



BOYD GROUP INCOME FUND

Interim Condensed Consolidated Financial Statements

Three and Six Months Ended June 30, 2013

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

BOYD GROUP INCOME FUND
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Unaudited)
(Canadian dollars)

	June 30, 2013	December 31, 2012
Assets		
Current assets:		
Cash	\$ 32,776,732	\$ 38,976,398
Accounts receivable	33,095,928	28,944,908
Income taxes recoverable	1,147,312	1,364,530
Inventory	8,047,490	8,665,638
Prepaid expenses	5,538,084	4,311,623
	80,605,546	82,263,097
Note receivable	899,045	1,048,834
Property, plant and equipment	53,309,622	45,897,362
Deferred income tax asset	3,578,325	4,386,844
Intangible assets <i>(Note 4)</i>	40,684,221	41,271,177
Goodwill <i>(Note 5)</i>	68,245,541	49,691,918
	\$ 247,322,300	\$ 224,559,232
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 52,024,078	\$ 50,231,017
Distributions payable <i>(Note 6)</i>	489,097	489,002
Dividends payable <i>(Note 10)</i>	15,075	15,170
Current portion of long-term debt	5,320,904	4,756,972
Current portion of obligations under finance leases	3,409,955	2,006,469
Current portion of settlement accrual	1,366,233	1,101,464
	62,625,342	58,600,094
Long-term debt	44,667,069	44,775,928
Obligations under finance leases	4,923,553	4,182,570
Convertible debenture	30,647,783	30,327,395
Convertible debenture conversion feature <i>(Note 10)</i>	5,519,546	2,008,699
Unearned rebates	31,978,317	31,598,860
Settlement accrual	-	892,717
Exchangeable class A shares <i>(Note 10)</i>	8,489,485	5,929,304
Unit based payment obligation <i>(Note 10)</i>	6,253,206	3,567,136
Non-controlling interest put options <i>(Note 10)</i>	17,668,866	1,072,391
	212,773,167	182,955,094
Equity		
Accumulated other comprehensive income (loss)	3,580,926	(1,264,776)
Deficit	(47,915,637)	(35,998,484)
Unitholders' capital	74,881,773	74,865,327
Contributed surplus	4,002,071	4,002,071
	34,549,133	41,604,138
	\$ 247,322,300	\$ 224,559,232

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

BOYD GROUP INCOME FUND
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Unaudited)
(Canadian dollars)

	Unitholders' Capital		Contributed Surplus	Accumulated Other Comprehensive (Loss) Earnings	Deficit	Total Equity
	Units	Amount				
Balances - January 1, 2012	12,528,136	\$ 74,830,675	\$ 4,002,071	\$ (192,026)	\$ (37,381,319)	\$ 41,259,401
Issue costs	-	(92,496)				(92,496)
Retractions	10,380	127,148				127,148
Other comprehensive loss				(1,072,750)		(1,072,750)
Net earnings					7,061,171	7,061,171
Comprehensive earnings				(1,072,750)	7,061,171	5,988,421
Distributions to unitholders					(5,678,336)	(5,678,336)
Balances - December 31, 2012	12,538,516	\$ 74,865,327	\$ 4,002,071	\$ (1,264,776)	\$ (35,998,484)	\$ 41,604,138
Issue costs	-	(26,065)				(26,065)
Retractions	2,437	42,511				42,511
Other comprehensive earnings				4,845,702		4,845,702
Net (loss)					(2,536,649)	(2,536,649)
Comprehensive earnings				4,845,702	(2,536,649)	2,309,053
Equity contributed by non-controlling interest <i>(Note 10)</i>					9,942,917	9,942,917
Recognition of non-controlling interest put option liabilities <i>(Note 10)</i>					(16,389,067)	(16,389,067)
Distributions to unitholders <i>(Note 6)</i>					(2,934,354)	(2,934,354)
Balances - June 30, 2013	12,540,953	\$ 74,881,773	\$ 4,002,071	\$ 3,580,926	\$ (47,915,637)	\$ 34,549,133
Balances - January 1, 2012	12,528,136	\$ 74,830,675	\$ 4,002,071	\$ (192,026)	\$ (37,381,319)	\$ 41,259,401
Issue costs	-	(26,179)				(26,179)
Retractions	8,186	94,437				94,437
Other comprehensive earnings				90,037		90,037
Net earnings					3,201,230	3,201,230
Comprehensive earnings				90,037	3,201,230	3,291,267
Distributions to unitholders <i>(Note 6)</i>					(2,819,811)	(2,819,811)
Balances - June 30, 2012	12,536,322	\$ 74,898,933	\$ 4,002,071	\$ (101,989)	\$ (36,999,900)	\$ 41,799,115

