# BOYD GROUP INCOME FUND

## INTERIM REPORT TO UNITHOLDERS

**THREE MONTHS ENDED MARCH 31, 2003**

# REPORT TO UNITHOLDERS

This is our first correspondence to unitholders since converting to an income trust on February 28, 2003. Therefore, in an effort to provide you with a thorough understanding of the business that you have invested in, in this report we have presented an extensive overview of our business. We value your decision to invest in Boyd Group Income Fund and take seriously the trust and responsibility that you have placed in us.

This new income trust structure is expected to allow us to enjoy a number of benefits, one being the regular and tax efficient distribution of cash to our securityholders. On April 30, 2003, the Fund paid to unitholders its first distribution of $0.095 per unit for the initial period from February 28, 2003 to March 31, 2003. The Fund expects the annualized distributions to be $1.14 per unit.

We are excited about our business, our prospects for growth and our new structure as an income trust. The growth of the company since it was founded in 1990 and in particular since 1997, has provided the critical mass required to distribute sustainable cash flows to our unitholders while still growing the core base of business. We are dedicated to providing an above average rate of return to our investors while maintaining our commitment to increasing the value of the Fund through continued growth.

And it's working to plan. Since becoming an income trust less than three months ago, we have announced three monthly distributions, and in this first quarter have generated 37% more distributable cash than needed to meet the announced distribution. We also entered into a strategic joint venture, which bolstered the emerging auto glass component of our business.

Distributions plus growth – this is the heart of our unique value proposition to investors.

With respect to the first quarter, we are very encouraged by the results. There is ample evidence that the U.S. economy is weakening; correspondingly the Canadian dollar has risen in value relative to its U.S. counterpart. Despite both of these potentially negative impacts to our top-line, we maintained our sales levels. Adjusting for the change in exchange rates, sales for the first quarter would have been approximately $1.2 million higher, a 2.4% increase over the prior year.

As the rest of the current year and subsequent years unfold, management is committed to its strategic plan, with its principal goal being to maximize cash flow for distribution to unitholders. To do so, our primary focus is on maximizing earnings from our current base of operations.

There remains enormous opportunity to grow through acquisition. As you can read on page three of this report, only 5% of the $50 billion North American collision repair industry is controlled by multi-unit operators such as Boyd. We are in constant discussions, at various stages of negotiation, with a full pipeline of potential acquisitions and we will act on these opportunities when we can complete quality acquisitions at the right price. We have a solid track record in this regard and will continue to employ this practical approach.

We thank you for your support and your confidence in our value proposition and we look forward to reporting on our progress throughout the balance of the year.

**Terry Smith**
*President & Chief Executive Officer*

*May 20, 2003*

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## OVERVIEW

The first quarter of 2003 marked the reorganization of The Boyd Group Inc. ("Boyd" or the "Company") into an income trust, under the name Boyd Group Income Fund (the "Fund"), trading under the symbol "TSX: BYD.UN".

On January 24, 2003, the shareholders of The Boyd Group Inc. approved a Plan of Arrangement (the "Arrangement") that would reorganize Boyd into an income trust. On February 28, 2003, under the terms of the Arrangement, the Fund acquired 53.67% (64.96% of publicly held shares and 15% of Management Group shares) of the common shares of Boyd from its shareholders, through a series of transactions, resulting in the issue of 2.39 million trust units as consideration. Also under the terms of the Arrangement, Boyd Group Holdings Inc. ("BGHI"), a holding company under voting control of the Fund, acquired the remaining 46.33% (35.04% of publicly held shares and 85% of Management Group shares) of the common shares of Boyd from its shareholders, issuing 2.06 million Class A common shares as consideration. Each public shareholder (other than the management group) indirectly received 0.6496 trust units of the Fund and 0.3504 Class A common shares of BGHI in exchange for each four Class A (Restricted Voting) shares held in Boyd prior to the Arrangement. The Boyd Group Inc., with majority ownership controlled by the Fund and a minority interest held by BGHI, will carry on the current business and will continue to operate under the name The Boyd Group Inc. As the new public entity, Boyd Group Income Fund's business will primarily be the ownership and control of The Boyd Group Inc.

Also on February 28, 2003, concurrent with the Arrangement, the Fund completed an initial public offering (the "IPO") of 1,050,000 trust units at $8.60 per unit, raising $7.2 million after paying issue costs of $1.8 million. These funds were primarily used to reduce long-term debt and provide for future costs of development of select collision repair facilities.

The Fund will be making monthly distributions of its available cash to unitholders. The first such distribution of $0.095 per unit for the initial period from February 28, 2003 to March 31, 2003, was paid on April 30, 2003 to unitholders of record on March 31, 2003. The next monthly distribution of $0.095 per unit, for the month of April 2003 will be paid on June 2, 2003. In addition, BGHI will be paying monthly dividends to common shareholders equal to its available cash. The first dividend of $0.038 per share for the initial period was paid on April 30, 2003 and a second dividend payment of $0.038 per share will be paid on June 2, 2003. The Fund and BGHI expect that monthly distributions and dividend payments will be leveled to eliminate any impact of seasonal cash flow fluctuations on unitholders and shareholders.

The Fund is considered to be a continuation of The Boyd Group Inc. following the continuity of interest method of accounting. As a result, the following review of the Fund's operating and financial results for the first quarter ended March 31, 2003, as well as management's expectations for the year ahead should be read in conjunction with the MD&A and annual audited consolidated financial statements of The Boyd Group Inc. for the year ended December 31, 2002, as well as the interim unaudited consolidated financial statements of the Fund included on pages 19 to 26 of this report.

## VISION, CORE BUSINESS & STRATEGY

The collision repair industry in North America is in the early stages of consolidation. At present this industry, estimated by Boyd to represent approximately $50 billion in annual revenues, is highly fragmented, consisting primarily of small independent family owned businesses operating in local markets. To date, only a small number of multi-unit collision repair operators, growing in part through acquisition, have emerged in North America. 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 a 5% North American market share. All of the known industry consolidators, other than Boyd, are currently headquartered and have the majority of their operations in the United States.

The management team share a common vision in making Boyd a leader in the consolidation of the collision repair industry and to represent through corporate owned locations, as well as franchised locations, the pre-eminent chain of upscale retail oriented collision repair shops, providing exceptional service to its customers, challenging and rewarding employment to its employees and long term financial returns for its owners.

Boyd owns and operates, either directly or through subsidiaries, 65 facilities in Canada and the United States. In Canada, the Company operates 37 locations in the four western Canadian provinces. In the United States, Boyd operates 28 locations, clustered in metropolitan areas in the states of Kansas, Oklahoma, Washington, Nevada, Arizona, Georgia, Illinois and Indiana. During the first quarter of 2003, the Company derived approximately 59% of its revenue from the United States and approximately 41% from Canadian locations.

Boyd's fundamental strategies to achieve its vision include:

- Use of best practices and economies of scale to enhance profitability and operating performance;
- Continued growth through acquisition, development and integration of market leading collision repair businesses while simultaneously focusing on same store sales growth opportunities;
- Creation of a brand respected as the best in the collision repair industry for quality and customer service;
- Ongoing development of innovative and mutually rewarding strategic relationships with insurance, fleet and lease customers, as well as supply trading partners.

## KEY PERFORMANCE DRIVERS & CAPABILITIES

**Acquisition & Integration of Collision Repair Businesses**

Since January of 1998, Boyd has acquired, either directly or through subsidiaries, or opened as "Greenfield" sites, 47 collision repair locations in Canada and the United States at a cost of approximately $63.1 million. These acquisitions and facility openings have established Boyd's critical mass and, to the knowledge of the Company, Boyd is now the largest operator of company owned and operated collision repair facilities in Canada and is among the largest in the United States.

Growth through acquisition has provided Boyd with the opportunity to significantly increase its revenues and EBITDA through leveraging its investment in infrastructure and brand development. Over the past year, the focus of Boyd management has been on integrating and rationalizing acquired operations as well as improving sales and earnings from existing operations. Under the income trust structure, Boyd intends to continue to grow by way of acquisition and integration of market leading collision repair businesses, while simultaneously focusing upon same store sales growth opportunities.

Successful growth through acquisition requires a disciplined acquisition approach followed by a well-executed and tailored plan of integration that recognizes regional and cultural variation while focusing on standardization of best practices and achieving economies of scale.

