

# **BOYD GROUP INCOME FUND**

## **INTERIM REPORT TO UNITHOLDERS**

Second Quarter and Six Months Ended June 30, 2008

**BOYD GROUP INCOME FUND**  
**INTERIM REPORT TO UNITHOLDERS**

Second Quarter Ended June 30, 2008

**Fellow Unitholders,**

We are pleased to report continued growth in revenue, net earnings from continuing operations and cash available for distribution in the second quarter of 2008.

As a result of our strengthening balance sheet and marked improvement in financial performance, in both March and May of this year we announced increases to monthly distributions. Subsequent to the end of the second quarter, on August 13, 2008, the Trustees of the Fund approved an additional increase in monthly distributions to \$0.01875 per unit beginning in October 2008. With stable to improving financial performance, we expect that distributions will continue to be gradually increased over time.

For the quarter ended June 30, 2008, revenue increased 6.2% to \$50.6 million compared to \$47.7 million in the second quarter of 2007, after adjusting for discontinued operations. Our increased revenue resulted from same store sales growth, both in Canada and the U.S., as well as new sales generated from one U.S. collision repair start-up that began operations in late 2007 and two U.S. start-ups that commenced operations in the first half of 2008.

Sales in Canada during the quarter increased 3.7% to \$18.3 million, up from \$17.7 million for the same period in 2007. Sales increases were entirely due to same store sales growth.

Sales in the U.S. totalled \$32.3 million in the second quarter of 2008, an increase of \$2.3 million or 7.6% compared to the second quarter of 2007. Excluding the impact of foreign currency translation, U.S. same store sales increased \$3.4 million or 11.3% when compared to the second quarter a year ago. U.S. revenue in the second quarter of 2008 included new sales generated from one 2007 start-up in Arizona, as well as two 2008 start-ups in Kansas and Washington.

The Fund's net earnings from continuing operations for the second quarter of 2008 increased to \$2.0 million or 3.9% of sales from \$1.0 million or 2.1% of sales for the same period in 2007.

The Fund's net earnings after discontinued operations were \$0.2 million or \$0.018 per unit and Class A common share, compared to \$0.9 million or \$0.081 per unit and Class A common share for the same period a year ago. The decrease in earnings reflects a loss of \$1.7 million related to the decision to discontinue operations in certain underperforming facilities.

The Fund reported \$3.6 million of adjusted distributable cash for the second quarter of 2008, an increase of approximately 62% from \$2.3 million in the same period in 2007. For the six months ended June 30, 2008, adjusted distributable cash was \$5.9 million compared to \$2.7 million for the same period in 2007. The Fund's payout ratio on adjusted distributable cash for the quarter was 16.1% and the payout ratio for the six months ended June 30, 2008 was 18.7%

The Fund retired its Canadian senior term debt with the payment of a final installment of \$0.6 million U.S. in April of this year. This further strengthens our balance sheet and financial flexibility as we continue growing our business through new store openings. We expect to open between four and six new stores per year over the next five years.

We are pleased by our results in the first half of this year and look forward to continuing to report on our corporate developments and strengthening financial performance in the upcoming months and years.

On behalf of the Trustees of the Boyd Group Income Fund and Boyd Group employees, thank you for your continued support.

Sincerely,



Terry Smith  
Chief Executive Officer

# Management's Discussion & Analysis

## OVERVIEW

Boyd Group Income Fund (the "Fund"), through its operating company, The Boyd Group Inc. ("Boyd" or the "Company") and its subsidiaries, is the largest operator of automotive collision repair service centres in Canada and is among the largest multi-site collision repair companies in North America, currently operating locations in the four western Canadian provinces and seven U.S. states. Boyd carries on business in Canada under the trade names "Boyd Autobody & Glass" and "Service Collision Repair Centre". In the U.S., Boyd operates primarily under the "Gerber Collision & Glass" and "Gerber National Glass Services" names.

Boyd provides collision repair services to insurance companies, individual vehicle owners, as well as fleet and lease customers, with a high percentage of the Company's revenue being derived from insurance-paid collision repair services. In Canada, government-owned insurers operating in Manitoba, Saskatchewan and British Columbia, dominate the insurance-paid collision repair markets in which they operate. In the U.S. and Canadian markets, other than Manitoba and Saskatchewan, private insurance carriers compete for consumer policyholders, and in many cases significantly influence the choice of collision repairer through Direct Repair Programs ("DRP's").

The following review of the Fund's operating and financial results for the six months ended June 30, 2008, including material transactions and events up to and including August 13, 2008 should be read in conjunction with the unaudited consolidated interim financial statements, as well as the annual audited consolidated financial statements, management discussion and analysis and Annual Information Form of Boyd Group Income Fund for the year ended December 31, 2007 as filed on SEDAR at [www.sedar.com](http://www.sedar.com). The Fund's units trade on the Toronto Stock Exchange under the symbol TSX: BYD.UN.

## CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Statements made in this annual report, other than those concerning historical financial information, may be forward-looking and therefore subject to various risks and uncertainties. Some forward-looking statements may be identified by words like "may", "will", "anticipate", "estimate", "expect", "intend", or "continue" or the negative thereof or similar variations. Readers are cautioned not to place undue reliance on such statements, as actual results may differ materially from those expressed or implied in such statements. Factors that could cause results to vary include, but are not limited to: fluctuations in cash distributions and capital expenditures; dependence on the Fund's operating subsidiary to pay its interest obligations; loss of services of key senior management personnel; operational and infrastructure risks including possible equipment failure and performance of information technology systems; the ability to complete acquisitions of collision repair facilities and other businesses and to integrate these acquisitions successfully; the ability to identify start-up locations and reach anticipated profitability levels; access to capital; management of credit and refinancing risks; potential discovery of undisclosed liabilities associated with acquisitions; ability to expand into the United States; loss of key customers; impact of government owned insurance; variation in the number of insurance claims; competition from established competitors and new entrants in the businesses in which the Company operates; the management of key supplier relationships; employee relations; fluctuations in the cost of benefit plans; insurance coverage of sufficient scope to satisfy any liability claims; environmental risk; pending and proposed legislative or regulatory developments including the impact of changes in laws, regulations and the enforcement thereof; quality of corporate governance; quality of internal control systems; fluctuations in operating results and seasonality; energy costs; weather conditions; technology risks; interest rate fluctuations and general economic conditions; fluctuations in foreign currencies; and the possible impacts from public health emergencies, international conflicts and other developments including those relating to terrorism; and the Fund's success in anticipating and managing the foregoing risks.

We caution that the foregoing list of factors is not exhaustive and that when reviewing our forward-looking statements, investors and others should refer to the "Risk Factors" section of the Fund's Annual Information Form, the "Risks and Uncertainties" and other sections of our Management's Discussion and Analysis and our other periodic filings with Canadian securities regulatory authorities. All forward-looking statements presented herein should be considered in conjunction with such filings. The Fund does not undertake to update any forward-looking statements; such statements speak only as of the date made.

## **SIGNIFICANT EVENTS**

On February 1, 2008, the Fund exercised its right to settle at maturity the remaining principal amount owing of \$7,031,200 U.S. under its 2004 vendor exchange notes by way of the issuance of 1,283,716 trust units. The settlement was recorded at carrying value resulting in no gain or loss, although the market value of the units issued on February 1, 2008 was approximately \$3,100,000.

On March 1, 2008, the Company signed an agreement whereby it will perform automobile glass repair and replacement services for a third-party owned collision repair business located in Texas. It is expected that operations will commence during the third quarter of 2008.

On March 19, 2008, as part of a new start up, the Company entered into a lease of premises for the development of a new collision repair facility in Rome, Georgia. It is expected that operations will commence during the fourth quarter of 2008.

On March 25, 2008, the Trustees of the Fund and the Directors of BGHI approved an increase in monthly distributions and dividends to \$0.01625 per unit commencing May 2008, for unitholders and shareholders of record on April 30, 2008.

Effective April 1, 2008, the Company commenced operations in a start-up facility located in Wichita, Kansas.

Effective April 1, 2008, as part of a new start up, the Company purchased the equipment, work in progress and leased the premises of a body shop located in Lacey, Washington. Operations commenced during the second quarter of 2008.

On April 15, 2008, the Company made its final Canadian senior debt repayment of \$600,000 U.S. fully repaying the facility.

On May 14, 2008, the Trustees of the Fund and the Directors of BGHI approved an increase in monthly distributions and dividends to \$0.0175 per unit commencing July 2008, for unitholders and shareholders of record on June 30, 2008.

On May 16, 2008, as part of a new start up, the Company purchased the equipment, work in progress and leased the premises of a body shop located in Las Vegas, Nevada. It is expected that the new location will commence operations during the third quarter of this year.

On June 2, 2008, as part of a new start up, the Company purchased the equipment, work in progress and leased the premises of a body shop located in Calgary, Alberta. It is expected that the new location will commence operations during the third quarter of this year.

During the second quarter the Company closed five under-performing operating facilities, one in each of the following five markets: Vancouver, British Columbia; Saskatoon, Saskatchewan; Harvey, Illinois; Henderson, Nevada; and Marietta, Georgia.

On August 13, 2008, the Trustees of the Fund and the Directors of BGHI approved an increase in monthly distributions and dividends to \$0.01875 per unit commencing October 2008, for unitholders and shareholders of record on September 30, 2008.

## **BUSINESS ENVIRONMENT & STRATEGY**

As at June 30, 2008, the business environment of the Company and strategies adopted by management remain unchanged from those described in the Fund's 2007 annual MD&A.

## **DISTRIBUTABLE CASH**

As the income trust sector continues to mature, there has been an increasing focus on the information that income trusts are expected to disclose to ensure transparency and consistency in the calculation of distributable cash. In response, the Canadian Institute of Chartered Accountants (“CICA”) released, in July 2007, *Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities* to compliment the Canadian Securities Administrators (“CSA”) National Policy 41-201 which was also revised in July 2007. The Fund has endeavoured to follow the CICA guidance as well as CSA National Policy 41-201.

Starting in November 2007, as a result of the Fund’s strengthened balance sheet and improved financial flexibility, the Fund declared monthly distributions to its unitholders and BGHI declared monthly dividends to its Class A shareholders of \$0.015 per unit and/or Class A share. Monthly declarations, in the same amounts continued for unitholders and shareholders of record at the end of January, February and March 2008. The Trustees of the Fund and the Directors of BGHI then approved increases in monthly distributions and dividends to \$0.01625 per unit for unitholders and shareholders of record at the end of April and May 2008, and approved increases in monthly distributions and dividends to \$0.0175 per unit for unitholders and shareholders of record at the end of June, July and August 2008.

On August 13, 2008, the Trustees of the Fund and the Directors of BGHI approved a further increase in monthly distributions and dividends to \$0.01875 per unit commencing October 2008, for unitholders and shareholders of record on September 30, 2008.

