

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 three months ended March 31, 2007. 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 May 9, 2007. Additional information that has been filed concerning the Fund, including the Fund's annual information form for the year ended December 31, 2006, 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 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 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 partnership units of IBI Group, are exchangeable into trust units ("Units") of the Fund on a one for one basis, subject to adjustment. 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 partnership units of IBI Group and Non-Participating Voting Units of the Fund, together with its holdings of 1,847,200 Units of the Fund, the Management Partnership holds an interest of approximately 50.6% 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 Group 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) announced new tax proposals (the "Proposal") concerning the taxation of income trusts and other flow-through entities. The Proposal was followed by the release of draft legislation by the Department of Finance on December 21, 2006 (the "2006 Proposed Amendments"). The 2006 Proposed Amendments, if enacted as currently drafted, will subject the Fund to trust level taxation as of January 1, 2011. In addition, the taxable distributions on the Units received by the holders of the Units from the Fund, would be treated as taxable dividends.

There can be no assurance that the Fund will be able to retain the benefit of the deferred application of the new tax regime until 2011. If the Fund is deemed to have undergone "undue expansion" during the period from November 1, 2006 to December 31, 2010, as described in the Normal Growth Guidelines issued by the Department of Finance on December 15, 2006, the 2006 Proposed Amendments would become effective on a date earlier than January 1, 2011.

The Normal Growth Guidelines indicate that the Fund will not lose the benefit of the deferred application of the new tax regime to 2011 if the equity capital of the Fund does not grow as a result of issuances of new equity (which includes Units, debt that is convertible into Units, and potentially other substitutes for such equity) before 2011 by an amount that exceeds the greater of \$50 million and an objective "safe harbour" amount based on a percentage of the Fund's October 31, 2006 market capitalization. The Normal Growth Guidelines provide for a "safe harbour" amount equal to 40% of the October 31, 2006 market capitalization for the period from November 1, 2006 to the end of 2007, and 20% for each of the 2008 to 2010 calendar years. These amounts of "safe harbour" are cumulative during the transition period. The Fund's October 31, 2006 market capitalization was approximately \$111 million. It is therefore assumed, for the purposes of this MD&A that the Fund will not be subject to the 2006 Proposed Amendments until January 1, 2011. However, in the event that the Fund issues additional Units or convertible debentures (or other equity substitutes) before 2011, the Fund may become subject to the 2006 Proposed Amendments prior to 2011. No assurance can be given that the 2006 Proposed Amendments will not apply to the Fund prior to 2011. Loss of the benefit of the deferred application of the new tax regime until 2011 could have a material and adverse effect on the value of Units of the Fund.

On December 20, 2006, the ministère des Finances (Québec) (the "Ministère") published Information Bulletin 2006-6 which sets out the Ministère's position regarding the October 31, 2006 Proposals which is that Québec's tax legislation will be harmonized with the federal tax legislation, but that a separate Québec tax regime will be implemented.

Operating Highlights

IBI Group continued its strong growth through the first three months of 2007, achieving 13.8% (17.4% overall) of organic growth compared with the first three months of 2006.

Strategic growth is also continuing with the acquisition of the practice of The RMPK Group, Inc. (RMPK), effective May 1, 2007. RMPK is a firm of 18 planners, designers and landscape architects, based in Sarasota Florida, serving a mix of both government and private clients.

During the first quarter of 2007, the former practice of HBEW, which had been acquired in August 2005, was integrated within the Vancouver office of IBI Group. In addition, the former practice of Thomas Blurock Architects Inc. was integrated within the Irvine office of IBI Group. Combining these offices will provide for cost savings as well as increased synergies with the staff of these respective offices working on projects together.