Boyd continues to follow a disciplined acquisition approach based upon specific geographic, operational and financial criteria for identifying candidates and determining acquisition prices. In assessing acquisitions, the Company will apply the following criteria:

- Adding value for Unitholders;
- Profitability with proven management and market share;
- Geographic proximity to current operations and ability to leverage economies of scale;
- Continuing involvement of owners, managers or key employees;
- Above average potential to enhance return on investment, including ability to leverage customer relationships;
- Compatibility with Boyd's operating strategies and culture.

Boyd considers the ability to source funds for acquisition growth to be a key success factor in its consolidation strategy. Historically, it has been Boyd's practice to require each vendor to accept, as partial consideration for the purchase price, Boyd Class A (Restricted Voting) shares. The shares issued have typically been priced at a premium to market, released from escrow in annual increments over periods of up to 5 years, and contain a price protection mechanism such that any shortfall between issue price and market price at the time of release from escrow results in an additional cash payment to the Vendor, or at the Company's option, the issue of additional shares. The balance of the purchase price paid to vendors of collision repair businesses has been sourced from a combination of forgivable capital funding (see "Key Supplier Agreements"), promissory notes in favor of the vendor, cash generated from internal operations and funding provided by way of Boyd's senior credit facilities.

The Company intends to finance its continued growth through a combination of future trust unit offerings, debt financing (including vendor notes) and forgivable capital funding provided by strategic trading partners. Management believes that the income trust structure will enhance the Company's ability to fund its acquisition strategy by providing potential vendors of collision repair businesses with a more attractive security in the form of trust units with a regular cash yield.

**Strategic Relationships**

The collision repair business, particularly in the United States, is dependent upon the maintenance and enhancement of excellent working relationships with insurance, fleet and lease customers. Boyd's revenues are largely derived from automobile insurance companies, as are the majority of revenues comprising the $50 billion collision repair industry. Boyd works at maintaining both the key relationships that it has developed as well as those relationships cultivated by acquired businesses. These relationships are often local in nature; however, as Boyd has grown in regional and national scope, it has focused on establishing regional and national relationships where possible.

Customer relationship dynamics in Boyd's principal markets differ from region to region. In three of the Canadian provinces where Boyd operates, government-owned insurance companies have, by legislation, either exclusive or semi-exclusive rights to provide insurance to automobile owners. Although Boyd's services in these markets are predominantly paid for by government-owned insurance companies, these insurers do not refer insured automobile owners to specific collision repair centres. In these markets, Boyd focuses its marketing endeavors, primarily on consumer based advertising and on obtaining business from individual vehicle owners. Boyd also manages relationships in the government-owned insurance markets through active participation in industry associations.

In the Province of Alberta and in the United States, where private insurers operate, a greater emphasis is placed on establishing and maintaining referral arrangements with insurance companies. Boyd continues to develop and strengthen its Direct Repair Program ("DRP") relations with insurance carriers in both Canada and the United States. DRPs are established between insurance companies and collision repair shops to better manage automobile repair claims and increase levels of customer satisfaction. Insurance companies select collision repair operators to participate in their DRP programs based on integrity, convenience and physical appearance of the facility, quality of work and customer service. DRPs represent an opportunity for Boyd to increase its business as the percentage of insurance paid collision claims handled through DRPs continues to increase over time. Industry publications have indicated that auto collision claims handled through DRPs in the United States increased to approximately 34% in 2001, from approximately 8% in 1996. Management expects this percentage to continue to grow and industry commentators expect that by 2004, nearly 55% of auto collision claims will be handled through DRPs. In addition, industry research suggests that this number could grow as high as 70% in the future. Along with the growth in DRPs, Boyd's management believes there is a growing preference among insurance carriers to do business with multi-location collision repairers in order to reduce the number and complexity of contacts in the collision repair process. By way of example, State Farm's "Select Service" program introduced in 2001, was designed for the exclusive participation of multi-location collision repairers.

Boyd has been able to extend DRP relationships with national carriers from one market to another. Boyd was initially selected to participate in State Farm's "Select Service" program in the greater Seattle, Washington market and later extended this DRP relationship to the Atlanta, Georgia market.

As repair volume flowing through DRPs grows and as DRPs evolve, Boyd believes that it is well positioned to take advantage of the opportunities that arise from these industry trends. Boyd believes that it has strong relationships with insurance, fleet and lease customers in place in each of its markets and that it has the capability to grow these relationships.

**Key Supplier Agreements**

As a critical component of its strategy, Boyd has established relationships with certain key suppliers. In July 1999, certain key suppliers provided the Company with, among other things, a commitment for approximately $25 million in forgivable capital funding over a period of three to six years, to be used for acquisition and start-up of new collision repair businesses. Forgivable capital funding amounts received in respect of each acquisition or start-up are recorded as unearned income and are amortized to income as they are earned, pursuant to the agreement, over a period of 84 months.

Under the terms of the agreement, Boyd is obligated to purchase the key suppliers' products on an exclusive basis for a term, which extends beyond the funding and amortization periods. In exchange for this exclusive arrangement, the key suppliers are required to continue to price their products competitively to Boyd.

To date, Boyd has received a total of approximately $13.9 million of capital funding under this agreement, providing the Company with an additional source of available capital, without interest cost or equity ownership dilution, to support its acquisition strategy.

Early termination of the agreement or default by Boyd pursuant thereto, requires Boyd to repay the aggregate unamortized balance of funding received, plus interest from the date of termination or default to the date of repayment. In the event of termination or default within the first five years of the agreement, Boyd would be required to make an additional payment, calculated as a declining percentage of the unamortized balance. After five years, Boyd's repayment obligation for termination or default is limited to the aggregate unamortized balance of funding. Boyd may also be required to repay the unamortized balance of funding received for any acquired business or start-up location that it subsequently decides to close or sell. Management expects to meet the obligations and performance criteria under the agreement, resulting in the forgiveness of this capital funding.

Boyd has entered into preferred supplier agreements with other key suppliers of parts and materials used in the collision repair process that typically provide for volume and/or price discounts.

### A Brand Recognized for Quality & Service

The principal names under which Boyd carries on business in Canada are "Boyd Autobody and Glass", "Boyd Autobody", "Service Collision Repair Centre"and "Collision Service Repair Center". In order to fully retain and utilize the goodwill of acquired collision repair centres, Boyd has, particularly in the United States, continued to operate under the name used by the acquired business prior to acquisition. However, Boyd has implemented a common branding initiative in Alberta, Canada using the name "Service Collision Repair Centre" and in the United States using the names "Service Collision Repair Center" in Georgia, Oklahoma and Kansas and "Collision Service Repair Center" in Washington. The Company expects to continue an orderly transition to common branding in other geographic regions as business reasons dictate.

In support of establishing a brand recognized for quality and service, Boyd achieved North America's first International Organization for Standardization (ISO) 9002 multi-site registration in automotive collision repair in its Canadian operations in 2000 and was successful in extending this multi-site registration to its United States operations in April, 2002. The ISO 9002 standard establishes best practice process and procedures for providing the highest quality in collision repair services.

Boyd also conducts extensive consumer satisfaction polling at all operating locations to assist it in keeping customer service at the forefront of its mandate and to reinforce the association between its brand and its desire to exceed each customer's expectations.

### Broadening Product & Service Offerings

Boyd continues to seek opportunities to broaden its product and service offerings in all markets to grow same store sales. In the Manitoba region, the Company has established a strong presence in the auto glass replacement and repair business, as a means of expanding services beyond traditional collision repair services.

Late in 2002, the Company extended this expansion into the auto glass business into the Seattle, Washington market through meeting the requirements to participate in auto glass replacement and repair referral programs with Allstate and State Farm, as well as gaining access to the auto glass replacement and repair referral networks that manages claims on behalf of a number of insurers.

Effective March 1, 2003, the Company finalized a joint venture agreement that had been entered into in late 2002 with British Columbia-based 1st Choice Mobile Auto Glass Dealers Inc., whose wholly-owned subsidiary Anvil Mobile Auto Glass Ltd. ("Anvil"), is actively involved in the auto glass repair and replacement business in that province. Under the terms of this arrangement, the Company is certified by the Insurance Corporation of British Columbia to complete auto glass replacement and repairs at its seven company-owned locations in BC, as well as two locations operated by Anvil.

The Company expects to continue expansion into the auto glass repair and replacement business in other existing markets and expects to continue to identify other opportunities to expand its product and service offering in all markets.

### Big-Box Initiative – A Prototype of Innovation, Best Practices & Economies of Scale

Since becoming a public company in 1998, Boyd's growth has come primarily by way of acquisitions. Although the Company believes that this has been, and can continue to be, a viable and successful strategy, Boyd has long believed that there is a better business model available for collision repair; one that could truly realize on the advantages and efficiency of size and scale.

