

*Consolidated Financial Statements of*

**THE BRICK GROUP INCOME FUND**

*For the period January 1, 2005 to December 31, 2005*

Deloitte & Touche LLP  
2000 Manulife Place  
10180 - 101 Street  
Edmonton AB T5J 4E4  
Canada

Tel: (780) 421-3611  
Fax: (780) 421-3782  
[www.deloitte.ca](http://www.deloitte.ca)

## **Auditors' Report**

To the Unitholders of  
The Brick Group Income Fund

We have audited the consolidated balance sheet of The Brick Group Income Fund ("the Fund") as at December 31, 2005 and December 31, 2004 and the consolidated statements of earnings and accumulated earnings and cash flows for the year ended December 31, 2005 and for the period from July 20, 2004 to December 31, 2004. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2005 and December 31, 2004 and the results of its operations and cash flow for the year ended January 1, 2005 to December 31, 2005 and for the period from July 20, 2004 to December 31, 2004 in accordance with Canadian generally accepted accounting principles.

*"Deloitte & Touche LLP"*

Deloitte & Touche LLP  
Chartered Accountants

Edmonton, Canada  
March 3, 2006

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**The Brick Group Income Fund**  
**Consolidated Balance Sheets**  
As at December 31, 2005 and December 31, 2004  
(thousands of Canadian dollars)

	2005	2004
<b>ASSETS</b>		
CURRENT		
Cash and cash equivalents	\$ 29,201	\$ 17,402
Accounts receivable (Note 5)	54,192	37,532
Inventory	193,670	168,863
Prepaid expenses and deposits	7,310	5,539
	<b>284,373</b>	<b>229,336</b>
MARKETABLE SECURITIES (Note 6)	26,465	25,475
DEFERRED ACQUISITION COSTS	10,223	3,162
CAPITAL ASSETS (Note 7)	128,426	119,477
GOODWILL	305,349	305,349
INTANGIBLE ASSETS AND DEFERRED CHARGES (Note 8)	168,466	177,202
FUTURE INCOME TAXES (Note 17)	598	499
	<b>\$ 923,900</b>	<b>\$ 860,500</b>
<b>LIABILITIES</b>		
CURRENT		
Bank indebtedness (Note 10)	\$ 6,670	\$ 7,319
Accounts payable and accrued liabilities	198,466	158,808
Corporate income taxes payable	776	503
Customers' deposits	60,862	40,612
Unpaid claims reserve	3,186	2,390
Promissory note payable (Note 9)	-	2,177
Current portion of long-term debt (Note 11)	8,253	7,460
	<b>278,213</b>	<b>219,269</b>
DEFERRED SERVICE REVENUE	593	818
DEFERRED LEASE INDUCEMENTS	12,756	2,614
DEFERRED WARRANTY PLAN REVENUE AND UNEARNED INSURANCE REVENUE (Note 12)	72,952	39,684
LONG-TERM DEBT (Note 11)	73,217	74,725
FUTURE INCOME TAXES (Note 17)	7,780	11,999
	<b>445,511</b>	<b>349,109</b>
COMMITMENTS AND CONTINGENCIES (Note 19)		
GUARANTEES (Note 20)		
<b>UNITHOLDERS' EQUITY</b>		
Trust units (Note 13)	528,213	528,213
Accumulated distributions declared (Note 14)	(104,155)	(39,149)
Accumulated earnings	54,331	22,327
	<b>478,389</b>	<b>511,391</b>
	<b>\$ 923,900</b>	<b>\$ 860,500</b>

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

Approved on behalf of the Board of Trustees

"Ronald D. Barbaro"

Trustee

"Domenic Ieraci"

Trustee

**The Brick Group Income Fund**  
**Consolidated Statement of Earnings and Accumulated Earnings**  
**For the Year Ended December 31, 2005 and for the period July 20, 2004 to December 31, 2004**  
**(thousands of Canadian dollars except unit and per unit amounts)**

