

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 year ended December 31, 2008. 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 March 18, 2009. Additional information that has been filed concerning the Fund, including the Fund's annual information form for the year ended December 31, 2008, is or will be 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 11,292,807 Class A partnership units, representing 69.2% 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 30.8% 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 2,969,492 Units of the Fund, the Management Partnership holds an interest of approximately 49.0% in the Fund (on a fully-diluted basis). There are currently 11,292,807 Units issued and outstanding (16,318,585 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 also has a facilities management practice, which manages and operates recreational facilities on behalf of local municipalities. This practice is concentrated within the Province of Quebec.

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 most publicly traded income trusts and other flow-through entities (the "SIFT Rules"). The SIFT Rules apply a tax on certain income (other than dividends and certain non-Canadian income) earned by a SIFT trust as defined in the Tax Act, and would treat the taxable distributions of such income received by Unitholders of a SIFT trust as "eligible dividends". Pursuant to the SIFT Rules, the Fund will constitute a SIFT trust and, as a result, the Fund and its Unitholders will be subject to the SIFT Rules. The SIFT Rules generally do not apply until the 2011 taxation year for income trusts, the units of which were publicly traded prior to November 1, 2006, such as the Fund. However, the SIFT Rules will apply immediately in any taxation year ending after 2006 if the SIFT trust exceeded normal growth during the period from November 1, 2006 to December 31, 2010, as described in the press release issued by the Department of Finance (Canada) on December 15, 2006 (the "Normal Growth Guidelines") as subsequently modified.

The Normal Growth Guidelines indicate that the Fund will not lose the benefit of the deferred application of the SIFT Rules 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 per year 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. Effective December 4, 2008, the Department of Finance revised the Normal Growth Guidelines to allow for the remaining safe harbour, and the \$50 million *de minimis* amounts for each of 2009 and 2010, to be fully available on and after December 4, 2008. This change does not affect the maximum available growth of IBI Group, but allows it to use all of its remaining growth room in a single year, rather than staging it over 2009 and 2010. It is assumed for the purposes of this MD&A that the Fund will not be subject to the SIFT Rules until January 1, 2011. However, in the event that the Fund issues additional Units or convertible debentures (or other equity substitutes) exceeding amounts permitted before 2011, the Fund may become subject to the SIFT Rules prior to 2011. No assurance can be given that the SIFT Rules will not apply to the Fund prior to 2011. Loss of the benefit of the deferred application of the SIFT Rules through 2011 could have a material and adverse effect on the value of Units of the Fund.

On June 26, 2007, the ministère des Finances (Québec) (the "Ministère") published Information Bulletin 2007-5 confirming that Québec's tax legislation will be harmonized with the SIFT Rules, but that a separate Québec tax regime will be implemented. On June 18, 2008,

the federal tax legislation relating to the provincial portion of the SIFT tax was amended to provide that the tax rate of the provincial portion will be prescribed although the tax rate has not yet been prescribed. The Department of Finance (Canada) has announced that beginning in 2009, the provincial portion of the SIFT tax will be based on the general provincial corporate income tax rate in each province in which a SIFT has a permanent establishment and if the province is Quebec, the rate will be nil to take into account the SIFT tax imposed by Quebec.

On July 14, 2008, the Minister of Finance (Canada) released draft tax legislation that will facilitate the conversion of income trusts into corporations. This legislation was enacted with minor modifications, on March 12, 2009.

Operating Highlights

IBI Group continued to implement its strategy of combining internal organic growth and strategic growth through acquisitions/mergers during 2008, increasing the firm's results and size to the highest ever. Staffing levels increased by 686 during the year from 1,584 at December 31, 2007 to 2,270 at December 31, 2008. This was accomplished through seven acquisitions/mergers, adding 665 staff, along with 31 staff through organic growth of the continuing IBI Group practice. The total cost of the seven acquisitions/mergers was \$73.2 million, subject to adjustments. Cash consideration of \$41.7 million, in the aggregate was paid on the closing of these acquisitions/mergers with the balance of the consideration being paid by the issuance of promissory notes.

Effective January 1, 2008, IBI Group Architects, affiliated with IBI Group, completed the acquisition/merger of the practices of Young + Wright Architects Limited of Toronto and Lawrence Doyle, Young + Wright Architects of Vancouver (collectively referred to as "Y+W"). Y+W is a broadly based architectural practice comprising institutional buildings for education, community facilities for worship and other community purposes, commercial retail, entertainment and sports, work place and residential facilities. The firms constituting the Y+W practice have been serving a broad base of public and private clientele from operating offices in Toronto for 30 years and in Vancouver as well over the past three years. The practice continues as Young + Wright/ IBI group Architects.

Effective January 1, 2008, IBI Group completed the acquisition of the practice of Montreal based Piranha Tendances, Conseil Strategique et Communications Inc. ("Piranha"). Piranha is a consulting firm focused on the practice of strategy for branding of facilities, services and products, communications, and market research.

Effective February 1, 2008 IBI Group completed the acquisition of the practice of Gescona Inc. ("Gescona"). Gescona, based in Montreal, provides consulting services to clients in the tourism, resorts and leisure industries.

Effective May 1, 2008 IBI Group completed the acquisition of the practice of Rhon Ernest-Jones Consulting Engineers ("REJCE") of Coral Springs, Florida. REJCE provides a full range of professional consulting services in civil engineering, land planning, traffic engineering & transportation planning and landscape architecture. The Firm has been serving clients involved in projects of mixed-use developments combining retail, office and commercial as well

as transportation planning and engineering services, from its offices in Coral Springs, Jupiter and Lake Placid for over fifteen years.

Effective May 1, 2008 IBI Group Affiliate - Beinhaker Architecte of Quebec, completed the acquisition/merger of the practice of Martin + Marcotte Architectes. Martin + Marcotte is a full service architectural practice, serving clients from their offices in Montreal for the last 22 years. The practice continues as Martin Marcotte- Beinhaker Architectes.