During 2001, the Company determined that it was at a size and stage in its development that would allow it to pursue the development and testing of this type of model. Boyd engaged a multi-disciplined industrial engineering firm to assist in formalizing its plan to develop a "Big Box" production model. The Company took its first step in executing this plan on October 1, 2001 when it acquired AWC Collision Centers in Tacoma, Washington, an operation, which, by virtue of its facility size, location and customers, was well suited for transitioning to this "Big Box" model.

Boyd's "Big Box" model contemplates the development of a replicable facility that would:

- be managed by specialists, including professional engineers with experience and training in sophisticated manufacturing techniques and environments;
- utilize large area, lower cost production space in a multiple shift environment;
- utilize a team approach to the repair process;
- provide staff with a high level of training and cross-training; and
- integrate supplier support services into the production process,

in order to achieve the following outcomes:

- annual revenues of $50 million or more per facility;
- higher gross margins and higher EBITDA margins than are achieved within the industry today;
- the dramatic reduction of repair cycle times;
- enhanced levels of customer satisfaction;
- through higher volumes, economies of scale and process efficiencies, the reduction of the overall cost of collision repair;
- the development of a completely new production and service delivery model for gaining competitive advantage and market share in the collision repair industry.

While the "Big Box" prototype is currently in the early stages of development and is still producing operating losses, Boyd has confidence in its ability to successfully execute this plan. Many of the production concepts that are embodied within the plan (including the use of satellite service centres and the use of lower-cost labour) are ones with which Boyd has had past experience.

## RESULTS OF OPERATIONS

### Acquisitions

Effective March 1, 2003, the Fund finalized a joint venture arrangement that had been entered into in late 2002, under which it acquired 50% of the shares of 1st Choice Mobile Auto Glass Dealers Inc., a British Columbia corporation operating an automobile glass repair and replacement business through its wholly owned subsidiary, Anvil Mobile Auto Glass Ltd.

The Fund continues to identify and assess a significant number of potential acquisition opportunities and expects to continue to expand operations through further acquisitions during 2003.

### Sales

*Sales* (excluding the impact of discontinued operations in 2002) totaled $36.3 million for the first quarter ended March 31, 2003, a decrease of $0.3 million or 0.9% compared to the same period in 2002. This decrease was due to the translation of $U.S. revenues at lower exchange rates. Adjusting for the change in exchange rates, sales for the first quarter would be approximately $1.2 million higher and would represent a 2.4% increase over the prior year.

Same store sales in markets that the Fund operated within during the first quarter of 2003 and 2002 decreased 4.4% (excluding sales from discontinued operations in 2002) compared to the same period last year. This decrease resulted primarily from the impact of a weaker $U.S. on the translation of sales from U.S. operations and lower sales volumes in the Washington market, partly offset by same store sales growth in Canada. Sales for the first quarter from the AWC "Big Box" prototype facility of $1.3 million, which was in its pre-operating period during the first quarter of 2002 represented a sales increase of 3.5% over last year and, along with the growth in the Canadian market, contributed to offset same store sales declines.

Sales growth in Canada of 4.8% during the first quarter of 2003 marked the return to positive sales growth in the Manitoba market and continued strong sales growth in the Alberta market compared to the same period in 2002. In the U.S., a 4.6% decline in overall sales was due entirely to foreign currency translation of $U.S. denominated sales to $Cdn, resulting from the weaker $U.S. Excluding the impact of foreign currency translation, overall sales growth in the U.S. was 0.9%.

**Gross Margin and Operating Expenses**

*Gross Margin* of $16.0 million or 44.0% of sales, compared to $16.3 million or 44.5% of sales in the same period of 2002, reflects lower gross margin dollars resulting from lower sales volume. Consolidated gross margin as a percent of sales for the quarter was impacted by regional sales mix, with a greater proportion of sales coming from more recently acquired operations with lower gross profit margins, including the AWC "Big Box" facility. The Fund 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 the first quarter of 2003 of $13.5 million, or 37.3% of sales, increased from $13.0 million or 35.5% of sales in same period in 2002. Consolidated operating expenses as a percentage of sales increased partly due to growth in these expenses while same store sales declined. Higher salaries, wages and benefit costs, as well as higher rent in the AWC "Big Box" facility, 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 21.3% of sales in the first quarter of 2003 compared to 20.2% in the same period last year. Salaries, wages and benefit costs of the AWC "Big Box" prototype location accounted for the entire absolute dollar increase. Excluding the impact of AWC, salaries, wages and benefit costs were reduced in total dollar terms, but increased as a percentage sales to 20.9%, due to lower sales volumes in select U.S. regions.

**EBITDA**

*Earnings before interest, income taxes, depreciation and amortization ("EBITDA")* decreased in the first quarter of 2003, to $2.5 million or 6.8% of sales from $3.3 million or 8.9% of sales in the same period of the prior year. EBITDA for the period improved over the 3rd and 4th quarters of 2002, at $2.4 million and $2.2 million respectively. The negative impact of foreign currency translation on U.S. sales and earnings contributed to the decline in absolute dollar terms. Lower gross margins and higher operating costs as a percentage of sales partly offset by foreign currency gains realized on settlement of U.S. denominated loans and cash balances in respect of the U.S. operations, contributed to the decline in EBITDA margin. Excluding the impact of AWC, EBITDA for the quarter would have been $2.8 million or 7.9% of sales. The consolidated EBITDA margin is expected to continue to be impacted by lower EBITDA margins in the Midwest region and at the "Big Box" prototype facility.

**Depreciation and Amortization**

*Depreciation and Amortization* expense totaled $0.9 million or 2.5% of sales for the first quarter of 2003, compared to $0.9 million or 2.4% of sales in the prior year.

On January 1, 2002, the Fund 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 Fund 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 Fund expects that its goodwill amortization charges will be a significantly lower percent of sales into the future, as it continues with its acquisition strategy.

During 2002, and in accordance with the new standard, the Fund 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, totaling $8.1 million, was recorded as a cumulative effect of change in accounting policy and charged to opening retained earnings in 2002.

The Fund expects to continue to test the impairment of goodwill for all reporting units during 2003.

Amortization of deferred costs in the first quarter of 2003, totaled $64 thousand compared to $63 thousand in the same period of the prior year. The Fund expects the future amortization of deferred costs to be at or near levels consistent with this quarter.

Depreciation expense for the first quarter increased to $847 thousand, or 2.3% of sales, compared to $825 thousand or 2.3% of sales in the prior year. The Fund 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 $770 thousand or 2.1% of sales for the first quarter of 2003, from $920 thousand or 2.5% of sales in the same period of 2002. The decrease in interest cost resulted from reductions in the outstanding bank term facility and lower interest rates, partly offset by higher interest costs relating to the debt components of the outstanding balance of 8.5%, Series I Convertible debentures originally issued in 1998 and the issue of new 8%, 2002 Convertible debentures. Interest costs related to the equity component of these convertible debentures issues, which can be settled at maturity, at the Fund's option, through the issuance of trust units, have been charged to retained earnings.

### Non-Recurring Expenses

*Non-recurring expenses* for the first quarter of 2003, totaled $2.0 million, including $0.8 million related to completing the Plan of Arrangement and reorganization to an income trust and the balance relating to termination of a portion of the Fund's interest rate swap agreements in connection with the reduction in long-term bank debt.

### Income Taxes

*Income Tax recoveries and reductions in future tax liabilities* increased to $1.0 million during the first quarter of 2003, compared to income tax expense of $341 thousand or 0.9% of sales in the same period of 2002. The recovery of current income taxes and reduction in future tax liabilities is primarily due to recording a net loss before taxes and the effect of income tax deductions available as a result of effective tax planning and the income trust structure.

### Net Loss before Non-Controlling Interest

*Net loss before non-controlling interest* for the first quarter ended March 31, 2003, was $253 thousand or 0.7% of sales compared to net earnings of $1.1 million or 3.1% of sales for the same period last year. Non-recurring expenses associated with the conversion to an income trust significantly impacted net earnings for the quarter. Lower sales volumes and lower EBITDA margins resulting from higher operating costs in relation to sales also contributed to lower net earnings. Excluding the impact of the non-recurring expenses, net earnings for the first quarter of 2003 would have been $0.9 million. Higher depreciation and amortization costs contributed to lower net earnings, partly offset by lower interest costs and income taxes.