	December 31, 2005	Commencement of operations, July 20, 2004 to December 31, 2004 (165 days)
SALES AND OPERATING REVENUE	\$ 1,214,405	\$ 612,370
COST OF SALES	739,505	379,825
	<b>474,900</b>	232,545
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES	413,839	193,477
	<b>61,061</b>	39,068
OTHER EARNINGS (EXPENSES)		
Investment and other income	1,087	662
Interest on other debt	(1,251)	(240)
Interest on long-term debt	(3,982)	(1,674)
Amortization (Note 16)	(26,364)	(17,583)
	<b>(30,510)</b>	(18,835)
EARNINGS BEFORE INCOME TAXES	<b>30,551</b>	20,233
INCOME TAX RECOVERY (EXPENSE) (Note 17)		
Current	(2,865)	(1,883)
Future	4,318	3,977
	<b>1,453</b>	2,094
NET EARNINGS	<b>32,004</b>	22,327
ACCUMULATED EARNINGS, BEGINNING OF PERIOD	<b>22,327</b>	-
ACCUMULATED EARNINGS, END OF PERIOD	\$ <b>54,331</b>	\$ 22,327
Basic and diluted earnings per unit	\$ <b>0.59</b>	\$ 0.41
Basic and diluted average number of units outstanding	<b>54,171,133</b>	54,171,133

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

**The Brick Group Income Fund**  
**Consolidated Statements of Cash Flow**

For the Year Ended December 31, 2005 and the period from July 20, 2004 to December 31, 2004

(thousands of Canadian dollars except unit and per unit amounts)

	December 31, 2005	Commencement of operations, July 20, 2004 to December 31, 2004 (165 days)
<b>OPERATING ACTIVITIES</b>		
Net earnings	\$ 32,004	\$ 22,327
Add (deduct) items not affecting cash		
Amortization (Note 16)	26,364	17,583
Amortization of deferred lease inducements	(290)	(67)
Amortization of deferred warranty revenue	(9,756)	(3,305)
Amortization of deferred acquisition costs	288	-
Future Income Taxes (Note 17)	(4,318)	(3,977)
Amortization of preferred share premiums	155	92
Loss (gain) on sale of capital assets	93	-
Loss (gain) on sale of marketable securities	(16)	515
Other	-	(55)
Cash received for leasehold inducements	10,432	2,681
Cash paid for deferred acquisition costs	(7,349)	(3,162)
Cash received on warranty and insurance sales	43,024	18,810
	<b>90,631</b>	<b>51,442</b>
Changes in non-cash operating working capital items (Note 18)	22,497	(63,086)
	<b>113,128</b>	<b>(11,644)</b>
<b>FINANCING ACTIVITIES</b>		
Increase of non-revolving term bank loan	-	70,000
Financing Fees	(69)	-
Distributions paid	(69,989)	(21,515)
Promissory note payments	(2,177)	(3,627)
Mortgage principal payments	(715)	(335)
Trust units issued for cash (net of expenses)	-	253,518
	<b>(72,950)</b>	<b>298,041</b>
<b>INVESTING ACTIVITIES</b>		
Additions to capital assets	(25,794)	(6,731)
Additions to marketable securities	(9,346)	(3,252)
Additions to intangible assets	(813)	-
Proceeds from sale of marketable securities	8,217	3,409
Proceeds on disposal of capital assets	6	-
Acquisition of Brick LP (net of cash acquired) (Note 2)	-	(269,740)
	<b>(27,730)</b>	<b>(276,314)</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS FOR THE PERIOD</b>	<b>12,448</b>	<b>10,083</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>10,083</b>	<b>-</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 22,531</b>	<b>\$ 10,083</b>
<b>CASH AND CASH EQUIVALENTS IS COMPRISED OF:</b>		
Cash and cash equivalents, end of period	\$ 29,201	\$ 17,402
Bank indebtedness, end of period	(6,670)	(7,319)
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 22,531</b>	<b>\$ 10,083</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest and dividends received	\$ 1,086	\$ 1,334
Interest paid	4,511	1,914
Income taxes recovered	-	-
Income taxes paid	2,592	2,531

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

# **The Brick Group Income Fund**

## **Notes to Consolidated Financial Statements**

**For the Year Ended December 31, 2005 and the period from July 20, 2004 to December 31, 2004  
(thousands of Canadian dollars except unit and per unit amounts)**

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### **1. DESCRIPTION OF THE BUSINESS**

The Brick Group Income Fund (the “Fund”) is an unincorporated, open ended limited purpose trust created by the Declaration of Trust made as at May 25, 2004, as amended and restated, and governed by the laws of Alberta. The Fund is authorized to issue an unlimited number of Class A and Class B trust units (the “Trust units.”) The Fund was created to invest in the retail furniture, mattress, appliance and electronics industry initially through the indirect acquisition of the limited partnership units of The Brick Warehouse LP together with its general partner and subsidiaries (the “Brick LP”). The Fund remained inactive until the acquisition on July 20, 2004 (Note 2).

