

CONSOLIDATED FINANCIAL STATEMENTS AND
AUDITORS' REPORT TO THE SHAREHOLDERS OF

T H E B O Y D G R O U P I N C .

DECEMBER 31, 2002



CONSOLIDATED FINANCIAL STATEMENTS AND
AUDITORS' REPORT TO THE SHAREHOLDERS OF

T H E B O Y D G R O U P I N C .

DECEMBER 31, 2002

TABLE OF CONTENTS

Management's Discussion and Analysis	1-12
Consolidated Financial Statements	
Management's Responsibility for Financial Reporting	13
Auditors' Report	14
Consolidated Balance Sheets	15
Consolidated Statements of (Deficit) Retained Earnings	16
Consolidated Statements of Earnings	17
Consolidated Statements of Cash Flows	18
Notes to the Consolidated Financial Statements	19-32

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following review of the Company's operating and financial results for the year ended December 31, 2002, as well as management's expectations for the year ahead should be read in conjunction with the audited financial statements, included on pages 12 to 31 of this report.

HIGHLIGHTS

A summary of events and corporate initiatives during 2002 which had, and which will continue to have an impact on the Company's financial results and financial position include:

- Identifying and implementing further integration and cost reduction initiatives in select markets;
- Continuing enhancement of insurance company relationships with major insurers, including roll out of State Farm "Select Service" DRP¹ program in the Atlanta market in February 2002 and extending other existing relationships to new locations;
- Commencing Phase I development of the Big Box production model in the AWC Collision Center prototype location;
- Achieving company-wide ISO multi-site registration in March 2002;
- Closing the Rush's Collision & Safety Center facility in Flagstaff, Arizona pending expropriation of this location by the City of Flagstaff;
- Completing an agreement with senior lenders to amend the Company's senior credit facility effective November 13, 2002 allowing for extension of existing convertible debentures and a new convertible debenture offering to proceed, and positioning the Company for the reorganization to an income trust;
- Completing an offering for \$7,500,000 of 2002, 8% Subordinate Convertible Debentures on December 3, 2002;
- Completing an offer on December 4, 2002 to extend the existing Series I Convertible Debentures for a further term of 5 years;
- Engaging Canaccord Capital Corporation and Wellington West Capital Inc. as financial advisors, to investigate potential strategies for enhancing shareholder value, including an assessment of the merits of a conversion to an income trust structure.
- Appointing a committee of independent members of the Board of Directors (the "Independent Committee") of the Company to consider the recommendations of the financial advisors and retain a qualified party to deliver an Initial Fairness Opinion on the proposed reorganization to an income trust;
- Recommendation by the Independent Committee, after receipt of an initial fairness opinion, and approval by the Board of Directors, effective December 16, 2002, to proceed with the reorganization to an income trust;
- Subsequent to December 31, 2002, Securityholder approval of the reorganization to an income trust at a Special Meeting held January 24, 2003;
- Subsequent to December 31, 2002, successful completion of an initial public offering of Boyd Group Income Fund of \$9,030,000 and completion of the reorganization, effective February 28, 2003.
- Subsequent to December 31, 2002 and in conjunction with the reorganization, completing an agreement with senior lenders to further amend and restate the Company's senior credit facilities in support of the income trust structure.

1. Referral programs (DRP's) are established between insurance companies and collision repair shops to better manage automobile repair claims and increase levels of customer satisfaction. The insurance companies select collision repair operators to participate in their programs based on integrity, convenience and physical appearance of the facility, quality of work and customer service.

RESULTS OF OPERATIONS

Acquisitions

Although no new acquisition transactions were completed during the year, the Company continues to identify and assess potential acquisition opportunities. The Company expects to continue to expand operations through further acquisitions during 2003.

Sales

Sales (excluding the impact of extraordinary items and discontinued operations) increased to \$141.4 million for the year ended December 31, 2002, an increase of \$9.4 million or 7.1% over the same period in 2001.

Sales in markets that the Company operated within during 2002 and 2001 increased 8.8% (excluding sales from the Big Rig & Rush's Collision locations) compared to the same period last year. This increase resulted from the full period impact in 2002 of acquisitions completed during 2001 of 7.8% and an increase of approximately 1.0% in same store sales of these exit operations.

Same store sales growth in Canada of 3.3% during 2002 was negatively impacted by a decline in replacement glass sales in the first half of the year resulting from a change in deductible policy implemented by the primary insurer in the Manitoba market. Excluding the impact of the sales decline in the Manitoba market, same store sales growth in Canada was 7.5%. In the U.S., a 1.9% decline in same store sales was attributed to weak same store sales in the U.S. Midwest region due to locally depressed economic conditions and weaker same store sales in the recently acquired Atlanta operations. Excluding the impact of these two regions, same store sales growth in the U.S. was 4.3%.

Gross Margin and Operating Expenses

Gross Margin of \$63.3 million or 44.7% of sales, compared to \$59.5 million or 45.1% of sales in the same period of 2001 reflects increased gross margin dollars resulting from increased sales. Consolidated gross margin percentage in 2001 was positively impacted by a non-recurring adjustment to record the accelerated amortization of purchase rebates resulting from a September 15, 2001, amendment to the Company's agreement with its trading partners. Excluding the impact of this adjustment, gross margin as a percentage of sales improved from 44.5% to 44.7% year over year. The Company expects to be able to continue to improve lower margin newly acquired operations over time through wider application of gross profit improvement initiatives.

Operating Expenses for 2002 of \$52.6 million, or 37.2% of sales, increased from \$46.9 million or 35.6% of sales in same period in 2001. Consolidated operating expenses as a percentage of sales increased partly due to growth in these expenses at a rate higher than same store sales growth. Higher salaries, wages and benefit costs, as well as higher facilities rent, insurance, communications and utilities costs all contributed to the higher operating costs as a percentage of sales.

Salaries, wages and benefits as a percentage of sales increased to 20.7% of sales in 2002 compared to 20.1% in the same period last year. Higher salaries, wages and benefit costs, coupled with rising health care and other employee benefit costs in nearly all U.S. operations contributed to the increase.

EBITDA

Earnings before interest, income taxes, depreciation and amortization ("EBITDA") decreased in 2002 to \$10.7 million or 7.6% of sales from \$12.6 million or 9.6% of sales in the same period of the prior year. Lower gross margins and higher operating costs as a percentage of sales as noted above contributed to the decline. The consolidated EBITDA margin is expected to continue to be impacted by lower EBITDA margins on new businesses acquired in 2001.

Depreciation and Amortization

Depreciation and Amortization expense increased to \$5.1 million or 3.6% of sales during 2002 compared to \$4.5 million or 3.4% of sales in the prior year.

On January 1, 2002, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3062 – Goodwill and Intangible Assets. In accordance with the requirements of this new standard, as at January 1, 2002 the Company ceased amortizing goodwill, commenced

the process of allocating goodwill to reporting units and began the related transitional impairment testing of the allocated goodwill to each reporting unit.

As a result of implementing CICA 3062, the Company expects that its amortization charges will be a significantly lower percent of sales into the future. This accounting change, had it been implemented in 2001, would have had the effect of increasing net income by approximately \$856 thousand.

During 2002, and in accordance with the new standard, the Company completed the development of the necessary methodology to fully implement CICA 3062 with respect to testing the impairment of goodwill on an annual basis, including the identification of reporting units, assigning of assets and liabilities to these reporting units, allocating goodwill to reporting units, assessing the fair value of each reporting unit and determining if there has been any impairment in the carrying value of goodwill. Impairment of goodwill identified from the transitional testing of reporting units in 2002 was recorded as a cumulative effect of change in accounting policy and charged to opening retained earnings.

In August 2002, the Company concluded the testing of goodwill impairment for two reporting units; the Big Rig reporting unit in Alberta, and a reporting unit in Arizona that is pending expropriation. The goodwill impairment, as at January 1, 2002, for these reporting units of \$1.3 million was recorded as a charge to opening retained earnings. In September 2002, the Company recorded an estimated impairment of goodwill, as at January 1, 2002, related to the U.S. Midwest reporting unit, of approximately \$3.8 million, as a further charge to opening retained earnings. The Company completed the second stage of the impairment testing for all reporting units during the fourth quarter, and recorded additional goodwill impairment, as at January 1, 2002, related to the U.S. Midwest reporting unit, of \$3.0 million. The Company expects to continue to test the impairment of goodwill for all reporting units on an annual basis.

Amortization of deferred costs in 2002 increased to \$1.4 million compared to \$250 thousand for the prior year. The Company recorded a one time charge for accelerated amortization of deferred financing costs of approximately \$1.1 million during the fourth quarter, related to the amendment to the Company's senior credit facilities. The Company expects the future amortization of deferred costs to be at or near levels consistent with the current and prior year, without recognition of the one-time charge.

Depreciation expense in 2002 increased to \$3.6 million, or 2.6% of sales, compared to \$3.1 million or 2.4% of sales in the prior year. The Company anticipates that future depreciation charges on capital assets will continue at or near the same level as a percent of sales.

Interest Expense

Interest Expense decreased to \$3.6 million or 2.6% of sales, from \$3.7 million or 2.8% of sales in the same period of 2001. The decrease in interest cost resulted primarily from lower interest rates on the portion of bank debt not subject to interest rate hedging and a decrease in the outstanding balance of convertible debentures. The Company anticipates lower interest costs on bank debt in 2003 resulting from reductions in the outstanding term facility and lower interest rates, partly offset by higher interest costs relating to the extension of 8.5% Series I debentures and issue of new 2002, 8% Convertible Debentures.

Income Taxes

Income Tax expense decreased to \$(33) thousand compared to \$1.0 million or 0.8% of sales in the same period of 2001. The decrease in income tax expense is primarily due to lower income levels, a higher proportion of income from U.S. operations subject to lower income tax rates, the positive effect of income tax deductions available to the Company as a result of effective tax planning of U.S. acquisitions, and the reduction of potential future tax liabilities relating to the recording of goodwill impairment for certain reporting units.

Net Earnings and Earnings Per Share from Continuing Operations and Before Extraordinary Items

Net Earnings from continuing operations and before extraordinary items for the year ended December 31, 2002 were \$2.0 million or 1.4% of sales compared to \$3.4 million or 2.6% of sales for the same period last year. Higher overall sales volumes were offset by lower EBITDA margins resulting from higher operating costs in relation to sales in select regions. Higher depreciation and amortization costs contributed to lower net earnings, partly offset by lower interest costs and income taxes.

Earnings Per Share from continuing operations and before extraordinary items was \$0.108 per share compared to \$0.213 per share in the same period of 2001. Diluted Earnings Per Share from continuing operations and before

extraordinary items, which is calculated under the assumption that all convertible securities had been converted and stock options had been exercised at the date of issue (where such conversion and exercise would have the effect of reducing earnings per share), was \$0.100 per share compared to \$0.194 per share in the same period of 2001. The decrease in earnings per share and diluted earnings per share resulted from lower net earnings combined with some growth in the average number of shares issued and outstanding during the period.

Discontinued Operations

Net Loss from Discontinued Operations, net of tax, of \$130 thousand (\$52 thousand for 2001) resulted from a decision by the Company on August 9, 2002 to sell the assets and business of its "Big Rig" location (C.A.C. Coatings) in Red Deer, Alberta. The decision to sell this business was based upon the Company's conclusion that the operating characteristics of the business (i.e. inconsistent financial performance, high levels of accounts receivable, a shortage of trained and experienced work force, etc.) made the business much less desirable than the Company's core business of insurance company paid automotive collision repair services. This facility, which was originally acquired in 1998 as part of a three store group of collision repair centres operated in central Alberta, was primarily involved in the repair and refurbishment of "Big Rig" trucks and heavy equipment used in the oil industry.