### Non-Controlling Interest

*Non-controlling interest* for the first quarter of 2003, totaling net earnings of $7 thousand represents the interest of Boyd Group Holdings Inc., a holding company created as part of the conversion to an income trust to hold a non-controlling interest in The Boyd Group Inc., in the consolidated net earnings of the Fund.

### Discontinued Operations

*Net Loss from Discontinued Operations,* net of tax, of $17 thousand during the first quarter of 2002, 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.

**Net Loss and Loss Per Share**

*Net Loss* after giving effect to the non-controlling interest in 2003, and discontinued operations in 2002, was $260 thousand or 0.7% of sales for the first quarter of 2003, compared to net earnings of $1.1 million or 3.0% of sales for the same period of the prior year. Net loss for the quarter was primarily due to recording of non-recurring expenses related to the reorganization to an income trust. Excluding the after tax impact of these non-recurring expenses, net income for the quarter would have been $0.9 million or 2.6% of sales. Lower EBITDA margins and higher depreciation and amortization costs also contributed to lower net earnings, partly offset by lower interest costs and income taxes.

*Basic Loss Per Unit* was $0.097 per unit for the first quarter of 2003, compared to basic earnings of $0.281 per unit (after discontinued operations) in the same period of 2002. *Diluted Loss Per Unit,* which is calculated under the assumption that all convertible securities had been converted (where such conversion would have the effect of reducing earnings per unit), was $0.097 per unit compared to earnings of $0.25 per unit in the same period of the prior year. The decline in earnings per unit and fully diluted earnings per unit resulted from lower net earnings combined with some growth in the average number of units issued and outstanding during the period.

## LIQUIDITY AND CAPITAL RESOURCES

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

**Equity**

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. The Board unanimously concluded, after investigation of alternatives, that Boyd's business was well suited for an income trust structure.

On January 24, 2003, the shareholders of The Boyd Group Inc. approved a Plan of Arrangement (the "Arrangement") that would reorganize The Boyd Group Inc. into an income trust, subject to the completion of an initial public offering of new trust units.

On February 28, 2003, the Fund completed an initial public offering (the "IPO") of 1,050,000 trust units at $8.60 per unit, raising $7.2 million after paying issue costs of $1.8 million. These funds were primarily used to reduce long-term debt and provide for future costs of development of select collision repair facilities.

Under terms of the Arrangement, prior to the conversion, all outstanding Class D shares of The Boyd Group Inc. were cancelled and all of the issued and outstanding Class E shares of the Company were converted to Class A (Restricted Voting) shares on a 1 for 1 basis. Also as part of the conversion, the Class A (Restricted Voting) shares were consolidated on 4 for 1 basis.

On February 28, 2003, under the terms of the Arrangement, the Fund acquired 15% of the outstanding Class A (Restricted Voting) shares held by the Management Group (shares held directly or indirectly by Terry Smith and Brock Bulbuck). The Fund also acquired 64.96% (the "debt percentage") of the Class A (Restricted Voting) shares of The Boyd Group Inc. from its other public shareholders. The Fund, through a series of transactions, issued 2.39 million trust units as consideration for the above shares. Also under the terms of the Arrangement, Boyd Group Holdings Inc. ("BGHI"), a holding company organized under voting control of the Fund, acquired the remaining 85% of Class A (Restricted Voting) shares held by the Management Group and the remaining 35.04% of the Class A (Restricted Voting) shares of The Boyd Group Inc. from its other public shareholders, issuing 2.06 million Class A common shares as consideration. Each public shareholder (other than the Management Group) indirectly received 0.6496 trust units of the Fund and 0.3504 Class A common shares of BGHI in exchange for each four Class A (Restricted Voting) shares held.

Holders of vested and outstanding stock options to acquire Class A (Restricted Voting) shares of The Boyd Group Inc. were provided, under the terms of the Arrangement with a choice to exercise such options to receive Class A (Restricted Voting) shares and subsequently convert the shares so received to trust units on 4:1 basis. Outstanding stock options that were not exercised prior to the reorganization were cancelled.

The following provides a continuity of the income trust conversion transaction and resulting unitholders' capital:

| | Shares | Amount |
|---|---|---|
| Outstanding balance of Class A (Restricted Voting) shares of The Boyd Group Inc. at December 31,2002 | 14,737,002 | $ 18,693,465 |
| Issued as partial consideration guaranteed under certain purchase and sale agreements | 120,123 | – |
| Issued on exercise of stock options | 616,980 | 772,755 |
| Cancellation of Class D shares of the Company | – | 10 |
| Issued on conversion of Class E shares | 2,125,000 | 1 |
| Issued on conversion of 1998 Series I debentures | 212,500 | 250,000 |
| Issue costs | – | (235) |
| Balance at February 28,2003 | 17,811,605 | $ 19,715,996 |

| | Units | Amount |
|---|---|---|
| Units issued by the Fund on February 28, 2003 in exchange for Class A (Restricted Voting) shares of the Company (after consolidation on a 4 for1 basis and exchange of shares held by the Management Group, the remaining publicly held shares and the exercise of stock options) | 2,389,957 | $ 10,581,575 |
| Units issued on initial public offering | 1,050,000 | 9,030,000 |
| Issue costs (net of tax recovery of $743,890) | – | (1,044,147) |
| Units issued on conversion of 2002 debentures | 61,875 | 495,000 |
| Unitholder's capital at March 31,2003 | 3,501,832 | $ 19,062,428 |

As part of the Plan of Arrangement, the Fund obtained voting control of Boyd Group Holdings Inc. through a special class of voting shares, while the economic interest in BGHI resides with the holders of the Class A common shares. Boyd Group Holdings Inc. is a mutual fund corporation established for the purpose of holding a minority ownership position in the Company. The Class A common shares of BGHI are not listed for trading on any stock exchange. Under certain conditions the Class A common shares of BGHI are exchangeable into units of the Fund and it is expected that holders of the Class A common shares will receive cash dividends on a monthly basis at a rate established as a percentage of the cash distributions expected to be paid on trust units.

During the period ended March 31, 2003, the non-controlling interest of BGHI arose as follows:

| | Shares | Amount |
|---|---|---|
| Class A common shares issued on February 28, 2003 in exchange for Class A (Restricted Voting) shares of the Company (after consolidation on a 4 for1 basis and exchange of shares held by the Management Group and other public shareholders) | 2,062,863 | $ 9,134,421 |
| Less allocation of deficit of the Company at February 28, 2003 | – | (759,639) |
| Add earnings for the month of March 2003 | – | 6,851 |
| Less accrued dividend payable to Boyd Group Holdings Inc. | – | (78,389) |
| Less interest on equity component of convertible debentures | – | (6,456) |
| Non-controlling interest at March 31, 2003 | 2,062,863 | $ 8,296,788 |

Following the February 28, 2003 reorganization, and during the month of March 2003, the Company generated distributable cash of $561,613. For the period ended March 31, 2003, the Company recorded interest payable to the Fund of $349,647 and declared dividends payable to the Fund and BGHI of $1,459 and $78,389 respectively. The Fund declared a cash distribution of $0.095 per unit or $332,674 payable to unitholders of record on March 31, 2003. Boyd Group Holdings Inc. declared a dividend of $0.038 per share or $78,389 payable to Class A common shareholders of record on March 31, 2003. The Fund and BGHI expect to continue to make monthly cash distributions to unitholders and shareholders.

In July 1999, the Fund 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 Fund anticipates it will meet, the Fund will not be required to repay this funding. The nature of this capital funding provides the Fund with another source of available capital, without interest cost or dilution, to support its acquisition strategy. During the first quarter of 2003 the Fund did not requisition any forgivable capital funding.

The Fund anticipates continuing to issue trust units to vendors as partial payment for acquisitions. The Fund will also continue to assess the need to issue new equity in 2003. The Fund 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 ample capital is available for future growth.

**Debt Financing**

On December 3, 2002, the Fund completed an offering for $7.5 million of 8%, 2002 Subordinate Convertible debentures, with a 5-year maturity from the date of issue. The debentures are convertible, at the option of the holders, into trust units at a price of $8.00 per unit. The Fund will have the option to settle all or a portion of the debenture obligation at maturity, through the issue of trust units at the then market price, subject to a floor price of $5.52 per unit. The proceeds of the debenture offering were used to 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 Fund completed an offer to existing debenture holders of the 8.5%, 1998, Series I 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 Fund, to satisfy the debentures at maturity, by issuing trust units at the then market price. The debentures are convertible, subject to certain restrictions, at any time prior to maturity by the holder thereof, into trust units of the Fund.

