

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*This management's discussion and analysis ("MD&A") should be read in conjunction with the consolidated financial statements and accompanying notes ("financial statements") of IBI Income Fund (the "Fund") for the six months ended June 30, 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 August 8, 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](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 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 1,864,080 Units of the Fund, the Management Partnership holds an interest of approximately 50.7% 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 June substantive enactment of Bill C-52 Budget implementation Act, 2007, 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, will 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 six months of 2007, achieving 13.2% (16.9% overall) of organic growth compared with the first six 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.

Staffing levels increased by 153 (11.8%) during the quarter, including the 18 staff of RMPK, which will help to keep pace with the increasing level of work.

During the quarter, the Fund set up a \$3.2 million future tax asset to reflect the substantive enactment of Bill C-52. This had the impact of increasing earnings before non-controlling interest by \$3.2 million.

## Selected Consolidated Financial Information and Reconciliation of Non-GAAP Measures

	Three months ended June 30, 2007 <small>Unaudited</small>	Three months ended June 30, 2006 <small>Unaudited</small>	Six months ended June 31, 2007 <small>Unaudited</small>	Six months ended June 30, 2006 <small>Unaudited</small>
<small>in thousands except for per Unit amounts</small>				
<b>Revenue</b>	\$ 43,253	\$ 37,161	\$ 84,809	\$ 72,559
<b>Expenses</b>				
Salaries, fees and employee benefits	27,552	22,862	53,913	45,264
Other cash operating costs (other than interest)	7,956	7,537	15,537	14,654
	35,508	30,399	69,450	59,918
<b>Earnings before income taxes, interest and amortization (EBITDA)</b>	7,745	6,762	15,359	12,641
Interest	646	481	1,228	829
Income taxes	(3,017)	342	(2,699)	515
Amortization of property and equipment and intangible assets	1,358	1,525	2,595	2,778
Amortization of deferred credit - leases	(72)	(90)	(145)	(180)
<b>Net earnings before non-controlling interest</b>	\$ 8,830	\$ 4,504	\$ 14,380	\$ 8,699
Non-controlling interest	3,264	1,665	5,316	3,540
Net earnings	\$ 5,566	\$ 2,839	\$ 9,064	\$ 5,159
Basic and diluted net earnings per Unit	\$ 0.6496	\$ 0.3313	\$ 1.0579	\$ 0.7069
<b>Distributable Cash</b>				
Cash flow from operating activities	\$ 2,775	\$ (1,379)	\$ 966	\$ (7,001)
Add (deduct):				
Change in non-cash operating working capital	7,341	7,318	15,864	18,298
Capital expenditures	(848)	(842)	(2,242)	(1,429)
Income taxes	(3,017)	342	(2,699)	515
Income taxes paid	(109)	(613)	(257)	(615)
Distributable cash	\$ 6,142	\$ 4,826	\$ 11,632	\$ 9,768
Weighted average basic and diluted distributable cash per Unit (1)	0.4518	0.3550	\$ 0.8557	\$ 0.7926
Aggregate distributions declared	\$ 4,622	\$ 4,078	\$ 9,017	\$ 7,385
Basic and diluted aggregate distributions declared per Unit (1)	\$ 0.3400	\$ 0.3000	\$ 0.6633	\$ 0.5941
Total assets	\$ 203,314	\$ 177,158	\$ 203,314	\$ 177,158

(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 June 30, 2007 was up \$6.1 million (16.4%) to \$43.3 million compared to \$37.2 million for the three months ended June 30, 2006. For the six months ended June 30, 2007, revenue was up \$12.3 million (16.9%) to \$84.8 million compared to \$72.6 million for the six months ended June 30, 2006. These increases over the prior year periods were primarily the result of strong organic growth with a contribution of strategic growth through acquisitions. IBI Group achieved organic growth in revenue of approximately \$4.7 million (12.7%) for the three months ended June 30, 2007 and \$9.6 million (13.2%) of the increase for the six months ended June 30, 2007. Revenue from strategic growth through acquisitions was approximately \$1.4 million for three months ended June 30, 2007 and \$2.6 million of the increase for the six months ended June 30, 2007. The overall growth in activity was accomplished through a 19.0% increase in the average number of staff from 1,167 during the three months ended June 30, 2006 to 1,389 during the three months ended June 30, 2007. The number of staff as of June 30, 2007 was 1,442, up from 1,206 as of June 30, 2006.