Extraordinary Item

Extraordinary loss, net of tax, of \$723 thousand was recorded in connection with the closure of Rush's Collision & Safety Center, a single collision repair facility located in Flagstaff, Arizona. The closure of this facility was precipitated by a plan, initiated by the City of Flagstaff in late 2001, to expropriate the property at this location for use in developing a new rail line. The Company was formally notified of the expropriation during the third quarter and, after assessing the likelihood of successfully operating this business and the economic viability of relocating post-expropriation, proceeded to close the facility in October, 2002. After further evaluation of the ability to sell or utilize the equipment, fixtures and leasehold improvements at this location, completed subsequent to the closure, the Company concluded that a further extraordinary charge to earnings was warranted during the fourth quarter.

Net Earnings and Earnings Per Share

Net Earnings after giving effect to discontinued operations and the extraordinary loss, decreased to \$1.2 million or 0.8% of sales compared \$3.3 million or 2.5% of sales for the same period of the prior year. Higher sales volumes were offset by lower EBITDA margins resulting from lower gross margins and higher operating costs. Higher depreciation and amortization costs contributed to lower net earnings, partly offset by lower interest costs and income taxes.

Earnings Per Share after giving effect to discontinued operations and the extraordinary loss, was \$0.049 per share compared to \$0.210 per share in the same period of 2001. Diluted Earnings Per Share, which is calculated under the assumption that all convertible securities had been converted and stock options had been exercised at the date of issue (where such conversion and exercise would have the effect of reducing earnings per share), after giving effect to discontinued operations and the extraordinary loss, was \$0.057 per share compared to \$0.191 per share in the same period of the prior year. The decline in earnings per share and fully diluted earnings per share resulted from lower net earnings, after giving effect to discontinued operations and the extraordinary loss, combined with some growth in the average number of shares issued and outstanding during the period.

LIQUIDITY AND CAPITAL RESOURCES

The Company's objective is to ensure, in advance, that it has the capital resources to allow it to execute its plan. It strives to combine an appropriate mix of equity and debt within its capital structure.

Equity

During the year ended December 31, 2002, the Company issued Class A shares as follows:

- An additional 54,286 Class A shares issued during the first quarter from treasury as partial consideration in anticipation of an acquisition that was not completed. The shares were subsequently cancelled during the second quarter and returned to treasury;

- An additional 494,298 Class A shares issued during the period relating to prior years acquisitions for a value of nil;
- An additional 33,624 Class A shares issued during the period in respect of earn out provisions relating to prior acquisitions for a value of \$64,614;
- The conversion of \$316,600 (face value) of Series I and II convertible debentures during the period in exchange for an additional 292,300 Class A shares;
- The exercise of stock options during the period for 22,000 Class A shares for cash proceeds of \$28,040.

On May 22, 2002, the Company granted options to purchase 74,000 Class A shares of the Company to directors and officers of the Company and to certain other key employees of the Company at an exercise price of \$1.84 per share. Options granted to directors of the Company vest immediately, while all other options vest over a period of 5 years, at a rate of 20% a year, subject to achievement of certain minimum corporate operating performance levels. The exercise price is the market price of the Class A shares at the time of granting.

In 2001, the Company initiated a Normal Course Issuer Bid to acquire for cancellation up to 5% of the outstanding Class A shares during the period commencing on November 27, 2001, and ending on November 26, 2002. Pursuant to this Normal Course Issuer Bid, the Company purchased and cancelled 9,700 Class A shares during 2002, at an average price of \$2.02 per share.

On May 8, 2002, a special resolution of the shareholders of the Corporation was passed to amend the Articles of Incorporation with respect to the Class E voting shares and re-designate the Class A shares. Each issued and outstanding Class E voting share was subdivided into approximately 8.93 Class E voting shares for a total number of issued and outstanding Class E voting shares of 2,125,000. The number of votes to which each Class E voting share is entitled was changed from 8.93 votes per Class E voting share to one vote per Class E voting share. The Class E redemption price was changed from \$25 per Class E voting share to \$2.80 per Class E voting share. The rate at which the Class E voting shares may be converted into Class A shares was increased proportionately to reflect the increased number of Class E voting shares issued such that there was no benefit or disadvantage to any class of shareholder. As a result of the changes to the Class E voting shares, the use of the word "Subordinate" was dropped from the formal name of the Class A shares changing the formal designation of those shares to "Class A (Restricted Voting) Shares".

In July 1999, the Company entered into agreements with strategic trading partners, with subsequent amendments in September 2001, that provide, among other things, approximately \$25 million in forgivable capital funding over a period of three to six years, to be used for acquisition or start-up of new collision repair operations. Subject to certain obligations and performance criteria, which the Company anticipates it will meet, the Company will not be required to repay this funding. The nature of this capital funding provides the Company with another source of available capital, without interest cost or dilution, to support its acquisition strategy. During 2002, the Company received approximately \$150 thousand in forgivable capital funding toward a late 2001 start-up operation and repaid forgivable funding of approximately \$150 thousand related to the closure of the Rush's Collision & Safety Center location.

In the fall of 2002, the Board of Directors determined that it was appropriate to formally review strategic alternatives for the Company and give consideration to possible methods of enhancing securityholder value and ensuring its continued growth. Canaccord Capital and Wellington West Capital were retained to review and consider strategic alternatives available and the Company, in consultation with the advisors, determined that an income trust structure would most effectively satisfy its long-term objectives.

On November 21, 2002, the Board of Directors met and authorized appointment of an independent committee for the purpose of retaining a qualified party to deliver a Fairness Opinion and to make a recommendation to the Board as to whether or not to proceed with a plan of arrangement to convert to an income trust structure. Under the proposed arrangement, shareholders and optionholders, through a series of transactions, would exchange their Class A shares in Boyd for a combination of trust units in Boyd Group Income Fund (the "Fund"), to hold a majority interest in the Company, and Class A shares of Boyd Group Holdings Inc., a holding company established to hold the remaining minority interest.

On December 16, 2002, the Board, upon receiving the recommendation of the independent committee and the initial fairness opinion, approved the Arrangement Agreement and the application to the Court for an Interim Order to proceed with the conversion to an income trust.

On January 24, 2003, at a special meeting of the securityholders, the plan of arrangement was approved to proceed with the conversion to an income trust, subject to the completion of an initial public offering of new trust units.

On February 28, 2003, the Company completed the restructuring into the Fund trading under the symbol "TSX: BYD.UN". In conjunction with this restructuring, the Fund completed an Initial Public Offering for 1,050,000 trust units at a price of \$8.60 per trust unit for gross proceeds of \$9,030,000. Proceeds of the offering were used principally to repay a portion of the Company's senior debt.

The Fund is an open-ended mutual fund trust created for the purpose of acquiring and holding certain investments, including a majority interest in the Company and its subsidiaries. The Fund will make monthly cash distributions to the maximum extent possible, with the first distribution expected to be paid on April 30, 2003 at an estimated amount of \$0.095 per trust unit.

Boyd Group Holdings Inc. is a mutual fund corporation created for the purpose of holding a minority interest in the Company and its subsidiaries. Shareholders of Boyd Group Holdings Inc. will also receive monthly cash distributions, with the first distribution expected to be paid on April 30, 2003 at an estimated amount of \$0.038 per share. Class A shares of Holdco are exchangeable for trust units at any time, subject to varying rates of exchange, and entitle holders to vote on the same basis as holders of trust units.

The Company anticipates, through its relationship with the Fund, continuing to issue trust units to vendors as partial payment for acquisitions, and will continue to assess the need to issue new equity in 2003. The Company expects to raise new debt or equity in advance of requiring the funds where a market opportunity exists and where the objective is to ensure sufficient capital is available for future needs.

Debt Financing

On March 20, 2001, the Company entered into a new seven-year syndicated loan agreement with the Toronto-Dominion Bank and Scotiabank, to be effective April 1, 2001. The new credit facilities were used initially to repay the existing facilities, and provide the Company with an ongoing ability to pay for a portion of future acquisitions using bank debt.

The new facility included a \$5 million operating line of credit and a \$45 million revolving term facility to be used for acquisitions and new start-up locations. Availability of funds under both the operating credit and the revolving term facility were subject to annual renewal, however, once advanced, borrowings under the revolving term facility were committed, for a total of seven years, subject to repayment requirements and covenant performance. As is normal for financings of this nature, the credit facility is secured by the Company's assets.

On April 1, 2002, in accordance with the credit agreement, the outstanding balance under the revolving term facility of \$32.5 million was converted to a term loan, repayable in quarterly installments over a period of five years, commencing July 1, 2003. On August 2, 2002, the Company and the bank syndicate reached agreement on the renewal of the remaining balance of the \$45 million revolving term facility. Under the terms of this renewal, any portion of the remaining undrawn balance of \$12.5 million drawn by the Company between April 1, 2002 and October 1, 2003 would have become repayable on October 1, 2003. As at September 30, 2002, no additional draws have been made on the remaining balance of the facility.

On November 23, 2002, the Company entered into an agreement with its senior lenders to amend its senior credit facility. This amendment provided for the Company to proceed with an offering of up to \$7.5 million of new 2002 8% Subordinate Convertible Debentures, as well as an extension of its existing Series I, 8.5% Convertible Debentures for up to a further five years. Under the amended terms, the undrawn \$12.5 million balance of the \$45 million revolving term facility expired, however upon application of proceeds of the new debenture offering to the facility, the amount so repaid, subject to lender approval as well as the Company's ability to meet certain operating and financial ratios, remained available to the Company for its future use. The amended credit facility, unless otherwise extended by the lenders, would mature on January 1, 2004, and provided for payment of interest only until maturity.

On December 3, 2002, the Company completed an offering for \$7.5 million of 2002 8% Subordinate Convertible Debentures, with a 5-year maturity from the date of issue. The debentures are convertible, at the option of the holders, into Class A shares of the Company at a price of \$2.00 per share. The Company will have the option to settle all or a portion of the debenture obligation at maturity, through issuance of Class A shares at the then market price, subject to a floor price of \$1.38 per share. The proceeds of the debenture offering were used primarily to repay approximately \$5.75 million of senior bank debt and provide funding for expenses of the income trust conversion.

On December 4, 2002, the Company completed an offer to existing debenture holders of the Series I, 8.5% Subordinate Convertible Debentures to extend the term of the debentures for a further five years (maturing January 4, 2008), as well as provide the right, at the option of the Company, to satisfy the debentures at maturity

by conversion to Class A shares. The debentures are convertible at any time prior to maturity by the holder thereof into Class A shares of the Company.

At December 31, 2002 the Company had approximately \$28.0 million (\$34.0 million – December 31, 2001) of bank debt outstanding under term loans and approximately \$4.0 million (\$3.2 million – December 31, 2001) outstanding under its operating line of credit.

Subsequent to December 31, and in conjunction with the reorganization of Boyd and the initial public offering of trust units of Boyd Group Income Fund on February 28, 2003 the Company entered into a new agreement with its senior lenders. The amended and restated credit agreement provides the Company with a two year, interest-only, \$21.0 million term facility and a \$6.0 million operating facility, subject to customary terms, conditions, covenants and other provisions common to other companies organized as income trusts.