Selected Consolidated Financial Information and Reconciliation of Non-GAAP Measures

	Three months ended March 31, 2007	Three months ended March 31, 2006
in thousands except for per Unit amounts	Unaudited	Unaudited
Revenue	\$ 41,556	\$ 35,398
Expenses		
Salaries, fees and employee benefits	26,361	22,402
Other cash operating costs (other than interest)	7,581	7,117
	33,942	29,519
Earnings before income taxes, interest and amortization (EBITDA)	7,614	5,879
Interest	582	348
Income taxes	318	173
Amortization of property and equipment and intangible assets	1,237	1,253
Amortization of deferred credit - leases	(73)	(90)
Net earnings before non-controlling interest	\$ 5,550	\$ 4,195
Non-controlling interest	(2,052)	1,875
Net earnings	\$ 3,498	\$ 2,320
Basic and diluted net earnings per Unit	\$ 0.4083	\$ 0.3730
Distributable Cash		
Cash flow from operating activities	\$ (1,809)	\$ (5,622)
Add (deduct):		
Change in non-cash operating working capital	8,523	10,980
Capital expenditures	(1,394)	(587)
Income taxes	318	173
Income taxes paid	(148)	(2)
Distributable cash	\$ 5,490	\$ 4,942
Weighted average basic and diluted distributable cash per Unit (1)	\$ 0.4039	\$ 0.4395
Aggregate distributions declared	\$ 4,395	\$ 3,307
Basic and diluted aggregate distributions declared per Unit (1)	\$ 0.3233	\$ 0.2941
Total assets	\$ 193,219	\$ 169,584

(1) Distributable cash per Unit amounts are calculated by including both the Class A partnership units and the Class B 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 March 31, 2007 was up \$6.2 million (17.4%) to \$41.6 million compared to \$35.4 million for the three months ended March 31, 2006. This increase over the prior year period was the result of both strategic growth through acquisitions and organic growth. IBI Group achieved organic growth in revenue of approximately \$4.9 million (13.8%) for the three months ended March 31, 2007. Revenue from strategic growth through acquisitions (made during latter part of 2006) was approximately \$1.3 million for three months ended March 31, 2007. The overall growth in activity was accomplished through an 18.9% increase in the average number of staff from 1,086 during the three months ended March 31, 2006 to 1,291 during the three months ended March 31, 2007. The number of staff as of March 31, 2007 was 1,289, up from 1,092 as of March 31, 2006.

Salaries, fees and employee benefits for the three months ended March 31, 2007 were up \$4.0 million (17.7%) to \$26.4 million compared with \$22.4 million for the three months ended March 31, 2006. This increase was at a level consistent with the increase in fee revenue.

Salaries, fees and employee benefits as a percentage of revenue for the three months ended March 31, 2007 were 63.4% compared with 63.3% for the three months ended March 31, 2006.

Other cash operating costs (other than interest) for the three months ended March 31, 2007 were up \$0.5 million (6.5%) to \$7.6 million compared with \$7.1 million for the three months ended March 31, 2006. As a percentage of revenue, other operating costs (other than interest) for the three months ended March 31, 2007 were 18.2% compared with 20.1% for the three months ended March 31, 2006.

Amortization for the three months ended March 31, 2007 was unchanged at \$1.2 million as compared with the three months ended March 31, 2006. Amortization for the three months ended March 31, 2007, included \$0.7 million of amortization expense on client relationships, contracts and non-competition provisions compared with \$0.9 million for the three months ended March 31, 2006. Amortization of property and equipment during the three months ended March 31, 2007 was \$0.5 million compared with \$0.4 million for the three months ended March 31, 2006.

Net earnings before non-controlling interest of the Fund for the three months ended March 31, 2007 were up \$1.4 million (32.3%) to \$5.6 million compared with \$4.2 million for the three months ended March 31, 2006. Net earnings before non-controlling interest per Unit (on a fully-diluted basis) for the three months ended March 31, 2007 were up \$0.0353 (9.5%) to \$0.4083 compared with \$0.3730 for the three months ended March 31, 2007. As a percentage of revenue, net earnings before non-controlling interest were 13.4% for the three months ended March 31, 2007 compared with 11.9% for the three months ended March 31, 2006.

