue, other operating costs (other than interest) for the three months ended September 30, 2006 were 17.8% compared with 19.9% for the three months ended September 30, 2005, and for the nine months ended September 30, 2006 were 19.4% compared with 18.4% for nine months ended September 30, 2005. The year to date increase in other operating costs (other than interest) as a percentage of revenues were primarily due to the costs incurred by the Sodem business, which accounted for approximately 1.5% of the increase (due to the costs of operating the physical plant of the recreational facilities that they manage). The decrease in the percentage for the quarter was the result of increased efficiencies resulting from the growth in revenues at a higher rate than that at which fixed costs such as rent and insurance costs increased.

**Amortization** for the three months ended September 30, 2006 was down \$0.3 million to \$1.3 million compared with \$1.0 million for the three months ended September 30, 2005. For the nine months ended September 30, 2006, amortization was down \$1.1 million to \$3.9 million compared with \$5.0 million for the nine months ended September 30, 2005. Amortization for the three months ended September 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 September 30, 2005. For the nine months ended September 30, 2006, amortization expense on client relationships, contracts and non-competition provisions was \$2.7 million compared with \$4.4 million for the nine months ended September 30, 2005. The

decrease in the amortization for the nine months ended September 30, 2006 was due to amounts being fully amortized in the first quarter of 2006. Amortization of capital assets during the three months ended September 30, 2006 was \$0.5 million compared with \$0.3 million for the three months ended September 30, 2005 and was \$1.5 million for the nine months ended September 30, 2006, compared with \$0.9 million for the nine months ended September 30, 2005.

**Net earnings before non-controlling interest** of the Fund for the three months ended September 30, 2006 were up \$2.7 million (118.4%) to \$4.9 million compared with \$2.3 million for the three months ended September 30, 2005. Net earnings before non-controlling interest per Unit (on a fully-diluted basis) for the three months ended September 30, 2006 were up \$0.1379 (61.5%) to \$0.3621 compared with \$0.2242 for the three months ended September 30, 2005. For the nine months ended September 30, 2006, net earnings before non-controlling interest were up \$8.7 million (177.6%) to \$13.6 million compared with \$4.9 million for the nine months ended September 30, 2005. Net earnings before non-controlling interest per Unit (on a fully-diluted basis) for the nine months ended September 30, 2006 were up \$0.5819 (119.2%) to \$1.0699 compared with \$0.4880 for the nine months ended September 30, 2005. As a percentage of revenue, net earnings before non-controlling interest were 12.5% for the three months ended September 30, 2006, compared with 9.0% for the three months ended September 30, 2005. For the nine months ended September 30, 2006, net earnings before non-controlling interest as a percentage of revenue were 12.2% compared with 6.8% for the nine months ended September 30, 2005.

**EBITDA** for the three months ended September 30, 2006 was \$7.3 million, up \$3.6 million (96.3%) from \$3.7 million for the three months ended September 30, 2005. For the nine months ended September 30, 2006, EBITDA was up \$9.0 million (82.2%) to \$19.9 million compared with \$10.9 million for the nine months ended September 30, 2005. As a percentage of revenue, EBITDA was 18.5% for the three months ended September 30, 2006 compared with 14.9% for the three months ended September 30, 2005. For the nine months ended September 30, 2006, EBITDA as a percentage of revenue was 17.8% compared with 15.2% for the nine months ended September 30, 2005. The growth in revenue, together with the relative reduction in salaries, fees and employee benefits as a percentage of revenue, accounted for the increases in the percentages for both the three month and nine month periods ended September 30, 2006 as compared to the prior year periods.

### **Distributable Cash**

During the three months ended September 30, 2006, the Fund generated \$5.9 million of distributable cash, up \$2.9 million, (97.2%) as compared with \$3.0 million for the three months ended September 30, 2005. On a per Unit basis, based on the weighted average number of Units outstanding, distributable cash was \$0.4344 for the three months ended September 30, 2006, compared with \$0.2980 for the three months ended September 30, 2005. This represents a 45.8% increase in distributable cash per Unit over the three months ended September 30, 2005 and a payout ratio of 70.2% for the three months ended September 30, 2006. For the nine months ended September 30, 2006, the Fund generated \$15.7 million of distributable cash, compared with \$8.9 million for the nine months ended September 30, 2005. Actual distributions declared for the nine months ended September 30, 2006 were \$11.5 million. In September 2006, the Fund increased the monthly distribution from \$0.10 to \$0.105 per Unit.

On October 20, 2006, a distribution of \$0.105 per Unit was declared to each Unitholder of record at October 31, 2006, which is payable on November 30, 2006. In addition, on October 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 October 31, 2006 which is payable on November 30, 2006. The total cash requirement for these distributions is \$1.2 million.