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

BOYD GROUP INCOME FUND
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF (LOSS) EARNINGS (Unaudited)
Six Months Ended June 30,
(Canadian dollars)

	2013	2012
Sales	\$ 267,516,730	\$ 210,344,177
Cost of sales	146,493,178	114,893,940
Gross margin	121,023,552	95,450,237
Operating expenses	103,758,668	81,688,944
Foreign exchange gains	(80,455)	(292)
Acquisition and transaction costs	837,985	492,890
Depreciation	3,997,799	3,655,302
Amortization of intangible assets	1,902,831	2,044,869
Fair value adjustments to financial instruments (Note 10)	8,799,606	1,977,530
Finance costs	2,804,302	1,257,600
	122,020,736	91,116,843
(Loss) earnings before income taxes	(997,184)	4,333,394
Income tax expense		
Current	606,185	844,073
Deferred	933,280	288,091
	1,539,465	1,132,164
Net (loss) earnings	\$ (2,536,649)	\$ 3,201,230
<i>The accompanying notes are an integral part of these interim condensed consolidated financial statements</i>		
Basic (loss) earnings per unit (Note 9)	\$ (0.202)	\$ 0.255
Diluted (loss) earnings per unit (Note 9)	\$ (0.202)	\$ 0.255
Weighted average number of units outstanding	12,539,990	12,532,492

BOYD GROUP INCOME FUND
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (Unaudited)
Six Months Ended June 30,

	2013	2012
Net (loss) earnings	\$ (2,536,649)	\$ 3,201,230
Other comprehensive earnings		
Items that may be reclassified subsequently to Consolidated Statements of Comprehensive Earnings		
Change in unrealized earnings on translating financial statements of foreign operations	4,845,702	90,037
Other comprehensive earnings, net of income taxes	4,845,702	90,037
Comprehensive earnings	\$ 2,309,053	\$ 3,291,267

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

BOYD GROUP INCOME FUND
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
Six Months Ended June 30,
(Canadian dollars)

	2013	2012
Cash flows from operating activities		
Net (loss) earnings	\$ (2,536,649)	\$ 3,201,230
Items not affecting cash		
Non-controlling interest put option adjustment	-	97,670
Deferred income taxes	933,280	288,091
Amortization of discount on convertible debt	320,388	-
Amortization of intangible assets	1,902,831	2,044,869
Depreciation	3,997,799	3,655,302
Amortization of unearned rebates	(1,802,856)	(1,445,685)
Gain on disposal of equipment	(66,533)	(14,693)
Adjustment in liability for exchangeable class A shares	2,602,691	972,844
Interest accrued on class A exchangeable shares	90,678	88,870
Unit option compensation expense	2,686,068	907,016
Adjustment in liability for convertible debt conversion feature	3,510,847	-
Unrealized foreign exchange loss on internal loans	-	9,000
Unrealized loss on derivative contracts	-	20,100
Realized foreign exchange loss on internal loan	-	95,500
Realized loss on derivative contracts	-	(115,500)
Payment of accrued settlement obligation	(627,948)	(549,177)
	11,010,596	9,255,437
Changes in non-cash working capital items	(2,370,366)	(2,333,020)
	8,640,230	6,922,417
Cash flows (used in) provided by financing activities		
Issue costs	(26,065)	(19,713)
Repayment of long-term debt	(2,490,895)	(1,484,288)
Increase in bank indebtedness	-	3,024,114
Repayment of obligations under finance leases	(1,380,432)	(1,197,105)
Proceeds on sale-leaseback agreement	1,370,985	482,840
Dividends paid on class A common shares	(90,773)	(89,177)
Distributions paid to unitholders	(2,934,259)	(2,819,504)
Increase in unearned rebates	827,575	2,669,083
Repayment of unearned rebates	-	(247,368)
Collection of rebates receivable	818,646	811,809
	(3,905,218)	1,130,691
Cash flows used in investing activities		
Proceeds on sale of equipment	260,859	56,212
Equipment purchases and facility improvements	(1,514,845)	(1,429,289)
Acquisition and development of businesses (net of cash acquired)	(9,763,263)	(9,188,157)
Software purchases and licensing	(96,947)	(195,059)
Senior managers unit loan program	(899,045)	-
	(12,013,241)	(10,756,293)
Foreign exchange	1,078,563	(194,698)
Net decrease in cash position	(6,199,666)	(2,897,883)
Cash, beginning of period	38,976,398	18,443,269
Cash, end of period	\$ 32,776,732	\$ 15,545,386
Income taxes paid	\$ 315,234	\$ 1,367,751
Interest paid	\$ 2,414,024	\$ 1,411,265