The Company expects to continue to supplement its debt financing, by negotiating with vendors, in certain acquisitions, to provide financing to the Company in the form of term notes. The notes payable to vendors are typically at favorable interest rates and for terms of 5-10 years. Although this source of financing does partially impact the total availability of funds under the syndicated credit facility, it is another means of supporting the Company's growth, at a relatively low cost.

The Company anticipates, as part of its ongoing strategy to grow through acquisition and start-up of new collision repair facilities, continuing to source new debt financing to supplement contributed equity and minimize dilution to shareholders.

Working Capital

Net working capital (current assets less current liabilities) was approximately \$8.9 million at December 31, 2002, compared to approximately \$8.9 million at December 31, 2001. Growth in current assets resulting from higher sales levels in 2002 was offset by higher current liabilities. The Company expects to continue to operate at or above a working capital ratio of 1:1.

Capital Expenditures

Excluding expenditures related to acquisitions and expansion, the Company spent approximately \$3.1 million (\$1.4 million, net of obligations under capital leases of \$1.7 million) or 2.2% of sales on capital expenditures in 2002, compared to \$3.3 million (\$1.7 million, net of obligations under capital leases of \$1.6 million) or 2.5% of sales in the same period of 2001. Capital expenditures in 2002 included \$1.5 million in courtesy car fleet replacement in Canada, all via capital lease. The Company expects that for the foreseeable future, the level of capital expenditures, as a percentage of sales, will be at, or below these historical levels.

RISKS AND UNCERTAINTIES

The Company is subject to certain risks inherent in the operation of its business, including retaining key members of the executive team, customer concentration in certain public insurance markets, competition from other businesses, competition from other acquirors of collision repair businesses, ongoing access to sources of capital, increases in operating costs caused by general and location specific economic conditions, labour relations, environmental and regulatory risks and changes in interest rates, tax rates, foreign currency exchange rates and other operating expenses. The Company manages risk and risk exposures through a combination of insurance, its system of internal controls and sound operating practices.

Dependence on Key Personnel

The success of the Company is dependent on the services of a number of members of management. The experience and talent of these individuals will be a significant factor in Boyd's continued success and growth. The loss of one or more of these individuals could have a material adverse effect on the Company's business operations and prospects. The Company has entered into management agreements with key members of management in order to mitigate this risk.

Risks Associated with Acquisition Strategy

The Company's objectives include plans to continue to increase revenues and earnings through the acquisition of additional collision repair facilities. There can be no assurance that the Company will be able to identify and acquire additional collision repair facilities. There can be no assurances that the acquired companies will continue to achieve sales and profitability levels achieved historically to justify the Company's investment. Further, there can be no assurances that the Company will be able to continue to acquire facilities with the current pricing model should competition for the target facilities intensify.

Potential Undisclosed Liabilities Associated with Acquisitions

To the extent that the prior owners of businesses acquired by Boyd failed to comply with or otherwise violated applicable laws, the Company, as the successor owner, may be financially responsible for these violations and any associated undisclosed liability. The discovery of any material liabilities, including but not limited to legal and environmental liabilities, could have a material adverse effect on the Company's business, financial condition and future prospects. The Company seeks, through systematic investigation and due diligence, and through indemnification from former owners, to minimize the risk of material undisclosed liabilities associated with acquisitions.

Inability to Successfully Integrate Acquisitions

A key element of the Company's strategy is to successfully integrate acquired businesses in order to expand and enhance profitability. There can be no assurance that the Company will be able to profitably integrate and manage additional repair facilities. Successful integration can depend upon a number of factors, including the ability to retain and motivate certain key management and staff, leverage customer and supplier relationships and implement standardized procedures and best practices. In the event that any significant acquisition cannot be successfully integrated into Boyd's operations or performs below expectations, the business could be materially and adversely affected.

Expansion into the United States

Boyd views the United States as having significant potential for market expansion of its business. There can be no assurance that any market for the Company's products will develop in these markets. Local laws and the presence of competition in certain jurisdictions may limit the Company's capability to successfully expand operations into these markets.

Loss of Key Customers

Over 70% of the Company's revenues are derived from insurance companies in private insurance markets, who over the past decade have implemented Direct Repair Programs ("DRP") with collision repair operators who have been recognized as consistent high quality repairers in the industry. The Company's ability to continue to grow the business in these markets, as well as maintain existing business volume, is largely reliant on the ability to maintain the DRP relationships throughout existing and acquired facilities. The Company continues to develop and monitor these relationships through formal agreements and ongoing measurement of the success factors considered critical by the insurance customer. The loss of any existing material DRP relationships could have a materially adverse effect on Boyd's operations and business prospects.

Government Operated Insurance

The collision repair industry in Manitoba, Saskatchewan and British Columbia is subject to significant government regulation and participation via the presence of government owned public insurance companies in these markets. In 2002, Boyd derived approximately 24% of its revenue from these markets, compared to 26% in the prior year. As a result of this government participation, the ability of Boyd, or any other collision repair provider, to control the level of payment for services is limited. Any change in the level of government control and participation in the industry could potentially have an adverse affect on the Company, however, if any change were to occur, Boyd believes that it will be in a position which is as good or better than most industry participants to deal with, or take advantage of any such change. As the Company continues to expand in other markets, such as the U.S. market, its percentage of sales from these markets has and will continue to diminish, as it did in 2002.

Competition

The collision repair industry in North America, estimated at approximately \$50 billion, while in the very early stages of consolidation, is very competitive. Competition in this industry exists mainly on a regional basis with the main competitive factors being price, service and quality. There can be no assurance that Boyd's competitors will not achieve greater market acceptance due to pricing or other factors.

Although competition exists mainly on a regional basis, Boyd competes with a small number of other multi-location collision repair operators, in multiple markets in which it operates. No single operator within this group is dominant over the others, either in terms of size or geographic coverage and the Company estimates that, as a group, consolidators have less than 5% market share. All of the other known multi-unit operators, other than Boyd, are currently headquartered and have the majority of their operations in the U.S. The Company anticipates facing increasing competition as it focuses more of the acquisition effort and expansion in the U.S. market.

Given these industry characteristics, existing or new competitors may become significantly larger and have greater financial and marketing resources than Boyd. These competitors may compete with Boyd in rendering services in the markets in which Boyd currently operates and also in seeking existing facilities to acquire or new locations to open in markets in which Boyd desires to expand. There can be no assurance that the Company will be able to maintain or achieve its desired market share.

Notwithstanding these potential risks of competition, the Company believes that it is currently as well positioned as any industry participant to emerge as a leader in a more consolidated state of the industry.

Trademarks

It is Boyd's present practice to continue to utilize the name of an acquired business for some time after its acquisition in order to maximize the benefit of the goodwill associated with that name. The Company does plan to gradually move to a common brand, where possible and practical, in the conduct of its business.

The businesses conducted by Boyd in the provinces of Manitoba, Saskatchewan and British Columbia operate under the name "Boyd Autobody and Glass". Boyd has determined that it would not be prudent to use this brand name in the United States due to the establishment of similar trademarks and has decided to use the new brands "Service Collision Repair Center" and "Collision Service Repair Center" with appropriate common colours and logos in the states of Georgia, Kansas, Oklahoma and Washington, and the brand "Service Collision Repair Centre" in the province of Alberta.

There can be no assurances that these trademarks will continue to be available for use in these markets and, in fact, the Company's Washington subsidiaries have discontinued use of "Service Collision Repair Center" due to a competitor's use of a similar brand name.

Key Supplier Relationships

In 1999, the Company entered into certain key supplier relationships that provide the Company with approximately \$25 million in forgivable capital funding over a period of three to six years. At December 31, 2002, the end of the fourth year of the agreement, the Company has used approximately \$13.9 million of this funding. The forgivable capital funding is to be used as partial payment for acquisitions and start-up locations. There can be no assurance that the forgivable capital funding will continue to be available if Boyd cannot meet the conditions for the forgivable capital funding and there can be no assurance that the forgivable capital funding will be available to the Company beyond the current \$25 million commitment. All or a portion of the forgivable capital funding may be repayable upon certain events occurring, such as sale or closure of a particular location. The absence of subsequent forgivable capital funding would significantly impact the Company's cash funding of future acquisitions and start-up locations.

Acquisition Growth & Ongoing Access to Capital

The Company intends to grow, in part, through future acquisitions of collision repair businesses. There can be no assurance that Boyd will have sufficient capital resources available to implement its acquisition strategy. Subsequent to the reorganization to an income trust structure on February 28, 2003, the Company has committed to payout substantially all of its operating cash flow, after meeting maintenance capital expenditures, debt service requirements and income tax obligations. Inability to raise new capital, in the form of debt or equity, could limit Boyd's future growth by acquisition.

The Company will endeavor, through a variety of strategies, to ensure, in advance that it has sufficient capital for growth. Potential sources of capital that the Company has been successful at accessing in the past include public and private equity placements, using equity securities to directly pay for a portion of acquisitions, capital available through strategic alliances with trading partners, vendor financing and both senior and subordinate debt facilities. There can be no assurance that the Company will be successful in accessing these or other sources of capital in the future.

Credit & Refinancing Risks

The Company and other restricted parties under the amended senior credit facilities have, and will continue to have, significant debt service obligations. In addition the Company's ability to make scheduled payments of interest or principal on, or to refinance, its indebtedness will depend on its future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rates, and financial, competitive, business and other factors many of which are beyond its control.

The amended and restated senior credit facilities contain restrictive covenants that limit the discretion of the Company's management and the ability of the Company to incur additional indebtedness, to make acquisitions of collision repair businesses, create liens or other encumbrances, to pay dividends, redeem any equity or debt or make certain other payments, investments, capital expenditures, loans or guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, the credit facility contains a number of financial covenants that require the Company and other restricted parties to meet certain financial ratios and financial condition tests. A failure to comply with the obligations under the senior credit facility could result in an event of default, which, if not cured or waived, could permit acceleration of the relevant indebtedness. If the indebtedness under the senior credit facilities were to be accelerated, there can be no assurance that the assets of the Company and other restricted parties would be sufficient to repay the indebtedness in full. There can also be no assurance that the Company will be able to refinance the credit facilities as and when they mature.

Environmental Risk

The nature of the collision repair business means that hazardous substances must be used, which could cause damage to the environment if not handled properly. The Company's environmental protection policy requires environmental site assessments to be performed on all business locations prior to acquisition so that any existing or potential environmental situations can be remedied or otherwise appropriately addressed. It is also Boyd's practice to secure environmental indemnification from landlords and former owners of acquired collision repair businesses, where such indemnification is available.

To date the Company has not encountered any environmental protection requirements or issues which would have material financial or operational effects on its current business and it is not aware of any material environmental issues that could have a material impact on future results or prospects. No assurance can be given, however, that the prior activities of Boyd, or its predecessors, or the activities of a prior owner or lessee, have not created a material environmental problem or that future uses will not result in the imposition of material environmental liability upon Boyd.

Fluctuations in Operating Results and Seasonality

The Company's operating results have been and are expected to continue to be subject to quarterly fluctuations due to a variety of factors including changes in purchasing patterns, pricing policies, general and regional economic downturns and weather conditions. These factors can affect Boyd's ability to fund ongoing operations and finance future activities.

Weather Conditions

The effect of weather conditions on collision repair volume represents an element of risk to the Company's ability to achieve same store sales growth. Historically, extremely mild winters and dry weather conditions, particularly in Canada, have had a negative impact on collision repair sales volumes. Even with market share gains, this type of temporary decline in market size can result in same store sales declines.