### **Maintaining Productive Capacity**

Productive capacity is defined by Boyd as the maintenance of the Company’s facilities, signage, courtesy cars, equipment, systems, brand names and infrastructure. Although most of Boyd’s repair facilities are leased, funds are required to ensure facilities are properly repaired and maintained to ensure the Company’s physical appearance communicates Boyd’s standard of professional service and quality. The Company’s need to maintain its facilities and upgrade or replace equipment, signage, systems and courtesy car fleets forms part of the annual cash requirements of the business. The Company manages these expenditures by annually reviewing and determining its capital budget needs and then authorizing major expenditures throughout the year based upon individual business cases. In recent years, the Company has been able to manage its capital expenditures to less than 0.8% of sales.

Although maintenance capital expenditures may remain within budget on an annual basis, the timing of these expenditures often varies significantly from quarter to quarter. Therefore, at times, the Fund believes it appropriate to set up interim reserves based upon estimated annual capital expenditures requirements.

In addition, the Company’s accounting and management information systems require regular upgrade and maintenance. In Canada, accounting and management information systems are owned and may require replacement in the future. Management believes the replacement of these systems in Canada will be managed through the annual budget process and that it has some ability to utilize the expandability of its U.S. systems. In the U.S., the accounting and management information systems and related upgrades are subscription products and services which are expensed as part of regular operating expenses.

In many circumstances, large equipment expenditures including automobiles, shop equipment and computers can be financed using either operating or capital leases. Maintenance capital expenditures as well as the repayment of operating and capital leases, including the interest thereon, form part of the distributable cash calculations.

### **Non-recurring and Other Adjustments**

Non-recurring and other adjustments may include, but are not limited to, post closure environmental liabilities, restructuring costs and repayment of prepaid rebates that are not refinanced. Management is not currently aware of any environmental remediation requirements or prepaid rebate adjustments.

## Debt Management

In addition to capital lease obligations arranged to finance maintenance expenditures on property and equipment, the Company has utilized long-term debt to finance the expansion of its business, usually through the acquisition and start-up of collision and glass repair and replacement businesses. Repayments of this debt have, in part, been refinanced by replacement facilities or by drawing on the Company's operating line and therefore do not form part of distributable cash calculations. Boyd's bank facilities include restrictive covenants, which could limit the Fund's ability to distribute cash. These covenants, based upon current financial results, would not prevent the Fund from paying future distributions at conservative and sustainable levels. These covenants will continue to be monitored in conjunction with any future anticipated distributions.

The following is a standardized and adjusted distributable cash calculation for the three and six month periods ending June 30, 2008 with comparative figures for 2007.

### Standardized and Adjusted Distributable Cash <sup>(1)</sup>

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Cash flow from operating activities before changes in non-cash working capital items <sup>(2)</sup>	\$ 2,735,968	\$ 2,020,110	\$ 5,702,938	\$ 4,164,228
Changes in non-cash working capital items	1,689,665	683,320	1,252,500	(479,081)
Cash flows from operating activities	4,425,633	2,703,430	6,955,438	3,685,147
Less adjustment for:				
Sustaining expenditures on plant and equipment <sup>(3)</sup>	(179,536)	(175,109)	(482,206)	(345,478)
Reserve for sustaining expenditures on plant and equipment <sup>(3)</sup>	(330,000)	(450,000)	(330,000)	(450,000)
<b>Standardized distributable cash</b>	<b>\$ 3,916,097</b>	<b>\$ 2,078,321</b>	<b>\$ 6,143,232</b>	<b>\$ 2,889,669</b>
Standardized distributable cash per average unit and Class A common share				
Per average unit and Class A common share	\$ 0.321	\$ 0.197	\$ 0.513	\$ 0.274
Per diluted unit and Class A common share	\$ 0.318	\$ 0.183	\$ 0.502	\$ 0.254
Standardized distributable cash from above	\$ 3,916,097	\$ 2,078,321	\$ 6,143,232	\$ 2,889,669
Add (deduct) adjustments for:				
Collection of rebates <sup>(4)</sup>	238,097	260,039	475,383	538,080
Cash flow used in discontinued operations	(421,884)	(33,115)	(520,024)	(577,350)
Proceeds of sale of equipment	15,096	23,603	29,181	26,848
Principal repayments of capital leases <sup>(5)</sup>	(111,702)	(78,664)	(206,192)	(147,666)
<b>Adjusted distributable cash</b>	<b>\$ 3,635,704</b>	<b>\$ 2,250,184</b>	<b>\$ 5,921,580</b>	<b>\$ 2,729,581</b>
Adjusted distributable cash per average unit and Class A common share				
Per average unit and Class A common share	\$ 0.298	\$ 0.214	\$ 0.494	\$ 0.259
Per diluted unit and Class A common share	\$ 0.295	\$ 0.198	\$ 0.484	\$ 0.240
Distributions paid <sup>(6)</sup>				
Unitholders	\$ 543,368	\$ -	\$ 1,027,506	\$ -
Class A common shareholders	\$ 41,664	\$ -	\$ 81,428	\$ -
Total distributions paid	\$ 585,032	\$ -	\$ 1,108,934	\$ -
Distributions paid <sup>(6)</sup>				
Per Unit	\$ 0.048	\$ -	\$ 0.093	\$ -
Per Class A common share	\$ 0.048	\$ -	\$ 0.093	\$ -
Payout ratio based on standardized distributable cash <sup>(6)</sup>	14.9%	-	18.1%	-
Payout ratio based on adjusted distributable cash <sup>(6)</sup>	16.1%	-	18.7%	-

- (1) Standardized and adjusted distributable cash are not recognized measures and do not have a standardized meaning under Canadian generally accepted accounting principles (GAAP). Management believes that in addition to net earnings, standardized and adjusted distributable cash are useful supplemental measures as they provide investors with an indication of cash available for distribution. Investors should be cautioned however, that standardized and adjusted distributable cash should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of the Fund's performance. Boyd's method of calculating adjusted distributable cash may differ from other companies and, accordingly, may not be comparable to similar measures used by other companies.
- (2) Operating cash flows for the first half of 2008 were positively impacted by \$0.6 million in foreign exchange gains (2007 - \$0.4 million). Foreign exchange gains have been related to Canadian senior term debt repayments.
- (3) Sustaining expenditures on plant and equipment excludes capital expenditures associated with acquisition and development activities. A distributable cash capital expenditure reserve of \$330,000 (2007 - \$400,000) was created during the second quarter to reduce distributable cash for timing of expenditures up to expected budgeted amounts. The reserve may be drawn down in future quarters if the Fund determines the cash would be available for distribution. Annual maintenance capital expenditures are budgeted to approximate 0.8% of sales. As at June 30, 2008 the Fund has spent approximately 0.5% (2007 - 0.4%) of sales and has reserved an additional 0.3% (2007 - 0.4%) of sales.
- (4) The Company receives prepaid rebates, under its trading partner arrangements, in equal quarterly instalments of \$237,500 U.S. for a period of six years starting May 31, 2006.
- (5) Repayments of these leases represent additional cash requirements to support the productive capacity of the Company and therefore have been deducted when calculating adjusted distributed cash.
- (6) Distributions paid and payout ratios exclude repurchases under the normal course issuer bid.

## **Distributions and Purchases of Units**

Starting in November 2007 the Fund and BGHI commenced monthly distributions to unitholders of the Fund and Class A common shareholders of BGHI of record on the last day of each month, payable on or about the last business day of the following month. The amount of cash distributed by the Fund was equal to the pro rata share of interest or principal repayments received on the notes and distributions received on or in respect of the Class I common shares of the Company held by the Fund, after deducting expenses of the Fund and any cash redemptions of the Fund during the period. The amount of cash distributed by BGHI was equal to the pro rata share of dividends received on or in respect of the Class II common shares of the Company held by BGHI, after deducting expenses of BGHI. All dividends paid or allocated to unitholders of the Fund or Class A shareholders of BGHI are considered to be eligible dividends for Canadian income tax purposes.

During the three months ended June 30, 2008, the Fund declared distributions totalling \$0.6 million while BGHI declared dividends to Class A common shareholders during this same period of \$44 thousand. During the six months ended June 30, 2008, the Fund declared distributions totalling \$1.1 million while BGHI declared dividends to Class A common shareholders during this same period of \$83 thousand.

Effective October 15, 2007, the Fund received approval to commence a Normal Course Issuer Bid for up to 934,632 of its trust units at prevailing market prices on the Toronto Stock Exchange. The bid commenced October 15, 2007 and will terminate the earlier of October 14, 2008 or the date on which a total of 934,632 trust units have been repurchased pursuant to the terms of the Bid. During the three months ended June 30, 2008, the Fund purchased 210,700 trust units for cancellation for cash consideration of \$605,359 pursuant to its normal course issuer bid. Since the beginning of the bid which began in October 2007 the Fund has purchased 427,500 units for cash consideration of \$1,157,554.

## RESULTS OF OPERATIONS

### 2<sup>nd</sup> Quarter Comparison – Three months ended June 30, 2008 vs. 2007

#### Sales

Sales increased \$2.9 million or 6.2% to \$50.6 million for the three months ended June 30, 2008 when compared to the same period in 2007, after adjusting for the effect of discontinued operations. This increase resulted from same store sales growth, both in Canada and the U.S., as well as new sales generated from one U.S. start-up which began operations in late 2007 and two U.S. start-ups which commenced operations in the first half of 2008, that contributed \$1.6 million or 3.3%, offset by the negative effect of translating U.S. revenues at lower exchange rates.

Same store sales increased \$4.0 million or 8.5% for the period ended June 30, 2008, after excluding the effect of foreign currency translation.

The following chart provides comparative sales by geographic region:

<b>Sales by Geographic Region (000's)</b>		
<i>Three Months Ended June 30,</i>		
	2008	2007
Canada	\$ 18,338	\$ 17,679
United States	32,293	30,015
<b>Total</b>	<b>\$ 50,631</b>	<b>\$ 47,694</b>
Canada - % of total	36.2%	37.1%
United States - % of total	63.8%	62.9%

Sales in Canada for the three months ended June 30, 2008 totalled \$18.3 million, an increase of \$0.7 million or 3.7%. Sales increases in Canada were entirely due to same store sales growth with increases reported in the provinces of Manitoba and Alberta.

Sales in the U.S. totalled \$32.3 million for the three months ended June 30, 2008, an increase from 2007 of \$2.3 million or 7.6%. Sales in the U.S. included new sales of \$1.6 million from one 2007 start-up in Tempe, Arizona as well as two 2008 start-ups in Wichita, Kansas and Lacey, Washington. Excluding the impact of foreign currency translation, same store sales in the U.S. increased \$3.4 million or 11.3% when compared to the same period in the prior year. Translation of U.S. revenues at a weaker U.S. dollar exchange rate, relative to the Canadian dollar, resulted in an offsetting decrease in same store sales of \$2.7 million.