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

BOYD GROUP INCOME FUND**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF (LOSS) EARNINGS (Unaudited)***Three Months Ended June 30,**(Canadian dollars)*

	2013	2012
Sales	\$ 136,877,565	\$ 102,939,708
Cost of sales	74,682,952	56,166,819
Gross margin	62,194,613	46,772,889
Operating expenses	53,012,491	40,014,549
Foreign exchange losses (gains)	10,880	(21,198)
Acquisition and transaction costs	476,378	310,141
Depreciation	2,076,467	1,887,226
Amortization of intangible assets	849,131	1,036,571
Fair value adjustments to financial instruments (Note 10)	5,776,050	1,345,128
Finance costs	1,422,095	639,581
	63,623,492	45,211,998
(Loss) earnings before income taxes	(1,428,879)	1,560,891
Income tax expense		
Current	606,185	211,827
Deferred	531,499	225,403
	1,137,684	437,230
Net (loss) earnings	\$ (2,566,563)	\$ 1,123,661
<i>The accompanying notes are an integral part of these interim condensed consolidated financial statements</i>		
Basic (loss) earnings per unit (Note 9)	\$ (0.205)	\$ 0.090
Diluted (loss) earnings per unit (Note 9)	\$ (0.205)	\$ 0.090
Weighted average number of units outstanding	12,540,938	12,534,225

BOYD GROUP INCOME FUND**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (Unaudited)***Three Months Ended June 30,*

	2013	2012
Net (loss) earnings	\$ (2,566,563)	\$ 1,123,661
Other comprehensive earnings		
Items that may be reclassified subsequently to Consolidated Statements of Comprehensive Earnings		
Change in unrealized earnings on translating financial statements of foreign operations	3,081,269	1,010,404
Other comprehensive earnings, net of income taxes	3,081,269	1,010,404
Comprehensive earnings	\$ 514,706	\$ 2,134,065

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

BOYD GROUP INCOME FUND
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
Three Months Ended June 30,
(Canadian dollars)