### **Liquidity and Capital Resources**

During the quarter ended September 30, 2006, the Fund's bank indebtedness decreased by \$6.1 million. The decrease was the result of the receipt of \$10 million in cash on the conversion of an equivalent amount of operating debt into long-term debt. This was partially offset by the payments made on the closings of the acquisitions completed during the quarter (\$2.1 million) and the continued build up of working capital of DAA (\$1.8 million) and the practices acquired during the quarter. The growth in working capital resulting from the organic growth of IBI Group has been funded through operating cash flow generated during the quarter. During the nine months ended September 30, 2006, the Fund's bank indebtedness decreased by \$7.1 million.

Current assets increased \$7.2 million during the three months ended September 30, 2006 to \$73.4 million. This increase was a result of the continued growth in the working capital of DAA (which is now at a sustainable level) which accounted for approximately \$1.8 million of the increase and the acquisitions completed during the quarter which accounted for approximately \$0.7 million of the increase. The balance of the increase was a result of organic growth in the business.

Capital expenditures during the three months ended September 30, 2006 were \$0.5 million, up from \$0.3 million for the three months ended September 30, 2005. For the nine months ended September 30, 2006, capital expenditures were up \$0.9 million to \$2.0 million compared with \$1.1 million for the nine months ended September 30, 2005. The increase in capital expenditures was due to the increase in the number of staff for both the year to date and the quarter as well as upgrades to the networking capabilities of IBI Group's offices as part of implementation of ISO 9001:2000 which increased the year to date amounts.

IBI Group has credit facilities totalling \$50 million, consisting of a \$15 million operating facility (the "Operating Facility") and \$35 million term facility (the "Term Facility"). The availability of each of the credit facilities is subject to compliance with certain financial and other covenants. The 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".

The Operating Facility is a revolving facility to be used by IBI Group for working capital purposes, to normalize distributions to holders of Class A partnership units and Class B subordinated partnership units of IBI Group and to finance certain payments by IBI Group in respect of certain acquisitions previously made by it. As at September 30, 2006, IBI Group had borrowings of \$9.1 million under the Operating Facility.

The Term Facility is a revolving facility to be used by IBI Group to finance new acquisitions and certain payments by IBI Group in respect of certain acquisitions previously made by it, and to refinance up to \$10 million of IBI Group's indebtedness under its previous operating facility. The \$10 million refinancing was completed on July 20, 2006. As at September 30, 2006, IBI Group had borrowings of \$10 million under the Term Facility.

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.

The indebtedness and obligations of IBI Group under the Operating Facility, the Term Facility and the Bid Bond Facility are secured by guarantees from certain subsidiaries of IBI Group as well as IBI Group Architects (Ontario), and a first ranking security interest in all of the assets of IBI Group and the guarantors, subject to certain permitted encumbrances. The indebtedness secured by these security interests will rank senior to all other security over the assets of IBI Group and the guarantors, subject to certain permitted encumbrances.

## Summary of Quarterly Results

The following table provides quarterly historical financial data for the Fund for each of the eight most recently completed quarters. 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

	3rd Qtr 2006 Unaudited	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
<b>Revenue</b>	\$ 39,477	\$ 37,161	\$ 35,398	\$ 26,208	\$ 24,943	\$ 23,905	\$ 23,273	\$ 22,963
<b>Net Earnings (loss)</b>	3,102	2,839	2,320	1,333	1,127	1,240	86	(570)
Non-controlling interest	1,820	1,665	1,875	1,333	1,127	1,240	86	(570)
Interest	540	481	348	271	244	209	183	36
Income taxes	494	342	173	(137)	186	(66)	306	103
Amortization of capital and intangible assets	1,427	1,525	1,253	1,284	1,131	1,081	3,063	4,244
Amortization of deferred credit - leases	(90)	(90)	(90)	(100)	(100)	(100)	(100)	(103)
<b>Earnings before income taxes, interest and amortization (EBITDA)</b>	7,293	6,762	5,879	3,983	3,715	3,604	3,624	3,140
EBITDA as a percentage of Revenue	18.5%	18.2%	16.6%	15.2%	14.9%	15.1%	15.6%	13.7%
<b>Distributable cash reconciliation</b>								
Cash flow from operating activities	4,628	(1,379)	(5,622)	3,697	4,182	8,302	(5,495)	(15,088)
Add (deduct):								
Change in non-cash operating working capital	1,631	7,318	10,980	153	(897)	(4,841)	8,630	18,090
Capital expenditures	(534)	(842)	(587)	(415)	(329)	(393)	(363)	(451)
Income taxes	494	342	173	(137)	186	(66)	306	103
Income taxes paid	(314)	(613)	(2)	(91)	(147)	(53)	(164)	(169)
<b>Distributable cash</b>	5,905	4,826	4,942	3,207	2,995	2,949	2,914	2,485
Basic and diluted distributable cash per Unit	0.4344	0.3550	0.4395	0.3190	0.2980	0.2934	0.2899	0.2472
Basic and diluted aggregate distributions declared per Unit	0.3050	0.3000	0.2941	0.2812	0.2812	0.2812	0.2812	0.2812
Pay out ratio	70.2%	84.5%	66.9%	88.2%	94.4%	95.8%	97.0%	113.8%
Basic and diluted net earnings (loss) per Unit	0.3621	0.3313	0.3730	0.2652	0.2242	0.2467	0.0171	(0.1133)
Personnel – average	1,256	1,167	1,086	829	804	766	754	761
Personnel – quarter end	1,282	1,206	1,092	808	825	784	746	752

## **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 September 30, 2006 was \$2.4 million and the amount paid for such services during the nine months ended September 30, 2006 was \$7.0 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 the 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 collection of the residual accounts receivable and other working capital of the Management Partnership that was on hand as at August 31, 2004. These amounts are being repaid to the Management Partnership as they are realized. As at September 30, 2006, \$1.0 million had been realized and is shown on the Fund's balance sheet 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.