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 Fund entered into a new agreement with its senior lenders. The amended and restated credit agreement provides the Fund with a two year, interest-only, $21.0 million term facility and a $6.0 million operating line of credit facility, subject to customary terms, conditions, covenants and other provisions common to other companies organized as income trusts. The new senior credit facilities will mature on February 28, 2005.

At March 31, 2003, the Fund had approximately $19.9 million ($28.0 million – December 31, 2002) of bank debt outstanding under the term loan facility and approximately $5.4 million ($4.0 million – December 31, 2002) outstanding under its operating line of credit. Offsetting the outstanding balance of the operating line of credit at March 31, 2003, was cash held in U.S. bank accounts totaling $4.8 million ($6.1 million – December 31, 2002) and cash on reserve to fund future capital lease obligations of $3.4 million ($0.0 – December 31, 2002) for a net cash position of $2.8 million ($2.1 million – December 31, 2002).

The Fund expects to continue to supplement its debt financing, by negotiating with vendors, in certain acquisitions, to provide financing to the Fund 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 Fund’s growth, at a relatively low cost.

During the first quarter, the Fund repaid vendor notes of approximately $323 thousand. At March 31, 2003 the balance of vendor notes outstanding totaled $498 thousand ($879 – December 31, 2002)

The Fund has traditionally used capital leases to finance a portion of its maintenance capital expenditures. The Fund expects to continue to use this source of financing where available at favorable interest rates and on reasonable terms, although this financing also impacts the total availability of funds under the syndicated credit facilities. At February 28, 2003, $3.9 million of the proceeds of the initial public offering were set aside in a cash reserve account to be used to fund future capital lease payments (principal and interest) relating to the outstanding balance of capital leases at December 31, 2002, of $3.3 million. No capital expenditures, during the first quarter of 2003, were financed through capital leases.

The Fund 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 $7.9 million at March 31, 2003 ($8.9 million – December 31,2002). Current asset balances declined when expressed in Canadian dollars as a result of $U.S. denominated assets  being translated at lower foreign currency exchange rates due to the strengthening Canadian dollar. Current liabilities increased due to extending financing with suppliers and recording of cash distributions and dividends payable to unitholders and shareholders. The Fund expects to continue to operate at or above a working capital ratio of 1:1.

### Capital Expenditures

Excluding expenditures related to acquisition and expansion (including branding and facility upgrades financed from proceeds of the income trust offering), the Fund spent approximately $0.3 million (no expenditures financed through capital leases) or 0.8% of sales on maintenance capital expenditures in the first quarter of 2003, compared to $1.1 million ($507 thousand, net of obligations under capital leases of $551 thousand) or 2.9% of sales in the same period of 2002. The Fund expects that the level of maintenance capital expenditures, including cash outlays on new capital lease financing of capital expenditures, will remain below 1% of sales in the current year.

## RISKS AND UNCERTAINTIES

The Fund 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 Fund manages risk and risk exposures through a combination of insurance, its system of internal controls and sound operating practices.

### Cash Distributions are Not Guaranteed and will Fluctuate with Boyd's Performance

Although the Fund intends to distribute the interest income earned by the Fund and any distributions in respect of the Boyd Class I Shares and the BGHI Class B Common Shares, if any, less expenses and amounts, if any, paid by the Fund in connection with the redemption of Units, there can be no assurance regarding the amount of income to be generated by Boyd and therefore funds available to the Fund. The actual amount distributed in respect of the Units will depend upon numerous factors, including profitability, fluctuations in working capital, the sustainability of margins, and capital expenditures.

### Dependence Upon Boyd

The Fund is an unincorporated open-ended, limited purpose mutual fund trust which will be entirely dependent upon the operations and assets of Boyd through the Fund's ownership of the Notes and the Boyd Class I Shares and the BGHI Class B Common Shares, if any. Accordingly, the Fund's ability to make cash distributions to the Unitholders will be dependent upon the ability of Boyd to pay its interest obligations under the Notes and to declare any dividends or other distributions in respect of the Boyd Class I Shares and the Boyd Class II Shares which ability is, in turn, dependent upon the operations and assets of Boyd and its direct and indirect subsidiaries.

### Income Tax Matters

There can be no assurance that Canadian federal income tax respecting the treatment of "mutual fund trusts" will not be changed in a manner that will adversely affect Unitholders. If the Fund ceases to qualify as a "mutual fund trust" or BGHI ceases to qualify as a mutual fund corporation under the Tax Act, the income tax considerations affecting the trust Units would be materially and adversely different in certain respects. In particular, the Units may cease to be qualified investments for registered retirement savings plans, deferred profit sharing plans, registered education savings plans and registered retirement income funds or become "foreign property". The Tax Act imposes penalties for the acquisition or holding of non-qualified or ineligible investments and on excess holdings of foreign property. There is no assurance that the conditions prescribed for such qualified or eligible investments will be adhered to at any particular time. There can be no assurance that Canadian federal income tax laws respecting the treatment of mutual fund trusts will not be changed in a manner which adversely affects the Unitholders.

Interest on the Notes accrues at the Fund level for income tax purposes whether or not actually paid. The Declaration of Trust provides that an amount of net income and taxable capital gains will be made payable to Unitholders each year to ensure the Fund is not taxable under Part I of the Tax Act. Where interest on the Notes has accrued but has not been paid in whole or in part and the Fund is unable to make a cash distribution, the Declaration of Trust provides that additional Units may be distributed to Unitholders in lieu of cash. Generally, Unitholders will be required to include in income the amount of any taxable distributions even where they do not receive a cash distribution.

There can be no assurance that the taxation authorities will not challenge the amount of interest expense and financing costs deducted by Boyd on the basis that such expenses and costs are not reasonable. If such a challenge were successful, the return to the Unitholders may be adversely affected. The Fund is of the view that the interest expense and financing costs to be claimed by Boyd will be reasonable.

**Nature of Units**

Securities such as the Units are hybrids in that they share certain attributes common to both equity securities and debt instruments. The Units will not represent a direct investment in Boyd's business and should not be viewed by investors as shares in Boyd. As holders of Units, Unitholders will not have the statutory rights normally associated with ownership of shares of a company including, for example, the right to bring "oppression" or "derivative" actions. The Units represent a fractional interest in the Fund. The Fund's primary assets will be the Notes, the Boyd Class I Shares and, if received pursuant to the Exchange Agreement, BGHI Class B Common Shares. The Units are not "deposits" within the meaning of the Canada Deposit Insurance Corporations Act (Canada) and are not insured under the provisions of that Act or any other legislation. Furthermore, the Fund is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.

**Redemption Right**

It is anticipated that the redemption right will not be the primary mechanism for Unitholders to liquidate their investments. Notes, Boyd Class I Shares and BGHI Class B Common Shares which may be distributed in specie to Unitholders in connection with a redemption will not be listed on any stock exchange and no established market is expected to develop for such Notes, Boyd Class I Shares and BGHI Class B Common Shares. Cash redemptions are subject to limitations as described in the Declaration of Trust.

**Distribution of Securities on Redemption or Termination of the Fund**

Upon a redemption of Units or termination of the Fund, the Trustees may distribute the Boyd Class I Shares, Notes and BGHI Class B Common Shares, if any, directly to the Unitholders, subject to obtaining any required regulatory approvals. Boyd Class I Shares, Notes and BGHI Class B Common Shares so distributed may not be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans, depending upon the circumstances at the time.

**Unitholder Limited Liability**

The Declaration of Trust provides that no Unitholder will be subject to any liability in connection with the Fund or its assets or obligations and that in the event that a court determines that Unitholders are subject to any such liabilities, the liabilities will be enforceable only against, and will be satisfied only out of, the Unitholder's share of the Fund's assets. The Declaration of Trust further provides that the Trustees and the Fund shall make all reasonable efforts to include as a specific term of any obligations or liabilities being incurred by the Fund or the Trustees on behalf of the Fund a contractual provision to the effect that neither the Unitholders nor the Trustees have any personal liability or obligation in respect thereof.

The operations of the Fund will be conducted, upon the advice of counsel, in such a way and in such jurisdictions as to avoid, as far as possible, any material risk of liability on the Unitholders for claims against the Fund. Despite the foregoing, there are risks that ownership of Units could expand beyond Fund assets and that liability could attach to Unitholders.