Effective July 1, 2008, IBI Group completed the acquisition of the Giffels Professional Engineering practice. The combined practices of Giffels Professional Engineering (“GPE”); Giffels Associates Limited Canada and Dubai, Giffels, Inc., USA, and Giffels International collectively carry on professional engineering consulting services and related architectural services from their offices located in Toronto, Southfield, Michigan, (the Detroit Metropolitan Area), and Raleigh, North Carolina, with a wide established scope of practice in transportation, infrastructure, and buildings, with particular emphases on manufacturing plants for the automotive and other industries. The Giffels practice introduces transportation engineering design to IBI Group, enabling it to provide comprehensive services to the transportation industry from research/policy through transportation planning and detailed design to operations. The Giffels practice also adds a major operating presence in the Great Lakes Urban Region based in Detroit, being one of the nine strategic regions for IBI practice in the USA; increases the IBI USA practice to approximately 540 people; adds building engineering services to complement the existing practice in IBI Group in architectural practice; and doubles the IBI presence in Dubai to more effectively serve the rapidly expanding practice of the firm in that region. The architectural component of the Giffels practice is continuing as an integral part of the practice of IBI Group Architects.

Effective July 1, 2008, IBI Group Architects, affiliated with the IBI Group, completed the acquisition/merger of the practice of Page + Steele Incorporated, Architects (“P+S”). P+S is an architectural firm focused on providing services for residential, hotel, commercial, mixed use and institutional uses throughout the Greater Toronto Area, as well as some projects internationally. The Firm has been serving both public and private clients, from its offices in Toronto for the past 82 years and is recognised as a leading practice in Ontario and abroad. The practice continues as Page+ Steele /IBI Group Architects.

Selected Consolidated Financial Information

	Three months ended December 31, 2008 <small>Unaudited</small>	Three months ended December 31, 2007 <small>Unaudited</small>	Year ended December 31, 2008	Year ended December 31, 2007
<small>in thousands of dollars except for per Unit amounts</small>				
Revenue	\$ 72,601	\$ 44,617	\$ 248,012	\$ 166,881
Expenses				
Salaries, fees and employee benefits	46,064	28,271	158,855	107,098
Other cash operating costs (other than interest)	13,681	8,185	43,556	27,962
	59,745	36,456	202,411	135,060
Earnings before income taxes, interest and amortization (EBITDA)	12,856	8,161	45,601	31,821
Interest	1,372	789	4,155	2,665
Income taxes - current	79	945	2,407	1,596
Income taxes - future	(2,052)	(41)	(3,073)	(2,025)
Amortization of property and equipment and intangible assets	3,371	1,432	10,667	5,375
Amortization of deferred credit - leases	(50)	(72)	(204)	(290)
Impairment of goodwill	5,354	-	5,354	-
Net earnings before non-controlling interest	\$ 4,782	\$ 5,108	\$ 26,295	\$ 24,500
Non-controlling interest	1,502	1,998	8,369	8,433
Net earnings	\$ 3,267	\$ 3,110	\$ 17,926	\$ 16,067
Basic and diluted net earnings per Unit	\$ 0.3006	\$ 0.3527	\$ 1.6745	\$ 1.8618
Total assets	\$ 378,130	\$ 249,672	\$ 378,130	\$ 249,672

- (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.
- (2) See "Definition of EBITDA, Distributable Cash and Non-GAAP Measures."

Results of Operations

The professional services provided by the Fund, focused on the four main areas of the physical development of cities, comprise the substantial majority of the Fund's activities. The Fund also provides management services for recreational facilities, primarily on behalf of local Government agencies in Quebec. The management of recreational facilities provides added value to the professional services provided by the Fund in the planning and design of such facilities by the Fund. However, the operating parameters and the results from the management of facilities are significantly different from the professional services activities of the Fund. Accordingly, the Fund has provided the operating results of the facility management activities as a separate segment from consulting services, which constitute the substantial majority of the Fund's activities.

The following tables show the operating results before by segment.

(in millions of dollars)	Year ended December 31, 2008			Year ended December 31, 2007		
	Consulting Services	Facilities Management	Total	Consulting Services	Facilities Management	Total
Revenue	245.8	2.2	248.0	163.9	3.0	166.9
Expenses						
Salaries, fees and employee benefits	157.6	1.2	158.8	104.9	2.2	107.1
Other cash operating costs (other than interest)	43.3	0.3	43.6	27.7	0.3	28.0
	200.9	1.5	202.4	132.6	2.5	135.1
EBITDA	44.9	0.7	45.6	31.3	0.5	31.8

(in millions of dollars)	Three months ended December 31, 2008			Three months ended December 31, 2007		
	Consulting Services	Facilities Management	Total	Consulting Services	Facilities Management	Total
Revenue	72.1	0.5	72.6	43.6	1.0	44.6
Expenses						
Salaries, fees and employee benefits	45.8	0.2	46.0	27.6	0.6	28.2
Other cash operating costs (other than interest)	13.6	0.1	13.7	8.1	0.1	8.2
	59.4	0.3	59.7	35.7	0.7	36.4
EBITDA	12.7	0.2	12.9	7.9	0.3	8.2

Revenue

The Fund reports revenue net of direct recoverable costs as these costs can vary significantly from contract to contract and are not indicative of our professional services business.

For the year ended December 31, 2008, revenue was up \$81.1 million (48.6%) to \$248.0 million compared to \$166.9 million for the year ended December 31, 2007. For the three months ended December 31, 2008, revenue was up \$28.0 million (62.7%) to \$72.6 million compared to \$44.6 million for the three months ended December 31, 2007.

The following table summarizes the impact the strategic growth through acquisition and the organic growth on net revenue for both the three months and year ended December 31, 2008.

	Three months ended December 31, 2008 vs. 2007		Year ended December 31, 2008 vs. 2007	
	\$ million's	%	\$ million's	%
Acquisition growth	20.2	45.2	60.9	36.5
Organic growth	7.8	17.5	20.2	12.1
Total increase in revenue	28.0	62.7	81.1	48.6

Revenue from strategic growth through acquisitions/mergers was approximately \$60.9 million of the increase for the year ended December 31, 2008 and \$20.2 million for three months ended December 31, 2008. This strategic growth was generated through the additional revenues resulting from the acquisitions/mergers of Y+W, Piranha and Gescona in the first quarter of 2008, REJCE and Martin + Marcotte in the second quarter of 2008 and GPE and P+S in the third quarter of 2008. The overall growth in activity was accomplished through a 41.1% increase in the average number of staff from 1,418 during 2007 to 2,001 during 2008. The number of staff as of December 31, 2008 was 2,270, up from 1,584 as of December 31, 2007.