The business of the Fund includes the operations of The Brick Warehouse LP, United Furniture Warehouse LP, Trans Global Warranty Corp., Trans Global Insurance Company and Trans Global Life Insurance Company whose principal business activities are retail sales of furniture, mattresses, appliances and electronics, and the marketing of warranty plans and retail credit insurance plans.

### **2. ISSUANCE OF TRUST UNITS AND ACQUISITION**

On July 20, 2004, the Fund completed an initial public offering and the sale of 27,200,000 Class A Trust units for \$10 per unit, resulting in total gross proceeds of \$272,000. The cost of issuing the units was \$18,482, resulting in net proceeds of \$253,518.

On July 20, 2004, in conjunction with the initial public offering, the Fund indirectly acquired 100% of The Brick Warehouse LP. Consideration consisted of a combination of cash and Trust units. The acquisition has been accounted for using the purchase method and accordingly, the results of operations from July 20, 2004 onward have been included in these consolidated financial statements. The consideration paid has been allocated to the assets acquired based on their fair values as follows:

## The Brick Group Income Fund

### Notes to Consolidated Financial Statements

For the Year Ended December 31, 2005 and the period from July 20, 2004 to December 31, 2004  
(thousands of Canadian dollars except unit and per unit amounts)

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#### ISSUANCE OF TRUST UNITS AND ACQUISITION (continued)

Net assets acquired:	
Cash and cash equivalents	\$ 9,188
Accounts receivable	40,363
Inventory	169,849
Prepaid expenses and deposits	7,136
Marketable securities	26,239
Capital assets	119,141
Goodwill	305,349
Intangible assets and deferred charges	188,335
Accounts payable and accrued liabilities - trade	(156,512)
Accounts payable and accrued liabilities - pre-closing employee amounts and issuance costs	(44,590)
Corporate income taxes payable	(1,151)
Customers' deposits	(53,296)
Unpaid claims	(2,690)
Promissory note payable	(5,804)
Deferred service revenue	(742)
Deferred warranty plan revenue	(24,179)
Long-term debt	(12,520)
Future income taxes	(15,477)
<hr/> Purchase price	<hr/> \$ 548,639
Consideration:	
Class A trust units	\$ 157,240
Class B trust units	112,471
Cash	278,928
<hr/>	<hr/> \$ 548,639

The investment has been recorded on the consolidated statement of cash flow at cash and cash equivalents acquired of \$9,188, less cash paid of \$278,928, for a net cash outflow of \$269,740.

The amount of goodwill expected to be deductible for tax is \$25,272.

### 3. ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and reflect the following significant accounting policies:

## **The Brick Group Income Fund**

### **Notes to Consolidated Financial Statements**

**For the Year Ended December 31, 2005 and the period from July 20, 2004 to December 31, 2004  
(thousands of Canadian dollars except unit and per unit amounts)**

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#### **ACCOUNTING POLICIES (continued)**

##### *Basis of presentation*

The consolidated financial statements include the Fund and its wholly owned subsidiaries, including The Brick Trust, The Brick Warehouse LP, United Furniture Warehouse LP, and Trans Global Warranty Corp. and its subsidiaries: Trans Global Life Insurance Company and Trans Global Insurance Company. All inter-company transactions and balances have been appropriately eliminated. The consolidated financial statements are for the year ended December 31, 2005 with comparative information for the period from July 20, 2004, the date of commencement of operations, to December 31, 2004.

##### *Cash and cash equivalents*

Cash and cash equivalents consist of cash on deposit and highly liquid short-term investments, with original maturities at the date of acquisition of 90 days or less, and are recorded at cost plus accrued interest. Bank indebtedness, consisting of a revolving operating loan, is considered cash and cash equivalents when drawn on for purposes of the statement of cash flow.

##### *Inventory*

Inventory is valued at the lower of cost, determined using the first-in, first-out method, and net realizable value.

##### *Incentives received from vendors*

Incentives received from a vendor are presumed to be a reduction in the prices of the vendor's products and are accounted for as a reduction in the related inventory and cost of sales. Incentives received for a direct reimbursement of costs incurred to sell the vendor's products, such as marketing and advertising funds, are recorded as a reduction of those related costs in the statement of earnings, provided certain conditions are met.