**Salaries, fees and employee benefits** for the three months ended June 30, 2007 were up \$4.7 million (20.5%) to \$27.6 million compared with \$22.9 million for the three months ended June 30, 2006. For the six months ended June 30, 2007, salaries, fees and employee benefits were up \$8.6 million (19.1%) to \$53.9 million compared with \$45.3 million for the six months ended June 30, 2006. This increase was the result of the growth in staff levels and increased wages. Salaries, fees and employee benefits as a percentage of revenue for the three months ended June 30, 2007 were 63.7% compared with 61.5% for the three months ended June 30, 2006. To keep pace with the continuing growth of project work, 135 additional staff were hired during the quarter. These are over and above the 18 staff brought on through the acquisition of RMPK. This caused a short-term increase in costs relative to revenue as these staff were being integrated within the firm during the latter part of the quarter and not chargeable at the normal standard. In addition to this, there were higher payroll costs in the facilities management business due to one additional payroll period during the quarter and an increase in seasonal employees over the prior year period.

**Other cash operating costs (other than interest)** for the three months ended June 30, 2007 were up \$0.4 million (5.6%) to \$8.0 million compared with \$7.5 million for the three months ended June 30, 2006. For the six months ended June 30, 2007, other cash operating costs (other than interest) were up \$0.9 million (6.0%) to \$15.5 million compared with \$14.7 million for the six months ended June 30, 2006. As a percentage of revenue, other operating costs (other than interest) for the three months ended June 30, 2007 were 18.3% compared with 20.3% for the three months ended June 30, 2006, and for the six months ended June 30, 2007 were 18.3% compared with 20.2% for six months ended June 30, 2006. The decrease in other cash operating costs as a percentage of revenue for the year to date is the result of the efficiencies achieved as IBI Group continues to grow.

**Amortization** for the three months ended June 30, 2007 was \$1.3 million compared with \$1.4 million for the three months ended June 30, 2006. For the six months ended June 30, 2007, amortization was down \$0.1 million to \$2.5 million compared with \$2.6 million for the six months ended June 30, 2006. Amortization for the three months ended June 30, 2007 includes \$0.7 million of amortization expense on client relationships, contracts and non-competition provisions compared with \$0.9 million for the three months ended June 30, 2006. For the six months ended June 30, 2007, amortization expense on client relationships, contracts and non-competition provisions was \$1.4 million compared with \$1.8 million for the six months ended June 30, 2006.

**Income taxes** of the Fund for the three months ended June 30, 2007 were a credit of \$3.0 million compared with an expense of \$0.3 million for the three months ended June 30, 2006. On June 12, 2007, Bill C-52 Budget Implementation Act, 2007 (the "SIFT Legislation") passed third reading in the house of common and therefore was substantively enacted on that date. Bill C-52 received Royal Assent on June 22, 2007 and therefore considered enacted. The SIFT Legislation contains legislation to tax certain publicly traded or listed partnerships and trusts which are specified investment flow-through entities ("SIFTs") in Canada. As a result, a new 31.5% tax will be applied on certain distributions from SIFTs. The new tax is not expected to apply to the Fund until 2011 as a transition period applies to SIFTs that existed prior to November 1, 2006. As a result of this enactment of the SIFT Legislation, IBI Group recorded a \$3.2 million future income tax credit and increased its future income tax asset in the second quarter of 2007. The

future income tax adjustment represents the deductible temporary differences of the Fund that will reverse in or after 2011 tax effected at 31.5%, which is the rate that will be applicable in 2011 under the current legislation and the Fund's current structure.