Expenses

Salaries, fees and employee benefits for the year ended December 31, 2008 were up \$51.8 million (48.3%) to \$158.9 million compared with \$107.1 million for the year ended December 31, 2007. For the three months ended December 31, 2008, salaries, fees and employee benefits were up \$17.8 million (62.9%) to \$46.0 million compared with \$28.3 million for the three months ended December 31, 2007. 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 year ended December 31, 2008 were 64.1% compared with 64.2% for the year ended December 31, 2007, and 63.4% for the three months ended December 31, 2008, which was consistent with the three months ended December 31, 2007. The full year percentages were consistent year over year and remain at the low end of the targeted range of between 64% and 65%.

Other cash operating costs (other than interest) for the year ended December 31, 2008 were up \$15.6 million (55.8%) to \$43.6 million compared with \$28.0 million for the year ended December 31, 2007. For the three months ended December 31, 2008, other cash operating costs (other than interest) were up \$5.5 million (67.1%) to \$13.7 million compared with \$8.2 million for the three months ended December 31, 2007. As a percentage of revenue, other operating costs (other than interest) for the year ended December 31, 2008 were 17.6% compared with 16.8% for year ended December 31, 2007, and for the three months ended December 31, 2008 were 18.8% compared with 18.3% the three months ended December 31, 2007. The increase in the percentage over the prior year was primarily the result of additional expense related to the costs of integration of the firms acquired during the quarter.

Amortization for the year ended December 31, 2008 was up \$5.4 million to \$10.5 million compared with \$5.1 million for the year ended December 31, 2007. For the three months ended December 31, 2008, amortization was \$3.3 million, which was up \$2.0 million from the \$1.4 million for the three months ended December 31, 2007. Amortization for the year ended December 31, 2008 on client relationships, contracts and non-competition provisions was \$6.8 million compared with \$2.8 million for the year ended December 31, 2007. For the three months ended December 31, 2008, amortization expense includes \$2.2 million of amortization expense on client relationships, contracts and non-competition provisions compared with \$0.7 million for the three months ended December 31, 2007.

Impairment of goodwill – During the fourth quarter, the Fund conducted the annual goodwill impairment test. Goodwill impairment testing is a two-step process. In the first step, the fair value of our reporting units was compared to their carrying value. If the carrying value of our reporting units exceeds their fair value, goodwill is potentially impaired and step two of the impairment test must be performed. In step two, the estimated fair value of the goodwill of the reporting units is compared to the carrying value. If it is concluded that an impairment of goodwill exists, a reduction in the carrying value of goodwill is recorded on the consolidated balance sheets and recognized as a non-cash charge to income.

Due to current fluctuations in the market and uncertainties arising from overall economic conditions, step one of the test indicated that an impairment of goodwill may exist since the fair value of the Florida reporting unit fell below its carrying value. The second step of the impairment test was completed by determining the fair value of goodwill in the same manner as if the reporting unit had been acquired as of the date of the annual assessment. The Fund concluded that the carrying value of the goodwill associated with the Florida reporting unit exceeded the fair value of the goodwill of that reporting unit. This impairment was a direct result of the steep decline in land development activity in Florida for the residential sector, which impacted on the business activity of the IBI practice in Florida, resulting in a \$5.4 impairment charge being recorded. The goodwill impairment charge is non-cash in nature and does not affect our liquidity, cash flows from operating activities, or debt covenants.

Income taxes of the Fund for the year ended December 31, 2008, were a credit of \$0.7 million compared with a credit of \$0.4 million for the year ended December 31, 2007. For the three months ended December 31, 2008, income taxes were a credit of \$1.9 million compared with an expense of \$0.9 million for the three months ended December 31, 2007. Current tax expense for the year ended December 31, 2008 was up \$0.8 million to \$2.4 million, compared with \$1.6 million for the year ended December 31, 2007. This increase was due to the growth in net income in taxable entities.

The tax recovery for the year ended December 31, 2008 includes a future tax recovery of \$3.1 million compared with a recovery of \$2.0 million for the year ended December 31, 2007. The future tax liability for 2008 is mainly as a result of the intangible assets that arose on the acquisitions completed during the year together with the tax impact of the impairment of goodwill. On June 12, 2007, Bill C-52 Budget Implementation Act, 2007 (the “SIFT Legislation”) passed third reading in the House of Commons and received Royal Assent on June 22, 2007, enacting amendments to the Income Tax Act (Canada). The SIFT Legislation relates to the taxation of certain publicly traded or listed partnerships and trusts which are specified

investment flow-through entities (“SIFTs”) in Canada. As a result, a new tax will be applied on certain income which is distributed by 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 \$2.0 million future income tax recovery and increased its future income tax asset in the second quarter of 2007. The future income tax adjustment represents the tax effect of the deductible temporary differences of the Fund that will reverse in or after 2011.

Net earnings before non-controlling interest of the Fund for the year ended December 31, 2008 were \$26.3 million or \$1.6715 per Unit (on a fully diluted basis) compared with \$24.5 million or \$1.7941 per Unit (on a fully diluted basis) for the year ended December 31, 2007. For the three months ended December 31, 2008, net earnings before non-controlling interest were \$4.8 million or \$0.3009 per Unit (on a fully diluted basis) compared with \$5.1 million or \$0.3690 per Unit (on a fully diluted basis) for the three months ended December 31, 2007. As a percentage of revenue, net earnings before non-controlling interest were 10.6% for the year ended December 31, 2008, compared with 14.7% for the year ended December 31, 2007. For the three months ended December 31, 2008, net earnings before non-controlling interest as a percentage of revenue was 6.6% compared with 11.4% for the three months ended December 31, 2007. Excluding the impact of the impairment of goodwill, net earnings before non-controlling interest of the Fund for the year ended December 31, 2008 were \$31.6 million or \$2.0119 per Unit (on a fully diluted basis) and \$10.1 million or \$0.6378 per Unit (on a fully diluted basis) for the three months ended December 31, 2008.