##### *Marketable securities*

Investments in common shares are recorded at cost. Bonds and preferred shares are recorded at amortized cost, such that any premium or discount on acquisition is amortized on the straight-line basis to the date of maturity for bonds and the next call date for preferred shares. Investments are written down when there is a decline in value that is other than temporary. Gains and losses are recognized on the date of settlement.

**The Brick Group Income Fund**  
**Notes to Consolidated Financial Statements**  
**For the Year Ended December 31, 2005 and the period from July 20, 2004 to December 31, 2004**  
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**ACCOUNTING POLICIES (continued)**

*Translation of foreign currencies*

Transactions in foreign currencies are translated into Canadian dollars at rates of exchange at the time of such transactions. Monetary assets and liabilities are translated at current rates of exchange. Gains or losses resulting from the translation adjustments are included in income.

*Capital assets*

Capital assets are recorded at cost. Software and development costs include software, wages and operating costs directly related to the purchase and installation of major systems. Amortization is provided using the straight-line method over the estimated useful lives of the assets. Estimated useful lives are as follows:

Buildings	10 to 20 years
Automotive equipment	7 years
Equipment	3 to 15 years
Software and development costs	5 years

Leasehold improvements are amortized over the lesser of their estimated economic life or the lease term, representing the initial lease term and including renewal periods only where renewal has been determined to be reasonably assured (“Lease Term”).

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate their carrying amount may not be recoverable. An impairment loss is recognized when carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of impairment loss is the excess of the carrying value of the asset over its fair value.

*Deferred lease inducements*

Lease inducements applicable to lease contracts are deferred and amortized as a reduction of selling, general and administrative expenses over the Lease Term using the straight-line method.

Total rent to be paid over the Lease Term is amortized on a straight-line basis over the Lease Term. Accordingly, reasonably assured rent escalations (or step-rent increases) are amortized over the Lease Term, and free rent periods are allocated a portion of rent expenses.

**The Brick Group Income Fund**  
**Notes to Consolidated Financial Statements**  
**For the Year Ended December 31, 2005 and the period from July 20, 2004 to December 31, 2004**  
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**ACCOUNTING POLICIES (continued)**

*Goodwill and indefinite life intangible assets*

Goodwill and intangible assets with indefinite lives are recorded at cost and are not amortized. Management reviews these assets for impairment in the fourth quarter of each year, or more frequently if events or changes in circumstances indicate that the asset may be impaired. In the event that the carrying amount of goodwill or the indefinite life intangible assets exceeds their fair value, an impairment loss would be recognized.

The Fund uses the discounted cash flow method as well as a market comparable approach for determining the fair value of its intangible indefinite life assets. For the year ended December 31, 2005 the Fund has assessed the fair value of its goodwill and indefinite life intangible assets and determined that no impairment in carrying value exists.

*Definite life intangible assets*

Intangible assets with definite lives are recorded at cost and are amortized over the estimated useful lives of the assets using the straight-line method. Estimated useful lives are as follows:

Information systems	5 to 7 years
Non-competitive agreements	5 years

Leasehold interests are amortized over the remaining Lease Term.

Customer contracts are amortized over the expected delivery period of the respective contract. Customer contracts acquired on July 20, 2004 (Note 2) will be fully amortized by the end of the second quarter of 2006.

Customer relationships are amortized in accordance with the expected future cash inflows from the relationships.

In situations where the Fund opens new stores, in a region in which it did not previously have a presence, store pre-opening costs that do not qualify as part of the cost of a capital asset are capitalized and deferred until the store is ready to commence commercial operations. These deferred pre opening expenditures are amortized on a straight-line basis over a period of five years and are included in intangible assets and deferred charges (see Note 8). In situations where the Fund opens new stores in a region in which it has an existing presence, store pre opening costs are expensed in the first full month of operations.

## **The Brick Group Income Fund**

### **Notes to Consolidated Financial Statements**

**For the Year Ended December 31, 2005 and the period from July 20, 2004 to December 31, 2004**  
**(thousands of Canadian dollars except unit and per unit amounts)**

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#### **ACCOUNTING POLICIES (continued)**

Definite life intangible assets are tested for recoverability whenever events or changes in circumstances indicate that a carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of an asset is not recoverable and exceeds its fair value.