EBITDA for the three months ended March 31, 2007 was up \$1.7 million (29.5%) to \$7.6 million compared with \$5.9 million for the three months ended March 31, 2006. As a percentage of revenue, EBITDA was 18.3% for the three months ended March 31, 2007 compared with 16.6% for the three months ended March 31, 2006. The growth in revenue, together with the relative reduction in other operating costs (other than interest) as a percentage of revenue, accounted for the increase in the percentage for the three months ended March 31, 2007 as compared to the prior year period.

Distributable Cash

For the three months ended March 31, 2007, the Fund generated \$5.5 million of distributable cash, up \$0.5 million, (11.1%) compared with \$4.9 million for the three months ended March 31, 2006. Distributable cash for the quarter included the impact of significant capital expenditures made for leasehold improvements to existing offices, including in particular the cost incurred to consolidate operations in Vancouver and Irvine. These additional expenditures reduced distributable cash for the quarter by approximately \$0.6 million. On a per Unit basis, based on the weighted average number of Units outstanding, distributable cash was \$0.4039 for the three months ended March 31, 2007, a decrease of \$0.0356 compared with \$0.4395 for the three months ended March 31, 2006. This represents a payout ratio of 80.1% for the three months ended March 31, 2007, compared with a payout ratio of 66.9% for the three months ended March 31, 2006. The payout ratio would have been 72.2% backing out the expenditures made for the leasehold improvements.

On March 21, 2007 the Fund announced an increase in the monthly distribution of 7.9% from \$0.105 to \$0.1133 per Unit.

On April 19, 2007, a distribution of \$0.1133 per Unit was declared to each Unitholder of record at April 30, 2007, which is payable on May 31, 2007. In addition, on April 19, 2007 IBI Group declared a distribution of \$0.1133 per Class B partnership unit of IBI Group payable to each holder of Class B partnership units of record at April 30, 2007 which is payable on May 31, 2007. The total cash requirement for these distributions is \$1.5 million.

Liquidity and Capital Resources

The following table represents the working capital information as at March 31, 2007 compared to December 31, 2006:

in thousands of dollars	March 31, 2007	December 31, 2006	\$ Change
Current assets	80,538	75,185	5,353
Current liabilities	42,582	52,204	(9,622)
Working capital	37,956	22,981	14,975

Note: Working capital is calculated by subtracting current liabilities from current assets.

Cash flows from operating, financing and investing activities, as reflected in the Consolidated Statement of Cash Flows, are summarized in the following table:

in thousands of dollars except ratio	March 31, 2007	March 31, 2006	\$ Change
Cash flows from operating activities	(1,809)	(5,622)	3,813
Cash flows from (used in) financing activities	(4,791)	29,723	(34,514)
Cash flows used in investing activities	(1,394)	(15,020)	13,626

During the three months ended March 31, 2007, the Fund's working capital increased by \$15.0 million. This increase was the result of a \$5.4 million (7.1%) increase in current assets and a \$9.6 million (18.4%) decrease in current liabilities as compared with the balances at December 31, 2006. Current assets were up due to an overall increase in accounts receivable and work in process reflecting the continuing growth of revenues. The decrease in current liabilities was the result of the January distribution of the \$14.5 million owing on the Class C Unit and bonus payments made during February offset by an increase in the bank indebtedness.

Cash flows from operating activities for the three months ended March 31, 2007 improved by \$3.8 million to negative \$1.8 million compared with negative \$5.6 million for the three months ended March 31, 2006. This improvement was due to the increase in earnings and lower growth in the non-cash operating working capital.

Cash flows from financing activities were down \$34.5 million for the three months ended March 31, 2007 compared with the three months ended March 31, 2006. During the first quarter of 2007, there was the distribution of the \$14.5 million owing on the Class C Unit. This was financed primarily by \$14 million of long-term debt. Distributions to unitholders for the three months ended March 31, 2007 were up \$1.4 million compared with the three months ended March 31, 2006. During the first quarter of 2006, 3,542,000 units were issued through a public offering for net proceeds of \$37.9 million, offset by a reduction of amounts owing to related parties of \$5.3 million.