EBITDA for the year ended December 31, 2008 was up \$13.8 million (43.3%) to \$45.6 million compared with \$31.8 million for the year ended December 31, 2007. For the three months ended December 31, 2008, EBITDA was \$12.9 million, up \$4.7 million (57.5%) from \$8.2 million for the three months ended December 31, 2007. As a percentage of revenue, EBITDA for the year ended December 31, 2008 was 18.4% compared with 19.1% for the year ended December 31, 2007. For the three months ended December 31, 2008, EBITDA was 17.7% as a percentage of revenue compared with 18.3% for the three months ended December 31, 2007. The lower EBITDA as a percentage of revenue was the result of additional time spent by staff working on the integration of the acquired practices as well as the impact of the lower margin GPE practice that was acquired at the start of the third quarter.

Distributable Cash

	Three months ended December 31, 2008 Unaudited	Three months ended December 31, 2007 Unaudited	Year ended December 31, 2008	Year ended December 31, 2007
in thousands of dollars except for per Unit amounts				
Cash flow from operating activities	\$ 12,052	\$ 8,201	\$ 450	\$ 12,508
Less capital expenditures	(636)	(551)	(4,421)	(3,588)
Standardized distributable cash	\$ 11,416	\$ 7,650	\$ (3,971)	\$ 8,920
Add (deduct):				
Change in non-cash operating working capital	(647)	(1,774)	38,589	15,052
Current income tax expense	79	945	2,407	1,596
Income taxes paid	(948)	(192)	(2,635)	(702)
Distributable cash	\$ 9,900	\$ 6,629	\$ 34,390	\$ 24,866
Weighted average basic and diluted distributable cash per Unit (1)	\$ 0.6229	\$ 0.4789	\$ 2.1851	\$ 1.8205
Aggregate distributions declared	\$ 6,270	\$ 5,180	\$ 24,336	\$ 18,920
Basic and diluted aggregate distributions declared per Unit (1)	\$ 0.4000	\$ 0.3625	\$ 1.5524	\$ 1.3733
Payout ratio	64.2%	75.7%	71.0%	75.4%

(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.

(2) See "Definition of EBITDA, Distributable Cash and Non-GAAP Measures."

Standardized Distributable Cash is calculated in accordance with the recommendations provided in CICA's publication "Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities." For the year ended December 31, 2008, the Fund generated \$34.4 million of Distributable Cash, up \$9.5 million, (38.3%) compared with \$24.9 million for the year ended December 31, 2007. For the three months ended December 31, 2008, the Fund generated \$9.9 million of Distributable Cash, up \$3.3 million (49.3%) compared with \$6.6 million for the three months December 31, 2007. On a per Unit basis, based on the weighted average number of Units outstanding, Distributable Cash was \$2.1851 for the year ended December 31, 2008; an increase of \$0.3646 compared with \$1.8205 for the year ended December 31, 2007. This represents a payout ratio of 71.0% for the year ended December 31, 2008, compared with 75.4% for the year ended December 31, 2007. For the three months ended December 31, 2008, the payout ratio was 64.2%, compared with a payout ratio of 75.7% for the three months ended December 31, 2007.

The Fund announced two increases in the monthly distributions during 2008. In February, the monthly distribution increased by 5.5% to \$0.1275 per unit (\$1.53 per unit per year). In August, the monthly distribution increased by a further 4.6% to \$0.1333 per unit (\$1.60 per unit per year).

On January 20, 2009, a distribution of \$0.1333 per Unit was declared to each Unitholder of record at January 31, 2009, which was paid on February 27, 2009. In addition, on January 23, 2009 IBI Group declared a distribution of \$0.1333 per Class B partnership unit of IBI Group payable to each holder of Class B partnership units of record at January 31, 2009, which was paid on February 27, 2009. The total cash requirement for these distributions was \$2.2 million.

On February 18, 2009, a distribution of \$0.1333 per Unit was declared to each Unitholder of record at February 27, 2009, which is payable on March 31, 2009. In addition, on February 18, 2009 IBI Group declared a distribution of \$0.1333 per Class B partnership unit of IBI Group payable to each holder of Class B partnership units of record at February 27, 2009 which is payable on March 31, 2009. The total cash requirement for these distributions is \$2.2 million.

Liquidity and Capital Resources

The following table represents the working capital information as at December 31, 2008 compared to December 31, 2007:

in thousands of dollars	December 31, 2008	December 31, 2007	\$ Change
Current assets	184,090	127,106	56,984
Current liabilities	(120,879)	(47,393)	(73,486)
Working capital	63,211	79,713	(16,502)

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	2008	2007	\$ Change
Cash flows from operating activities	450	12,508	(12,058)
Cash flows from financing activities	31,905	25,273	6,632
Cash flows used in investing activities	(46,246)	(9,943)	(36,303)

IBI Group and the affiliated architectural firms collectively experienced the greatest amount of strategic growth during 2008 in the history of the Firm. This growth has included the mergers within the group of Y+W, GPE, P+S along with four other firms. This strategic growth of 36.5% together with organic growth of 12.1% for the year ended December 31, 2008 has resulted in the increase in accounts receivable of \$47.7 million (76.1% increase) and work in process of \$22.3 million (60.0% increase) as compared with the balances at December 31, 2007. This has been offset by an increase in current liabilities in the amount of \$73.5 million as compared with the balances at December 31, 2007. The increase in the current liabilities during the year was the result of additional borrowing as well as an increase in the notes payable for the

acquisitions made, as well as to finance the growth in accounts receivable and work in process. Overall, the Fund's working capital decreased by \$16.5 million, as compared with the balances at December 31, 2007.

Cash flows from operating activities for the year ended December 31, 2008 were down \$12.1 million to \$0.5 million compared with the year ended December 31, 2007. This decrease was the result in the growth in non-cash operating working capital for the period, of which \$2.3 was from firms acquired during the quarter.

Cash flows from financing activities were \$31.9 million for the year ended December 31, 2008 compared with \$25.3 million for the year ended December 31, 2007. This increase was the result of additional bank debt in the amount of \$53.2 million along with the issuance of new Units in the amount of \$9.4 million which was used for the acquisitions during the year.