#### Gross Margin

Gross Margin was \$22.3 million or 44.1% of sales for the three months ended June 30, 2008, an increase from \$21.0 million or 44.1% of sales for the same period in 2007. Gross margin dollars increased \$1.3 million due to same store sales increases in both Canada and the U.S. and additional sales resulting from new start-up locations.

#### Operating Expenses

Operating Expenses for the three months ended June 30, 2008 increased \$1.1 million to \$19.2 million from \$18.1 million for the same period of 2007 primarily due to sales increases generated by same store sales and new start ups. Increases, excluding the impact of foreign currency translation, were experienced in salaries, wages and benefit costs and occupancy costs such as rent and utilities. In addition, during the first quarter of 2008, the Company launched a new advertising campaign in the Illinois market resulting in increased advertising expenses.

Operating expenses as a percentage of sales in the second quarter decreased to 37.9% of sales from 38.0% last year. Reductions in salaries, wages and benefits as a percentage of sales were offset by increases as a percentage of sales in rent, utility and advertising costs.

## **Foreign Exchange Gains**

*Foreign Exchange Gains* for the three months ended June 30, 2008 of \$0.3 million increased from \$0.2 million for the same period of 2007. The gains for both periods resulted primarily from the repayment of U.S. dollar denominated Canadian senior bank term debt.

## **EBITDA**

*Earnings before interest, income taxes, depreciation and amortization (“EBITDA”)*<sup>1</sup> for the second quarter of 2008 totalled \$3.5 million or 6.9% of sales compared to \$3.1 million or 6.6% of sales in the same period of the prior year. The increase in EBITDA was primarily the result of higher sales and higher foreign exchange gains, a consistent gross margin, and operating expenses as a percentage of sales comparable to last year.

## **Depreciation and Amortization**

*Depreciation and Amortization Expense* related to plant and equipment totalled \$0.7 million or 1.4% of sales for the three months ended June 30, 2008 and was comparable to \$0.8 million or 1.7% of sales in the same period of the prior year.

Amortization of deferred costs, financing fees and other intangible assets for the second quarter of 2008 were \$0.3 million or 0.6% of sales and were comparable to the amount expensed for the same period in the prior year. Amortization of intangible assets in 2007 included the amortization of deferred cost associated with convertible debt settled in late 2007 and early 2008 as well as the amortization of the non-compete agreements associated with the 2004 acquisition of The Gerber Group, Inc.

## **Interest Expense**

*Interest Expense* of \$0.4 million or 0.8% of sales for the second quarter of 2008 decreased from \$0.9 million or 1.8% of sales in the same period of the prior year. Reductions in interest expense resulted from lower long-term and convertible debt balances as well as a general reduction in interest rates. During 2007 and 2008, the Company repaid its Canadian senior debt facility and settled, by issuing units, almost all of its outstanding convertible debt.

## **Income Taxes**

*Current Income Tax Expense and Future Tax Expense* was a small expense for the second quarter of 2008, and was equivalent to the small expense for the same period in 2007. Income tax provisions and recoveries in both Canada and the U.S. have not been recorded due to the existence of unrecognized tax losses and other tax assets.

## **Net Earnings from Continuing Operations**

*Net Earnings from continuing operations* for the second quarter of 2008 increased to \$2.0 million or 3.9% of sales from \$1.0 million or 2.1% of sales for the same period in 2007. The increase in earnings was primarily due to the strong same store sales growth for the quarter, in both Canada and the U.S., and lower interest costs.

---

<sup>1</sup> EBITDA is not a recognized measure under Canadian generally accepted accounting principles (GAAP). Management believes that in addition to net earnings, EBITDA is a useful supplemental measure as it provides investors with an indication of operational performance. Investors should be cautioned, however, that EBITDA should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of the Fund's performance.

## Loss from Discontinued Operations

*Loss from Discontinued Operations* for the second quarter of 2008 of \$1.7 million related to the decision to cease operations in the second quarter of five underperforming operating facilities located in Vancouver, British Columbia; Saskatoon, Saskatchewan; Harvey, Illinois; Henderson, Nevada; and Marietta, Georgia. The \$1.7 million consists of \$0.9 million of close down accruals related to future ongoing costs for these facilities, \$0.5 million of non-cash write-offs of leasehold improvements and goodwill and \$0.3 million of operating losses. No operations were discontinued in the second quarter of 2007.

## Net Earnings and Earnings Per Unit and Class A Common Share

*Net Earnings*, after discontinued operations, for the three months ended June 30, 2008 decreased to \$0.2 million or 0.4% of sales when compared to earnings of \$0.9 million or 1.8% of sales last year. The decrease in earnings resulted from a loss of \$1.7 million recorded upon the decision to discontinue operations in certain facilities.

*Basic Earnings Per Unit and Class A Common Share* was \$0.018 per unit and Class A common share for the three months ended June 30, 2008, a decrease when compared to basic earnings of \$0.081 per unit and Class A common share in the same period in 2007. *Diluted Earnings Per Unit and Class A Common Share* was \$0.018 per unit and Class A common share for the second quarter of 2008 compared to diluted earnings of \$0.081 per unit and Class A common share for the same period in the prior year.

## Year-to-date Comparison – Six months ended June 30, 2008 vs. 2007

### Sales

*Sales* increased \$3.8 million or 3.9% to \$102.1 million for the six months ended June 30, 2008 when compared to the same period in 2007, after adjusting for the effect of discontinued operations. This increase resulted from same store sales growth, both in Canada and the U.S., as well as new sales generated from two U.S. start-ups which began operations in 2007 and two U.S. start-ups which commenced operations in the first half of 2008 that contributed \$3.2 million or 3.2%, offset by the negative effect of translating U.S. revenues at lower exchange rates.

Same store sales increased \$8.5 million or 8.7% for the six months ended June 30, 2008, after excluding the effect of foreign currency translation.

The following chart provides comparative sales by geographic region:

<b>Sales by Geographic Region (000's)</b>		
<i>Six Months Ended June 30,</i>	2008	2007
Canada	\$ 36,908	\$ 35,314
United States	65,208	63,003
<b>Total</b>	<b>\$ 102,116</b>	<b>\$ 98,317</b>
Canada - % of total	36.1%	35.9%
United States - % of total	63.9%	64.1%

Sales in Canada for the six months ended June 30, 2008 totalled \$36.9 million, an increase of \$1.6 million or 4.5%. Sales increases in Canada were entirely due to same store sales growth with increases reported in the provinces of Manitoba and Alberta.

Sales in the U.S. totalled \$65.2 million for the six months ended June 30, 2008, an increase from 2007 of \$2.2 million or 3.5%. Sales in the U.S. included new sales of \$3.2 million from two 2007 start-ups in Glenview, Illinois and Tempe, Arizona as well as two 2008 start-ups in Wichita, Kansas and Lacey, Washington. Excluding the impact of foreign currency translation, same store sales in the U.S. increased \$6.9 million or 11.0% when compared to the same period in the prior year. Translation of U.S. revenues at a weaker U.S. dollar exchange rate, relative to the Canadian dollar, resulted in an offsetting decrease in same store sales of \$7.9 million.

## **Gross Margin**

*Gross Margin* was \$44.7 million or 43.8% of sales for the six months ended June 30, 2008, an increase in dollars from \$43.5 million or 44.3% of sales for the same period in 2007. Gross margin dollars increased \$1.2 million due to same store sales increases in both Canada and the U.S. and additional sales resulting from new start-up locations. Gross margin declines, as a percentage of sales, for 2008 were primarily due to lower auto rental sales and reduced gross margins in the Company's retail glass markets resulting from competitive pricing pressures, increased Gerber National Glass Services ("GNGS") call center and administrative transaction costs, a higher percentage of lower margin network glass sales compared to last year and changes in network customer mix at GNGS. Offsetting these decreases in margin percentage were improvements in higher margin repair services compared to lower margin replacement services in Canada.

## **Operating Expenses**

*Operating Expenses* for the six months ended June 30, 2008 increased \$0.9 million to \$38.3 million from \$37.4 million for the same period of 2007 due to sales increases generated by same store sales and new start ups as well as increased advertising expenses resulting from a new advertising campaign launched in the Illinois market and general increases in rent and utilities.

Operating expenses as a percentage of sales decreased to 37.5% of sales from 38.1% last year due to ongoing efforts to control spending. Reductions as a percentage of sales occurred in salaries, wages and benefits as well as auto rental costs.

## **Foreign Exchange Gains**

*Foreign Exchange Gains* for the six months ended June 30, 2008 of \$0.6 million increased from \$0.4 million for the same period of 2007. The gains for both periods resulted primarily from the repayment of U.S. dollar denominated Canadian senior bank term debt.

## **EBITDA**

*Earnings before interest, income taxes, depreciation and amortization ("EBITDA")*<sup>1</sup> for the first six months of 2008 totalled \$7.1 million or 6.9% of sales compared to \$6.5 million or 6.6% of sales in the same period of the prior year. The increase in EBITDA was primarily the result of higher sales, higher foreign exchange gains and lower operating expenses as a percentage of sales offset partially by lower gross margins in the Company's retail and network glass businesses.

---

<sup>1</sup> EBITDA is not a recognized measure under Canadian generally accepted accounting principles (GAAP). Management believes that in addition to net earnings, EBITDA is a useful supplemental measure as it provides investors with an indication of operational performance. Investors should be cautioned, however, that EBITDA should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of the Fund's performance.

## **Depreciation and Amortization**

*Depreciation and Amortization Expense* related to plant and equipment totalled \$1.4 million or 1.4% of sales for the six months ended June 30, 2008 and was comparable to \$1.5 million or 1.5% of sales in the same period of the prior year.

Amortization of deferred costs, financing fees and other intangible assets for the first six months of 2008 decreased to \$0.6 million or 0.6% of sales from \$0.8 million or 0.8% of sales expensed for the same period in the prior year. Amortization of intangible assets in 2007 included the amortization of deferred cost associated with convertible debt settled in late 2007 and early 2008 as well as the amortization of the non-compete agreements associated with the 2004 acquisition of The Gerber Group, Inc.

## **Interest Expense**

*Interest Expense* of \$0.9 million or 0.9% of sales for the first six months of 2008 decreased from \$1.8 million or 1.8% of sales in the same period of the prior year. Reductions in interest expense resulted from lower long-term and convertible debt balances as well as a general reduction in interest rates. During 2007 and 2008, the Company repaid its Canadian senior debt facility and settled, by issuing units, almost all of its outstanding convertible debt.