**The Fund May Issue Additional Units Diluting Existing Unitholders' Interest**

The Declaration of Trust authorizes the Fund to issue an unlimited number of Units for the consideration and those terms and conditions as are established by the Trustees without the approval of any Unitholders. Additional Units may be issued by the Fund pursuant to additional offerings, pursuant to the Exchange Agreement, any future conversion of Debentures and any issuances to sellers of businesses acquired by Boyd in satisfaction of their respective entitlement to convert Boyd Class III Shares pursuant to Boyd's price protection mechanism.

**Dependence on Key Personnel**

The success of the Boyd 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 Boyd's business operations and prospects. Boyd has entered into management agreements with key members of management in order to mitigate this risk.

### Available Cash and Cash Reserves

Boyd's ability to pay interest on the notes issued to the Fund or to make dividend distributions on its Class I and II shares will be subject to it's ability to generate available cash. Available cash will be determined after any provision for cash reserves. The additional amount allocated to cash reserves, excluding cash reserves resulting from reduced distributions to Boyd Group Holdings Inc., in any period is anticipated to be less than 10% of available cash, calculated before the allocation to the cash reserve. There is no guarantee however that cash reserves will constitute less than 10% of available cash in any given period, and accordingly, Boyd's ability to make dividend distributions on its Class I and Class II shares may be restricted.

### Risks Associated with Acquisition Strategy

The Fund'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 Boyd 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 Boyd's investment. Further, there can be no assurances that Boyd 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, Boyd, 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 Boyd's business, financial condition and future prospects. The Fund seeks, through systematic investigation and due diligence, and through indemnification of former owners, to minimize the risk of material undisclosed liabilities associated with acquisitions.

### Inability to Successfully Integrate Acquisitions

A key element of the Fund's strategy is to successfully integrate acquired businesses in order to expand and enhance profitability. There can be no assurance that Boyd 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 Boyd's products will develop in these markets. Local laws and the presence of competition in certain jurisdictions may limit Boyd's capability to successfully expand operations into these markets.

### Loss of Key Customers

Over 70% of Boyd'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. Boyd'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. Boyd 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 Fund, however, if any change were to occur, Boyd believes that it will be in a position which is as good as, or better than most industry participants to deal with, or take advantage of any such change. As Boyd 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 in annual revenues, 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 Boyd 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 Fund 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 Boyd will be able to maintain or achieve its desired market share.

Notwithstanding these potential risks of competition, Boyd 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.

### Key Supplier Relationships

In 1999, Boyd entered into certain key supplier relationships that provide it 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 Fund 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 Fund 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 Boyd's cash funding of future acquisitions and start-up locations.

### Acquisition Growth & Ongoing Access to Capital

The Fund 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 Fund 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 Fund will endeavor, through a variety of strategies, to ensure, in advance that it has sufficient capital for growth. Potential sources of capital that Boyd 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 Fund will be successful in accessing these or other sources of capital in the future.

### Credit & Refinancing Risks

The Fund and other restricted parties under the amended senior credit facilities have, and will continue to have, significant debt service obligations. In addition, Boyd'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 Boyd's management and the ability of the Fund 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 Fund 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 Fund and other restricted parties would be sufficient to repay the indebtedness in full. There can also be no assurance that the Fund 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. Boyd'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's 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 Fund 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**

Boyd'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 Boyd'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 Fund 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. Boyd's increasing geographic diversification resulting from its growth and expansion is expected to continue to lessen the effect of this risk.

**Interest Rates**

At March 31, 2003, approximately $14.6 million of the Boyd's outstanding senior term loan of approximately $19.9 million was 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.

Boyd terminated existing interest rate swaps on $5.3 million of its senior term loans 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 this portion of the senior term loan will remain subject to variable interest rates in the near term 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, Boyd 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 Fund 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 Fund's ability to make future Canadian dollar cash distributions.

## OUTLOOK

As the Fund had anticipated, operating results for the first quarter of 2003 continued to be impacted by challenging economic conditions, with lower year over year results being reported. Boyd is encouraged by the improvement in operating results over the prior two quarters. It remains optimistic that initiatives introduced throughout 2002, will result in a return to improving performance for the remainder of 2003.

The Fund expects to continue to grow 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 Boyd's growth will take place in the U.S.

The Fund 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 securityholder value.

## FORWARD LOOKING INFORMATION

This interim report contains forward-looking information, other than historical facts, which reflect the views of the Fund'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 Fund'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 Fund. The Fund can give no assurance that its expectations with respect to forward-looking information will prove to be correct.

The Fund 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.

# INTERIM CONSOLIDATED BALANCE SHEETS

*(UNAUDITED)*

*March 31, 2003 and December 31, 2002*

| | March 31 2003 | December 31 2002 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash *(Note 4)* | **$ 2,824,233** | $ 2,090,371 |
| Accounts receivable | **11,642,117** | 12,548,758 |
| Income taxes recoverable | **1,992,361** | 1,660,242 |
| Inventory | **3,297,361** | 3,713,578 |
| Prepaid expenses | **2,052,651** | 2,487,966 |
| | **21,808,723** | 22,500,915 |
| Capital assets | **19,512,018** | 20,784,202 |
| Future income tax asset | **1,767,223** | – |
| Deferred costs | **828,227** | 913,032 |
| Goodwill and other intangible assets | **34,821,119** | 36,769,087 |
| | **$ 78,737,310** | $ 80,967,236 |
| **Liabilities & Unitholders' equity** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | **$ 12,491,208** | $ 12,269,748 |
| Distributions payable *(Note 9)* | **332,674** | – |
| Dividends payable to non-controlling interest *(Note 9)* | **78,389** | – |
| Dividends payable on Class E shares | **118,256** | – |
| Due to C.C. Collision Repair Management Limited Partnership | **7,155** | 3,308 |
| Current portion of long-term debt *(Note 5)* | **58,750** | 283,557 |
| Current portion of obligations under capital leases | **954,048** | 1,052,116 |
| | **14,040,480** | 13,608,729 |
| Long-term debt *(Note 5)* | **20,362,986** | 28,555,576 |
| Obligations under capital leases | **1,956,816** | 2,282,062 |
| Convertible debentures – debt component *(Note 6)* | **2,403,438** | 2,723,988 |
| Future income tax liability | **–** | 21,951 |
| Other long-term liabilities | **293,080** | 339,046 |
| Unearned income | **8,419,731** | 8,894,109 |
| Non-controlling interest *(Note 8)* | **8,296,788** | – |
| | **55,773,319** | 56,425,461 |
| **Unitholders' equity** | | |
| Unitholders' capital *(Note 7)* | **19,062,428** | 18,693,476 |
| Convertible debentures – equity component *(Note 6)* | **5,575,930** | 6,025,841 |
| Deficit | **(1,090,107)** | (1,089,808) |
| Cumulative translation adjustment | **(584,260)** | 912,266 |
| | **22,963,991** | 24,541,775 |
| | **$ 78,737,310** | $ 80,967,236 |

## INTERIM CONSOLIDATED STATEMENTS OF (DEFICIT) RETAINED EARNINGS *(UNAUDITED)*

*Three Months Ended March 31*

| | 2003 | 2002 |
|---|---|---|
| (Deficit) retained earnings, beginning of period | **$ (1,089,808)** | $ 6,396,650 |
| Net (loss) earnings for the two month period ended February 28 | **(621,387)** | 480,022 |
| Dividends on Class E shares | **(118,256)** | – |
| Premium paid on Class A (Restricted Voting) shares purchased and cancelled | **–** | (6,667) |
| Interest on equity component of convertible debentures (net of income tax recovery of $28,430) | **(37,936)** | – |
| (Deficit) retained earnings, February 28 | **(1,867,387)** | 6,870,005 |
| Allocation of February 28 deficit to non-controlling interest *(Note 8)* | **759,639** | – |
| Net earnings for the one month period ended March 31 | **361,276** | 628,143 |
| Dividends on Class E shares | **–** | (118,256) |
| Distributions to unitholders *(Note 9)* | **(332,674)** | – |
| Interest on equity component of convertible debentures (net of income tax recovery of $8,215) | **(10,961)** | – |
| (Deficit) retained earnings, end of period | **$ (1,090,107)** | $ 7,379,892 |