**Net earnings before non-controlling interest** of the Fund for the three months ended June 30, 2007 were \$8.8 million or \$0.6496 per Unit (on a fully diluted basis) compared with \$4.5 million or \$0.3313 per Unit for the three months ended June 30, 2006. For the six months ended June 30, 2007, net earnings before non-controlling interest were \$14.4 million or \$1.0579 per Unit (on a fully diluted basis) compared with \$8.7 million or \$0.5960 per Unit for the six months ended June 30, 2006. As a percentage of revenue, net earnings before non-controlling interest were 20.4% for the three months ended June 30, 2007, compared with 12.1% for the three months ended June 30, 2006. For the six months ended June 30, 2007, net earnings before non-controlling interest as a percentage of revenue were 17.0% compared with 12.0% for the six months ended June 30, 2006. Excluding the impact of the future income tax credit of \$3.2 million, net earnings before non-controlling interest as a percentage of revenue were 13.1% for the quarter and 13.2% for the year to date.

**EBITDA** for the three months ended June 30, 2007 was \$7.7 million, up \$1.0 million (14.5%) from \$6.8 million for the three months ended June 30, 2006. For the six months ended June 30, 2007, EBITDA was up \$2.7 million (21.5%) to \$15.4 million compared with \$12.6 million for the six months ended June 30, 2006. As a percentage of revenue, EBITDA was 17.9% for the three months ended June 30, 2007 compared with 18.2% for the three months ended June 30, 2006. For the six months ended June 30, 2007, EBITDA as a percentage of revenue was 18.1% compared with 17.4% for the six months ended June 30, 2006. Higher payroll costs associated with the new staff, partially offset with the relative reduction in other operating costs (other than interest) as a percentage of revenue, accounted for the decrease in the percentage for the three months ended June 30, 2007 as compared to the prior year periods. Overall, EBITDA as a percentage of revenue was impacted by the lower margin facilities management business which has generated EBITDA of negative \$0.2 for the three months ended June 30, 2007 compared with positive \$0.1 for the three months ended June 30, 2006 due to one additional payroll period during the quarter and an increase in seasonal employees over the prior year period. Excluding the results of the facilities management business, EBITDA as a percentage of revenue was 19.7% for the three months ended June 30, 2007 compared with 19.1% for the three months ended June 30, 2006.

### **Distributable Cash**

For the three months ended June 30, 2007, the Fund generated \$6.1 million of distributable cash, up \$1.3 million, (27.3%) compared with \$4.8 million for the three months ended June 30, 2006. For the six months ended June 30, 2007, the Fund generated \$11.6 million of distributable cash, up \$1.9 million, (19.1%) compared with \$9.8 million for the six months ended June 30, 2006. On a per Unit basis, based on the weighted average number of Units outstanding, distributable cash was \$0.4518 for the three months ended June 30, 2007, an increase of \$0.0968 compared with \$0.3550 for the three months ended June 30, 2006. This represents a payout ratio of 75.3% for the three months ended June 30, 2007, compared with a payout ratio of 84.5% for the three months ended June 30, 2006. For the six months ended June 30, 2007, the payout ratio is 77.5% compared with 75.6% for the six months ended June 30, 2006.