Globalization and increasing concentration in ownership and management of assets in all four areas of development in which IBI Group practices is resulting in clients acquiring an increasing share of the professional services that they require from fewer, larger and more broadly based firms. IBI Group through its regional network of offices is well positioned to provide services on a strategic basis to such clients for their national and international portfolios. The Fund believes that IBI Group's continued program of strategic and organic growth will enhance IBI Group's position in the markets that it serves.

Another trend involves the growth in private finance initiatives ("PFI"), design-build projects and outsourcing in the public sector. In PFI, design-build 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 economy 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 has represented, and is expected to continue to represent a key determinant of 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 has a strategy for addressing discontinuities or shifts in the levels of economic activity geographically or in activity levels in the four areas of development which IBI Group serves. This strategy is based on IBI Group's program of successfully deploying people geographically to serve different market areas through relocation, travel and increasingly through internet platforms for delivery of work. Similarly, IBI Group's strategy for shifting staff involvement between the four broad areas that IBI Group serves is based on recruiting and training staff to have capability in more than one area.

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 has completed six acquisitions in the 25 months since the completion of its initial public offering adding 410 professional staff through such acquisitions.

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, Europe, the Middle East and most recently China and India 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 faces risk from variations in exchange rates due to its operations in the United States and other foreign markets. IBI Group's strategy for addressing such risk involves a program of maintaining a relative balance between revenues and expenditures earned and incurred in any foreign currency.

IBI Group is also exposed to inflation risk. However, in inflationary cycles as inflation affects the cost of creating assets, IBI Group's professional services related to the research, planning and design of asset creation are expected to generate increased fees offsetting increased salary costs.

IBI Group may be exposed to fluctuations in interest rates under its borrowings, including its credit facilities. 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.

## **Outlook**

In 2004, IBI Group established the target of growing its practice, which is focused in four main areas of development, being urban land, building facilities, transportation networks and systems technology, from its original Canadian base to a practice with global scale. In order to achieve global scale within a time frame of approximately five years, IBI Group embarked on a program, which combined continued organic growth with strategic growth through acquisition, integration and consolidation. The Fund’s initial public offering, which was successfully completed on August 31, 2004, provided a framework for access to the capital required to pursue strategic growth through acquisition. Since that time, IBI Group has successfully grown from a staff of approximately 775 people and approximately \$90 million in annual revenue to the current levels of 1,282 staff and annualized revenue of \$158 million (based on revenues for the three months ended September 30, 2006).

IBI Group is confident in its ability to continue its program of building the practice to global scale based on the following factors:

- its current backlog of fee volume is at an all time high, which provides the basis for continued organic growth;
- the firms which have been acquired by IBI Group since August, 2004 have been successfully integrated within the ongoing practice of IBI Group, resulting in synergies which have increased the organic growth of those firms and enhanced the overall profitability of IBI Group, as evidenced by growth in EBITDA as a percentage of revenue;
- IBI Group is currently in discussions with a wide range of firms interested in merging within IBI Group on terms similar to those on which IBI Group has completed its acquisitions to date.
- the strong results achieved by IBI Group to date along with its strong financial position have established favourable conditions for IBI Group to access both debt and equity capital to finance further strategic growth; and
- IBI Group is generating cash in excess of its cash distributions and the capital requirements of its existing practice, which provides an internally generated source of capital.

Overall, the outlook for IBI Group for the balance of 2006 and for 2007 is very encouraging, given the overall business climate, the demand for the services of IBI Group as evidenced by its backlog which is at an all time high, the new opportunities that IBI Group has in its new regions of activities in China and India, the growth in the firm’s activity in the Gulf region and the continued stable growth of the firm’s activities in Europe, the United States and Canada. IBI Group is carefully monitoring the volume of its work in serving the housing industry in urban land and facilities and, to date, there has been no slowdown in the level of IBI Group’s activities on behalf of its clients in these areas. However, IBI Group has a strategy for

addressing discontinuities or shifts in the levels of economic activity geographically or in activity levels in the four areas of development which IBI Group serves. This strategy is based on IBI Group's program of successfully deploying people to serve different market areas through relocation, travel and increasingly through internet platforms for delivery of work. Similarly, IBI Group's strategy for shifting staff involvement between the four broad areas that IBI Group serves is based on recruiting and training staff to have capability in more than one area.

### **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.