	2013	2012
Cash flows from operating activities		
Net (loss) earnings	\$ (2,566,563)	\$ 1,123,661
Items not affecting cash		
Non-controlling interest put option adjustment	-	97,670
Deferred income taxes	531,499	225,403
Amortization of discount on convertible debt	167,039	-
Amortization of intangible assets	849,131	1,036,571
Depreciation	2,076,467	1,887,226
Amortization of unearned rebates	(912,539)	(741,806)
Gain on disposal of equipment	(6,946)	(11,718)
Adjustment in liability for exchangeable class A shares	1,538,290	680,262
Interest accrued on class A exchangeable shares	45,226	44,240
Unit option compensation expense	1,603,368	567,196
Adjustment in liability for convertible debt conversion feature	2,634,392	-
Unrealized foreign exchange loss on internal loans	-	98,500
Unrealized gain on derivative contracts	-	(87,500)
Realized foreign exchange loss on internal loan	-	95,500
Realized loss on derivative contracts	-	(115,500)
Payment of accrued settlement obligation	(273,270)	(277,887)
	5,686,094	4,621,818
Changes in non-cash working capital items	(49,429)	(724,420)
	5,636,665	3,897,398
Cash flows provided by (used in) financing activities		
Repayment of long-term debt	(1,304,609)	(758,343)
Increase in bank indebtedness	-	3,024,114
Repayment of obligations under finance leases	(743,855)	(608,627)
Proceeds on sale-leaseback agreement	-	280,340
Dividends paid on class A common shares	(45,262)	(44,414)
Distributions paid to unitholders	(1,467,253)	(1,409,927)
Increase in unearned rebates	827,575	517,816
Repayment of unearned rebates	-	(247,368)
Collection of rebates receivable	411,359	289,477
	(2,322,045)	1,043,068
Cash flows used in investing activities		
Proceeds on sale of equipment	103,685	43,407
Equipment purchases and facility improvements	(637,857)	(763,774)
Acquisition and development of businesses (net of cash acquired)	(8,579,509)	(3,183,333)
Software purchases and licensing	(35,521)	(16,224)
Senior managers unit loan program	32,014	-
	(9,117,188)	(3,919,924)
Foreign exchange	579,069	(38,603)
Net (decrease) increase in cash position	(5,223,499)	981,939
Cash, beginning of period	38,000,231	14,563,447
Cash, end of period	\$ 32,776,732	\$ 15,545,386
Income taxes paid	\$ 105,654	\$ 657,449
Interest paid	\$ 1,161,783	\$ 682,418

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

BOYD GROUP INCOME FUND

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and six months ended June 30, 2012 and June 30, 2013

(in Canadian dollars)

1. GENERAL INFORMATION

Boyd Group Income Fund (the "Fund") is an unincorporated, open-ended mutual fund trust established under the laws of the Province of Manitoba, Canada on December 16, 2002. It was established for the purposes of acquiring and holding a majority interest in The Boyd Group Inc. (the "Company"). The Company is partially owned by Boyd Group Holdings Inc. ("BGHI"), which is controlled by the Fund. These financial statements reflect the activities of the Fund, the Company and all its subsidiaries including BGHI. The Company's business consists of the ownership and operation of autobody/autoglass repair facilities acquired either through the acquisition of existing businesses, or through site development resulting in new locations. At the reporting date, the Company operated locations in five Canadian provinces under the trade name Boyd Autobody & Glass, as well as in 14 U.S. states under the trade names Gerber Collision & Glass, The Recovery Room and Autocrafters Collision. The Company is also a major retail auto glass operator in the U.S. with locations across 28 U.S. states under the trade names Gerber Collision & Glass, Glass America, Auto Glass Services, Auto Glass Authority and S&L Glass. The Company also operates Gerber National Glass Services, an auto glass repair and replacement referral business with approximately 3,000 affiliated service providers throughout the U.S. under the "Gerber National Glass Services" name. The units of the Fund are listed on the Toronto Stock Exchange and trade under the symbol "BYD.UN". The head office and principal address of the Fund are located at 3570 Portage Avenue, Winnipeg, Manitoba, Canada, R3K 0Z8.

The policies applied in these interim condensed consolidated financial statements are based on IFRS issued and outstanding as of August 13, 2013, the date the Board of Trustees approved the statements. Any subsequent changes to IFRS that are given effect in the Fund's annual consolidated financial statements for the year ending December 31, 2013 could result in restatement of these interim condensed consolidated financial statements.

2. BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

These interim condensed consolidated financial statements for the three and six months ended June 30, 2013 have been prepared in accordance with IAS 34, 'Interim financial reporting' using the same accounting policies and methods of computation followed in the consolidated financial statements for the year ended December 31, 2012. During the three and six months ended June 30, 2013, the Fund did not adopt any changes in accounting policy that resulted in a material impact to the financial statements of the Fund. The interim condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2012, which have been prepared in accordance with IFRS.