##### *Unpaid claims reserve*

Warranty repairs are recorded as claims expense at the time the customer reports a claim. Unpaid claims consist of a provision for unpaid reported claims. Unpaid claims are based on estimates that may differ from actual claims paid.

Actuarial liabilities for insurance claims consist of an accrual for the future settlement of claims, both reported and unreported, that have occurred on or before the balance sheet date. The actuarial liability is based on assumptions of loss emergence, payment rates, interest and expected expenses associated with the payments of such claims. The accrual includes appropriate provisions for risk and uncertainty.

##### *Revenue recognition*

#### **Sales revenue**

Sales of products and services to customers are recorded when the product is delivered to the customer or when services are performed. Delivery revenues are recorded upon delivery of the product. Any payments received in advance of delivery are deferred and recorded as customer deposits.

Substantially all retail purchases on approved credit are financed by independent credit providers who provide financing directly to the customer. These credit providers make payment to the Fund directly to facilitate the retail purchase for the customer. The Fund may guarantee a portion of certain receivable balances of independent credit providers that arise from retail purchases on approved credit in the circumstances outlined in Note 20(c). The Fund also offers standard terms of repayment on accounts receivable that arise from credit sales to corporate or commercial customers. All sales on approved credit include specified repayment dates.

The Fund records a provision for sales returns and price guarantees based on historical experience and actual experience subsequent to year end.

#### **Deferred service revenue**

Certain manufacturers' warranty obligations that are assumed by the Fund are recorded as deferred service revenue. This service revenue is recognized over the term of the manufacturers' warranty using the straight-line method.

**The Brick Group Income Fund**  
**Notes to Consolidated Financial Statements**  
**For the Year Ended December 31, 2005 and the period from July 20, 2004 to December 31, 2004**  
**(thousands of Canadian dollars except unit and per unit amounts)**

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**ACCOUNTING POLICIES (continued)**

**Franchise operations**

The Fund grants franchises to independent operators in return for a nominal initial fee and a percentage of gross monthly revenues (“Continuing Fees”). In return, the Fund supplies inventory through an agency arrangement for amounts representing landed cost plus a mark-up. The Fund records the initial fee as income when the store commences operations and the Continuing Fees monthly when earned. The sales to franchises, net of costs, are included in sales and operating revenue.

During the period revenue of \$2,122 (2004 - \$844) was generated from 20 (2004 – 15) franchises.

**Deferred warranty plan revenue and deferred acquisition costs**

Warranty plan sales are deferred at the time of sale and are recognized as income over the term of the warranty plan commencing upon the expiration of the manufacturer’s warranty period.

Costs incurred on warranty sales, including Ontario premium taxes, are recorded as deferred acquisition costs. These costs are amortized to income on the same basis that revenue is recognized.

**Insurance**

Insurance premiums are recognized as revenue over the life of the policy in a pattern matching that of the estimated future claims expense.

*Employee future benefits*

Employee future benefits are accounted for on an accrual basis. The Fund maintains defined contribution plans for its salaried and hourly employees. Contributions of \$1,200 were made to these plans during the period ended December 31, 2005 (2004 - \$499).

**The Brick Group Income Fund**  
**Notes to Consolidated Financial Statements**  
**For the Year Ended December 31, 2005 and the period from July 20, 2004 to December 31, 2004**  
**(thousands of Canadian dollars except unit and per unit amounts)**

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**ACCOUNTING POLICIES (continued)**

*Long-term incentive plan*

The Fund offers a long-term incentive compensation plan (“LTIP”), which provides benefits to certain senior management and key employees based on the amount, if any, by which annual distributable cash exceeds certain annual distributable cash targets. Bonuses, in the form of units of the Fund, will be provided to eligible employees annually where the annual distributable cash of the Fund exceeds threshold amounts. If distributable cash per unit exceeds threshold amounts, a percentage of the excess distributable cash (the participation rate) is contributed by the Fund into a long-term incentive pool. The funds in this pool are used to purchase units of the Fund in the open market, to be provided to eligible employees as bonus compensation. Generally, one-third of these units will vest equally in each of the three years following the grant of the awards

For the period ended December 31, 2005 no LTIP entitlement was earned or accrued (2004 - \$1,022).