Cash flows used in investing activities for the year ended December 31, 2008 related to the payments made on the closing of the acquisitions during 2008 as well as on capital assets. Capital expenditures during the year ended December 31, 2008 were up \$0.8 million to \$4.4 million compared with \$3.6 million for the year ended December 31, 2007.

On June 25, 2008 IBI Group amended the terms of its credit facilities with its bank lender. Pursuant to this amendment, the credit facilities total was increased by \$20.0 million to \$85.0 million, consisting of a \$15.0 million operating facility (the "Operating Facility"), \$50.0 million term facility (the "Term Facility") and a \$20.0 million bridge facility (the "Bridge 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 December 31, 2008, IBI Group had borrowings of \$8.4 million (2007 – \$1.0 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 December 31, 2008, IBI Group had borrowings of \$50.0 million (2007 – \$24.0 million) under the Term Facility.

The Bridge Facility is a revolving facility to be used by IBI Group to finance new acquisitions and certain payments by IBI Group in respect of certain acquisitions previously made by it, and to refinance up to \$10 million of IBI Group's indebtedness under its previous operating facility. As at December 31, 2008, IBI Group had borrowings of \$18.8 million (2007 – nil) under the Bridge Facility.

In addition, a bid bond guarantee facility (the “Bid Bond Facility”) of up to USD\$20 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. As at December 31, 2008, IBI Group had issued bid bonds in the amount of \$4.2 million under the Bid Bond Facility.

On January 30, 2009 IBI Group entered into a new credit agreement with a syndicate of three banks. Pursuant to this agreement, the credit facilities total has been increased by \$15.0 million to \$100.0 million, consisting of a \$5.0 million swing facility (the “Swing Facility”), a \$50.0 million term facility (the “Term Facility”), a \$10.0 million revolver facility (the “Revolver Facility”) and a \$35 million bridge facility (the “Bridge Facility”). The Swing Facility and the Revolver Facility are revolving facilities to be used by IBI Group (a) to repay existing Debt to TD, (b) for working capital purposes, (c) to normalize distributions to holders of Class A Units and Class B Units and (d) to finance the payment by the Borrower of the Remaining Acquisition Payments. The Term Facility and Bridge Facility are revolving facilities to be used by IBI Group (a) to repay existing Debt to TD, (b) to finance the payment by the Borrower of the Remaining Acquisition Payments and (c) to finance any Acquisition, excluding (unless the Required Lenders otherwise consent) the financing of any Hostile Take-Over Bid. The Swing Facility, Revolver Facility, Bridge Facility and Bid Bond Facility will mature on December 31, 2009, and the Term Facility will mature on June 30, 2011.

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 have been pledged as security for the indebtedness and obligations of IBI Group under the Operating Facility, the Term Facility and the Bid Bond. 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.

The Fund’s objective in managing capital is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future growth within the business. The Fund defines its capital as the aggregate of long-term debt and unitholders’ equity.

The Fund seeks to maintain a sufficient balance of available bank credit to allow it to take advantage of acquisition opportunities on a timely basis without being required to access the public capital markets. The Fund has operated to date on the basis of using bank debt for acquisitions and as the bank debt increases, the Fund will then raise equity through a public offering, using the proceeds to reduce the bank debt. The amount of equity that the Fund can raise, up until December 31, 2010 without exceeding limits legislated by the federal government for income trusts is \$100 million. However, the current state of the equity markets, results in the Fund’s current payout on equity at the Fund’s annualized distribution of \$1.60 per unit, of approximately 12% to 13% as compared to the Fund’s current cost of bank debt at prime plus 1.5%. The result of these policies, under the current market conditions is; 1) the continued decline in cash distributed as a percentage of Distributable Cash for the year to 71.0%, 2) the significant increase in Distributable Cash to \$34.4 million, up \$9.5 million (38.3%) compared with \$24.9 million for the year ended December 31, 2007 and 3) an increase of 20.0% in Distributable Cash per unit to \$2.1851 compared with \$1.8205 for the year ended December 31, 2007. Accordingly, the Fund deems it more practical for unitholder value to continue in the near

term, to operate on bank debt. Management is confident that there is sufficient credit to meet all obligations without the requirement to raise additional equity in the mid-term.

The Fund monitors capital by maintaining an internal target ratio of funded debt to EBITDA, a non-GAAP measure, below 1.75 to 1. This ratio is calculated as the sum of (1) long-term debt, plus bank indebtedness, plus notes payable, divided by (2) EBITDA for the past 12 months (proforma to include acquired firms). The Fund's funded debt to EBITDA ratio, as at December 31, 2008 was 2.18 to 1 (1.03 to 1 as at December 31, 2007). The increase in the ratio was the result of the additional debt taken on during the year to fund the acquisitions. Management is confident that the ratio will decrease during 2009 by reducing the amount of working capital currently outstanding. Management also anticipates continued growth in EBITDA providing for a larger base for additional borrowings within the internal target ratio

The Fund is subject to compliance with certain financial and other covenants related to its credit facilities. These covenants include but are not limited to, debt to EBITDA ratio, fixed charge coverage ratio and current ratio. Failure to meet the terms of one or more of these covenants may constitute a default, potentially resulting in accelerating the repayment of the debt obligation. The Fund was in compliance with all covenants under this agreement as at and throughout the year ended December 31, 2008 and the year ended December 31, 2007.