3. ACQUISITIONS

On May 31, 2013, the Company acquired a controlling interest in the retail auto glass business of Glass America, Inc. ("Glass America"), which operates 61 retail auto glass locations across 23 U.S. states under the trade names of Glass America and Auto Glass Services. The Fund and its existing glass-business operating partner each contributed their interests in the Company's U.S. auto glass business ("Gerber Glass") on a relative valuation basis, along with a \$6.25 million U.S. cash equity contribution into a new subsidiary entity and received a combined equity interest of 70% of the new business. Boyd funded \$5.25 of a \$6.25 million U.S. cash contribution to the new entity and holds a 55.19% effective interest in the new glass business. Boyd's existing operating partner funded \$1.0 million U.S. of the cash equity contribution and holds 14.81% of the new entity. The shareholders of Glass America contributed the business of Glass America on a relative valuation basis for a 30% non-controlling interest position.

BOYD GROUP INCOME FUND**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

For the three and six months ended June 30, 2012 and June 30, 2013

(in Canadian dollars)

The Fund also completed ten other acquisitions during the first six months of 2013 related to its stated objective of growing through individual locations by between six and ten percent per year.

<u>Acquisition Date</u>	<u>Business & Assets Purchased</u>	<u>Location</u>
January 16, 2013	Wilmington Paint & Body Works	Wilmington, North Carolina
February 9, 2013	Twin City Collision	Stanwood, Washington
February 25, 2013	Express Paint and Body	Lakeland, Florida
March 28, 2013	CBS Quality Cars	Durham, North Carolina
April 1, 2013	Factory Finish	Wilmington, North Carolina
April 30, 2013	Swanson's Auto Body	Spokane, Washington
May 9, 2013	Sonny Hancock Collision Center	Gastonia, North Carolina
May 31, 2013	Queensway Auto Body	Kitchener, Ontario
June 14, 2013	Morris Auto Body	Loveland, Colorado
June 28, 2013	Shenandoah Collision Center	Newnan, Georgia

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

	2013		
Identifiable net assets acquired at fair value:	Glass America	Other Acquisitions	Total
Cash	2,097,040	-	2,097,040
Other current assets	4,143,182	428,614	4,571,796
Property, plant and equipment	1,179,148	3,983,359	5,162,507
Liabilities assumed	(7,065,523)	(157,046)	(7,222,569)
Identifiable net assets acquired	353,847	4,254,927	4,608,774
Goodwill	14,926,161	-	14,926,161
Total purchase consideration	15,280,008	4,254,927	19,534,935
Consideration provided			
Cash	6,461,875	4,057,101	10,518,976
Seller Notes	-	197,826	197,826
Shares issued to Glass America			
non-controlling interest	8,818,133	-	8,818,133
Total consideration provided	15,280,008	4,254,927	19,534,935

The preliminary purchase prices for acquisitions as disclosed above may be revised as additional information becomes available. Further adjustments may be recorded in future periods as purchase price adjustments are finalized.

Acquisition-related costs of \$837,985 (2012 - \$492,890) have been charged as an expense in the consolidated statement of earnings for the six months ended June 30, 2013.

U.S. acquisition transactions are initially recognized in Canadian dollars at the rates of exchange in effect on the transaction dates. Subsequently, the assets and liabilities are translated at the rate in effect at the balance sheet date.

The results of operations reflect the revenues and expenses of acquired operations from the date of acquisition. The revenue included in the consolidated statement of earnings since May 31, 2013 contributed by Glass America was \$3,774,581. Glass America also contributed net earnings of \$193,362 over the same period.