The Company strives to mitigate the effect of weather by increasing market share annually (as evidenced by either same store or same market sales increases) through aggressive advertising and high levels of customer service. The Company's increasing geographic diversification resulting from its growth and expansion is expected to continue to lessen the effect of this risk.

Interest Rates

At December 31, 2002, the Company's outstanding senior term loan of approximately \$28.0 million was entirely hedged through the use of interest rate swaps, converting variable rate loans to a fixed rate. The outstanding balance of the operating facility continues to be subject to variable interest rates.

The Company expects to unwind some or all of the existing interest rate swaps following the reorganization to an income trust structure in efforts to reduce interest costs and realign hedging activities to better match the amount and maturity of the underlying amended credit facilities. Boyd anticipates that during this period, certain loans will be subject to variable interest rates and interest costs could be negatively impacted by increases in interest rates, the effect of which increase would be to reduce the amount of cash available for distributions. Conversely, a decline in variable interest rates could have the effect of increasing cash available for distributions.

Foreign Currency Risk

In the past, the Company has financed acquisitions of U.S. businesses in part by making U.S. denominated loans available under its credit facilities that could then be serviced and repaid from anticipated future U.S. earnings streams. Although this natural hedging strategy is partially effective in mitigating future foreign currency risks, the Company anticipates increased exposure to foreign currency risks subsequent to the income trust reorganization. A substantial portion of Boyd's revenue and cash flow are now, and are expected to continue to be, generated in U.S. dollars. Fluctuations in exchange rates between the Canadian dollar and other currencies may have a material adverse effect on the Company's ability to make future Canadian dollar cash distributions.

Management and Operations of Boyd

After the February 28, 2003 effective date of the conversion to an income trust, the board of directors of The Boyd Group Inc. will oversee the management and operation of the Company's present business. As a result, the holders of trust units of the new income trust, Boyd Group Income Fund, will have limited say in the matters affecting the operation of Boyd and, if such holders are in disagreement with the decisions of the board of directors of the Company, they will have limited recourse. The control exercised by the board of directors of The Boyd Group Inc., after the reorganization, may make it more difficult for others to attempt to gain control or influence the activities of the Company.

Available Cash and Cash Reserves

Following the reorganization to an income trust, the Company's ability to pay interest to the trust or to make distributions on its common shares will be subject to its ability to generate available cash. Available cash for these purposes will be determined after provision for cash reserves. There can be no assurance that the Company will not allocate an additional amount to required cash reserves such that the available cash and Boyd's ability to make distributions on its shares may be restricted accordingly.

OUTLOOK

As the Company had communicated in its third quarter, operating results for the balance of 2002 were impacted by challenging economic conditions, with lower year over year results being reported. It is optimistic that initiatives introduced throughout 2002 have positioned it to withstand these challenging times as well as to achieve improved performance as economic and market conditions improve.

The Company expects to continue to grow in part through the acquisition of collision repair businesses as well as by way of organic growth opportunities. There continues to be opportunity to grow Canadian operations, however it is expected that the majority of the Company's growth will take place in the U.S.

The Company will continue to work on improving same store sales growth, gross margins and EBITDA margins of all operations, will continue to develop its systems and its infrastructure and will continue to work to enhance shareholder value.

FORWARD-LOOKING INFORMATION

This interim report contains forward-looking information, other than historical facts, which reflect the views of the Company's management with respect to future events. Forward-looking information typically contains statements with words such as "anticipate", "believe", "expect", "plan" or similar words suggesting future outcomes or events. Such forward-looking information reflects the current views of the Company's management on the basis of information currently available.

Although management believes that its expectations are reasonable, readers are cautioned not to place undue reliance on forward-looking information because it is possible that predictions, forecasts, projections and other forms of forward-looking information will not be achieved. By its nature, the forward-looking information contained herein is subject to inherent risks and uncertainties, and assumptions relating to the operations, results of operations, financial position, business prospects and strategies of the Company. The Company can give no assurance that its expectations with respect to forward-looking information will prove to be correct.

The Company assumes no obligation to update, publicly or otherwise, the forward-looking information contained herein or update the reasons why actual results could differ from those contemplated by the forward-looking information, whether as a result of new information, future events or otherwise.

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Management is responsible for their integrity, objectivity and reliability and, where necessary, they reflect management’s best estimates and judgements. Management is also responsible for the maintenance of financial and operating systems, which include effective controls, to provide reasonable assurance that the Company’s assets are safeguarded and that reliable financial information is produced.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises these responsibilities through its Audit Committee, all members of which are not involved in the daily activities of the Company. The Audit Committee meets with management and, as necessary, with the independent auditors, Deloitte & Touche LLP, to satisfy itself that management’s responsibilities are properly discharged and to review and report to the Board on the consolidated financial statements.

In accordance with generally accepted auditing standards, the independent auditors conduct an examination each year in order to express a professional opinion on the consolidated financial statements.



Terry Smith
President & Chief Executive Officer



Mike Graham, C.A.
Vice-President & Chief Financial Officer

AUDITORS' REPORT

To the Shareholders
The Boyd Group Inc.

We have audited the consolidated balance sheets of The Boyd Group Inc. as at December 31, 2002 and 2001 and the consolidated statements of (deficit) retained earnings, earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Winnipeg, Manitoba
March 7, 2003

CONSOLIDATED BALANCE SHEETS

December 31

	2002	2001
Assets (Notes 4 and 5)		
Current		
Cash (Note 9)	\$ 2,090,371	\$ 2,091,838
Accounts receivable	12,548,758	12,361,375
Income taxes recoverable	1,660,242	1,601,576
Inventory	3,713,578	3,765,535
Prepaid expenses	2,487,966	1,974,355
	22,500,915	21,794,679
Capital assets (Note 6)	20,784,202	21,416,743
Deferred costs (Note 7)	913,032	1,228,196
Goodwill and other intangible assets (Note 8)	36,769,087	44,766,919
	\$ 80,967,236	\$ 89,206,537
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 12,269,748	\$ 11,656,066
Due to C.C. Collision Repair Management Limited Partnership	3,308	8,917
Current portion of long-term debt (Notes 10, 23 and 24)	283,557	292,896
Current portion of obligations under capital leases (Note 11)	1,052,116	864,765
Current portion of convertible debentures – debt component (Note 12)	–	31,564
	13,608,729	12,854,208
Long-term debt (Notes 10, 23 and 24)	28,555,576	34,897,233
Obligations under capital leases (Note 11)	2,282,062	1,750,247
Convertible debentures – debt component (Note 12)	2,723,988	1,597,800
Future income taxes (Note 16)	21,951	863,145
Unearned income (Note 13)	8,894,109	10,843,280
Other long-term liabilities	339,046	358,179
	56,425,461	63,164,092
Contingencies (Note 19)		
Equity		
Share capital (Note 14)	18,693,476	18,359,794
Convertible debentures – equity component (Note 12)	6,025,841	183,953
(Deficit) retained earnings	(1,089,808)	6,396,650
Cumulative translation adjustment	912,266	1,102,048
	24,541,775	26,042,445
	\$ 80,967,236	\$ 89,206,537

CONSOLIDATED STATEMENTS OF (DEFICIT) RETAINED EARNINGS

Years ended December 31

	2002	2001
Retained earnings, beginning of year	\$ 6,396,650	\$ 3,586,267
Net earnings for the year	1,175,540	3,317,946
Dividends on Class E shares	(473,024)	(473,024)
Premium paid on Class A (Restricted Voting) shares purchased and cancelled (Note 14)	(6,667)	(34,539)
Distributions on equity component of convertible debentures (net of taxes recoveries of \$11,730)	(15,792)	–
Cumulative adjustment – goodwill impairment (Notes 2(f) and 8)	(8,166,515)	–
(Deficit) retained earnings, end of year	\$ (1,089,808)	\$ 6,396,650

CONSOLIDATED STATEMENTS OF EARNINGS

Years ended December 31

	2002	2001
Sales	\$ 141,436,320	\$ 132,005,761
Cost of sales	78,146,702	72,516,074
Gross margin	63,289,618	59,489,687
Operating expenses	52,607,747	46,878,541
Earnings before interest, taxes, depreciation and amortization	10,681,871	12,611,146
Depreciation and amortization	5,050,228	4,502,869
Interest expense	3,689,855	3,756,354
Interest income	(53,130)	(52,177)
	8,686,953	8,207,046
Earnings before income taxes	1,994,918	4,404,100
Income taxes (Note 16)		
Current	563,067	633,876
Future	(596,542)	400,124
	(33,475)	1,034,000
Net earnings from continuing operations and before extraordinary items	2,028,393	3,370,100
Net loss from discontinued operations (net of income tax recoveries of \$115,000 (2001 - \$46,300)) (Note 4)	(129,608)	(52,154)
Net earnings before extraordinary items	1,898,785	3,317,946
Extraordinary loss (net of income tax recoveries of \$317,831) (Note 5)	(723,245)	-
Net earnings	\$ 1,175,540	\$ 3,317,946
Average number of shares outstanding	14,400,567	13,572,958
Basic earnings per share from continuing operations and before extraordinary items (Note 22)	\$ 0.108	\$ 0.213
Loss per share from discontinued operations	(0.009)	(0.003)
Loss per share from extraordinary items	(0.050)	-
Basic earnings per share	\$ 0.049	\$ 0.210
Diluted earnings per share from continuing operations and before extraordinary items (Note 22)	\$ 0.100	\$ 0.194
Loss per share from discontinued operations	(0.007)	(0.003)
Loss per share from extraordinary items	(0.036)	-
Diluted earnings per share	\$ 0.057	\$ 0.191

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31

	2002	2001
CONTINUING OPERATIONS		
Cash flows from operating activities		
Net earnings from continuing operations and before extraordinary items	\$ 2,028,393	\$ 3,370,100
Items not affecting cash		
Future income taxes	(596,542)	400,124
Depreciation and amortization	5,050,228	4,502,869
Amortization of unearned income	(1,942,060)	(2,089,942)
Loss (Gain) on disposal of capital assets	51,230	(34,931)
	4,591,249	6,148,220
Changes in non-cash working capital items (Note 17)	(232,224)	(379,491)
	4,359,025	5,768,729
Cash flows from financing activities		
Issue of share capital, net of issue costs	25,623	6,520
Repurchase of share capital	(19,568)	(62,994)
Increase in obligations under long-term debt	-	10,666,100
Repayment of long-term debt	(6,042,856)	(3,748,565)
Repayment of obligations under capital leases	(1,021,883)	(946,849)
Net proceeds on issue of convertible debentures	6,964,918	-
Distributions paid on equity component of convertible debentures	(15,792)	-
Increase in unearned income	150,000	7,276,810
Repayment of unearned income	(150,048)	-
Decrease in other long-term liabilities	(16,374)	-
Dividends paid	(473,024)	(473,024)
	(599,004)	12,717,998
Cash flows from investing activities		
Proceeds on sale of capital assets	387,131	1,715,518
Acquisition of capital assets	(1,342,005)	(1,734,538)
Acquisition and development of businesses	(1,072,900)	(6,071,269)
Deferred costs	(1,083,478)	(973,682)
Acquisition of other assets	(367,740)	(6,390,585)
	(3,478,992)	(13,454,556)
Foreign exchange	(176,999)	348,735
Net increase in cash position from continuing operations and before extraordinary items	104,030	5,380,906
DISCONTINUED OPERATIONS		
Operating activities	172,119	38,378
Financing activities	(17,063)	(3,175)
Investing activities	(3,958)	(86,547)
Net proceeds on disposal	146,453	-
Net increase (decrease) in cash position from discontinued operations	297,551	(51,344)
EXTRAORDINARY ITEMS		
Operating activities	(396,305)	-
Investing activities	(6,743)	-
Net decrease in cash position from extraordinary items	(403,048)	-
Net (decrease) increase in cash position	(1,467)	5,329,562
Cash position, beginning of year	2,091,838	(3,237,724)
Cash position, end of year	\$ 2,090,371	\$ 2,091,838
Income taxes paid	\$ 41,896	\$ 802,001
Interest paid	\$ 3,926,170	\$ 3,247,017

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. INCORPORATION AND DESCRIPTION OF THE BUSINESS

The Company is incorporated under The Corporations Act (Manitoba). Its business consists of the ownership and operation of auto-body/autoglass repair facilities acquired either through the acquisition of existing businesses, or through site development resulting in new locations. In addition, the Company has licensed its trade names, trademarks and systems to independently owned repair facilities under license agreement.