## **Income Taxes**

*Current Income Tax Expense and Future Tax Expense* decreased to \$0.1 million for the first six months of 2008, from \$0.5 million for the same period in 2007. Income tax provisions and recoveries in both Canada and the U.S. have not been recorded due to the existence of unrecognized tax losses and other tax assets.

## **Net Earnings from Continuing Operations**

*Net Earnings from continuing operations* for the six months ended June 30, 2008 increased to \$4.1 million or 4.0% of sales from \$2.0 million or 2.0% of sales for the same period in 2007. The increase in earnings was due to the strong same store sales growth for the period, in both Canada and the U.S., coupled with reductions in operating expenses as a percentage of sales and lower interest costs.

## **Loss from Discontinued Operations**

*Loss from Discontinued Operations* for the six months ended June 30, 2008 of \$1.9 million related to the decision to cease operations in the second quarter of five underperforming facilities located in Vancouver, British Columbia; Saskatoon, Saskatchewan; Harvey, Illinois; Henderson, Nevada; and Marietta, Georgia. The \$1.9 million consists of \$0.9 million of close down accruals related to future ongoing costs for these facilities, \$0.5 million of non-cash write-offs of leasehold improvements and goodwill and \$0.5 million of year-to-date operating losses. No operations were discontinued in the first half of 2007.

## **Net Earnings and Earnings Per Unit and Class A Common Share**

*Net Earnings*, after discontinued operations, for the six months ended June 30, 2008 increased to \$2.1 million or 2.1% of sales when compared to earnings of \$1.6 million or 1.6% of sales last year. The increase in earnings reflected same store sales growth for the first half of 2008, in both Canada and the U.S., coupled with reductions in operating costs as a percentage of sales and reduced interest, amortization and income tax expenses offset by losses related to discontinued operations.

*Basic Earnings Per Unit and Class A Common Share* was \$0.179 per unit and Class A common share for the six months ended June 30, 2008, an increase when compared to basic earnings of \$0.153 per unit and Class A common share in the same period in 2007. *Diluted Earnings Per Unit and Class A Common Share* was \$0.177 per unit and Class A common share for the first half of 2008 compared to diluted earnings of \$0.153 per unit and Class A common share for the same period in the prior year.

## SUMMARY OF QUARTERLY RESULTS

(\$000's, except per unit and Class A common share data)	2008			2007			2006	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Sales	50,631	51,485	46,068	45,916	47,694	50,623	44,849	42,700
Earnings (loss) from continuing operations	1,952	2,119	1,020	1,286	1,016	979	(14,233)	(1,825)
Basic earnings (loss) per unit and Class A common share from continuing operations	0.160	0.177	0.094	0.122	0.097	0.093	(1.387)	(0.177)
Diluted earnings (loss) per unit and Class A common share from continuing operations	0.159	0.173	0.093	0.118	0.095	0.093	(1.387)	(0.177)
Net earnings (loss)	224	1,919	812	1,014	852	758	(17,464)	(2,011)
Basic earnings (loss) per unit and Class A common share	0.018	0.160	0.075	0.096	0.082	0.072	(1.685)	(0.196)
Diluted earnings (loss) per unit and Class A common share	0.018	0.157	0.075	0.094	0.080	0.072	(1.685)	(0.196)

Same store sales growth in Canada and the U.S. as well as new sales from start-ups have positively impacted the Fund and contributed to a return to profitability when compared to losses experienced in 2006. Increased revenues resulting from same store sales growth, new start-ups and glass initiatives in the U.S. have been partially offset by the weakening of the U.S. dollar.

The reported losses in 2006 resulted primarily from the impacts associated with the write-down of U.S. goodwill, replacement trading partner arrangements, discontinued operations and U.S. losses for which no tax benefits were recorded.

## LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2008, the Fund had a bank indebtedness, net of cash, position of \$5.1 million (December 2007 - \$6.3 million) which included \$8.5 million (December 2007 - \$8.6 million) outstanding under its operating line of credit. Offsetting the outstanding balance of the operating line of credit was cash, net of outstanding deposits and cheques, held on deposit in U.S. bank accounts totalling \$3.4 million (December 31, 2007 - \$2.3 million).

The net working capital ratio (current assets divided by current liabilities) was 0.92:1 at June 30, 2008 (December 31, 2007 - 0.92:1).

At June 30, 2008, the Fund had total debt outstanding of \$21.8 million compared to \$22.6 million at March 31, 2008, \$30.1 million at December 31, 2007, \$33.0 million at September 30, 2007 and \$36.1 million at June 30, 2007. The Company made its final Canadian senior bank debt repayment on April 15, 2008. The debt consisted of the following:

Total Debt (\$ Millions)	June 30, 2008	March 31, 2008	December 31, 2007	September 30, 2007	June 30, 2007
Bank indebtedness, net of cash	\$ 5.1	\$ 5.7	\$ 6.3	\$ 5.1	\$ 5.8
Canadian senior bank debt	-	0.6	1.2	1.8	2.6
U.S. senior bank debt	13.1	13.2	12.7	12.8	13.8
Supplier debt	0.2	0.2	0.2	0.2	0.3
Vendor loans	0.7	0.5	0.4	0.5	0.6
Obligations under capital lease	2.2	1.9	1.9	1.3	1.3
Convertible debt	0.5	0.5	7.4	11.3	11.7
	\$ 21.8	\$ 22.6	\$ 30.1	\$ 33.0	\$ 36.1

## **Operating Activities**

Year to date cash flow generated from continuing operations, before considering working capital changes, was \$5.7 million for the first six months of 2008, up \$1.5 million from the \$4.2 million reported last year. Operating cash flows in 2008 were positively impacted by improved operating performance, lower interest costs and a realized gain of \$0.2 million on the settlement of foreign exchange forward contracts.

For the three months ended June 30, 2008, cash flow generated from continuing operations, before considering working capital changes, was \$2.7 million, up \$0.7 million from the \$2.0 million reported last year.

For the first six months of 2008, working capital changes provided cash of \$1.3 million compared to a use of cash of \$0.5 million for the same period in 2007 primarily due to the timing of accounts payable and accrued liabilities, after excluding the effect of working capital changes related to discontinued operations. Increases and decreases in accounts receivable, inventory, prepaid expenses, income taxes, accounts payable and accrued liabilities are significantly influenced by timing of collections and expenditures as well as changes in the foreign exchange translation of U.S. working capital items.

For the second quarter of 2008, a reduction of working capital generated cash of \$1.7 million compared to cash generated of \$0.7 million for the same period last year. The growth in receivable balances and work-in-progress inventory levels, experienced during the last quarter of 2007 and first quarter of 2008, were converted into cash in the second quarter of 2008.

## **Financing Activities**

Cash used in financing activities totalled \$3.6 million for the six months ended June 30, 2008, compared to cash used of \$0.9 million in the prior year. In the current period additional cash was used to fund distributions paid to unitholders, the purchase of units under the Fund's Normal Course Issuer Bid and the reduction of bank indebtedness.

For the second quarter of 2008, cash used in financing activities totalled \$2.7 million compared to cash used of \$2.4 million in the prior year. Additional cash was used to fund distributions paid to unitholders, the purchase of units under the Fund's Normal Course Issuer Bid and the payment of contingent purchase price amounts financed over twelve months offset by an increase in bank indebtedness.

## **Equity**

On February 1, 2008, the Fund exercised its right to settle at maturity the remaining principal amount owing of \$7,031,200 U.S. under its 2004 vendor exchange notes by way of the issuance of 1,283,716 trust units. The settlement was recorded at carrying value resulting in no gain or loss, although the market value of the units issued on February 1, 2008 was approximately \$3,100,000.

## **Trading Partner Funding – Prepaid Rebates and Loans**

During the first half of 2008, the Company received a regularly scheduled rebate from its new trading partners, in the amount of \$475,000 U.S. (2007 - \$475,000 U.S.). These rebates are received in equal quarterly instalments until February 28, 2012. Additional prepaid rebates are available for new acquisitions and start-ups and regular testing of the criteria used to determine additional rebates will apply, with any under-funded (or over-funded) amounts being collected (or repaid) by the Company at that time. During 2008, the Company requested and received \$216,000 (2007 - \$nil) U.S. with respect to two new start-up facilities located in Wichita, Kansas and Lacey, Washington. In the second quarter of 2008, the Company also requested under-funded rebates relating to two start-ups in 2006 in the amount of \$94,376 U.S.

Prepaid rebates received for facilities that cease operations are required to be repaid unless it is agreed that they be transferred to a new replacement facility. Replacement facilities have been identified for all the 2008 discontinued

operations with the exception of the rebate associated with the Harvey, Illinois shop. The repayment of this repayment in the amount of \$143,876 U.S. has been deferred as the Company expects to identify a replacement facility in the near term.

### **Debt Financing**

During 2008, the Company repaid the final \$1.2 million U.S. balance of its Canadian senior debt facility.

On February 1, 2008, the Fund exercised its right to settle at maturity the remaining principal amount owing of \$7,031,200 U.S. under its 2004 vendor exchange notes by way of the issuance of 1,283,716 trust units. The settlement was recorded at carrying value resulting in no gain or loss, although the market value of the units issued on February 1, 2008 was approximately \$3,100,000.

The Fund has traditionally used capital leases to finance a portion of its capital expenditures. At June 30, 2008, the Fund owed \$2.2 million (\$1.9 million at December 31, 2007) in capital lease obligations. The increase was primarily due to the financing of equipment for new shops opened in Lacey, Washington and Las Vegas, Nevada as well as the expansion of an existing shop located in Scottsdale, Arizona.

### **Investing Activities**

Cash used in investing activities totalled \$1.9 million for the six months ended June 30, 2008, compared to \$0.7 million used in the prior year. For the second quarter of 2008 cash used in investing activities totalled \$1.3 million compared to \$0.4 million used in the same period last year. The use of cash for both the three and six month periods ended June 30, 2008 related to expenditures made for maintaining or replacing existing equipment and maintaining or upgrading existing facilities. In addition, cash was also used in the first half of 2008 to pay contingent purchase price amounts and develop new facilities in Kansas, Washington, Nevada, Alberta and start up an automobile glass repair and replacement service for a third-party owned collision repair business located in Texas. In 2007, the lower use of funds related to the development of only two facilities located in Illinois and Arizona.

### **Acquisitions and Start-Ups**

During 2008, the Company spent \$1.3 million on the acquisition and development costs associated with start-up facilities located in Wichita, Kansas; Lacey, Washington; Calgary, Alberta; and Las Vegas, Nevada and an automobile glass repair and replacement service for a third-party owned collision repair business located in Texas.

On March 1, 2008, the Company signed an agreement whereby it will perform automobile glass repair and replacement services for a third-party owned collision repair business located in Texas. It is expected that operations will commence during the third quarter of 2008.

On March 19, 2008, as part of a new start up, the Company entered into a lease of premises for the development of a new collision repair facility in Rome, Georgia. It is expected that operations will commence during the fourth quarter of 2008.