IBI Group has future contractual obligations relating to existing facilities and office equipment operating leases as follows:

(\$'000's)	<u>Total</u>	Less than <u>1 year</u>	<u>1 – 3 years</u>	<u>4 – 5 years</u>	<u>Thereafter</u>
Operating Leases	\$67,536	\$15,225	\$27,027	\$15,139	\$10,145

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

	4th Qtr 2008 Unaudited	3rd Qtr 2008 Unaudited	2nd Qtr 2008 Unaudited	1st Qtr 2008 Unaudited	4th Qtr 2007 Unaudited	3rd Qtr 2007 Unaudited	2nd Qtr 2007 Unaudited	1st Qtr 2007 Unaudited
Revenue	\$ 72,601	\$ 69,364	\$ 54,678	\$ 51,369	\$ 44,617	\$ 42,477	\$ 40,654	\$ 39,133
Net Earnings	3,267	5,097	5,243	4,306	3,110	3,893	5,566	3,498
Non-controlling interest	1,502	2,361	2,473	2,033	1,998	2,285	2,098	2,052
Interest	1,372	1,352	728	703	789	648	646	582
Income taxes	(1,973)	760	211	335	904	200	(1,851)	318
Amortization of property and equipment and intangible assets	3,371	3,315	2,143	1,839	1,432	1,347	1,358	1,237
Amortization of deferred credit - leases	(50)	(51)	(52)	(51)	(72)	(72)	(72)	(73)
Impairment of goodwill	5,354	-	-	-	-	-	-	-
Earnings before income taxes, interest and amortization (EBITDA)	12,856	12,834	10,746	9,165	8,161	8,301	7,745	7,614
EBITDA as a percentage of Revenue	17.7%	18.5%	19.7%	17.8%	18.3%	19.5%	19.0%	19.5%
Distributable cash reconciliation								
Cash flow from operating activities	12,052	534	1,507	(13,642)	8,201	2,628	2,993	(1,314)
Less capital expenditures	(636)	(825)	(1,813)	(1,147)	(551)	(795)	(848)	(1,394)
Standardized distributable cash	11,416	(291)	(306)	(14,789)	7,650	1,833	2,145	(2,708)
Add (deduct):								
Change in non-cash operating working capital	(647)	9,788	7,891	21,557	(1,774)	4,825	3,973	8,028
Current income tax expense	79	1,160	620	547	945	200	133	318
Income taxes paid	(948)	(259)	(634)	(794)	(192)	(253)	(109)	(148)
Distributable cash	9,900	10,398	7,571	6,521	6,629	6,605	6,142	5,490
Basic and diluted distributable cash per Unit	0.6229	0.6633	0.4829	0.4160	0.4789	0.4859	0.4518	0.4039
Basic and diluted aggregate distributions declared per Unit	0.4000	0.3941	0.3825	0.3758	0.3625	0.3474	0.3400	0.3233
Pay out ratio	64.2%	59.4%	79.2%	90.3%	75.7%	71.5%	75.3%	80.1%
Basic and diluted net earnings per Unit	0.3006	0.4785	0.4922	0.4043	0.3690	0.4544	0.6496	0.4083
Personnel – average	2,289	2,216	1,788	1,639	1,525	1,437	1,389	1,291
Personnel – quarter end	2,270	2,314	1,857	1,731	1,584	1,429	1,442	1,289

Transactions with Related Parties

IBI Group leases its Toronto office space from a corporation which is indirectly owned by the partners of the Management Partnership which owns all of the Class B partnership units of IBI Group, representing 30.8% of the outstanding partnership units of IBI Group, and which in total holds an interest in the Fund of approximately 49.0% (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 \$2.4 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 year ended December 31, 2008 was \$14.1 million compared with \$11.6 million in 2007. This increase reflects the growth in the number of partners within the Management Partnership from 53 in 2007 to 61 in 2008. 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 year ended December 31, 2008 was \$0.4 million compared with \$1.1 million in 2007. This decrease in the amount paid to the former partners of DAA is the result of three of the partners becoming partners in the Management Partnership.

On July 7, 2008, Management Partnership advanced \$8.0 to IBI Group. The loan bore 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 loans were subordinated to the Fund's indebtedness to its bank lender and were unsecured. The loans were to mature two years following the original issuance of the promissory note evidencing the loan. On November 14, 2008, the advances, together with deferred distributions and accrued interest, were converted into 641,696 Units at a price of \$14.68 per unit.

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 December 31, 2008, \$0.5 million had been realized and is shown on the Fund's balance sheet as a current liability.

Disclosure Controls and Procedures and Internal Control over Financial Reporting

As required by Multilateral Instrument 52-109, the Fund's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") will be making certifications related to the information contained in the Fund's annual filings. As part of certification, the CEO and CFO must certify that they are responsible for establishing and maintaining disclosure controls and procedures for the Fund to provide reasonable assurance that material information about the

Fund and its subsidiaries is made known to them and that they have evaluated the effectiveness of the disclosure controls and procedures as of the end of the period covered by the annual filings.

Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Fund is processed and reported on a timely basis to the Fund's management, including the CEO and CFO, as appropriate, to allow timely decisions with respect to required disclosure. The Fund has adopted or formalized such controls as it believes are necessary and consistent with its business and internal management and supervisory practices.

The CEO and CFO of the Fund, together with management of the Fund have evaluated the effectiveness of the Fund's disclosure controls and procedures and are collectively satisfied that, as of December 31, 2008, the Fund's disclosure controls and procedures were adequate and effective.

Internal control over financial reporting ("ICFR") is a process designed to provide reasonable assurances regarding the reliability of the Fund's financial reporting and of the preparation of financial statements for external purposes in compliance with generally accepted accounting principals. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance with respect to the reliability of the financial reporting and of the preparation of the financial statements. The CEO and CFO of the Fund, together with management of the Fund, have evaluated the effectiveness of the Fund's ICFR and are collectively satisfied that, as of December 31, 2008, the Fund's ICFR were effective. The CEO and CFO have evaluated whether there were changes to its ICFR during the year ended December 31, 2008 that have materially affected, or that are reasonably likely to materially affect its ICFR. No such changes were identified through their evaluation.

Critical Accounting Estimates

The preparation of the Fund's consolidated financial statements requires management to make certain estimates and assumptions. The estimates and assumptions are based on the Fund's experience combined with management's understanding of current facts and circumstances. These estimates may differ from actual results, and certain estimates are considered critical, as they are both important to reflect the Fund's financial position and results of operations and require significant or complex judgement on the part of management. The following is a summary of certain accounting estimates or policies considered critical by the management of the Fund.

Work in Process - Work in process is valued based on the time and materials that have been charged into each particular project. The amount for each project is reviewed on a periodic basis by the financial management of the Fund together with the senior management of IBI Group responsible for the project to determine whether or not the amount shown is a true reflection of the amount that will be invoiced on the project. Where there is a determination that there are differences between the work in process for the project and the amount that can be invoiced, adjustments are made to the work in process. The valuation of the work in process involves estimates of the amount of work required to complete the project. Errors in the

estimation of work required to complete the projects could lead to the over or undervaluation of work in process.