During 2002, the Company had not acquired any new existing businesses and had not developed any new locations through site development. On August 9, 2002, the Company disposed of the operating assets of its Big Rig operation located in Red Deer, Alberta. In October 2002, as a result of an expropriation, the Company closed Rush's Collision and Safety Center, Inc. ("Rush's"), a single facility, located in Flagstaff, Arizona. As at December 31, 2002, the Company owned and operated sixty-five repair facilities, with thirty-seven in Canada and twenty-eight, including Rush's, in the United States as well as eight licensed locations operating under its trade names in Canada. The Boyd Group Finance Limited Partnership formed in 2001, continued to have no activity during the year.

During 2001, the Company acquired ten locations through the acquisition of existing businesses and developed one new location through site development. As at December 31, 2001, the Company owned and operated sixty-six repair facilities, with thirty-eight in Canada and twenty-eight in the United States as well as seven licensed locations operating under its trade names in Canada. In addition to the acquisitions, the Company formed The Boyd Group Finance Limited Partnership on October 23, 2001. The partnership had no activity during the year.

The Class A (Restricted Voting) shares of the Company were listed on the Toronto Stock Exchange under the trading symbol "BYD" until February 28, 2003, at which point the Company was reorganized into an Income Trust Fund and trades under the symbol "BYD.UN" (Note 24).

2. ACCOUNTING POLICIES

a) *Basis of presentation*

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Company and the following direct subsidiary companies and ownership interests at December 31, 2002:

The Boyd Group (Sask.) Inc.	100%
The Boyd Group (Alta.) Inc.	100%
Dean Bros. Collision Repairs Ltd.	100%
4050606 Manitoba Inc.	100%
469006 B.C. Ltd.	100%
The Boyd Group Finance Limited Partnership	100%

All inter-company balances, transactions and profits have been eliminated.

b) *Revenue recognition*

The Company recognizes revenue when the rendering of services is completed.

c) *Inventory*

Inventory is valued at the lower of cost and net realizable value. Cost is determined on the first-in, first-out basis.

d) *Capital assets*

Capital assets are recorded at cost. Depreciation is calculated using the rates disclosed in Note 6. Leasehold improvements are amortized on the straight-line basis over the initial term of the lease plus one renewal period.

e) *Deferred costs*

Pre-operating period costs

The Company defers pre-operating period costs of new locations and amortizes these costs on a straight-line basis over a period of five years. The pre-operating period is the period ending thirty days from the opening date of a new location. In some cases, where significant re-design of acquired businesses is required, the pre-operating period is six months. During the pre-operating period, the activities of a new location are primarily space development, training, re-design and set-up in nature. Any revenues realized during the pre-operating period are recorded as a reduction of the pre-operating costs deferred.

Convertible debenture issue costs

Convertible debenture issue costs represent issue costs (including agents commissions) associated with the issuance of convertible debentures and more specifically the proportionate issue costs associated with the debt component of such debentures. These costs are amortized over the five year term of the debentures on a straight-line basis.

2. ACCOUNTING POLICIES (continued)

Deferred contract costs

Deferred contract costs represent costs associated with the 1998 acquisition of the assets and business of Coast to Coast Collision Centres Inc. and Coast to Coast Franchise Services Inc. specific to securing employment contracts with the President and the Senior Vice-President & Chief Operating Officer. These costs are being amortized over the five year term of the employment contracts on a straight-line basis.

Deferred financing costs

Deferred financing costs represent costs associated with the Company's refinancing of its credit facilities. These costs are being amortized over the term of its long-term credit facilities on a straight-line basis.

f) Business combinations, goodwill and other intangible assets

On January 1, 2002, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1581 Business Combinations and Section 3062 Goodwill and Other Intangible Assets. In accordance with the requirements of the new standards, as at January 1, 2002, the Company ceased amortizing goodwill, commenced the process of allocating goodwill to reporting units and began the related transitional impairment testing of allocated goodwill. Any impairment loss resulting from the transitional impairment test was recorded as a cumulative effect of change in accounting policy and charged to opening retained earnings.

Under Section 3062, goodwill is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that an asset might be impaired. The impairment test is carried out in two stages. In the first stage, the carrying amount of each reporting unit is compared with an initial fair value to assess the potential for goodwill impairment. The second stage is completed when the carrying amount of a reporting unit exceeds its finally determined fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss. During the year, the Company completed the first stage of the impairment test for all reporting units and determined that there was a potential impairment of goodwill. In August 2002, the Company concluded the testing of goodwill impairment for two reporting units; the Big Rig reporting unit in Alberta, and the Rush's reporting unit in Arizona that is pending expropriation. The goodwill impairment for these reporting units as at January 1, 2002, was recorded as a charge to opening retained earnings. In September 2002, the Company recorded an estimated impairment of goodwill, as at January 1, 2002, related to its U.S. Midwest reporting unit, as a further charge to opening retained earnings. In December 2002, the Company concluded that an impairment of goodwill, as at January 1, 2002, existed for one of its small market reporting units located in Olds, Alberta and completed the testing for its U.S. Midwest reporting unit and recorded further charges to opening retained earnings. Amounts are disclosed in note 8.

Except for the elimination of goodwill amortization charges from the Consolidated Statements of Earnings and the known impairment associated with the Big Rig, Rush's, U.S. Midwest and Olds reporting units, the new standards had no impact on the financial statements.

The following table provides the reconciliation between reported net earnings from continuing operations and before extraordinary items, basic earnings per share and diluted earnings per share from continuing operations and before extraordinary items adjusted to exclude amortization of goodwill, on an after-tax basis:

	2002	2001
Net earnings from continuing operations and before extraordinary items:		
Reported net earnings from continuing operations and before extraordinary items	\$ 2,028,393	\$ 3,370,100
Add back: amortization of goodwill, net of tax	-	856,233
Net earnings from continuing operations and before extraordinary items adjusted for amortization of goodwill	\$ 2,028,393	\$ 4,226,333
Basic earnings per share from continuing operations and before extraordinary items:		
Reported earnings per share from continuing operations and before extraordinary items	\$ 0.108	\$ 0.213
Add back: amortization of goodwill, net of tax	-	0.063
Basic earnings per share from continuing operations and before extraordinary items adjusted for amortization of goodwill	\$ 0.108	\$ 0.276
Diluted earnings per share from continuing operations and before extraordinary items:		
Reported diluted earnings per share from continuing operations and before extraordinary items	\$ 0.100	\$ 0.194
Add back: amortization of goodwill, net of tax	-	0.056
Diluted earnings per share from continuing operations and before extraordinary items adjusted for amortization of goodwill	\$ 0.100	\$ 0.250

2. ACCOUNTING POLICIES (continued)

g) *Franchise fees*

Prior to August 29, 1998, franchise fees were paid to acquire franchise rights, which include trade names, trademarks and business systems carried at cost less amortization to date. The franchise fees are being amortized on a straight-line basis over a period of ten years.

h) *Financial instruments*

Fair value

For the Company's current financial assets and liabilities, which are subject to normal trade terms, the historical cost carrying values approximate the fair values.

As there is no ready secondary market for the Company's long-term debt or its obligations under capital leases, the fair value of these items has been estimated using the discounted cash flow method. The fair value of these items using the discounted cash flow method is approximately equal to their carrying value.

Credit risk

The Company's revenues are largely received from the insurers of its customers. Accordingly, the Company's accounts receivable are comprised mostly of amounts due from national and international insurance companies or provincial crown corporations.

Financial risk

The financial risk is the risk to the Company's earnings that arises from fluctuations in interest rates and foreign exchange rates, and the degree of volatility of those rates. The Company utilizes interest rate swap agreements to manage fluctuations in certain interest rates but does not use derivative instruments to reduce its exposure to foreign currency risk.

Convertible debentures

The Company records its convertible debentures by apportioning this financial instrument between its debt component and its equity component. For the 1998 Series I debentures, the debt component represented the present value of interest payments which would be paid over the term of the debentures together with the present value of the principal balance due at the end of the debenture term. However, on December 4, 2002, the Company extended the term of the Series I debentures for a further five years to January 4, 2008 and as part of the extension, the Company obtained the right to repay the principal balance by issuing shares. As a result of this amendment, the debt component, as at December 31, 2002, represents the present value of interest payments for the term of the debentures. The equity component for the 1998 Series I debentures represents the present value of the principal balance at the end of the five year term (as the Company has the ability to repay the principal balance by issuing shares), plus the amount calculated as the value of the holder conversion option. If the holder conversion option for the 1998 Series I debentures is not exercised, the value of the holder conversion option will be charged to capital surplus.

In December 2002, the Company issued \$7.5 million in new 2002, 8%, 5 year convertible debentures with a similar conversion right as the amended 1998 Series I debentures. Accordingly, the accounting policy for these debentures follows that of the amended 1998 Series I debentures described above.

Interest payments associated with the convertible debentures are allocated between the debt and equity components with the interest on the equity component charged to retained earnings, net of income taxes.

In determining the present value of these financial transactions, the Company employs an interest rate which represents its estimated cost of borrowing similar subordinated, illiquid debt which does not bear an equity conversion privilege.

On September 30, 2002, the outstanding balance of the Series II debentures were converted into Class A (Restricted Voting) shares.

i) *Acquisition costs*

The Company follows the policy of capitalizing acquisition costs incurred on successful completion of acquisitions. These costs are allocated to the assets acquired and are subject to the Company's accounting policies as disclosed.

j) *Income taxes*

Current income taxes are based on taxable income and future income taxes are based on taxable temporary differences. The income tax rates used to measure future income tax assets and liabilities are those rates enacted or substantially enacted at the balance sheet date.

k) *Earnings per share*

Basic earnings per common share are calculated using the weighted daily average number of common shares outstanding.

Diluted earnings per share are calculated under the assumption that all convertible debentures and Class E shares outstanding at the year end were converted at the beginning of the year, or at the date of issue, and that stock options and broker warrants outstanding at the year end had been exercised at the beginning of the year, or when granted. The proceeds received on the exercise of stock options and warrants, are assumed to be used to purchase shares at market prices and held for treasury. Interest savings on the conversion of convertible debentures are calculated using actual interest rates experienced during the year.