BOYD GROUP INCOME FUND**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

For the three and six months ended June 30, 2012 and June 30, 2013

*(in Canadian dollars)***4. INTANGIBLE ASSETS**

Balance at January 1, 2013	\$ 41,271,177
Amortization	(1,902,831)
Purchase price allocation adjustments within the measurement period	(1,024,700)
Foreign exchange	2,340,575
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Balance at June 30, 2013	\$ 40,684,221

The purchase price allocation adjustment represents a reclassification between customer relationship asset and goodwill within the acquisition measurement period.

5. GOODWILL

Balance at January 1, 2013	\$ 49,691,918
Acquired through business combination	14,926,161
Purchase price allocation adjustments within the measurement period	1,024,700
Foreign exchange	2,602,762
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Balance at June 30, 2013	\$ 68,245,541

The purchase price allocation adjustment represents a reclassification between customer relationship asset and goodwill within the acquisition measurement period.

6. DISTRIBUTIONS

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 were declared and paid as follows:

<u>Record Date</u>	<u>Payment Date</u>	<u>Distribution per Unit</u>	<u>Distribution Amount</u>
January 31, 2013	February 26, 2013	\$ 0.039	\$ 489,002
February 28, 2013	March 27, 2013	0.039	489,002
March 31, 2013	April 26, 2013	0.039	489,061
April 30, 2013	May 29, 2013	0.039	489,095
May 31, 2013	June 26, 2013	0.039	489,097
June 30, 2013	July 29, 2013	0.039	489,097
<hr/>		\$ 0.234	\$ 2,934,354

7. SEASONALITY

The Fund's financial results for any individual quarter are not necessarily indicative of results to be expected for the full year. Interim period revenues and earnings are typically sensitive to regional and local weather, market conditions, and in particular, to cyclical variations in economic activity.

8. 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, IFRS requires the Company to provide geographical disclosure. For the year-to-date periods reported, all of the Company's revenues were derived within Canada or the United States of America.

BOYD GROUP INCOME FUND**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

For the three and six months ended June 30, 2012 and June 30, 2013

(in Canadian dollars)

Reportable assets include property, plant and equipment, goodwill and intangible assets which are all located within these two geographic areas.

	<u>Revenues</u>		<u>Reportable Assets</u>	
	June 30, 2013	June 30, 2012	June 30, 2013	December 31, 2012
Canada	\$ 38,995,998	\$ 36,723,448	\$ 18,611,454	\$ 16,129,213
United States	228,520,732	173,620,729	143,627,930	120,731,244
Total	\$ 267,516,730	\$ 210,344,177	\$ 162,239,384	\$ 136,860,457

9. EARNINGS PER UNIT

	Three Months Ended June 30,		Six Months Ended June 30,	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
a) Earnings:				
Net earnings	\$ (2,566,563)	\$ 1,123,661	\$ (2,536,649)	\$ 3,201,230
b) Number of units:				
Average number of units outstanding	12,540,938	12,534,225	12,539,990	12,532,492
Earnings per unit (a) divided by (b)				
Basic	\$ (0.205)	\$ 0.090	\$ (0.202)	\$ 0.255
Diluted	\$ (0.205)	\$ 0.090	\$ (0.202)	\$ 0.255

Class A exchangeable shares, unit options and convertible debentures are instruments that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they are anti-dilutive for the periods presented.

10. FINANCIAL INSTRUMENTS**Fair Value Adjustment to Financial Instruments**

	For the three months ended:	
	June 30, 2013	June 30, 2012
Fair value adjustment to convertible debenture conversion feature	\$ 2,634,392	\$ -
Fair value adjustment to exchangeable shares	1,538,290	680,262
Fair value adjustment to unit options	1,603,368	567,196
Fair value adjustment to non-controlling interest put option	-	97,670
Fair value adjustments to financial instruments	\$ 5,776,050	\$ 1,345,128

	For the six months ended:	
	June 30, 2013	June 30, 2012
Fair value adjustment to convertible debenture conversion feature	\$ 3,510,847	\$ -
Fair value adjustment to exchangeable shares	2,602,691	972,844
Fair value adjustment to unit options	2,686,068	907,016
Fair value adjustment to non-controlling interest put option	-	97,670
Fair value adjustments to financial instruments	\$ 8,799,606	\$ 1,977,530

BOYD GROUP INCOME FUND**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

For the three and six months ended June 30, 2012 and June 30, 2013

*(in Canadian dollars)***Fair Value Measurement**

The Fund's financial instruments measured at fair value are limited to cash, the exchangeable Class A shares, the non-controlling interest put option, and the convertible debenture conversion feature. The valuation techniques used to measure these financial instruments are described in the subsequent corresponding sections of this Note and Note 11.