*Income taxes*

The Fund complies with the Income Tax Act (Canada) to qualify as a mutual fund trust. A mutual fund trust is subject to tax in each taxation year on the amount of its income for the year, including net realized taxable capital gains, less the portion thereof that it claims in respect of the amounts paid or payable to the Unitholders for the year. The Fund intends to allocate all of its income and net realized capital gains, including those amounts derived from the partnerships, namely The Brick Warehouse LP and United Furniture Warehouse LP, so that the Fund will not generally be liable for income tax and as such, corporate income taxes have not been provided for in the Fund.

Corporate income taxes for corporate subsidiaries of the Fund, including Trans Global Warranty Corp., Trans Global Life Insurance Company and Trans Global Insurance Company, are accounted for using the liability method of income tax allocation. Under the liability method, income tax assets and liabilities are recorded to recognize future income tax inflows and outflows arising from the settlement or recovery of assets and liabilities at their carrying values. Income tax assets are also recognized from tax losses provided these benefits are more likely than not to be realized. Future income tax assets and liabilities are determined based on the tax laws and rates that are anticipated to apply in the period of realization.

*Earnings per unit*

Basic and diluted earnings per unit are calculated using the weighted average number of Trust units outstanding during the period.

**The Brick Group Income Fund**  
**Notes to Consolidated Financial Statements**  
**For the Year Ended December 31, 2005 and the period from July 20, 2004 to December 31, 2004**  
**(thousands of Canadian dollars except unit and per unit amounts)**

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**ACCOUNTING POLICIES (continued)**

*Use of estimates*

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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used when accounting for such items as provisions for sales returns and allowances, unpaid claims, amortization periods of capital assets and definite life intangibles, accruals for vendor incentives, inventory obsolescence provision, allowance for doubtful accounts, test of impairment for capital assets, goodwill and indefinite life intangibles, valuation of future income taxes and purchase price allocation. Although management reviews its estimates on an ongoing basis, actual results may differ from these estimates.

**4. RECENTLY ADOPTED AND PENDING ACCOUNTING POLICIES**

**Accounting Standards Adopted in the Current Year**

*AcG-15 - Consolidation of Variable Interest Entities*

Effective January 1, 2005 the Fund adopted the recommendations of CICA Handbook Accounting Guideline 15 (AcG-15), Consolidation of Variable Interest Entities, effective for annual and interim periods beginning on or after November 1, 2004. Variable interest entities are entities that are subject to control on a basis other than ownership of voting interests. Under generally accepted accounting principles, the Fund consolidates variable interest entities in circumstances where the Fund absorbs the majority of the variable interest entities' variability. The Fund currently does not have any variable interest entities.

*Financial Instruments – Disclosure and Presentation*

Effective January 1, 2005 the Brick Group adopted the amended recommendations of the CICA Handbook Section 3860, Financial Instruments – Disclosure and Presentation, effective for fiscal years beginning on or after November 1, 2004. Section 3860 requires that certain obligations that may be settled at the issuer's option in cash or the equivalent value by a variable number of the issuer's own equity instruments be presented as a liability. The Fund determined that there is no impact on the financial statements resulting from the adoption of the amendments to Section 3860.

## **The Brick Group Income Fund**

### **Notes to Consolidated Financial Statements**

**For the Year Ended December 31, 2005 and the period from July 20, 2004 to December 31, 2004**  
**(thousands of Canadian dollars except unit and per unit amounts)**

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#### **RECENTLY ADOPTED AND PENDING ACCOUNTING POLICIES (continued)**

##### **Accounting Standards to be Adopted in Future Year**

###### *Sections 1530 & 3251 – Comprehensive Income and Equity*

In January 2005, the Accounting Standards Board (“AcSB”) of the Canadian Institute of Chartered Accountants (“CICA”) issued new Handbook Section 1530, Comprehensive Income, and Section 3251, Equity. Section 1530 establishes standards for reporting and display of comprehensive income. It defines other comprehensive income to include revenues, expenses, gains and losses that, in accordance with primary sources of GAAP, are recognized in comprehensive income, but excluded from net income. The section does not address issues of recognition or measurement for comprehensive income and its components.

Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements in this section are in addition to those of Section 1530 and recommend that an enterprise should present separately the following components of equity: retained earnings, accumulated and other comprehensive income, the total for retained earnings and accumulated other comprehensive income, contributed surplus, share capital and reserves.