During 2001, the Company adopted the recommendations of the CICA Handbook Section 3500 Earnings Per Share, which resulted in the presentation of basic and diluted earnings per share on the Consolidated Statement of Earnings. The treasury

2. ACCOUNTING POLICIES (continued)

stock method is used for calculating diluted earnings per share. This change in accounting policy has been applied retroactively. The impact of the change in accounting policy to the financial statements was not material.

l) *Foreign currency translation*

The Company follows the current rate method of foreign currency translation for its net investment in its self-sustaining foreign operations. Under this method, assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet dates and income and expense items are translated at the average exchange rate during the period. The adjustment arising from the translation of these accounts has been deferred and included in equity as a cumulative translation adjustment.

m) *Stock based compensation*

On January 1, 2002, the Company adopted the recommendations of the CICA Handbook Section 3870 Stock-Based Compensation and Other Stock-based Payments. The new standard permits the use of the fair value based method or an intrinsic value based method of accounting for employee stock-based compensation. When an intrinsic value based method of accounting is used, pro-forma net income and pro-forma earnings per share must be disclosed as if the fair value based method of accounting had been used to account for stock-based compensation cost.

During the second quarter of 2002, 74,000 stock options were granted. The weighted-average fair value of the options was \$0.41 per option. The fair value of each option was estimated using a binomial option pricing model with the following weighted average assumptions used for the options granted: dividend yield 0.0%, expected volatility 8.0%, risk free interest rate 4.49%, and expected life of the options of 5 years.

The company has elected to apply the intrinsic value based method of accounting for employee stock-based compensation. In accordance with the intrinsic value based method of accounting for stock based compensation, no compensation expense has been recognized. Had the fair value based method of accounting been applied, compensation expense, net of tax, would have been recorded for options granted under the Company's plan during the year, based on the fair value of the options granted, amortized over the vesting period. The Company's net earnings for the year, on this basis would have been reduced by less than \$25,000 and earnings per share would have been reduced by less than \$0.001.

n) *Derivative financial instruments*

The Company uses derivative financial instruments in the management of its interest rate exposures. The Company does not enter into financial instruments for trading or speculative purposes.

The Company enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps.

The Company's policy is to formally designate each derivative financial instrument as a hedge of a specifically identified debt instrument. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used are effective in offsetting changes in fair values or cash flows of hedged items.

Realized and unrealized gains or losses associated with the derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred under other current, or non-current, assets or liabilities on the balance sheets and recognized into income in the period in which the underlying hedged transaction is recognized. In the event a designated hedge item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

o) *Measurement uncertainty*

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

3. ACQUISITIONS

The Company did not acquire any collision repair facilities for the year ended December 31, 2002.

During 2001, the Company acquired ten collision repair facilities:

- i) On February 1, the shares of Rush's Collision and Safety Center, Inc. in Flagstaff, Arizona (1 repair facility);
- ii) On March 5, the shares of Car-Tech Holdings, Inc. in Atlanta, Georgia. Car-Tech Holdings, Inc. is the parent company for four operating subsidiaries (4 repair facilities);
- iii) On September 28, the assets and business of AWC Collision Center in Seattle, Washington (4 repair facilities);
- iv) On December 31, the shares of Car-Tech of Douglasville, Inc. in Atlanta, Georgia (1 repair facility).

3. ACQUISITIONS *(continued)*

The Company has accounted for these acquisitions using the purchase method as follows:

	2001
Fair value of assets acquired	\$ 9,630,856
Fair value of liabilities assumed	(3,288,880)
Fair value of net assets acquired	6,341,976
Goodwill	8,512,204
Total purchase consideration, including acquisition costs	\$ 14,854,180
Consideration provided	
Cash	\$ 12,091,146
Class A (Restricted Voting) shares	2,661,095
Total consideration provided	14,752,241
Vendor financing	101,939
	\$ 14,854,180

During 2002, additional purchase price paid on prior years acquisitions amounted to \$432,241 (2001 - \$258,162) of which \$64,614 (2001 - \$116,000) was paid by issuing additional Class A (Restricted Voting) shares. The results of operations reflect the revenues and expenses of acquired operations from the date of acquisition.

4. DISCONTINUED OPERATIONS

On August 9, 2002, the Company disposed of the operating assets of its Big Rig operation located in Red Deer, Alberta. The decision was made to dispose of this operation because its primary activity was the repair of tractor trailer units and tanks, and was not considered part of the Company's core business of automobile collision repair.

The consolidated balance sheets include the following assets and liabilities which relate to the Big Rig location:

	2002	2001
Current assets	\$ 188,278	\$ 426,563
Capital assets	–	263,395
Goodwill and other intangible assets	–	91,145
	188,278	781,103
Deduct		
Current liabilities	7,742	71,871
Net assets of discontinued operations	\$ 180,536	\$ 709,232

The results of discontinued operations are summarized below:

	2002	2001
Sales	\$ 568,893	\$ 1,559,846
Loss before income taxes	(145,120)	(98,454)
Income tax recoveries	(68,200)	(46,300)
	(76,920)	(52,154)
Loss on disposition of assets (net of income tax recoveries of \$46,800)	(52,688)	–
Net loss from discontinued operations	\$ (129,608)	\$ (52,154)

5. EXTRAORDINARY ITEMS

In September 2002, the Company decided to close Rush's Collision and Safety Center, Inc. ("Rush's"), a single facility, located in Flagstaff, Arizona. In late 2001, the City of Flagstaff announced that sometime in 2003, they would expropriate the property on which Rush's is located. The impact of this announcement had a detrimental effect on the ability of the Company to operate the facility as a going concern. As a direct result of this intended expropriation, the Company believed it had no alternative but to close the operation in October 2002. The impact of the closure for 2002 is as follows:

5. EXTRAORDINARY ITEMS *(continued)*

The consolidated balance sheet, as at December 31, 2002, included the following assets and liabilities which relate to the Rush's location:

	2002
Current assets	\$ 417,538
Capital assets	321,581
Goodwill and other intangible assets	-
	739,119
Deduct	
Current liabilities	79,095
Net assets	\$ 660,024

The losses from extraordinary items for 2002 are summarized below:

	2002
Sales	\$ 1,434,434
Net operating loss before income taxes	(479,855)
Income tax recovery	(173,251)
	(306,604)
Provisions for closure (net of income tax recovery of \$ 144,580)	(416,641)
Net extraordinary loss	\$ (723,245)

6. CAPITAL ASSETS

	2002			2001		Rates
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value		
Land	\$ 52,472	\$ -	\$ 52,472	\$ 52,472		
Buildings	292,326	57,542	234,784	247,581		5%
Shop equipment/ paint spraybooths	14,656,995	5,287,577	9,369,418	9,949,714		15%
Equipment – office	1,350,389	626,692	723,697	789,774		20%
Computer hardware	1,921,909	1,115,107	806,802	1,006,724		30%
Computer software	1,378,375	808,642	569,733	693,811		3-5 yrs.S.L.
Signage	821,295	329,368	491,927	364,258		15%
Vehicles	5,604,303	2,000,229	3,604,074	3,166,078		10-20%
Leasehold Improvements	7,084,861	2,153,566	4,931,295	5,146,331		10-25yrs.S.L.
	\$ 33,162,925	\$ 12,378,723	\$ 20,784,202	\$ 21,416,743		

Included in the above are assets under capital lease with a cost of \$5,273,977 (2001 - \$4,077,880) and a net book value of \$3,493,553 (2001 - \$2,750,329). During the year, assets acquired through capital lease amounted to \$1,741,348 (2001 - \$1,632,676).

7. DEFERRED COSTS

	2002	2001
Pre-operating period costs	\$ 457,730	\$ 553,314
Convertible debenture issue costs	228,793	203,752
Contract costs	200,000	200,000
Financing costs	334,140	908,083
	1,220,663	1,865,149
Less accumulated amortization	(307,631)	(636,953)
	\$ 913,032	\$ 1,228,196

When deferred costs are fully amortized, the cost and accumulated amortization are netted to write-off the asset.

8. GOODWILL AND OTHER INTANGIBLE ASSETS

	2002	2001
Goodwill	\$ 38,448,276	\$ 46,921,169
Franchise fees	250,000	270,000
	38,698,276	47,191,169
Less accumulated amortization	(1,929,189)	(2,424,250)
	\$ 36,769,087	\$ 44,766,919

As part of the ongoing review of the potential impairment of goodwill described in note 2(f), the Company has recorded, as at January 1, 2002, as a cumulative adjustment to opening retained earnings, the impairment of goodwill associated with the Big Rig reporting unit, in the amount of \$84,474, the impairment of goodwill associated with the Rush's reporting unit, in the amount of \$1,210,380, the impairment of goodwill associated with the U.S. Midwest reporting unit, in the amount of \$6,798,372 and the impairment of goodwill associated with a small market reporting unit located in Olds, Alberta, in the amount of \$73,289.

9. CASH (BANK INDEBTEDNESS)

	2002	2001
Funds on deposit	\$ 6,059,127	\$ 5,325,001
Operating demand loan at prime rate secured by a General Security Agreement securing all company assets	(3,968,756)	(3,233,163)
	\$ 2,090,371	\$ 2,091,838

10. LONG-TERM DEBT

Long-term debt as disclosed on the Consolidated Balance Sheets is comprised of the following:

	2002	2001
Term facility, secured by a General Security Agreement and subsidiary guarantees, incentive priced interest rates ranging from prime/U.S. base rate plus 1.0% to 2.0% on prime based or U.S. base rate loans, or Bankers' Acceptances/LIBOR stamp fee plus 2.5% to 3.5% on Bankers' Acceptances or LIBOR loans, repayable January 1, 2004, with the full amount of the facility repayable in U.S. funds. Interest rate fixed on the full amount of the loan using interest rate swaps at 5.82% plus incentive pricing spread. (Note 23)	\$ 27,958,920	\$ -
Extendible revolving credit facility, drawn portion convertible to term loan after one year, secured by a General Security Agreement and subsidiary guarantees, incentive priced interest rates ranging from prime/U.S. base rate plus 1.0% to 1.75% on prime based or U.S. base rate loans, or Bankers' Acceptances/LIBOR stamp fee plus 2.5% to 3.25% on Bankers' Acceptances or LIBOR loans, repayable over 20 quarterly instalments with the first principal repayment commencing July 1, 2003, interest paid monthly and quarterly, with \$31,862,766 of the facility repayable in U.S. funds. Interest rate fixed on \$30,162,800 of the facility using interest rate swaps at 5.82% on U.S. dollar swaps and 6.95% on Canadian dollar swaps, plus incentive pricing spread. (Note 23)	-	34,005,718
Loans payable, unsecured, repayable in aggregate monthly instalments of \$283 (2001 - \$283) including interest at 8.0%, due March 2003.	850	4,027
Vendor notes payable on the financing of certain acquisitions, unsecured, at interest rates ranging from 0.0% to 6.5%, repayable in aggregate monthly instalments of \$18,692 (2001 - \$18,828) including interest, quarterly instalments of \$19,745 (2001 - \$19,908) plus interest or annual instalments of \$31,513 (2001 - \$31,772). The notes are due September 2003 to June 2010 and are repayable in U.S. funds.	879,363	1,180,384
	28,839,133	35,190,129
Current portion	283,557	292,896
	\$ 28,555,576	\$ 34,897,233

10. LONG-TERM DEBT *(continued)*

Included in interest expense is interest on long-term debt of \$2,965,736 (2001 - \$2,989,196).