The following presents the Fund's assets and liabilities measured at fair value on a recurring basis and categorized by hierarchy level at June 30, 2013:

Asset (liability) (\$000's)	(Quoted prices in an active markets for identical assets) Level 1	(Significant other observable inputs) Level 2	(Significant other unobservable inputs) Level 3
Cash	32,777	-	-
Convertible debenture conversion feature	-	(5,520)	-
Exchangeable class A shares	(8,489)	-	-
Non-controlling interest put options	-	(17,669)	-

The Fund's financial instruments not measured at fair value include accounts receivable, accounts payable and accrued liabilities, long-term debt and the non-derivative component of convertible debentures. The carrying value of accounts receivable, accounts payable and long-term debt approximates their fair value. The non-derivative component of the convertible debentures had a carrying value of \$30,647,783 and a fair value of \$32,100,454 at June 30, 2013.

Convertible Debenture Conversion Feature

The fair value for the convertible debenture conversion feature is estimated using a Black-Scholes valuation model with the following assumptions used: unit price \$23.51, dividend yield 4.94%, expected volatility 30.95%, risk free interest rate of 1.28%, term of 4.5 years. The fair value of the debenture conversion feature will change based on movement in bond rates and the market price of units of the fund.

Exchangeable Class A Shares

The Class A common shares of BGHI are exchangeable into units of the Fund. To facilitate the exchange, BGHI issues one Class B common share to the Fund for each Class A common share that has been retracted. The Fund in turn issues a trust unit to the Class A common shareholder. Exchangeable Class A shares are measured at the market price of the units of the Fund as of the statement of financial position date. The market price is based on a ten day trading average for the units at such date. Exchanges are recorded at carrying value. At June 30, 2013 there were 361,101 (December 31, 2012 – 363,538) shares outstanding with a carrying value of \$8,489,485 (December 31, 2012 – \$5,929,305).

Dividends on the exchangeable Class A shares are recorded as interest expense and were declared and paid as follows:

<u>Record Date</u>	<u>Payment Date</u>	<u>Dividend per Share</u>	<u>Dividend Amount</u>
January 31, 2013	February 26, 2013	\$ 0.039	\$ 15,170
February 28, 2013	March 27, 2013	0.039	15,171
March 31, 2013	April 26, 2013	0.039	15,111
April 30, 2013	May 29, 2013	0.039	15,076
May 31, 2013	June 26, 2013	0.039	15,075
June 30, 2013	July 29, 2013	0.039	15,075
		\$ 0.234	\$ 90,678

BOYD GROUP INCOME FUND**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

For the three and six months ended June 30, 2012 and June 30, 2013

*(in Canadian dollars)***Non-controlling Interest Put Option**

Effective January 1, 2011, the Fund entered into an agreement that provides a member of its U.S. management team the opportunity to participate in the future growth of the Fund's U.S. glass business. Within the agreement was a put option held by the non-controlling shareholder that provided the shareholder an option to put the business back to the Fund according to a valuation formula defined in the agreement. In connection with the Glass America acquisition, on May 31, 2013 the original put option agreement was terminated and a new put option was issued. The new put option is restricted until December 1, 2016 and is exercisable anytime thereafter by the glass-business operating partner. The put option may be exercised before December 1, 2016 upon the occurrence of certain unusual events such as a change of control or resignation of the operating partner. Termination of the original put and initial recognition of the new put liability resulted in a net \$3,258,428 reduction of equity, which was offset by a non-controlling interest contribution to equity of \$1,124,784. Future changes in the estimated liability will be recorded in earnings.