Cash flow used in investing activities for the three months ended March 31, 2007 related entirely to the purchase of property and equipment. Purchases of property and equipment during the three months ended March 31, 2007 were up \$0.8 million to \$1.4 million compared with \$0.6 million for the three months ended March 31, 2006. Of this increase in expenditures, \$0.6 million was due to the leasehold improvements to existing offices, including in particular the cost incurred to consolidate operations in Vancouver and Irvine. The balance of the increase was related to maintenance expenditures on computer equipment and accommodating the increase in staff.

IBI Group has credit facilities totalling \$50.0 million, consisting of a \$15.0 million operating facility (the "Operating Facility") and \$35.0 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 partnership units of IBI Group and to finance certain payments by IBI Group in respect of certain acquisitions previously made by it. As at March 31, 2007, IBI Group had borrowings of \$15.6 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 \$10.0 million of IBI Group's indebtedness under its previous operating facility. The \$10.0 million refinancing was completed on July 20, 2006. As at March 31, 2007, IBI Group had borrowings of \$24.0 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

	1st Qtr 2007 Unaudited	4th Qtr 2006 Unaudited	3rd Qtr 2006 Unaudited	2nd Qtr 2006 Unaudited	1st Qtr 2006 Unaudited	4th Qtr 2005 Unaudited	3rd Qtr 2005 Unaudited	2nd Qtr 2005 Unaudited
Revenue	\$ 41,556	\$ 39,876	\$ 39,477	\$ 37,161	\$ 35,398	\$ 26,208	\$ 24,943	\$ 23,905
Net Earnings	3,498	2,217	3,102	2,839	2,320	1,333	1,127	1,240
Non-controlling interest	2,052	1,300	1,820	1,665	1,875	1,333	1,127	1,240
Interest	582	811	540	481	348	271	244	209
Income taxes	318	(261)	494	342	173	(137)	186	(66)
Amortization of property and equipment and intangible assets	1,237	2,846	1,427	1,525	1,253	1,284	1,131	1,081
Amortization of deferred credit - leases	(73)	(90)	(90)	(90)	(90)	(100)	(100)	(100)
Earnings before income taxes, interest and amortization (EBITDA)	7,614	6,823	7,293	6,762	5,879	3,983	3,715	3,604
EBITDA as a percentage of Revenue	18.3%	17.1%	18.5%	18.2%	16.6%	15.2%	14.9%	15.1%
Distributable cash reconciliation								
Cash flow from operating activities	(1,809)	4,899	4,628	(1,379)	(5,622)	3,697	4,182	8,302
Add (deduct):								
Change in non-cash operating working capital	8,523	1,374	1,631	7,318	10,980	153	(897)	(4,841)
Capital expenditures	(1,394)	(684)	(534)	(842)	(587)	(415)	(329)	(393)
Income taxes	318	(261)	494	342	173	(137)	186	(66)
Income taxes paid	(148)	(561)	(314)	(613)	(2)	(91)	(147)	(53)
Distributable cash	5,490	4,767	5,905	4,826	4,942	3,207	2,995	2,949
Basic and diluted distributable cash per Unit	0.4039	0.3507	0.4344	0.3550	0.4395	0.3190	0.2980	0.2934
Basic and diluted aggregate distributions declared per Unit	0.3233	0.3150	0.3050	0.3000	0.2941	0.2812	0.2812	0.2812
Pay out ratio	80.1%	89.8%	70.2%	84.5%	66.9%	88.2%	94.4%	95.8%
Basic and diluted net earnings per Unit	0.4083	0.2588	0.3621	0.3313	0.3730	0.2652	0.2242	0.2467
Personnel – average	1,291	1,271	1,256	1,167	1,086	844	804	766
Personnel – quarter end	1,289	1,262	1,282	1,206	1,092	852	825	784

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 partnership units of IBI Group, representing 37% of the outstanding partnership units of IBI Group, and which in total holds an interest in the Fund of approximately 50.6% (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 March 31, 2007 was \$2.8 million compared with \$2.3 million for the three months ended March 31, 2006. In addition, IBI Group pays a separate management fee to the Management Partnership representing compensation paid to the former partners of DAA through the Management Partnership as compensation for such partners providing their services to IBI Group through Management Partnership. The amount of this management fee paid for the three months ended March 31, 2007 was \$0.2 million compared with \$0.3 million for the three months ended March 31, 2006.