Principal payments required in the next five years are as follows:

2003	\$	283,557
2004		28,122,421
2005		81,046
2006		74,218
2007		79,594

11. OBLIGATIONS UNDER CAPITAL LEASES

	2002	2001
Equipment leases, at interest rates ranging from 7.95% to 22.42%, repayable in aggregate monthly instalments of \$19,512, due September 2003 to March 2007, secured by equipment with a net book value of \$504,898	\$ 627,963	\$ -
Equipment leases, at interest rates ranging from 8.65% to 22.42%, repayable in aggregate monthly instalments of \$14,443, due March 2002 to November 2006, secured by equipment with a net book value of \$415,892	-	467,071
Vehicle leases, at interest rates ranging from 4.63% to 11.27%, repayable in aggregate monthly instalments of \$68,164 due February 2003 to December 2006, secured by vehicles with a net book value of \$2,988,655	2,706,215	-
Vehicle leases, at interest rates ranging from 6.50% to 15.20%, repayable in aggregate monthly instalments of \$57,620 due February 2002 to March 2006, secured by vehicles with a net book value of \$2,334,437	-	2,147,941
	3,334,178	2,615,012
Current portion	1,052,116	864,765
	\$ 2,282,062	\$ 1,750,247

Included in interest expense is interest related to capital leases of \$265,467 (2001 - \$194,086).

Principal payments required in the next five years are as follows:

2003	\$	1,052,116
2004		1,259,860
2005		746,388
2006		254,403
2007		21,411

12. CONVERTIBLE DEBENTURES

	2002	2001
Debt component		
Series I	\$ 503,759	\$ 1,597,800
Series II	-	31,564
2002	2,220,229	-
	2,723,988	1,629,364
Current portion	-	31,564
	\$ 2,723,988	\$ 1,597,800
Equity component		
Series I	\$ 1,053,100	\$ 121,058
Series II	-	62,895
2002	4,972,741	-
	\$ 6,025,841	\$ 183,953

Included in interest expense is interest on convertible debentures of \$163,376 (2001 - \$167,445).

12. CONVERTIBLE DEBENTURES *(continued)*

Series I:

The debentures, issued January 5, 1998, bear interest at 8.5% per annum, paid quarterly and were originally due on January 4, 2003. On December 4, 2002, the Company extended the term of the Series I debentures to January 4, 2008 as well as obtaining the right, at the option of the Company, to satisfy the debentures at maturity by conversion to Class A (Restricted Voting) shares. They are convertible at any time prior to maturity by the holder thereof into Class A (Restricted Voting) shares of the Company at the rate of 850 Class A (Restricted Voting) shares for each \$1,000 of debentures converted. The debentures are secured by a floating charge on all property of the Company subordinated to security granted to a bank or trust company and purchase money security interests. They rank *pari passu* with other debentures issued by the Company.

During the year, \$162,000 (2001 - \$25,000) in Series I debentures were converted into Class A (Restricted Voting) shares.

The convertible debentures - equity component represents the equity component of the debentures less the proportionate issue costs of \$25,142 allocated to the equity component.

Series II:

The debentures were issued September 30, 1997, bear interest at 8.5% per annum, paid quarterly and were fully converted by September 30, 2002. The debentures were convertible at any time by the holders thereof into Class A (Restricted Voting) shares of the Company on the basis of one Class A (Restricted Voting) share for each \$1.00 principal amount of the debenture so converted, subject to conversion of a minimum of \$1,000 principal amount, or increments thereof. The debentures were also convertible on the same basis, at the option of the Company, on maturity.

The debentures were redeemable by the Company at any time after the third anniversary date of the date of issue of the debentures on the following basis:

- a) if redeemed in the fourth year, a 5.0% premium over the principal amount so redeemed will be payable; and
- b) if redeemed in the fifth year, a 2.5% premium over the principal amount so redeemed will be payable.

The debentures were secured by a floating charge on all property of the Company subordinated to security granted to a bank or trust company and purchase money security interests. They ranked *pari passu* with other debentures issued by the Company.

During the year, \$154,600 (2001 - \$128,400) in Series II debentures were converted into Class A (Restricted Voting) shares. On September 30, 2002, the remaining balance of the Series II debentures were converted into Class A (Restricted Voting) shares.

The convertible debentures - equity component represented the equity component of the debentures less the proportionate issue costs of \$60,141 allocated to the equity component.

2002 Debentures:

The debentures were issued on two separate dates, \$6,950,000 on December 3, 2002 and \$550,000 on December 16, 2002. They bear interest at 8.0% per annum, paid quarterly and are due on December 2, 2007. The debentures are convertible, at the option of the holders, into Class A (Restricted Voting) shares at a price of \$ 2.00 per share. The Company has the option to settle all or a portion of the debenture obligation at maturity, through the issuance of Class A (Restricted Voting) shares at the then market price, subject to a floor price of \$ 1.38 per share. The debentures are secured by a floating charge on all property of the Company subordinated to security granted to a bank or trust company and purchase money security interests. They rank *pari passu* with other debentures issued by the Company.

During the year, no 2002 debentures were converted into Class A (Restricted Voting) shares.

The convertible debentures - equity component represents the equity component of the debentures less the proportionate issue costs of \$307,030 (net of tax of \$228,052) allocated to the equity component.

13. UNEARNED INCOME

Pursuant to agreements with multiple trading partners entered into in July, 1999 the Company receives capital funding in the form of pre-paid purchase rebates from such trading partners for each acquired collision repair business or start-up collision repair shop. Such amounts are recorded as unearned income when received and are amortized to income as they are earned, pursuant to terms of the agreements, over a period of 84 months from date of receipt.

Under the terms of such agreements, the Company is obligated to purchase the trading partners products on an exclusive basis for a term, which extends beyond the 84 month amortization period. In exchange for this exclusive arrangement, and subject to certain conditions, the trading partners are required to continue to price their products competitively to the Company.

Early termination or default by the Company would require the Company to repay the aggregate un-amortized balance of funding received plus interest from the date of termination or default to the date of repayment. In the event that termination or default occurred within the first five years of the agreements, the Company would also be required to make an additional payment, calculated as a declining percentage of the un-amortized balance.

After five years the Company's repayment obligations for early termination or default would be limited to the aggregate un-amortized balances.

The Company may also be required to repay the un-amortized balance of funding received for any acquired business or start-up location that it subsequently decides to close or sell.

13. UNEARNED INCOME (continued)

During 2001, the Company entered into a sale-leaseback transaction on property previously owned. The gain on the transaction was deferred as unearned income and is being amortized into income over the term of the subsequent lease. The un-amortized amount of the gain at December 31, 2002 was \$198,522 (December 31, 2001 - \$207,000).

14. SHARE CAPITAL

Authorized:

Unlimited number of Class A (Restricted Voting) shares

Unlimited number of Class B voting shares

Unlimited number of Class C non-voting redeemable preferred shares

Class C preferred shares are redeemable at the option of the issuer at the issue price and are entitled to a non-cumulative fixed dividend of 3% of the Class C share redemption price.

100 Class D voting shares

Holders of Class D shares are, subject to certain conditions, entitled to elect a majority of the members of the Board of the Company.

Unlimited number of Class E voting cumulative redeemable convertible preferred shares. Authorized in 1998, each Class E share was entitled to 8.93 votes. Holders of Class E shares are entitled to receive, as and when declared thereon by the Board, but always in preference and priority to payment of dividends on the Class A (Restricted Voting) shares, the Class B shares, the Class C shares, cumulative fixed dividends, at a rate per annum equal to 7.95% of the aggregate of the Class E share redemption price of the outstanding Class E shares, payable in equal quarterly instalments.

Class E shares were redeemable at any time after the 20th anniversary of the date of issue at the option of the Company or the holder. The Class E shares carry a redemption value of \$25.00 per share.

Holders of Class E shares were entitled at any time before the 20th anniversary date of issue to convert Class E shares to Class A (Restricted Voting) shares on the following basis:

- i) On or before the 5th anniversary of the date of issue, on the basis of 8.92857 Class A (Restricted Voting) shares for each Class E share converted;
- ii) After the 5th anniversary of the date of issue but on or before the 10th anniversary of the date of issue, on the basis of 7.14286 Class A (Restricted Voting) shares for each Class E share converted;
- iii) After the 10th anniversary of the date of issue but on or before the 15th anniversary of the date of issue, on the basis of 5.55555 Class A (Restricted Voting) shares for each Class E share converted;
- iv) After the 15th anniversary of the date of issue but on or before the 20th anniversary of the date of issue, on the basis of 4.54545 Class A (Restricted Voting) shares for each Class E share converted.

Class E shares cannot be converted to Class A (Restricted Voting) shares after the 20th anniversary of the date of issue.

The Class E shares were issued on August 28, 1998 and have an aggregate redemption value of \$5,950,000. The holders of these Class E shares have agreed not to exercise their rights to initiate redemption, which they would otherwise be entitled to after August 28, 2018, unless i) there is a take-over bid for the company; or ii) either of the two individuals initially owning (directly or indirectly) these Class E shares were to die before year 2025.

On May 8, 2002, a special resolution of the shareholders of the Corporation was passed to amend the Articles of Incorporation with respect to the Class E voting shares and re-designate the Class A (Subordinate Restricted Voting) shares. Each issued and outstanding Class E voting share was subdivided into approximately 8.93 Class E voting shares for a total number of issued and outstanding Class E voting shares of 2,125,000. The number of votes to which each Class E voting share is entitled was changed from 8.93 votes per Class E voting share to 1 vote per Class E voting share. The Class E redemption price was changed from \$25.00 per Class E voting share to \$2.80 per Class E voting share. The rate at which the Class E voting shares may be converted into Class A (Subordinate Restricted Voting) shares was increased proportionately to reflect the increased number of Class E voting shares issued such that there was no benefit or disadvantage to any class of shareholder. As a result of the changes to the Class E voting shares, the use of the word "Subordinate" was dropped from the formal name of the Class A shares changing the formal designation of those shares to "Class A (Restricted Voting) Shares" and the Company's stock symbol was changed effective August 13, 2002 from "BYD.A" to "BYD".

Issued:

2002	2001		2002	2001
14,737,002	13,904,480	Class A (Restricted Voting) shares	\$ 18,693,465	\$ 18,359,783
100	100	Class D voting shares	10	10
2,125,000	238,000	Class E voting shares	1	1
			\$ 18,693,476	\$ 18,359,794

14. SHARE CAPITAL (continued)

During 2002, an additional 842,222 (2001 – 937,323) Class A (Restricted Voting) shares were issued for a value of \$409,254 (2001 - \$2,883,056) comprised of:

- a) 54,286 Class A (Restricted Voting) shares issued from treasury in the first quarter of 2002 in anticipation of an acquisition which did not occur. The shares were cancelled during the second quarter and returned to treasury;
- b) Class A (Restricted Voting) shares issued for partial consideration in the acquisition of automotive collision repair facilities accounting for 527,922 (2001 – 782,073) Class A (Restricted Voting) shares valued at \$64,614 (2001 – \$2,723,136);
- c) the conversion of Series I and II convertible debentures accounting for 292,300 (2001 – 149,650) Class A (Restricted Voting) shares for a value of \$316,600 (2001 – \$153,400);
- d) the exercise of stock options accounting for 22,000 (2001 – 5,600) Class A (Restricted Voting) shares valued at \$28,040 (2001 - \$6,520).