On July 20, 2007, a distribution of \$0.113333 per Unit was declared to each Unitholder of record at July 31, 2007, which is payable on August 31, 2007. In addition, on July 20, 2007 IBI Group declared a distribution of \$0.113333 per Class B partnership unit of IBI Group payable to each holder of Class B partnership units of record at July 31, 2007 which is payable on August 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 June 30, 2007 compared to December 31, 2006:

in thousands of dollars	June 30, 2007	December 31, 2006	\$ Change
Current assets	86,823	75,185	11,638
Current liabilities	48,416	52,204	(3,788)
Working capital	38,407	22,981	15,426

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	June 30, 2007	June 30, 2006	\$ Change
Cash flows from operating activities	2,775	(1,379)	4,154
Cash flows from (used in) financing activities	195	(5,787)	5,982
Cash flows used in investing activities	(1,306)	(876)	(430)

During the six months ended June 30, 2007, the Fund's working capital increased by \$15.4 million. This increase was the result of an \$11.6 million increase in current assets and a \$3.8 million 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.

Cash flows from operating activities for the three months ended June 30, 2007 improved by \$4.2 million to \$2.8 million compared with negative \$1.4 million for the three months ended June 30, 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 up \$6.0 million to \$0.2 million for the three months ended June 30, 2007 compared with negative \$5.8 million for the three months ended June 30, 2006. Of this amount, \$5.0 million related to advances into the Fund from IBI Group Management Partnership.

Cash flow used in investing activities for the three months ended June 30, 2007 included \$0.5 million paid out on the closing of the acquisition of RMPK. Purchases of property and equipment during the three months ended June 30, 2007 were consistent with the prior year period at \$0.8 million.

On May 31, 2007 IBI Group amended the terms of its credit facilities with its bank lender. Pursuant to this amendment, the credit facilities total has been increased by \$15.0 million to \$65.0 million, consisting of a \$15.0 million operating facility (the “Operating Facility”) and \$50.0 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 June 30, 2007, IBI Group had borrowings of \$13.1 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 \$10.0 million of IBI Group’s indebtedness under its previous operating facility. The \$10.0 million refinancing was completed on July 20, 2006. As at June 30, 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

	2nd Qtr 2007 Unaudited	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
<b>Revenue</b>	\$ 43,253	\$ 41,556	\$ 39,876	\$ 39,477	\$ 37,161	\$ 35,398	\$ 26,208	\$ 24,943
<b>Net Earnings</b>	5,566	3,498	2,217	3,102	2,839	2,320	1,333	1,127
Non-controlling interest	3,265	2,052	1,300	1,820	1,665	1,875	1,333	1,127
Interest	646	582	811	540	481	348	271	244
Income taxes	(3,017)	318	(261)	494	342	173	(137)	186
Amortization of property and equipment and intangible assets	1,358	1,237	2,846	1,427	1,525	1,253	1,284	1,131
Amortization of deferred credit - leases	(73)	(73)	(90)	(90)	(90)	(90)	(100)	(100)
<b>Earnings before income taxes, interest and amortization (EBITDA)</b>	7,745	7,614	6,823	7,293	6,762	5,879	3,983	3,715
EBITDA as a percentage of Revenue	17.9%	18.3%	17.1%	18.5%	18.2%	16.6%	15.2%	14.9%
<b>Distributable cash reconciliation</b>								
Cash flow from operating activities	2,775	(1,809)	4,899	4,628	(1,379)	(5,622)	3,697	4,182
Add (deduct):								
Change in non-cash operating working capital	7,341	8,523	1,374	1,631	7,318	10,980	153	(897)
Capital expenditures	(848)	(1,394)	(684)	(534)	(842)	(587)	(415)	(329)
Income taxes	(3,017)	318	(261)	494	342	173	(137)	186
Income taxes paid	(109)	(148)	(561)	(314)	(613)	(2)	(91)	(147)
<b>Distributable cash</b>	6,142	5,490	4,767	5,905	4,826	4,942	3,207	2,995
Basic and diluted distributable cash per Unit	0.4518	0.4039	0.3507	0.4344	0.3550	0.4395	0.3190	0.2980
Basic and diluted aggregate distributions declared per Unit	0.3400	0.3233	0.3150	0.3050	0.3000	0.2941	0.2812	0.2812
Pay out ratio	75.3%	80.1%	89.8%	70.2%	84.5%	66.9%	88.2%	94.4%
Basic and diluted net earnings per Unit	0.6496	0.4083	0.2588	0.3621	0.3313	0.3730	0.2652	0.2242
Personnel – average	1,389	1,291	1,271	1,256	1,167	1,086	844	804
Personnel – quarter end	1,442	1,289	1,262	1,282	1,206	1,092	852	825