On April 1, 2008, the Company commenced operations of the start up facility located in Wichita, Kansas. Also, effective April 1, 2008, as part of a new start up, the Company purchased the equipment, work in progress and leased the premises of a body shop located in Lacey, Washington which commenced operations during the second quarter of this year.

On May 16, 2008, as part of a new start up, the Company purchased the equipment, work in progress and lease the premises of a body shop located in Las Vegas, Nevada. It is expected that the new location will commence operations during the third quarter of this year.

On June 2, 2008, as part of a new start up, the Company purchased the equipment, work in progress and lease the premises of a body shop located in Calgary, Alberta. It is expected that the new location will commence operations during the third quarter of this year.

During the first half of 2007, the Company commenced operations of one new start-up collision repair facility located in Glenview, Illinois. A collision repair facility, located in Tempe, Arizona was also under development and as at June 30, 2007, the Company had spent approximately \$0.4 million in the development of these facilities.

### **Capital Expenditures**

The Company spent approximately \$0.5 million or 0.5% of sales on the acquisition of equipment and facility upgrades during the first six months of 2008, compared to \$0.4 million or 0.4% of sales during the same period in 2007. For the second quarter of 2008, the Company spent approximately \$0.2 million or 0.4% of sales on maintenance capital expenditures compared to \$0.2 million or 0.4% of sales for the second quarter of 2007.

## **RELATED PARTY TRANSACTIONS**

The Fund has not entered into any new related party transactions beyond the items disclosed in the 2007 annual report.

## **CHANGES IN ACCOUNTING POLICIES**

### **Financial Instruments - Disclosures**

Section 3862 describes the required disclosures related to the significance of financial instruments on the Company's financial position and performance. The standard also requires disclosure of the nature and extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks. This section complements existing handbook section 3855, Financial Instruments – Recognition and Measurement, section 3863, Financial Instruments – Presentation and section 3865, Hedges. The standard applies to fiscal years beginning on or after October 1, 2007 and has been reflected in these interim financial statements.

### **Financial Instruments - Presentation**

Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. This section complements section 3855, Financial Instruments – Recognition and Measurement, section 3862, Financial Instruments – Disclosures and section 3865, Hedges. The standard applies to fiscal years beginning on or after October 1, 2007 and has been reflected in these interim financial statements.

### **Inventories**

Section 3031 establishes new standards on the determination of cost and requires inventory to be measured at the lower of cost and net realizable value. The cost of inventory includes the cost to purchase and other costs incurred in bringing the inventories to their present location. The new standard also requires additional disclosures regarding the accounting policies used in measuring the inventories, the carrying value of the inventories, amounts recognized as an expense during the period, write-downs and the amount of any reversal of write-downs recognized in the period. The standard applies to fiscal years beginning on or after January 1, 2008 and has been reflected in these interim financial statements.

### **Convergence with International Financial Reporting Standards**

On February 22, 2008, Canada's Accounting Standards Board confirmed the date that will result in Canadian generally accepted accounting principles, as used by public companies, being converged with International Financial Reporting Standards over a transitional period to be completed for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Fund is currently in the process of developing its changeover plan.

## **FINANCIAL INSTRUMENTS AND HEDGES**

For the six months ended June 30, 2008, the Fund has not entered into any new financial instruments or hedges.

## **CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements that present fairly the financial position, financial condition and results of operations in accordance with Canadian generally accepted accounting principles requires that the Fund make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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 materially from these estimates.

The critical accounting estimates are substantially unchanged from those identified in the 2007 annual MD&A.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Fund's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. During the six month period ending June 30, 2008, there have been no changes in the Fund's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Fund's internal control over financial reporting.

## **BUSINESS RISKS AND UNCERTAINTIES**

Risks and uncertainties affecting the business remain substantially unchanged from those identified in the 2007 annual MD&A.

## **OUTLOOK**

Boyd continues to work to increase sales, reduce operating costs, increase operating margins and develop other organic growth strategies. The Fund will continue to work on improving same store sales growth, gross margins and EBITDA margins of all operations and will continue to develop its systems and its infrastructure to enhance securityholder value. Boyd also expects to continue expanding operations in both the U.S. and Canada by opening between four and six new start-up facilities each year, for the foreseeable future.

As a result of the ongoing improvement in financial performance and progress made in improving the Company's balance sheet, monthly distributions and dividends of \$0.015 were reinstated commencing December 2007. Distributions and dividends were increased to \$0.01625 commencing April 2008, were subsequently increased to \$0.0175 commencing July 2008 and at the most recent board meeting increased to \$0.01875 commencing October 2008. This annualized distribution of \$0.225 represents an annualized payout ratio estimated to be in the 30% range, being a conservative and sustainable level that allows for continued balance sheet improvement. With stable to improving financial performance, it is expected that distributions will be gradually increased over time.

## **ADDITIONAL INFORMATION**

The Fund's units trade on the Toronto Stock Exchange under the symbol TSX: BYD.UN. Additional information relating to the Boyd Group Income Fund is available on SEDAR ([www.sedar.com](http://www.sedar.com)) and our website ([www.boydgroup.com](http://www.boydgroup.com)).

## **INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

### **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

These unaudited consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Management is responsible for their integrity, objectivity and reliability, and for the maintenance of financial and operating systems, which include effective controls, to provide reasonable assurance that the Fund's assets are safeguarded and that reliable financial information is produced.

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

These interim consolidated financial statements and related notes and other interim filings have not been reviewed by the Fund's auditors.

# INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## FORM 52-109F2 - CERTIFICATION OF INTERIM FILINGS

I, **Terry Smith, Chief Executive Officer of the Boyd Group Income Fund**, certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) of the **Boyd Group Income Fund**, (the issuer) for the interim period ending **June 30, 2008**;
2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings;
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings;
4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the issuer, and we have:
  - (a) designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which interim filings are being prepared; and
  - (b) designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP; and
5. I have caused the issuer to disclose in the interim MD&A any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent interim period that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

Date: August 13, 2008



Terry Smith  
*Chief Executive Officer*

# INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## FORM 52-109F2 - CERTIFICATION OF INTERIM FILINGS

I, **Dan Dott, Vice President and Chief Financial Officer of the Boyd Group Income Fund**, certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) of the **Boyd Group Income Fund**, (the issuer) for the interim period ending **June 30 2008**;
2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings;
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings;
4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the issuer, and we have:
  - (a) designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which interim filings are being prepared; and
  - (b) designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP; and
5. I have caused the issuer to disclose in the interim MD&A any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent interim period that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

Date: August 13, 2008



Dan Dott, C.A.  
*Vice President & Chief Financial Officer*

# **BOYD GROUP INCOME FUND**

Interim Consolidated Financial Statements

Second Quarter and Six Months Ended June 30, 2008

**Notice:** These interim consolidated financial statements have not been audited or reviewed by the Fund's independent external auditors, Deloitte & Touche LLP.

**INTERIM CONSOLIDATED BALANCE SHEETS (Unaudited)***June 30, 2008 and December 31, 2007*

	<b>June 30,</b>	December 31,
	<b>2008</b>	2007
<b>Assets</b>		
Current assets:		
Cash	\$ 3,502,504	\$ 2,960,842
Accounts receivable	20,294,246	19,576,714
Income taxes recoverable	67,191	58,986
Inventory (Note 4)	3,826,764	4,361,408
Prepaid expenses	1,825,993	1,190,529
	<b>29,516,698</b>	<b>28,148,479</b>
Property, plant and equipment	15,070,849	14,820,085
Future income tax asset	1,407,858	1,321,181
Deferred costs	1,350,665	980,880
Derivative contracts (Note 13)	-	231,300
Goodwill	16,371,502	16,216,859
Intangible assets	13,505,977	13,456,292
	<b>\$ 77,223,549</b>	<b>\$ 75,175,076</b>
<b>Liabilities and Equity</b>		
Current liabilities:		
Bank indebtedness	\$ 8,586,753	\$ 9,251,859
Accounts payable and accrued liabilities	22,118,960	19,392,270
Distributions payable (Note 9)	198,713	155,738
Dividends payable (Note 9)	15,327	13,277
Current portion of long-term debt	232,843	1,316,501
Current portion of obligations under capital leases	805,458	416,778
	<b>31,958,054</b>	<b>30,546,423</b>
Long-term debt	13,736,955	13,203,273
Obligations under capital leases	1,418,471	1,520,970
Convertible debt (Note 5)	509,300	7,423,732
Unearned rebates	12,126,096	11,880,765
	<b>59,748,876</b>	<b>64,575,163</b>
<b>Equity</b>		
Unitholders' capital (Note 6)	60,992,790	55,777,560
Shareholders' capital (Note 6)	54,321	54,913
Equity component of convertible debt (Note 5)	-	935,781
Contributed surplus (Note 7)	2,777,704	973,914
Deficit	(34,169,048)	(35,158,231)
Accumulated other comprehensive loss (Note 8)	(12,181,094)	(11,984,024)
	<b>17,474,673</b>	<b>10,599,913</b>
	<b>\$ 77,223,549</b>	<b>\$ 75,175,076</b>

*The accompanying notes are an integral part of these interim consolidated financial statements*

**INTERIM CONSOLIDATED STATEMENTS OF DEFICIT (Unaudited)***Six Months Ended June 30,*

	<b>2008</b>	2007
Deficit, beginning of period	<b>\$ (35,158,231)</b>	\$ (37,509,258)
Transition adjustment on adoption of Financial Instruments	-	(758,761)
Net earnings for period	<b>2,143,141</b>	1,610,327
Dividends on BGHI Class A common shares <i>(Note 9)</i>	<b>(83,477)</b>	-
Distributions to unitholders <i>(Note 9)</i>	<b>(1,070,481)</b>	-
Deficit, end of period	<b>\$ (34,169,048)</b>	\$ (36,657,692)

*The accompanying notes are an integral part of these interim consolidated financial statements*