# INTERIM CONSOLIDATED STATEMENTS OF (LOSS) EARNINGS
*(UNAUDITED)*

*Three Months Ended March 31*

| | 2003 | 2002 |
|---|---|---|
| Sales | **$ 36,285,961** | $ 36,598,799 |
| Cost of sales | **20,305,586** | 20,321,198 |
| Gross margin | **15,980,375** | 16,277,601 |
| Operating expenses *(Notes 4 and 5)* | **13,520,179** | 13,003,398 |
| Earnings before interest, taxes, depreciation, amortization and non-recurring expenses | **2,460,196** | 3,274,203 |
| Depreciation and amortization | **911,295** | 887,955 |
| Interest expense | **769,940** | 939,014 |
| Interest income | **(13,853)** | (19,266) |
| Non-recurring expenses *(Note 10)* | **2,045,374** | – |
| | **3,712,756** | 1,807,703 |
| (Loss) earnings before income taxes and non-controlling interest | **(1,252,560)** | 1,466,500 |
| Income tax (recovery) expense *(Note 11)* | | |
| Current | **(153,600)** | 202,700 |
| Future | **(845,700)** | 138,000 |
| | **(999,300)** | 340,700 |
| Net (loss) earnings before non-controlling interest | **(253,260)** | 1,125,800 |
| Non-controlling interest (net of income tax expense of $4,888) *(Note 8)* | **(6,851)** | – |
| Net (loss) earnings from continuing operations | **(260,111)** | 1,125,800 |
| Net loss from discontinued operations (net of income tax recovery of $15,700) *(Note 3)* | **–** | (17,635) |
| Net (loss) earnings | **$ (260,111)** | $ 1,108,165 |
| Weighted Average number of units outstanding | **2,679,617** | 3,525,526 |
| **Basic (loss) earnings per unit from continuing operations** *(Note 13)* | **$ (0.141)** | $ 0.286 |
| **Loss per unit from discontinued operations** | **–** | (0.005) |
| **Basic (loss) earnings per unit** | **$ (0.141)** | $ 0.281 |
| **Diluted (loss) earnings per unit from continuing operations** *(Note 13)* | **$ (0.141)** | $ 0.254 |
| **Loss per unit from discontinued operations** | **–** | (0.004) |
| **Diluted (loss) earnings per unit** | **$ (0.141)** | $ 0.250 |

## INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
*(UNAUDITED)*

*Three Months Ended March 31*

| | 2003 | 2002 |
|---|---|---|
| **CONTINUING OPERATIONS** | | |
| **Cash flows from operating activities** | | |
| Net (loss) earnings from continuing operations | $ **(260,111)** | $ 1,125,800 |
| Items not affecting cash | | |
| Future income taxes | **(845,700)** | 138,000 |
| Depreciation and amortization | **911,295** | 887,955 |
| Non-controlling interest | **6,851** | – |
| Amortization of unearned income | **(475,042)** | (484,739) |
| Loss (Gain) on disposal of capital assets | **893** | (14,857) |
| | **(661,814)** | 1,652,159 |
| Changes in non-cash working capital items | **1,609,551** | (955,497) |
| | **947,737** | 696,662 |
| **Cash flows from financing activities** | | |
| Issue of share capital, net of issue costs | **772,520** | 5,547 |
| Repurchase of share capital | **–** | (19,568) |
| Issue of fund units, net of issue costs | **7,241,963** | – |
| Repayment of long-term debt | **(6,706,456)** | (68,517) |
| Repayment of obligations under capital leases | **(394,480)** | (230,282) |
| Interest on equity component of convertible debentures | **(96,836)** | – |
| Increase in unearned income | **664** | 150,000 |
| (Decrease) increase in other long-term liabilities | **(31,010)** | 2,061 |
| Dividends paid | **–** | (118,256) |
| | **786,365** | (279,015) |
| **Cash flows from investing activities** | | |
| Proceeds on sale of capital assets | **42,498** | 76,850 |
| Acquisition of capital assets | **(280,279)** | (506,467) |
| Acquisition and development of businesses | **(29,770)** | (304,590) |
| Branding and facility upgrades | **(78,218)** | – |
| Deferred costs | **(37,659)** | (311,346) |
| Acquisition of other assets | **(81,585)** | (245,712) |
| | **(465,013)** | (1,291,265) |
| Foreign exchange | **(577,037)** | 18,174 |
| Net increase (decrease) in cash position from continuing operations | **692,052** | (855,444) |
| **DISCONTINUED OPERATIONS** | | |
| Operating activities | **41,810** | 94,807 |
| Investing activities | **–** | (746) |
| Net increase in cash position from discontinued operations | **41,810** | 94,061 |
| Net increase (decrease) in cash position | **733,862** | (761,383) |
| Cash position, beginning of period | **2,090,371** | 2,091,838 |
| Cash position, end of period | $ **2,824,233** | $ 1,330,455 |
| Income taxes paid | $ **294,247** | $ 56,149 |
| Interest paid | $ **992,442** | $ 960,561 |

# NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
*(UNAUDITED)*

**1. ORGANIZATION AND DESCRIPTION OF THE BUSINESS**

Boyd Group Income Fund (the "Fund") is an unincorporated, open-ended mutual fund trust established under the laws of the Province of Manitoba on February 28, 2003. The Fund was established for the purposes of acquiring and holding certain investments, including a majority interest in The Boyd Group Inc. (the "Company"). The Company's business consists of the ownership and operation of autobody/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.

The units of the Fund were listed on the Toronto Stock Exchange effective February 28, 2003 and trade under the symbol "BYD.UN".

**2. BASIS OF PRESENTATION**

These interim consolidated financial statements of the Fund and its subsidiary have been prepared in accordance with Canadian generally accepted accounting principles and contain the consolidated financial position, results of operations and cash flows of the Fund, the Company and the Company's subsidiaries.

The Fund is considered to be a continuation of the Company following the continuity of interest method of accounting and, as a result, these financial statements and related notes are consistent with the policies and methods of computation outlined in the audited consolidated financial statements of the Company for the year ended December 31, 2002. Under the continuity of interest method of accounting, the Fund's acquisition of the Company is recorded at net book value of the Company's assets and liabilities on February 28, 2003, and the cumulative deficit of the Fund represents the retained deficit of its majority position in the Company at that date.

These interim consolidated financial statements and related notes do not include all the information required for complete financial statements, and should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2002.

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. DISCONTINUED OPERATIONS**

On August 9, 2002, the Company disposed of the operating assets of its Big Rig operation located in Red Deer, Alberta. The comparative figures disclosed in the interim consolidated statements of earnings and cash flows reflect the impact of this discontinued operation for the period ended March 31, 2002.

**4. CASH (BANK INDEBTEDNESS)**

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 $6.0 million operating facility secured by a General Security Agreement. As at March 31, 2003, the Company has drawn $5.4 million against the facility. Offsetting the outstanding balance on the operating line of credit was cash held in U.S. bank accounts of $4.8 million and cash on reserve to fund future capital lease obligations of $3.4 million, for a net cash position of $2.8 million. Gains on foreign exchange transactions associated with a Canadian domiciled U.S. dollar bank account within this facility are included as a reduction in operating expenses, and amounted to $183,410.

**5. LONG-TERM DEBT**

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, interest only, term facility. The new term facility is secured by a General Security Agreement and subsidiary guarantees with incentive priced interest rates and is subject to customary terms, conditions, covenants and other provisions for an income trust. As at March 31, 2003, the Company has fully drawn the facility in U.S. dollars, representing $19,923,708 (U.S. $13,560,000). The Interest rate is fixed on $14,546,070 (U.S. $9,900,000) using interest rate swaps at 5.82% plus incentive pricing spread.

During the period ended March 31, 2003, the Fund and the Company used a portion of the $9,030,000 proceeds of the initial public offering of units of the Fund to repay long-term debt with the Company's bankers, in the amount of $6,383,286 (U.S. $4,141,000), and with the Company's vendors, in the amount of $323,170. Foreign exchange gains associated with the settlement of a portion of the long-term debt facility are included as a reduction in operating expenses, and amounted to $273,704. The Company also used a portion of the proceeds to terminate $11,901,330 (U.S. $8,100,000) in interest rate swap contracts for a cost of $1,223,706 (Note 10).

## 6. CONVERTIBLE DEBENTURES

During the period January 1, 2003 to February 28, 2003, $250,000 of the 8.5%, 1998, Series I Convertible debentures were converted into Class A (Restricted Voting) shares of the Company. During the period from March 1, 2003 to March 31, 2003, $495,000 of the 8.0%, 2002 Convertible debentures were converted to units of the Fund.

## 7. UNITHOLDERS' CAPITAL

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. 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 unit for gross proceeds of $9,030,000.