## 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 50.7% (on a fully-diluted basis). The leases were entered into in 2002 at then current market rates of approximately \$1.8 million per annum, and expire on December 31, 2012. Effective January 1, 2006, IBI Group leased approximately 14,000 square feet of additional space under these leases at then current market rates, bringing the total annual lease payments under these leases to approximately \$2.2 million.

Pursuant to the Administration Agreement entered into in connection with the closing of the Fund's initial public offering of Units, IBI Group and certain of its subsidiaries are paying to the Management Partnership an amount representing the base compensation for the services of the principals of the partners of the Management Partnership. The amount paid for such services during the three months ended June 30, 2007 was \$3.1 million (2006 – \$2.4 million) and the amount paid for such services during the six months ended June 30, 2007 was \$5.9 (2006 - \$4.7 million). 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 June 30, 2007 was \$0.3 million (2006 – \$0.3 million) and the amount paid during the six months ended June 30, 2007 was \$0.5 (2006 - \$0.6 million).

On May 11, 2007, IBI Group Management Partnership advanced \$5.0 million to IBI Group. The loan bears interest at the same rate as the operating line of credit that IBI Group has with its bank lender, less any commitment fees payable to its bank lender. The loan is subordinated to the Fund's indebtedness to its bank lender and is unsecured. The loan will mature two years following the original issuance of the promissory note evidencing the loan.

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 June 30, 2007, \$1.2 million had been realized and is shown on the Fund's balance sheet as a current liability.

## **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.

- 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.

The CICA issued a new accounting standard, Section 1535 *Capital Disclosures*, which requires the disclosure of both qualitative and quantitative information that provides users of financial statements with information to evaluate the entity’s objectives, policies and processes for managing capital. This new section is effective for the Fund beginning January 1, 2008.

Two new accounting standards were issued by the CICA, Section 3862 *Financial Instruments – Disclosures*, and Section 3863 *Financial Instruments – Presentation*. These sections will replace Section 3861 *Financial Instruments – Disclosure and Presentation* once adopted. The objective of Section 3862 is to provide users with information to evaluate the significance of the financial instruments on the entity’s financial position and performance, the nature and extent of risks arising from financial instruments, and how the entity manages those risks. The provisions of Section 3863 deal with the classification of financial instruments, related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. These new sections are effective for the Fund beginning January 1, 2008.

### **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 seven acquisitions in the 34 months since the completion of its initial public offering adding 428 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 (iv) the risk that acquisitions may result in liabilities and contingencies which could be significant to the operations of IBI Group.

IBI Group faces competition in each of the four main areas in which it operates. This competition is based on quality of service, reputation, expertise, local presence, the ability to provide services in different localities and price. IBI Group's success is based on combining a local presence based on a local/regional model, through which relationships are developed with governments and businesses in specific localities in Canada, the United States, 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 1,442 staff and revenue for the last twelve months of \$164.2 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 nine months of work at the fee volume of last twelve months. The backlog has increased in all four areas of IBI activity and in all geographic regions excepting Florida. Backlog for government and institutional clients has increased as a percentage of the total. This 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 and growing operating base in China, now adding an office in Shanghai along with the original Beijing office.
- IBI continues to expand from the initial operations in India, with a major new contract that comprises a number of projects for a leading firm in infrastructure.
- IBI is increasing staffing capability in both China and India, as resources for serving IBI project staffing needs continue to expand in western markets as well within these two fast growing economies.

Overall, the outlook for IBI Group for the balance of 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 occurring in Canada assisted by the financial support 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.