**INTERIM CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited)***Six Months Ended June 30,*

	2008	2007
Sales	\$ 102,115,926	\$ 98,316,860
Cost of sales	57,367,086	54,771,245
Gross margin	44,748,840	43,545,615
Operating expenses	38,324,339	37,433,948
Foreign exchange gains	(630,602)	(404,386)
Depreciation and amortization	1,414,346	1,513,129
Amortization of deferred costs, financing fees and other intangible assets	588,901	759,427
Interest expense	869,397	1,750,026
	40,566,381	41,052,144
Earnings before income taxes	4,182,459	2,493,471
Income tax expense		
Current	14,057	101,990
Future	97,897	396,807
	111,954	498,797
Net earnings from continuing operations	4,070,505	1,994,674
Loss from discontinued operations (net of income tax recoveries of \$72,600 [2007 - \$13,547]) (Note 3)	(1,927,364)	(384,347)
Net earnings	\$ 2,143,141	\$ 1,610,327
<b>Weighted average number of units and Class A common shares outstanding</b>	<b>11,976,130</b>	<b>10,527,216</b>
<b>Basic earnings per unit and Class A common share from continuing operations (Note 12)</b>	<b>\$ 0.340</b>	<b>\$ 0.189</b>
<b>Loss per unit and Class A common share from discontinued operations</b>	<b>(0.161)</b>	<b>(0.036)</b>
<b>Basic earnings per unit and Class A common share</b>	<b>\$ 0.179</b>	<b>\$ 0.153</b>
<b>Diluted earnings per unit and Class A common share from continuing operations (Note 12)</b>	<b>\$ 0.335</b>	<b>\$ 0.186</b>
<b>Loss per unit and Class A common share from discontinued operations</b>	<b>(0.158)</b>	<b>(0.034)</b>
<b>Diluted earnings per unit and Class A common share</b>	<b>\$ 0.177</b>	<b>\$ 0.152</b>

*The accompanying notes are an integral part of these interim consolidated financial statements***INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (Unaudited)***Six Months Ended June 30,*

	2008	2007
Net earnings	\$ 2,143,141	\$ 1,610,327
<b>Other comprehensive loss, net of income taxes</b>		
Change in unrealized loss on translating financial statements of self-sustaining foreign operations	(142,193)	(840,238)
Change in derivative instruments designated as cash flow hedges	-	105,513
Reclassification to earnings of realized amounts on cash flow hedges	(54,877)	(54,311)
<b>Other comprehensive loss, net of income taxes</b>	<b>(197,070)</b>	<b>(789,036)</b>
<b>Comprehensive earnings</b>	<b>\$ 1,946,071</b>	<b>\$ 821,291</b>

*The accompanying notes are an integral part of these interim consolidated financial statements*

**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)***Six Months Ended June 30,*

	2008	2007
<b>CONTINUING OPERATIONS</b>		
<b>Cash flows from operating activities</b>		
Net earnings from continuing operations	\$ 4,070,505	\$ 1,994,674
Items not affecting cash		
Future income taxes	97,897	396,807
Amortization of discount on convertible debt	17,847	120,154
Amortization of discount on long-term debt	13,784	21,947
Amortization of deferred costs, financing fees and other intangible assets	588,901	759,427
Depreciation and amortization	1,414,346	1,513,129
Amortization of unearned rebates	(618,196)	(647,964)
Unit option compensation (recovery) expense	(24,116)	8,797
Gain on disposal of equipment	(9,444)	(2,743)
Unrealized gain on derivative contracts	(56,086)	-
Realized gain on derivative contracts	207,500	-
	<b>5,702,938</b>	<b>4,164,228</b>
Changes in non-cash working capital items	<b>1,252,500</b>	<b>(479,081)</b>
	<b>6,955,438</b>	<b>3,685,147</b>
<b>Cash flows used in financing activities</b>		
Issue costs	(6,643)	-
Repayment of long-term debt	(1,287,636)	(1,457,327)
Increase in obligations under long-term debt	252,077	-
Decrease in bank indebtedness	(665,106)	(67,735)
Repayment of obligations under capital leases	(206,192)	(147,666)
Dividends paid on Class A common shares	(81,428)	-
Distributions paid to unitholders	(1,027,506)	-
Increase in unearned rebates	217,415	186,943
Increase in financing costs	(4,996)	-
Collection of rebates receivable	475,383	538,080
Repayment of other short-term obligations	(300,000)	-
Units purchased under the Fund's Normal Course Issuer Bid	(920,996)	-
	<b>(3,555,628)</b>	<b>(947,705)</b>
<b>Cash flows used in investing activities</b>		
Proceeds on sale of equipment	29,181	26,848
Equipment purchases and facility improvements	(482,206)	(345,478)
Acquisition and development of businesses	(775,127)	(147,148)
Deferred costs	(501,221)	(220,155)
Payment of contingent purchase price amounts	(199,205)	-
Acquisition of other assets	-	(60,174)
	<b>(1,928,578)</b>	<b>(746,107)</b>
Foreign exchange	<b>(409,546)</b>	<b>(753,075)</b>
Net increase in cash position provided by continuing operations	<b>1,061,686</b>	<b>1,238,260</b>
<b>DISCONTINUED OPERATIONS</b>		
Operating activities	(488,839)	(559,183)
Investing activities	(31,185)	(18,167)
Net decrease in cash position used in discontinued operations	<b>(520,024)</b>	<b>(577,350)</b>
Net increase in cash position	<b>541,662</b>	<b>660,910</b>
Cash, beginning of period	<b>2,960,842</b>	<b>4,090,443</b>
Cash, end of period	<b>\$ 3,502,504</b>	<b>\$ 4,751,353</b>
Income taxes paid	<b>\$ 20,058</b>	<b>\$ 211,797</b>
Interest paid	<b>\$ 1,047,879</b>	<b>\$ 1,771,516</b>

*The accompanying notes are an integral part of these interim consolidated financial statements*

**INTERIM CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited)***Three Months Ended June 30,*

	<b>2008</b>	2007
Sales	\$ 50,630,956	\$ 47,694,355
Cost of sales	28,304,343	26,654,327
Gross margin	22,326,613	21,040,028
Operating expenses	19,171,739	18,122,050
Foreign exchange gains	(313,973)	(210,673)
Depreciation and amortization	709,391	792,941
Amortization of deferred costs, financing fees and other intangible assets	295,229	348,600
Interest expense	382,582	860,955
	<b>20,244,968</b>	19,913,873
Earnings before income taxes	<b>2,081,645</b>	1,126,155
Income tax expense		
Current	10,057	1,443
Future	120,046	108,560
	<b>130,103</b>	110,003
Net earnings from continuing operations	<b>1,951,542</b>	1,016,152
Loss from discontinued operations (net of income tax recoveries of \$72,600 [2007 - \$3,205]) (Note 3)	<b>(1,727,426)</b>	(163,442)
Net earnings	\$ 224,116	\$ 852,710
<b>Weighted average number of units and Class A common shares outstanding</b>	<b>12,194,785</b>	10,527,216
<b>Basic earnings per unit and Class A common share from continuing operations (Note 12)</b>	<b>\$ 0.160</b>	\$ 0.097
<b>Loss per unit and Class A common share from discontinued operations</b>	<b>(0.142)</b>	(0.016)
<b>Basic earnings per unit and Class A common share</b>	<b>\$ 0.018</b>	\$ 0.081
<b>Diluted earnings per unit and Class A common share from continuing operations (Note 12)</b>	<b>\$ 0.159</b>	\$ 0.095
<b>Loss per unit and Class A common share from discontinued operations</b>	<b>(0.141)</b>	(0.014)
<b>Diluted earnings per unit and Class A common share</b>	<b>\$ 0.018</b>	\$ 0.081

*The accompanying notes are an integral part of these interim consolidated financial statements***INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) EARNINGS (Unaudited)***Three Months Ended June 30,*

	<b>2008</b>	2007
Net earnings	\$ 224,116	\$ 852,710
<b>Other comprehensive loss, net of income taxes</b>		
Change in unrealized loss on translating financial statements of self-sustaining foreign operations	(409,904)	(637,292)
Change in derivative instruments designated as cash flow hedges	-	97,407
Reclassification to earnings of realized amounts on cash flow hedges	-	(34,451)
<b>Other comprehensive loss, net of income taxes</b>	<b>(409,904)</b>	(574,336)
<b>Comprehensive (loss) earnings</b>	<b>\$ (185,788)</b>	\$ 278,374

*The accompanying notes are an integral part of these interim consolidated financial statements*

**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)***Three Months Ended June 30,*

	2008	2007
<b>CONTINUING OPERATIONS</b>		
<b>Cash flows from operating activities</b>		
Net earnings from continuing operations	\$ 1,951,542	\$ 1,016,152
Items not affecting cash		
Future income taxes	120,046	108,560
Amortization of discount on convertible debt	-	55,044
Amortization of discount on long-term debt	6,698	12,920
Amortization of deferred costs, financing fees and other intangible assets	295,229	348,600
Depreciation and amortization	709,391	792,941
Amortization of unearned rebates	(310,338)	(318,221)
Unit option compensation (recovery) expense	(28,515)	4,399
Gain on disposal of equipment	(8,085)	(285)
	<b>2,735,968</b>	<b>2,020,110</b>
Changes in non-cash working capital items	<b>1,689,665</b>	<b>683,320</b>
	<b>4,425,633</b>	<b>2,703,430</b>
<b>Cash flows used in financing activities</b>		
Issue costs	(6,643)	-
Repayment of long-term debt	(647,960)	(706,045)
Increase in obligations under long-term debt	252,077	-
Decrease in bank indebtedness	(916,334)	(2,029,804)
Repayment of obligations under capital leases	(111,702)	(78,664)
Dividends paid on Class A common shares	(41,664)	-
Distributions paid to unitholders	(543,368)	-
Increase in unearned rebates	-	186,943
Increase in financing costs	(4,996)	-
Collection of rebates receivable	238,097	260,039
Repayment of other short-term obligations	(300,000)	-
Units purchased under the Fund's Normal Course Issuer Bid	(605,359)	-
	<b>(2,687,852)</b>	<b>(2,367,531)</b>
<b>Cash flows used in investing activities</b>		
Proceeds on sale of equipment	15,096	23,603
Equipment purchases and facility improvements	(179,536)	(175,109)
Acquisition and development of businesses	(680,903)	(90,060)
Deferred costs	(231,176)	(142,601)
Payment of contingent purchase price amounts	(188,887)	-
Acquisition of other assets	-	(60,174)
	<b>(1,265,406)</b>	<b>(444,341)</b>
Foreign exchange	<b>(375,286)</b>	<b>(546,172)</b>
Net increase (decrease) in cash position provided by (used in) continuing operations	<b>97,089</b>	<b>(654,614)</b>
<b>DISCONTINUED OPERATIONS</b>		
Operating activities	(419,714)	(26,550)
Investing activities	(2,170)	(6,565)
Net decrease in cash position used in discontinued operations	<b>(421,884)</b>	<b>(33,115)</b>
Net decrease in cash position	<b>(324,795)</b>	<b>(687,729)</b>
Cash, beginning of period	<b>3,827,299</b>	<b>5,439,082</b>
Cash, end of period	<b>\$ 3,502,504</b>	<b>\$ 4,751,353</b>
Income taxes paid	<b>\$ 20,058</b>	<b>\$ 112,424</b>
Interest paid	<b>\$ 390,558</b>	<b>\$ 944,655</b>

*The accompanying notes are an integral part of these interim consolidated financial statements*

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

### 1. BASIS OF PRESENTATION

These interim consolidated financial statements of the Boyd Group Income Fund (the “Fund”), Boyd Group Holdings Inc. (“BGHI”) and subsidiaries 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, BGHI, The Boyd Group Inc. (the “Company”) and the Company’s direct subsidiary companies as at June 30, 2008. These financial statements are consistent with the policies and methods of computation as disclosed in the audited consolidated financial statements and related notes of the Fund for the year ended December 31, 2007, except as noted in Note 2. Readers should be aware that these interim consolidated financial statements and related notes are unaudited and do not include all the information required for complete financial statements, and should be read in conjunction with the audited consolidated financial statements and related notes of the Fund for the year ended December 31, 2007.