Provision for Doubtful Accounts – Estimates are used in determining the allowance for doubtful accounts related to trade receivables. These estimates are based on management’s best assessment of the collectability of the related receivable balance based, in part, on the age of the specific receivable balance. A provision is established when the likelihood of collecting the account has significantly diminished. Future collections of receivables that differ from management’s current estimates would affect the results of operations in future periods as well as accounts receivable and other operating expenses.

Goodwill – Goodwill is tested for impairment at least annually. This testing includes a comparison of the carrying value of the reporting unit to the estimated fair value to ensure that the fair value is greater than the carrying value. Estimating the fair value of a reporting unit is a subjective process and requires the use of best estimates. If the estimates or assumptions change from those used in the current valuation, an impairment loss may be recognized in future periods.

Property, equipment and Intangibles - Long-lived and intangible assets comprise property and equipment, customer relationships, contracts and non-competition provisions that were acquired by the Fund. Amortization expense on the client relationships, contracts and non-competition provisions, which have finite lives, has been recorded in the consolidated statement of income over their estimated economic lives. Management has estimated that these items should be amortized over one to two years for contracts, three years for non-competition provisions and ten years for client relationships.

The Fund regularly reviews long-lived assets and intangible assets with finite lives when events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. The determination of recoverability is based on an estimate of undiscounted future cash flows, and the measurement of impairment loss is based on the fair value of the asset. To determine recoverability, we compare the estimated undiscounted future cash flows projected to be generated by these assets to their respective carrying value. In performing this analysis, we make estimates or assumptions about factors such as current and future contracts with clients, margins, market conditions, and the useful lives of assets. If our estimates or assumptions change from those used in our current analysis, we may be required to recognize an impairment loss in future periods, which would decrease our long-lived and intangible assets and increase our reported expenses.

Financial Instruments - The Fund uses interest rate swaps to hedge interest rate exposures on the term credit facility. The Fund’s objective is to offset gains and losses resulting from interest rate exposure with losses and gains on the derivative contracts used to hedge it. The Fund does not use derivative contracts for speculative purposes. To qualify as a hedge, the hedge relationship is designated and formally documented at inception detailing the particular risk management objective and strategy for the hedge, which includes the item and risk being hedged, as well as how effectiveness is assessed. The derivative used must be highly effective in accomplishing the objective of offsetting either changes in fair value or cash flows for the risk being hedged. If a hedge relationship is found to be ineffective, it no longer qualifies as a hedge

and any excess gain or loss attributable to such ineffectiveness, as well as subsequent changes in fair value, are recognized in the results.

The Fund has designated its interest rate swap on its variable interest term credit facility as a hedge against fluctuations in interest expense due to changes in the interest rate. Accordingly, the fair value of this financial instrument and any changes thereto are recorded in the consolidated financial statements. These derivatives are marked-to-market at each period end and resulting gains or losses are recognized in comprehensive (loss) income to the extent the hedging relationship is effective.

Accounting Developments

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.

In February 2008, CICA announced that Canadian public companies will adopt International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board ("IASB") effective January 1, 2011. As a result of this announcement, the Fund is developing a plan to convert its consolidated financial statements to IFRS. The plan will address the impact IFRS has on:

- accounting policies and implementation decisions;
- information technology and data systems;
- financial statement presentation and disclosure options available upon initial changeover to IFRS;
- internal controls over financial reporting;
- disclosure controls and procedures; and
- business activities, including impact on debt covenants.

The Fund is currently in the process of assessing the preliminary differences between IFRS and the Fund's current accounting policies, as well as the alternatives available upon adoption, and has not quantified the effect of adopting IFRS on its financial statements, systems and business

activities. This will be an ongoing process as the IASB and the Accounting Standards Board issue new standards and recommendations in the coming months. We will focus our efforts on completing the identification of the key impact areas including the effect on information technology and data systems, internal controls and financial reporting and disclosure controls.

In January 2009, the CICA issued the new handbook Section 1582, “Business Combinations,” effective for fiscal years beginning on or after January 1, 2011. Earlier adoption of Section 1582 is permitted. This pronouncement further aligns Canadian GAAP with IFRS and changes the accounting for business combinations in a number of areas. It establishes principles and requirements governing how an acquiring company recognizes and measures in its financial statements identifiable assets acquired, liabilities assumed, any non-controlling interest in the acquiree, and goodwill acquired. The section also establishes disclosure requirements that will enable users of the acquiring company’s financial statements to evaluate the nature and financial effects of its business combinations. Although the Fund is considering the impact of adopting this pronouncement on its consolidated financial statements, it will be limited to any future acquisitions beginning in fiscal 2011.

In January 2009, the CICA issued the Emerging Issues Committee (EIC) Abstract EIC-173, “Credit Risk and the Fair Value of Financial Assets and Financial Liabilities,” effective for interim and annual financial statements ending on or after January 20, 2009. Earlier adoption of this abstract is permitted. EIC-173 provides further information on the determination of the fair value of financial assets and financial liabilities under Section 3855, “Financial Instruments—Recognition and Measurement.” It states that an entity’s own credit and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC-173 should be applied retrospectively, without restatement of prior periods, to all financial assets and liabilities measured at fair value. The Fund has adopted this abstract during the fourth quarter of the 2008. The effect of this change on the December 31, 2008 financial statements was a reduction in the unrealized interest rate swap losses and an increase in other comprehensive income in the amount of \$0.4.

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's 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 eighteen acquisitions (including seven in 2008) since the completion of its initial public offering on August 31, 2004, adding approximately 1,240 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, 2008.

Outlook

IBI Group commenced professional practice in November 1974. At that time there was a severe recession in North America and IBI Group has experienced subsequent recessions, including slowdowns in the early 1980's, the more severe slowdown of the first half of the 1990's, the demise of the Internet bubble and the impact of 9/11 with the subsequent decline in tourism and hospitality activities. During all those decades, IBI Group continued to grow from its initial group of 30 people through the current level of over 2000. Each of these recessions presented challenges as does this current recession facing us in the year ahead of 2009. IBI Group has the operating structure and model and the seasoned experienced leadership to adapt and respond to these challenging market conditions proven through IBI Group's experience in past recessions as evidenced by IBI Group's current solid backlog as outlined below.