On January 31, 2007, the balance of consideration owing in connection with the merger of the business of DAA with the business of IBI Group was paid through distributions on the Class C unit in the aggregate amount of \$15.4 million. This payment was financed by the Fund through an additional draw down on the Term Facility of \$14.0 million with the balance being drawn on the Operating Facility. Concurrently with this payment, the Management Partnership distributed to DAA on its Class 1 units of the Management Partnership 99.9999% of (i) \$14.5 million less (ii) \$1.56 million in respect of which DAA exercised an option granted to it by the Management Partnership at the time of the merger to convert the right to receive such amount in cash into a partnership interest in the Management Partnership which provides for an economic return equal to that which would be obtained by holding 154,000 of the Units held by the Management Partnership (determined by dividing the portion of the payment so converted by \$11.00, the price at which the Fund issued Units pursuant to its public offering dated February 22, 2006). The net cash payment made to DAA by the Management Partnership amounted to \$12.94 million. At the same time, the Management Partnership also distributed to DAA on its Class 1 units of the Management Partnership an amount equal to 99.9999% of the amount distributed by IBI Group on the Class C units 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 March 31, 2007, \$0.8 million had been realized and is shown on the Fund's balance sheet as a current liability.

Subsequent Transaction

On May 3, 2007, IBI Group completed the acquisition of substantially all of the assets of The RMPK Group, Inc (“RMPK”), for consideration of approximately \$1.0 million. RMPK is a multidisciplinary consulting firm devoted to the practice of urban planning and design, and landscape architecture. The Firm has been serving government agencies across the State of Florida, as well as private clients, from its offices in Sarasota, Wellington and Cocoa Beach for over twenty-five years. The RMPK practice, which comprises eighteen people, will be integrated into the Florida practice of IBI Group, Inc.

Accounting Developments

Effective January 1, 2007, the Fund adopted new accounting recommendations from the Canadian Institute of Chartered Accountants (CICA), Handbook Section 1530, Comprehensive Income, Section 1651, Foreign Currency translation, Section 3251, Equity, Section 3855, Financial Instruments – Recognition and Measurement, Section 3861, Financial Instruments – Disclosure and Presentation, and Section 3865 Hedges.

Section 1530 established standards for reporting and presenting a comprehensive income statement. The statement of comprehensive incomes shows a total of the net income recognized by the Fund, in addition to the other comprehensive income of the Fund. Other comprehensive income items are items which are being shown on the balance sheet at their fair value until the items are realized.

Section 3855 requires all financial assets and financial liabilities to be classified as one of five categories. Financial assets are to be classified as either held for trading, available for sale, held to maturity or loans and receivables. Financial liabilities are to be classified as either held for trading or other financial liabilities. All financial assets and financial liabilities are to be carried at fair value in the consolidated balance sheet, except held to maturity financial assets, loans and receivables and other financial liabilities which are measured at cost or amortized cost. The Fund has implemented the following classifications:

- Accounts receivable and work in process are classified as “Loans and Receivables”. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Fund, the measured amount generally corresponds to cost due to their short-term maturity.
- Bank indebtedness and cash balances are classified as “Financial Assets Held for Trading”. They are presented at their fair value and the gains/losses arising on the revaluation at each period end are included in consolidated income. The carrying value of bank indebtedness and cash is a reasonable estimate of their fair value due to their short-term maturity.
- Derivative financial instruments that are designated as cash flow hedges are classified as “Assets and Liabilities Available for Sale”. They are presented at their fair value, representing the approximate amount the Fund would receive or pay on settlement of these contracts at spot rates, and the gains/losses arising from the revaluation at the end of each period are included in comprehensive income. The impact of remeasuring hedging

derivatives on the interim consolidated financial statements on January 1, 2007 was to recognize unrealized interest rate swap losses and opening accumulated other comprehensive loss of \$0.6 million. The impact of remeasuring hedging derivatives on the interim consolidated financial statements for the three months ended March 31, 2007 was other comprehensive income of \$92.