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.

### 2. CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2008, the Fund adopted the new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA) for Section 3862 Financial Instruments – Disclosures, Section 3863 Financial Instruments – Presentation and Section 3031 Inventories.

#### Financial Instruments

Section 3862 describes the required disclosures related to the significance of financial instruments on the Company’s financial position and performance. The standard also requires disclosure of the nature and extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks. This section complements existing handbook section 3855, Financial Instruments – Recognition and Measurement, section 3863, Financial Instruments – Presentation and section 3865, Hedges.

Section 3863 carries forward unchanged the presentation requirements of Section 3861 Financial Instruments – Disclosure and Presentation for the presentation of financial instruments and non-financial derivatives.

#### Inventory

Section 3031 establishes new standards on the determination of cost and requires inventory to be measured at the lower of cost and net realizable value. The cost of inventory includes the cost to purchase and other costs incurred in bringing the inventories to their present location. The new standard also requires additional disclosures regarding the accounting policies used in measuring the inventories, the carrying value of the inventories, amounts recognized as an expense during the period, write-downs and the amount of any reversal of write-downs recognized in the period.

The Fund values inventory at the lower of cost and net realizable value. Cost is determined on the first-in, first-out basis. The Fund classifies the amortization of rebates and other consideration received from a vendor as a reduction to the cost of inventory unless the rebate clearly relates to the reimbursement of a specific expense.

### 3. DISCONTINUED OPERATIONS

On June 30, 2008, the Company ceased operations of three collision repair facilities located in Harvey, Illinois; Henderson, Nevada and Marietta, Georgia.

On May 31, 2008, the Company ceased operations of a collision repair facility located in Saskatoon, Saskatchewan.

On April 30, 2008, the Company ceased operations of a collision repair facility located in Vancouver, British Columbia.

The consolidated balance sheets include the following assets and liabilities which relate to these discontinued operations:

	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Current assets	\$ 679,513	\$ 929,347
Equipment	397,055	828,293
Goodwill and intangible assets	-	217,877
	<u>1,076,568</u>	<u>1,975,517</u>
Current liabilities	<u>1,198,496</u>	500,792
Net (liabilities) assets	<u>\$ (121,928)</u>	<u>\$ 1,474,725</u>

The results of discontinued operations are summarized below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Sales	\$ 1,405,614	\$ 2,026,081	\$ 3,066,784	\$ 4,198,886
Loss for the period	(1,242,381)	(166,647)	(1,442,319)	(397,894)
Income taxes	-	3,205	-	13,547
	<u>(1,242,381)</u>	<u>(163,442)</u>	<u>(1,442,319)</u>	<u>(384,347)</u>
Loss on disposition of assets (net of income tax recoveries of \$72,600[2007 – nil])	(485,045)	-	(485,045)	-
Net loss from discontinued operations	<u>\$ (1,727,426)</u>	<u>\$ (163,442)</u>	<u>\$ (1,927,364)</u>	<u>\$ (384,347)</u>

### 4. INVENTORY

	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Materials	\$ 1,864,423	\$ 2,128,200
Work in process	1,962,341	2,233,208
	<u>\$ 3,826,764</u>	<u>\$ 4,361,408</u>

Included in cost of sales for the three and six month periods ending June 30, 2008 are parts and material costs of \$14,824,635 and \$31,148,181 (2007 – \$14,770,616 and \$30,852,970) and labour costs of \$7,904,808 and \$15,749,420 (2007 – \$7,527,367 and \$15,203,471) with the balance of cost of sales primarily made up of sublet charges.

## 5. CONVERTIBLE DEBT

	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Debt component		
2005 Vendor exchange note	\$ 509,300	\$ 494,050
2004 Vendor exchange notes	-	6,947,529
	<u>509,300</u>	<u>7,441,579</u>
Discount	-	(17,847)
	<u>\$ 509,300</u>	<u>\$ 7,423,732</u>

	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Equity component		
2004 Vendor exchange notes	\$ -	\$ 935,781

On February 1, 2008, the Fund exercised its right to settle at maturity the remaining principal amount owing of \$7,031,200 U.S. under its 2004 vendor exchange notes by way of the issuance of 1,283,716 trust units. The settlement was recorded at carrying value resulting in no gain or loss, although the market value of the units issued on February 1, 2008 was approximately \$3,100,000. Upon maturity of the 2004 vendor exchange notes, the corresponding equity component of convertible debt was transferred to contributed surplus.

## 6. CAPITAL

### Unitholders' Capital of the Fund

#### Authorized:

Unlimited number of Trust Units

#### Issued:

The ownership percentages of the Company between the Fund and BGHI continue to change as new units are issued and Class A common shares of BGHI are retracted. At June 30, 2008, the ownership percentage held by the Fund was 84.63% and BGHI was 15.37%.

The following provides a continuity of unitholders' capital of the Fund:

	<u>June 30, 2008</u>		<u>December 31, 2007</u>	
	<u>Units</u>	<u>Amount</u>	<u>Units</u>	<u>Amount</u>
Unitholders' capital, beginning of year	10,362,553	\$ 55,777,560	9,615,117	\$ 53,059,819
Issue costs	-	(6,643)	-	(5,951)
Units issued to settle retraction of Class A common shares of BGHI	9,264	592	26,983	3,449
Units issued on conversion of 1998 debentures	-	-	23,165	53,280
Units issued on settlement of 2002 debentures	-	-	419,792	2,317,000
Units issued on redemption of 2003 debentures	-	-	368,396	847,310
Units issued on settlement of 2004 vendor exchange notes	1,283,716	7,034,402	-	-
Units purchased for cancellation under the Fund's Normal Course Issuer Bid	(336,600)	(1,813,121)	(90,900)	(497,347)
Unitholders' capital, end of period	<u>11,318,933</u>	<u>\$ 60,992,790</u>	<u>10,362,553</u>	<u>\$ 55,777,560</u>

## Shareholders' Capital of BGHI

### Authorized:

2,062,863 Class A common, retractable, voting shares of BGHI

### Issued:

	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Class A common shares		
Number of shares outstanding	875,852	859,685
Carrying Value of shares outstanding	\$ 54,321	\$ 54,913

## 7. CONTRIBUTED SURPLUS

Units redeemed or repurchased for a value below their original cost represent a contribution to the benefit of the remaining shareholders and is credited to contributed surplus. The Fund records as contributed surplus the equity component of convertible debt for debentures that are not exercised as well as the value of unexercised warrants upon their expiry. In addition, the Fund recognizes estimated compensation expense related to unit options over the vesting period of the options granted, with the related credit being allocated to contributed surplus.

	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Contributed surplus, beginning of period	\$ 973,914	\$ 107,067
Expired warrants	-	421,500
Discount on units purchased under the Fund's Normal Course Issuer Bid	892,125	260,789
Equity component of convertible debt unexercised	935,781	166,964
Compensation expense related to unit-based compensation	9,323	17,594
Reversal of compensation expense for forfeited unit-based compensation	(33,439)	-
Contributed surplus, end of year	\$ 2,777,704	\$ 973,914

## 8. ACCUMULATED OTHER COMPREHENSIVE LOSS

### Three months ended June 30, 2008

	Unrealized loss on translating financial statements of self-sustaining foreign operations	Gain on derivative instruments designated as cash flow hedges	<u>Total</u>
Balance, as at March 31, 2008	\$ (11,771,190)	\$ -	\$ (11,771,190)
Changes incurred during the quarter	(409,904)	-	(409,904)
Total	\$ (12,181,094)	\$ -	\$ (12,181,094)

### Six months ended June 30, 2008

	Unrealized loss on translating financial statements of self-sustaining foreign operations	Gain on derivative instruments designated as cash flow hedges	<u>Total</u>
Balance, as at December 31, 2007	\$ (12,038,901)	\$ 54,877	\$ (11,984,024)
Changes incurred during the six month period	(142,193)	(54,877)	(197,070)
Total	\$ (12,181,094)	\$ -	\$ (12,181,094)

## 9. DISTRIBUTIONS AND DIVIDENDS

The Fund's Trustees have discretion in declaring distributions. The Fund's distribution policy is to make distributions of its available cash from operations taking into account current and future performance, amounts necessary for principal and interest payments on debt obligations, amounts required for maintenance capital expenditures and amounts allocated to reserves.

Distributions to unitholders and dividends to the BGHI shareholders were declared and paid as follows:

<u>Record date</u>	<u>Payment date</u>	<u>Distribution per unit</u>	<u>Dividend per share</u>	<u>Distribution amount</u>	<u>Dividend amount</u>
January 31, 2008	February 27, 2008	\$ 0.015	\$ 0.015	\$ 154,780	\$ 13,258
February 29, 2008	March 27, 2008	0.015	0.015	173,620	13,229
March 31, 2008	April 28, 2008	0.015	0.015	173,102	13,160
April 30, 2008	May 28, 2008	0.01625	0.01625	185,377	14,252
May 31, 2008	June 26, 2008	0.01625	0.01625	184,889	14,251
June 30, 2008	July 29, 2008	0.0175	0.0175	198,713	15,327
		\$ 0.095	\$ 0.095	\$ 1,070,481	\$ 83,477

On March 25, 2008, the Trustees of the Fund and the Directors of BGHI approved an increase in monthly distributions and dividends to \$0.01625 per unit commencing May 2008, for unitholders and shareholders of record on April 30, 2008.

On May 14, 2008, the Trustees of the Fund and the Directors of BGHI approved an increase in monthly distributions and dividends to \$0.0175 per unit commencing July 2008, for unitholders and shareholders of record on June 30, 2008.

On August 13, 2008, the Trustees of the Fund and the Directors of BGHI approved an increase in monthly distributions and dividends to \$0.01875 per unit commencing October 2008, for unitholders and shareholders of record on September 30, 2008. [Note 14]

## 10. 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. Consistent with the prior year, the Fund uses a valuation allowance to offset the benefit of income tax assets in excess of its estimate of tax on future taxable income.

On February 1, 2008, the settlement of the 2004 vendor exchange notes for units with a market value of approximately \$3,100,000 resulted in taxable income of approximately \$4,000,000 U.S. in The Gerber Group, Inc. The Company has unrecognized U.S. net operating losses and available future interest deductions available to shelter this income.