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 at December 31, 2008 of 2,270 staff and revenue of \$248.0 million.

IBI Group continues to be confident in its ability to achieve success in its program of building its diverse practice to a global scale (which is fundamental to IBI's strategy of managing in the context of the current financing and economic risks) based on the following factors:

- The current backlog of contracted committed fee volume for the next 12 months is at a level in excess of the equivalent of seven months of work at the fee volume of the current activity. Backlog for government and public institutional clients has increased as a percentage of the total to approximately 60%. Backlog has increased in the Building facilities areas in Education, in Health Care and in Transportation Terminals; which increases have largely covered the decline in the residential facilities. Back log in the planning and landscape design of land development has increased covering some, but not all of the decline in the land engineering of residential development. That backlog which is not work for government and public Institutional clients is for private concerns the majority of whom are themselves or are financially backed by Pension Plans and other intuitional investors. Accordingly the backup is solid. IBI has experienced an increase in the new business committed since February following relatively slow months of December and January. This provides the basis for the continuing organic growth;
- IBI Group is increasing backlog in the international markets now with approximately 20% of total backlog being for projects outside of North America, 20% in the United States and 60% in Canada;

- IBI Group has an established and growing operating base in China, with offices in Shanghai and Beijing, and has placed leading staff members in both offices, and is now expanding into the public institutional areas of work;
- IBI Group continues to expand from the initial operations in India and has now secured recent awarded assignments in systems technology for major highways and major Realty Development;
- IBI Group's Gulf practice based in the Emirates continues to expand in public work in transportation infrastructure and systems technology. Private work for realty development for Buildings and Landscape of land development has increased in Abu Dhabi, covering a significant part of the decline in the Dubai Market;
- IBI Group was very active in 2008 with the acquisition/merger of seven firms, adding a further total of 665 people during the year; IBI Group is engaged currently in discussions with a number range of firms interested in merging with IBI Group with terms that are reduced from the from previous acquisitions resulting from the compression of values and based on the acquisitions using the IBI units as equity;
- IBI Group's success in acquiring and integrating firms has now encouraged firms to approach IBI Group directly to be acquired;
- In July, the significant acquisition of GPE added a further 375 people. The Giffels practice introduces transportation engineering design to IBI Group, enabling it to provide comprehensive services to the transportation industry from research/policy through transportation planning and detailed design to operations. The Giffels practice also adds a major operating presence in the Great Lakes Urban Region based in Detroit, being one of the nine strategic regions for the IBI Group practice in the US; increases the IBI USA practice to approximately 540 people; adds building engineering services to complement the existing practice in IBI Group in architectural practice; and doubles the IBI Group presence in Dubai to more effectively serve the rapidly expanding practice of the firm in that region;
- In July, the significant acquisition of P+S, added a further 100 people. P+S is a leading design firm serving the private development and institutional building industries and adds very considerable strength of breadth and depth of experience and clientele to IBI Group;
- The successful results achieved by IBI Group to date along with its strong financial position constitute positive attributes for IBI Group to access debt as evidenced by the successful closing of the extended financing with a syndicate of three Canadian banks. IBI will be able to finance the acquisitions using IBI Income Fund units as equity;
- Accordingly, and notwithstanding the severe financial and economic circumstances of the times, IBI Group continues to seek outstanding opportunities for strategic growth along with solid base for (albeit at a reduced level than in 2008) organic growth. The reduction/compression in valuation of firms including IBI Group itself has resulted in the recognition by vendors of a reduced pricing regime for the valuation of their respective

firms. IBI Group will, therefore, be able to continue to achieve strategic growth through acquisitions at accretive values relative to IBI Group's valuation. IBI Group will be able to finance such acquisitions using IBI Income Fund units as equity, along with cash available through the bank financing available to IBI Group;

- IBI Group will also consider raising capital directly at appropriate pricing.

IBI recognised the signs of downturn in the economy, particularly in the Sunbelt in the United States that were manifest in mid 2007. At that time IBI backlog was 60% for private companies notably in real estate development, and in particular residential, and 40% for public and institutional clients. IBI introduced a series of strategic initiatives to prepare the firm for continuing successful operations in the context of the emerging financing and economic challenges incorporating the steps noted above and summarized as follows:

- A strategic decision to increase the proportion of work for public and institutional clients, whose funding is less sensitive to financing prices and whose activity has now in fact been increased very significantly as Government policy throughout the world responds to the economic recession: the success of this program is the shift to now 60% public and institutional work and 40% private work;
- Geographic diversification; the strategy was to diversify more aggressively and in particular seek increased participation in those economies where liquidity of financing of private projects and the pace of development are continuing at higher levels as compared to the slowdown in North America, particularly in the United States. The result of these efforts is the increased amount of international work and more particularly in the Gulf Region, as well as in Asian markets; and
- Within the private sector, IBI had successfully sought work with pension companies and those clients whose financing arrangements provide the clients with the greater assurance of being capable of financing and implementing their projects.

Overall, the outlook for IBI Group for 2009 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, in the Gulf region, and the continuing organic and strategic growth of the activity of the firm in Europe, (with new opportunities emerging in eastern Europe) the United States and Canada. IBI anticipates significant strategic growth in 2009 in the market in the United States, particularly in Education and other areas of public social and hard infrastructure. Additionally, there is an increase in activity in public private partnerships for the building, operating and transfer, of facilities and infrastructure. A notable example of this is the McGill University Health Center, for which IBI Group is the lead architect for one of the two competing teams for this project. This increase is occurring in Canada assisted by the financial support at the Federal and Provincial level, in the United States, as well as internationally. IBI Group 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. IBI Group has now experienced a slowdown in overall activity in this housing area, in Florida and in Western Canadian markets.

The increased backlog internationally has led to an increase in the exporting of services from North America to support these international projects. The strategy of shifting staff in between the four broad areas that IBI Group serves and geographically is based both on the retraining of staff as well as recruitment and strategic acquisitions and is proof positive of the IBI Operational Model and the resilience of the Firm.

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, 2008. 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.

Definition of EBITDA, Distributable Cash and 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 “Distributable Cash” 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 “Summary of Quarterly Results”.