As part of the plan of arrangement a certain percentage (the "debt percentage") of the outstanding Class A (Restricted Voting) shares of the Company, on February 28, 2003, were converted into Class A common shares of Boyd Group Holdings Inc. creating a minority ownership position upon consolidation of the Company and the Fund (Note 8).

The following provides a continuity of unitholders' capital:

| | Shares | Amount |
|---|---|---|
| Balance of Class A (Restricted Voting) shares of the Company at December 31, 2002 | 14,737,002 | $ 18,693,465 |
| Issued as partial consideration guaranteed under certain purchase and sale agreements | 120,123 | – |
| Issued on exercise of stock options | 616,980 | 772,755 |
| Cancellation of Class D shares of the Company | – | 10 |
| Issued on conversion of Class E shares | 2,125,000 | 1 |
| Issued on conversion of 1998 Series I debentures | 212,500 | 250,000 |
| Issue costs | – | (235) |
| Balance at February 28, 2003 | 17,811,605 | $ 19,715,996 |

| | Units | Amount |
|---|---|---|
| Units issued by the Fund on February 28, 2003 in exchange for Class A (Restricted Voting) shares of the Company (after application of a 4 to 1 conversion rate and the debt percentage) | 2,389,957 | $ 10,581,575 |
| Units issued on initial public offering | 1,050,000 | 9,030,000 |
| Issue costs (net of tax recovery of $743,890) | – | (1,044,147) |
| Units issued on conversion of 2002 debentures | 61,875 | 495,000 |
| Unitholders's capital at March 31, 2003 | 3,501,832 | $ 19,062,428 |

The Fund has guaranteed the unit price on units held in escrow on certain acquisitions. If, at the time of release from escrow, the market value of the units differs from the guaranteed price, the Fund is either obligated to issue more units, in the case where the guaranteed price is higher than the market value, or claw back units, in the case where the guaranteed price is lower than the market value. Based on the March 31, 2003 market value of the units, the Fund would be obligated to issue 382,527 additional units. As an alternative to issuing additional units, the Fund, at its option, may settle the guarantee on a cash basis.

## 8. NON-CONTROLLING INTEREST

As part of the plan of arrangement referred to in note 7, a certain percentage (the "debt percentage") of the issued and outstanding Class A (Restricted Voting) shares of the Company were converted into Class A common shares of Boyd Group Holdings Inc. Boyd Group Holdings Inc. is a private company and as such its shares are not listed on any stock exchange. Under certain conditions the Class A common shares of Boyd Group Holdings Inc. are exchangeable into units of the Fund. The Fund does not have any significant economic interest in the activities of Boyd Group Holdings Inc. and as such, Boyd Group Holdings Inc. represents a minority ownership position of the Company.

During the period ended March 31, 2003, the non-controlling interest arose as follows:

| | Shares | Amount |
|---|---|---|
| Class A common shares issued on February 28, 2003 in exchange for Class A (Restricted Voting) shares of the Company (after application of a 4 to 1 conversion rate and the debt percentage) | 2,062,863 | $ 9,134,421 |
| Less allocation of deficit of the Company at February 28, 2003 | – | (759,639) |
| Add earnings for the month of March 2003 | – | 6,851 |
| Less interest on equity component of convertible debentures | – | (6,456) |
| Less accrued dividend payable to Boyd Group Holdings Inc. (Note 9) | – | (78,389) |
| Non-controlling interest at March 31, 2003 | 2,062,863 | $ 8,296,788 |

## 9. DISTRIBUTIONS

### a) Distributable cash:

The following calculations relate to the period February 28, 2003 to March 31, 2003.

| | 2003 |
|---|---|
| Earnings before interest, taxes, depreciation, amortization and non-recurring expenses | $ 897,701 |
| Add back: Big-Box prototype reserve | 85,921 |
| Amortization of unearned income | (158,361) |
| Interest expense, net of interest income (excluding interest on capital lease obligations) | (204,742) |
| Interest on equity component of convertible debentures | (30,470) |
| Gain on disposal of capital assets | (2,095) |
| Proceeds on sale of capital assets | 2,091 |
| Maintenance capital expenditures | (28,432) |
| Distributable cash generated for the period | $ 561,613 |
| Distributions declared for the period | |
| Unitholders | $ 332,674 |
| Non-controlling interest | 78,389 |
| | $ 411,063 |
| Distributable cash per unit and non-controlling share | $ 0.101 |
| Distributions declared – | |
| per unit | $ 0.095 |
| per non-controlling share | $ 0.038 |
| Weighted average distribution per unit and non-controlling share | $ 0.074 |

### b) Cumulative distributions:

| | |
|---|---|
| Distributions declared during the period | $ 332,674 |
| Cumulative distributions, end of period | $ 332,674 |

### c) Cumulative dividends to non-controlling interest:

| | |
|---|---|
| Dividends declared during the period | $ 78,389 |
| Cumulative dividends, end of period | $ 78,389 |

## 10. NON-RECURRING EXPENSES

As part of the plan of arrangement referred to in note 7, the Company incurred one time costs of the arrangement in the amount of $821,668 as well as a swap breakage fee on the settlement of a portion of its interest rate swap contracts used to hedge interest exposure on its long-term debt, in the amount of $1,223,706.

## 11. INCOME TAXES

The Fund is a mutual fund trust as defined under the Income Tax Act (Canada) and accordingly is not taxable on its income to the extent that its income is distributed to unitholders. This exemption does not apply to the Company or its subsidiaries, which are corporations that are subject to income tax.

## 12. SEGMENTED REPORTING

The Fund has one reportable segment, being automotive collision repair and related services, with all revenues relating to a group of similar services. For the periods ended March 31, 2003 and 2002, all of the Fund'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 | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| Canada | **$15,139,272** | $ 14,441,007 | **$17,063,695** | $17,373,219 |
| United States | **21,146,689** | 22,157,792 | **37,165,660** | 40,076,519 |
| Total | **$36,285,961** | $ 36,598,799 | **$54,229,355** | $57,449,738 |

## 12. SEGMENTED REPORTING *(continued)*

The Fund'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 Fund's services in these markets are predominately paid for by these government-owned insurance companies, the Fund's customers (automobile owners) have freedom of choice of repair provider.

## 13. (LOSS) EARNINGS PER UNIT FROM CONTINUING OPERATIONS

| | | **2003** | | 2002 |
|---|---|---|---|---|
| **a) (Loss) earnings:** | | | | |
| Net (loss) earnings from continuing operations, after non-recurring expenses | **$** | **(260,111)** | $ | 1,125,800 |
| Less: Dividends on Class E shares | | **(118,256)** | | (118,256) |
| Net (loss) earnings from continuing operations available to unitholders | | **(378,367)** | | 1,007,544 |
| Add: | | | | |
| Dividends on Class E shares | | **–** | | 118,256 |
| Net after tax interest on Series I convertible debentures | | **–** | | 19,697 |
| Net after tax interest on Series II convertible debentures | | **–** | | 1,085 |
| Net (loss) earnings from continuing operations – unitholders – diluted basis | **$** | **(378,367)** | $ | 1,146,582 |
| **b) Number of units:** | | | | |
| Average number of units outstanding | | **2,679,617** | | 3,525,526 |
| Add: | | | | |
| Potential conversion of Series I convertible debentures | | **–** | | 358,912 |
| Potential conversion of Series II convertible debentures | | **–** | | 23,250 |
| Potential exercise of outstanding stock options | | **–** | | 75,285 |
| Potential conversion of Class E shares | | **–** | | 531,250 |
| Average number of units outstanding – diluted basis | | **2,679,617** | | 4,514,223 |
| (Loss) earnings per unit from continuing operations (a) divided by (b) | | | | |
| Basic | **$** | **(0.141)** | $ | 0.286 |
| Diluted | **$** | **(0.141)** | $ | 0.254 |

## 14. JOINT VENTURE

Effective March 1, 2003, the Fund finalized a joint venture arrangement under which it acquired 50% of the shares of 1st Choice Mobile Auto Glass Dealers Inc., a British Columbia corporation operating an automobile auto glass repair and replacement business through its wholly owned subsidiary, Anvil Mobile Auto Glass Ltd. The investment in shares, of $100,000, has been recorded as a prepaid acquisition cost at March 31, 2003, as financial statements for the joint venture are not available. The impact on the financial statements of the Fund for the period ended March 31, 2003, is not expected to be material.

## 15. COMPARATIVE FIGURES

Per unit amounts for previous periods have been adjusted to reflect the conversion of four Class A (Restricted Voting) shares of the Company into one unit of the Fund.

**BOYD GROUP INCOME FUND**

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