## 11. SEGMENTED REPORTING

The Company has one reportable line of business, being automotive collision repair and related services, with all revenues relating to a group of similar services. In this circumstance, Canadian generally accepted accounting principles requires the Company to provide geographical disclosure of segments. For the periods reported, all of the Company's revenues were derived within Canada or the United States of America. All property, plant and equipment, goodwill and intangible assets are located within these two geographic areas.

	<u>Revenues</u>		<u>Property, Plant, Equipment Intangible Assets and Goodwill</u>	
	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Canada	\$ 36,907,642	\$ 35,314,200	\$ 15,495,363	\$ 15,848,803
United States	65,208,284	63,002,660	29,452,965	28,644,433
<b>Total</b>	<b>\$ 102,115,926</b>	<b>\$ 98,316,860</b>	<b>\$ 44,948,328</b>	<b>\$ 44,493,236</b>

## 12. EARNINGS PER UNIT AND CLASS A COMMON SHARE FROM CONTINUING OPERATIONS

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<b>a) Earnings:</b>				
Net earnings from continuing operations	\$ 1,951,542	\$ 1,016,152	\$ 4,070,505	\$ 1,994,674
Add:				
Net after tax interest on Series I convertible debentures	-	1,521	-	3,025
Net after tax interest on 2004 Vendor exchange notes	-	60,482	24,981	120,300
Net after tax interest on 2005 Vendor exchange note	1,956	1,311	3,911	2,608
<b>Net earnings from continuing operations – diluted basis</b>	<b>\$ 1,953,498</b>	<b>\$ 1,079,466</b>	<b>\$ 4,099,397</b>	<b>\$ 2,120,607</b>
<b>b) Number of units and Class A common shares:</b>				
Average number of units and Class A common shares outstanding	12,194,785	10,527,216	11,976,130	10,527,216
Add:				
Potential conversion of Series I convertible debentures	-	23,163	-	23,163
Potential conversion of 2004 Vendor exchange notes	-	816,435	180,910	816,435
Potential conversion of 2005 Vendor exchange note	29,630	18,519	29,630	18,519
Calculated unit option conversion	93,725	1,786	59,387	1,786
<b>Average number of units and Class A common shares outstanding – diluted basis</b>	<b>12,318,140</b>	<b>11,387,119</b>	<b>12,246,057</b>	<b>11,387,119</b>
Earnings per unit and Class A common share from continuing operations (a) divided by (b)				
Basic	\$ 0.160	\$ 0.097	\$ 0.340	\$ 0.189
Diluted	\$ 0.159	\$ 0.095	\$ 0.335	\$ 0.186

### 13. FINANCIAL INSTRUMENTS

#### Carrying Value and Estimated Fair Value of Financial Instruments:

Asset (liability) at December 31, (\$000's)	<u>June 30, 2008</u>			<u>December 31, 2007</u>		
	Carrying Value	Fair Value	Unrealized Gain/(Loss)	Carrying Value	Fair Value	Unrealized Gain/(Loss)
Cash	3,503	3,503	-	2,961	2,961	-
Accounts receivable	20,294	20,294	-	19,577	19,577	-
Bank indebtedness	(8,587)	(8,587)	-	(9,252)	(9,252)	-
Accounts payable	(22,119)	(22,119)	-	(19,392)	(19,392)	-
Long-term debt	(13,970)	(13,970)	-	(14,520)	(14,520)	-
Convertible debt	(509)	(509)	-	(7,424)	(7,424)	-
The Fund selling U.S. dollars -						
Forward foreign exchange contracts	-	-	-	226	226	-
LIBOR interest rate contracts -						
U.S. dollar swaps	-	-	-	5	5	-

For the Fund's current financial assets and liabilities, which are short term in nature and subject to normal trade terms, the carrying values approximate their fair value. As there is no ready secondary market for the Fund's long-term debt or convertible debt, the fair value has been estimated using the discounted cash flow method. The fair value using the discounted cash flow method is approximately equal to their carrying value. The fair values for interest rate and forward contract derivative instruments are based on the estimated cash payment or receipt necessary to settle the contract at the balance sheet date. Cash payments or receipts are based on discounted cash flows using current market rates and prices.

#### Collateral

The Fund has pledged as security for its U.S. senior term debt the shares and assets of The Gerber Group, Inc., excluding cash and receivables, having a combined carrying value including goodwill of approximately \$8,300,000.

#### Interest rate risk

The Company's operating line and U.S. senior term facility are exposed to interest rate fluctuations. For the Canadian senior term facility, up until its final repayment on April 15, 2008, the Company was exposed to interest rate fluctuations and had entered into swap agreements which also expired on April 15, 2008. The swap agreement was designated as a hedge of a specifically identified debt instrument, with payments and receipts being recognized as adjustments to interest expense. The Company was obligated to pay the swap counter party a fixed interest rate of 4% plus incentive pricing spread based on the outstanding notional amount of the swap contract and the swap counter party was obligated to pay the Company an amount equal to LIBOR.

#### Foreign currency risk

The Company's operations in the U.S. are self-sustaining and its economic exposure is more closely tied to its domestic currency. Accordingly, the U.S. operations are measured in U.S. dollars and the Company's foreign exchange translation exposure relates to this operation. When the U.S. operation's net asset values are converted to Canadian dollars, currency fluctuations result in period to period changes on those net asset values. The Fund's equity position reflects these changes in net asset values as recorded in accumulated other comprehensive loss. The income and expenses of the U.S. operations are translated into Canadian dollars at the average rate for the period in order to include their financial results in the consolidated financial statements. Period to period changes in the average exchange rates cause translation effects that have an impact on, for example, revenues and net income. Unlike the effect of exchange rate fluctuations on transaction exposure, the exchange rate translation risk does not affect local currency cash flows.

The Company's Canadian senior term facility was a Canadian domiciled U.S. denominated long-term debt and was designated as a hedge of the Company's net investment until its repayment on April 15, 2008. As such, the unrealized foreign exchange gains and losses resulting from the translation of these operations and the Canadian domiciled U.S. denominated debt were also recorded in other comprehensive loss.

Transactional foreign currency risk exists in limited circumstances where U.S. denominated cash is received in Canada. The Company monitors U.S. denominated cash flows to be received in Canada and evaluates whether to use forward foreign exchange contracts. Forward contracts, if used, are considered a hedge of a specifically identifiable cash flow, with payments and receipts of the contracts recognized as adjustments to foreign currency gains or losses.

During 2007, the Fund performed an internal corporate restructuring which resulted in the Company halting the interest payments being made to Canada as of April 1, 2007. As a result, the Company determined that as of this date, its hedge was ineffective and unrealized gains included in other comprehensive loss as a result of applying hedge accounting would be carried forward and amortized over the term of the forward foreign exchange contracts. Gains and losses arising subsequent to the ineffectiveness date are recorded directly through income. In 2007, the amount of gains recorded was \$151,413. In the first quarter of 2008, a further \$56,086 of gains was recorded. On January 8, 2008, the Company unwound the remaining portion of the forward foreign exchange contracts and received \$207,500.

### Credit risk

The carrying amount of financial assets represents the maximum credit exposure. Cash is in the form of deposits on demand with major financial institutions that have strong long-term credit ratings. The Fund is subject to risk of non-payment of accounts receivable, however the Fund's revenues are largely received from the insurers of its customers. Accordingly, the Fund's accounts receivable are comprised mostly of amounts due from national and international insurance companies or provincial crown corporations. Derivative contracts were over-the-counter traded and are with a counter party that is a highly rated financial institution.

Aging of past due but not impaired accounts receivable:  
(\$000's)

	<u>June 30, 2008</u>	<u>December 31, 2007</u>
90-120 days	753	765
Over 120 days	2,289	1,912
<b>Total</b>	<b>3,042</b>	<b>2,677</b>

The Fund uses an allowance account to record an estimate of potential impairment for accounts receivables generally. The Fund has not identified specific accounts it believes to be impaired. The balance of the allowance account at June 30, 2008 was \$497,000 (December 31, 2007 - \$352,000).

### Liquidity risk

The following table details the Fund's remaining contractual maturities for its financial liabilities.

Liquidity Risk (000's) As at June 30, 2008	Contractual Payments Terms					
	Due < 1 year	Due > 1 year, < 2 years	Due > 2 year, < 3 years	Due > 3 year, < 4 years	Due > 4 year, < 5 years	Due > 5 years
Bank indebtedness	\$ 8,587	\$ -	\$ -	\$ -	\$ -	\$ -
Trade payables	22,119	-	-	-	-	-
Long-term debt	233	1,619	1,593	1,545	1,543	7,437
Obligations under capital lease	806	419	440	318	128	113
Vendor exchange note	-	509	-	-	-	-
<b>Total Contractual Obligations</b>	<b>\$ 31,745</b>	<b>\$ 2,547</b>	<b>\$ 2,033</b>	<b>\$ 1,863</b>	<b>\$ 1,671</b>	<b>\$ 7,550</b>

The Fund's bank indebtedness, being a current liability, is primarily a 364 day revolving credit facility. The bank indebtedness would only become due and payable in an event of default. The Fund has the ability to further draw on the facility, the total unused amount of which was \$6,400,000 at the balance sheet date. The Fund expects to meet its obligations from the collection of its accounts receivable and future operating cash flows.

## **Market Risk and Sensitivity Analysis**

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. Components of market risk to which the Fund is exposed are interest rate risk and foreign exchange rate risk as discussed above.

The Fund has used a sensitivity analysis technique that measures the estimated change to the net income statement and equity of a 1% (100 basis points) difference in market interest rates.

The sensitivity analysis assumes that changes in market interest rates only affect interest income or expense of variable financial instruments not covered by hedging instruments. The impact of changes to market interest rates on interest rate swaps used as hedging items are reflected in other comprehensive earnings. For the six month period ending June 30, 2008 it is estimated that the impact of a 1% change to market rates would result in a \$111,000 change to net income before tax as well as comprehensive earnings.

The currency risk sensitivity analysis is based on a 5% strengthening or weakening of the Canadian Dollar against the U.S. Dollar and assumes that all other variables remain constant.

Under this assumption, net income before tax and discontinued operations for the six month period ending June 30, 2008 would have changed by \$240,000 (principally related to the translation of the income statement of U.S. operations) and equity (before tax) would have changed by \$600,000.

## **14. SUBSEQUENT EVENTS**

On July 29, 2008, the accrued distributions and dividends for the month of June 2008 were paid.

On August 13, 2008, the Trustees of the Fund and the Directors of BGHI approved an increase in monthly distributions and dividends to \$0.01875 per unit commencing October 2008, for unitholders and shareholders of record on September 30, 2008.

## **15. COMPARATIVE FIGURES**

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