On May 31, 2013 the Company entered into an agreement whereby Glass America contributed its auto-glass business to Gerber Glass in exchange for shares representing a 30% ownership interest in the new combined Gerber Glass entity. The agreement contains a put option, which provides the non-controlling interest with the right to require the Company to purchase their retained interest according to a valuation formula defined in the agreement. Issuance of the put option resulted in a \$13,130,639 reduction of equity, which was offset by Glass America's non-controlling interest contribution to equity of \$8,818,133. Future changes in the estimated liability will be recorded in earnings. The put option is restricted until June 1, 2015 and is exercisable anytime thereafter.

The liability recognized in connection with both put options has been calculated using formulas defined in the agreements. The formulas are based on multiples of estimated future earnings of the combined Gerber Glass and Glass America business, and estimated future exercise dates. The estimated future payment obligation is then discounted to its present value at each statement of financial position date.

The liability for non-controlling interest put options comprises the following:

	June 30, 2013	December 31, 2012
Glass-business operating partner non-controlling interest put option	\$ 4,390,675	\$ 1,072,391
Glass America non-controlling interest put option	13,278,191	-
	\$ 17,668,866	\$ 1,072,391

The equity impact of these transactions with non-controlling interests is summarized as follows:

Glass-business operating partner equity contribution	\$ 1,124,784
Glass America equity contribution	8,818,133
Equity contributed by non-controlling interest	\$ 9,942,917
Termination of glass-business operating partner put option	\$ 1,132,247
Recognition of new glass-business operating partner put option	(4,390,675)
Recognition of Glass America put option	(13,130,639)
Recognition of non-controlling interest put option liabilities	\$ (16,389,067)

BOYD GROUP INCOME FUND**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

For the three and six months ended June 30, 2012 and June 30, 2013

*(in Canadian dollars)***11. UNIT BASED PAYMENT OBLIGATION**

Pursuant to the Fund's Option Agreement and Confirmation, the Fund has granted options to purchase units of the Fund to certain key executives. The following options are outstanding at June 30, 2012:

Date Granted	Issue Date	Number of Units	Exercise Price	Expiry Date	Fair Value
January 11, 2006	January 11, 2006	200,000	\$1.91	January 11, 2016	\$ 2,822,408
November 8, 2007	January 2, 2008	150,000	\$2.70	January 2, 2018	\$ 1,389,638
November 8, 2007	January 2, 2009	150,000	\$3.14	January 2, 2019	\$ 1,165,410
November 8, 2007	January 2, 2010	<u>150,000</u>	<u>\$5.41</u>	January 2, 2020	<u>\$ 875,750</u>
		<u>650,000</u>			<u>\$ 6,253,206</u>

The fair value of each option granted January 6, 2006 is estimated using a Black-Scholes valuation model with the following assumptions used for the options granted: unit price \$23.51 dividend yield 4.94%, expected volatility 30.95% (determined as a weighted standard deviation of the unit price over the past four years), risk free interest rate 1.06%, initial term 10 years, remaining term 2.5 years.

The fair value of each option granted November 8, 2007 is estimated using a Black-Scholes valuation model with the following assumptions used for the options granted: unit price \$23.51, dividend yield 4.94%, expected volatility 30.95%, risk free interest rates of 1.28%, 1.37% and 1.48% respectively, initial terms of 10, 11 and 12 years respectively, remaining terms of 4, 5 and 6 years respectively.

12. RELATED PARTY TRANSACTIONS

The \$1.8 million liability associated with the senior managers' unit loan program, which is described in the Fund's 2012 annual financial statements, was settled in the first quarter of 2013. Pursuant to the conditions of the senior managers unit loan program, loan repayments by senior managers amounted to \$32,014 for the six months ended June 30, 2013.

On May 31, the glass operating partner contributed \$1.0 million U.S. towards the acquisition of Glass America. At the same time, his previous put option agreement with the Fund was terminated and replaced with a new put option agreement described in Note 10.

13. COMPARATIVE FIGURES

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