- Accounts payable and accrued liabilities, notes payable and long-term debt are classified as “Other Financial Liabilities”. They are initially presented at their cost or amortized cost. Subsequent measurements are at cost, net of amortization, using the effective interest rate method. For the Fund, that value corresponds to cost either as a result of their short term maturity or the floating rate nature of some loans or because management estimates that the loans payable with fixed interest rates have no significant difference between their fair value and their carrying value, based on rates currently available to the Fund on loans with similar terms and remaining maturities.

Effective January 1, 2007, the Fund records all transaction costs for financial assets and financial liabilities in income as incurred. The Fund had previously deferred these costs and amortized them over the term of the related debt. The carrying value of transaction costs at December 31, 2006 of \$0.3 million was charged to opening deficit on transition on January 1, 2007.

Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of foreign currency exposures of net investments in self sustaining foreign operations.

In accordance with these new standards there has been a retroactive adjustment to reclassify the cumulative translation adjustment as of January 1, 2006 as accumulated other comprehensive loss and therefore is reflected in cumulative impact of implementing new accounting standards. The movement in cumulative transition adjustment is recorded in accumulated other comprehensive loss.

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 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 have represented, and are expected to continue to represent key determinants 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.

A current relevant example of shifts in economic activity is the slow down in housing production in the southern United States, including Florida and California, where IBI Group has substantial activity in land development and facilities relative to new multiple housing creation. Large land planning projects are continuing as they take many years to achieve statutory approvals and major landowners continue to pursue approvals in order to have sites ready for development when there is an upturn in new housing development. However, there are slowdowns in the production of land development and actual building starts, which are affecting IBI Group land engineering and architectural activity in these areas. Balancing these slowdowns is intensification of activity in land development and building design in Canada and in China, which is more than absorbing the effect that the slowdown in the Southern United States is having on IBI Group. Overall IBI Group continues to search for more human resources in order to satisfy its continuing backlog of committed contracted work.

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 31 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, 2006.

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 770 people and approximately \$88.9 million in annual revenue to the current levels of 1,289 staff and revenue for the last twelve months of \$158.1 million.

IBI Group continues to be confident in its ability to achieve success in its program of building the practice to a global scale based on the following factors:

- The current backlog of fee volume is at an all time high, in excess of the equivalent of eight months of work at the fee volume of last twelve months, which provides the basis for continued organic growth;
- 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 has an established operating base in China and also initiated operations in India, evidencing its ability to expand into these important major markets that are part of IBI’s vision for a global practice.

Overall, the outlook for IBI Group for 2007 continues to be very encouraging, given the continuing business climate, the demand for the services of IBI Group as evidenced by its backlog, the new opportunities that IBI Group has in its new regions of activity in China and India, the continuing growth of the firm in serving clients in the Persian Gulf region, and the continuing organic and strategic growth of the activity of the firm in Europe, the United States and Canada. Additionally, there is an increase in activity in public private partnerships (PPP) for the building, operating and transfer (BOT), of facilities built for infrastructure. This increase is in Canada with financial commitment at the Federal and Provincial level, as well as Internationally. IBI is increasingly active in this important expanding market area.

IBI Group has, since the second half of 2006, continued to monitor the volume of its work in serving the housing industry in urban land and facilities. To date, IBI has not

experienced a slowdown in overall activity in this area, notwithstanding some regional slow down in housing activity in California and Florida. The slowdown in California and Florida has led to an opportunity for IBI to re-deploy some of the experienced professional resources serving those markets to assist in the continuing intensive level of activities in western Canada, central Canada and in China while at the same time deploying some professional resources to broaden the functional diversity of the IBI practice in California and in Florida. The strategy of shifting staff in between the four broad areas that IBI serves is based both on the retraining of staff as well as recruitment and strategic acquisitions.

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.