Issue costs associated with the issue of Class A (Restricted Voting) shares amounted to \$2,530 (2001 - \$nil) excluding \$60,141 reallocated from the equity component of the Series II debentures, which matured on September 30, 2002.

In 2001, the Company initiated a Normal Course Issuer Bid to acquire for cancellation up to 5.0% of the outstanding Class A (Restricted Voting) shares during the period commencing on November 27, 2001, and ending on November 26, 2002. Pursuant to this Normal Course Issuer Bid, no shares were purchased during the 2001 year. During 2002, the Company purchased and cancelled 9,700 Class A (Restricted Voting) shares, having a book value of \$12,901, for an amount of \$19,568. The premium paid to acquire the shares, in the amount of \$6,667 was charged to retained earnings.

Pursuant to the Company's stock option plan, the Company has granted options to purchase Class A (Restricted Voting) shares of the Company to directors and officers of the Company and to certain other key employees of the Company, its subsidiaries and its agents. Options granted in favour of the directors of the Company, who are not employees of the Company, vested immediately upon granting. All other options vest over 5 years, at the rate of 20% per year, subject to achievement of certain minimum corporate operating performance levels. The exercise price, which is set at the time of granting, is the market price of the Class A (Restricted Voting) shares at the time of granting.

The following options were outstanding at December 31, 2002:

Date Granted	Number of Shares	Exercise Price	Expiry Date
January 28, 1998	412,500	\$ 1.01	January 28, 2004
December 31, 1998	85,300	\$ 1.55	December 31, 2004
January 25, 1999	149,000	\$ 1.61	December 31, 2004
August 19, 1999	75,200	\$ 2.00	December 31, 2005
December 9, 1999	20,000	\$ 2.85	December 31, 2005
January 5, 2000	245,500	\$ 2.50	January 5, 2006
March 20, 2000	25,000	\$ 2.70	March 20, 2006
April 27, 2001	177,000	\$ 1.76	December 31, 2006
May 22, 2002	74,000	\$ 1.84	December 31, 2007

During the year, options have been granted, exercised or withdrawn as follows:

Date Granted	Outstanding December 31, 2001	Granted	Exercised	Withdrawn	Outstanding December 31, 2002	Options Exercisable at December 31, 2002
January 28, 1998	438,000	–	12,000	13,500	412,500	412,500
December 31, 1998	112,900	–	8,000	19,600	85,300	59,600
January 25, 1999	156,200	–	–	7,200	149,000	128,000
August 19, 1999	75,200	–	–	–	75,200	50,800
December 9, 1999	20,000	–	–	–	20,000	12,000
January 5, 2000	247,500	–	–	2,000	245,500	176,100
March 20, 2000	25,000	–	–	–	25,000	15,000
April 27, 2001	204,000	–	2,000	25,000	177,000	114,600
May 22, 2002	–	74,000	–	–	74,000	54,800
	1,278,800	74,000	22,000	67,300	1,263,500	1,023,400

15. RELATED PARTY TRANSACTIONS

During the year, the Company paid the following amounts to related parties:

- \$940,146 (2001 - \$976,103) to C.C. Collision Repair Management Limited Partnership ("C.C. Repair"), for management services. C.C. Repair, an entity owned by parties related to senior officers of the Company, employs all of the Company's operations managers for its Manitoba locations, as well as certain senior management staff and provides the services of these personnel to the Company under contract. Other than \$24,000 (2001 - \$24,000), all management fees collected by C.C. Repair were in turn paid out in expenses, either directly or indirectly to these employees of C.C. Repair for salaries, wages and benefits, or for other expenses associated with the delivery of management services. Other than minor amounts capitalized and included as pre-operating period costs for new locations, these management fees have been included in salaries, wages and benefits.
- \$51,250 (2001 - \$48,420) to 3577997 Manitoba Inc., a subsidiary of Coast to Coast Collision Centres Inc. The payments represent premises rental expense for the Company's location at 139 Main Street, Selkirk, Manitoba, which is owned by 3577997 Manitoba Inc.
- The amount due to C.C. Repair is non-interest bearing and has no specific terms of repayment.

16. INCOME TAXES

- Future income taxes consist of the following temporary differences on:

	2002	2001
Capital assets	\$ (1,065,690)	\$ (135,896)
Intangible assets	266,824	(619,984)
Other	776,915	(107,265)
	\$ (21,951)	\$ (863,145)

- The Company's effective tax rate is made up as follows:

	2002	2001
Combined basic Canadian and U.S. Federal, Provincial and State tax rate	36.28%	33.53%
Non-deductible goodwill amortization	– %	3.72%
Non-deductible depreciation expense	1.19%	0.57%
Certain transaction costs	– %	(0.58%)
Other	(39.15%)	(14.30%)
Effective income tax rate	(1.68%)	22.94%

- At December 31, 2002, the Company has non-capital losses in Canada carried forward of \$2,208,000 (2001 - \$795,000) and has recorded the future tax benefit of these losses in the amount of \$857,000 (2001 - \$345,000). The Company has net operating losses in the U.S. of \$956,000 (2001 - \$800,000), the benefit of which have not been reflected in the financial statements.

The losses expire as follows:

2005	\$	131,000
2006		8,000
2007		601,000
2008		38,000
2009		1,431,000
2019		592,000
2020		89,000
2021		274,000

17. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	2002	2001
Accounts receivable	\$ (683,689)	\$ (1,279,710)
Inventory	(100,002)	(819,172)
Prepaid expenses	(529,054)	(747,716)
Accounts payable and accrued liabilities	757,159	2,944,279
Due to C.C. Collision Repair Management Limited Partnership	(5,609)	(7,095)
Income taxes recoverable	328,971	(470,077)
	\$ (232,224)	\$ (379,491)

18. LEASE COMMITMENTS

The Company has various operating lease commitments, primarily in respect of leased premises. The minimum amounts payable over the next five years were as follows:

2003	\$	6,740,937
2004		6,386,397
2005		5,859,222
2006		5,562,738
2007		4,739,773

19. CONTINGENCIES

- The Company has three outstanding letters of credit to the Toronto Dominion Bank totaling \$70,000.
- Certain of the acquisitions include provisions for contingent purchase price amounts to be paid if certain financial performance is achieved. A portion of the contingent purchase price may be paid by the issue of additional Class A (Restricted Voting) shares when the future market value of the shares is less than the share value established at the time of acquisition. The quantifiable contingent purchase price amounts, which may be required to be paid in respect of these and prior year acquisitions is \$75,000 (2001 - \$48,000). In addition to this quantifiable contingent purchase price, additional contingent purchase price amounts, which are not quantifiable at this time, may also be required to be paid.

20. SEGMENTED REPORTING

The Company has one reportable segment, being automotive collision repair and related services, with all revenues relating to a group of similar services. For the years ended December 31, 2002 and 2001, all of the Company's revenues were derived within Canada or the United States of America. All capital assets and goodwill are located within these two geographic areas.

	Revenues		Capital Assets and Goodwill	
	2002	2001	2002	2001
Canada	\$ 54,266,308	\$ 51,690,779	\$ 17,373,219	\$ 18,074,848
United States	87,170,012	80,314,982	40,076,519	47,973,554
Total	\$ 141,436,320	\$ 132,005,761	\$ 57,449,738	\$ 66,048,402

The Company's revenues are largely derived from the insurers of its customers, who are generally automobile owners. In three Canadian provinces where the Company operates, government-owned insurance companies have, by legislation, either exclusive or semi-exclusive rights to provide insurance to the Company's customers. Although the Company's services in these markets are predominately paid for by these government-owned insurance companies, the Company's customers (automobile owners) have freedom of choice of repair provider.

21. DEFINED CONTRIBUTION PENSION PLANS

The Company has one defined contribution pension plan for certain employees located in the United States. The Company matches employee contributions at rates up to 6.0% of the employees' salary. The expense and payments for the year were \$290,834 (2001 - \$166,355).

22. EARNINGS PER SHARE FROM CONTINUING OPERATIONS AND BEFORE EXTRAORDINARY ITEMS

	2002	2001
a) Earnings:		
Net earnings from continuing operations and before extraordinary items	\$ 2,028,393	\$ 3,370,100
Less: Dividends paid on Class E shares	(473,024)	(473,024)
Net earnings from continuing operations and before extraordinary items available to Class A (Restricted Voting) shareholders	1,555,369	2,897,076
Add:		
Net after tax interest on Series I convertible debentures	77,159	81,354
Net after tax interest on Series II convertible debentures	–	7,212
Net after tax interest on 2002 convertible debentures	344,280	–
Net earnings from continuing operations and before extraordinary items – Class A (Restricted Voting) shareholders – diluted basis	\$ 1,976,808	\$ 2,985,642

22. EARNINGS PER SHARE FROM CONTINUING OPERATIONS AND BEFORE EXTRAORDINARY ITEMS *(continued)*

	2002	2001
b) Number of Class A (Restricted Voting) shares:		
Average number of Class A (Restricted Voting) shares outstanding	14,400,567	13,572,958
Add:		
Potential conversion of Series I convertible debentures	1,344,700	1,482,400
Potential conversion of Series II convertible debentures	–	154,600
Potential conversion of 2002 convertible debentures	3,750,000	–
Potential exercise of outstanding stock options	240,584	182,280
Average number of Class A (Restricted Voting) shares outstanding – diluted basis	19,735,851	15,392,238
Earnings per share from continuing operations and before extraordinary items (a) divided by (b)		
Basic	\$ 0.108	\$ 0.213
Diluted	\$ 0.100	\$ 0.194

23. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

In the normal course of managing exposure to fluctuations in interest rates, and to market risks, the Company is an end user of various derivative financial instruments that are not reported on the balance sheet. All contracts are over-the-counter traded and are with counter parties that are highly rated financial institutions.

The following table provides the use, notional amount and estimated fair market value of the Company's derivative portfolio at December 31:

	2002		2001	
	Notional Amount (over 5 years)	Fair Value	Notional Amount (over 5 years)	Fair Value
Contracts held for cash flow management:				
Interest Rate Contracts –				
Canadian dollar swap	\$ –	\$ –	\$ 1,496,000	\$ (113,769)
U.S. dollar swap	28,432,800	(2,980,900)	28,666,800	(1,417,310)
Total	\$ 28,432,800	\$ (2,980,900)	\$ 30,162,800	\$ (1,531,079)

No contracts are held for other purposes.

24. SUBSEQUENT EVENTS

On January 24, 2003, at a special meeting of its shareholders, option holders and debenture holders, a plan of arrangement was approved to convert the Company into an income trust, subject to the completion of an initial public offering of new trust units.

On February 28, 2003, the Company completed its restructuring into the Boyd Group Income Fund (the "Fund") trading under the symbol "TSX: BYD.UN". In conjunction with this restructuring, the Fund closed an initial public offering for 1,050,000 trust units at a price of \$8.60 per trust unit for gross proceeds of \$9,030,000. The Fund is an open-ended mutual fund trust created for the purposes of acquiring and holding certain investments, including an interest in the Company and its subsidiaries.

On February 28, 2003, the Company, using funds received from the initial public offering, repaid \$3.8 million U.S. of its U.S. dollar term bank facility. The Canadian equivalent amounted to approximately \$6.0 million.

Effective February 28, 2003, the Company entered into an amended and restated credit agreement with its bankers. The amendment provided the Company with a two year, \$21.0 million term facility and a \$6.0 million operating facility, subject to customary terms, conditions, covenants and other provisions for an income trust.

25. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the presentation of the current year.