###### *Section 3855 – Financial Instruments, Recognition and Measurement*

In January 2005, the AcSB of the CICA issued Handbook Section 3855, Financial Instruments – Recognition and Measurement. The new accounting standard requires that all financial instruments, including derivatives are to be included on a company’s balance sheet and measured, either at their fair value or, in limited circumstances where fair value may not be considered most relevant, at cost or amortized cost. The standard also specifies when gains and losses that result from changes in fair values are to be recognized in the income statement.

###### *Section 3865 – Hedges*

In January 2005, the AcSB of the CICA issued Handbook Section 3865, Hedges. The new accounting standard extends existing requirements for hedge accounting and comprehensively specifies how hedge accounting should be performed.

The mandatory effective date for the new Sections 1530, 3251, 3855 and 3865 is for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Earlier adoption is permitted only as of the beginning of a fiscal year ending on or after December 31, 2004. The Fund is in the process of evaluating the impact of these recently issued standards.

## The Brick Group Income Fund

### Notes to Consolidated Financial Statements

For the Year Ended December 31, 2005 and the period from July 20, 2004 to December 31, 2004  
(thousands of Canadian dollars except unit and per unit amounts)

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#### RECENTLY ADOPTED AND PENDING ACCOUNTING POLICIES (continued)

##### *Section 3831 – Non-Monetary Transactions*

In June 2005, the AcSB issued Handbook Section 3831, Non-Monetary Transactions, replacing Section 3830 of the same title. The new accounting standard, effective for non-monetary transactions initiated in periods beginning on or after January 1, 2006, requires all non-monetary transactions be measured at fair value unless certain conditions are satisfied. The Fund is in the process of evaluating the impact of the this recently issued standard, but does not expect that the new standard will have a material impact on its financial position or results of operations.

##### *Implicit Variable Interests Under AcG-15*

In October 2005, the Emerging Issues Committee of the CICA (the “EIC”) issued Abstract No. 157, Implicit Variable Interests under AcG-15 (EIC-157), to address whether a company has an implicit variable interest in a VIE or potential VIE when specific conditions exist. An implicit variable interest acts the same as an explicit variable interest except it involves the absorbing and/or receiving of variability indirectly from the entity (rather than directly). The identification of an implicit variable interest is a matter of judgment that depends on the relevant facts and circumstances. EIC-157 will be effective in the first quarter of 2006. The Fund does not expect the impact of this abstract to be material.

#### 5. ACCOUNTS RECEIVABLE

	<b>2005</b>	<b>2004</b>
Accounts receivable - trade	\$ 38,710	\$ 30,359
Corporate income taxes	851	851
Vendor rebates	9,289	4,861
Franchise	731	291
Other	4,611	1,170
	<b>\$ 54,192</b>	<b>\$ 37,532</b>

##### *Vendor Rebates*

The Brick Group has entered into agreements with specific vendors that require the vendor to pay a rebate provided a certain specified cumulative level of purchases is achieved over a certain period of time. The Brick recognizes the rebate amounts based on anticipated purchase volumes and historical results. For the year ended December 31, 2005, accrued vendor rebates of \$278 have been recognized into income for which full requirements for entitlement have not yet been met.

## The Brick Group Income Fund

### Notes to Consolidated Financial Statements

For the Year Ended December 31, 2005 and the period from July 20, 2004 to December 31, 2004  
(thousands of Canadian dollars except unit and per unit amounts)

#### 6. MARKETABLE SECURITIES

Marketable securities are held by the Fund's subsidiary Trans Global Warranty Corp. and its subsidiaries, Trans Global Life Insurance Company and Trans Global Insurance Company, as a source of financing of future claim payments.

The market value of marketable securities composed entirely of common shares of major U.S. and Canadian companies, preferred shares of Canadian financial institutions, and preferred shares and trust units of other Canadian companies are based on quoted market prices of a public exchange at period-end.

	2005		2004	
	Amortized Cost	Market	Amortized Cost	Market
Bonds	\$ 275	\$ 273	\$ 631	\$ 632
Preferred shares	21,871	22,534	20,912	21,448
	22,146	22,807	21,543	22,080
Trust units	1,958	1,969	-	-
Common shares	2,361	2,832	3,932	4,231
	\$ 26,465	\$ 27,608	\$ 25,475	\$ 26,311

The average annual effective rate of return based on carrying value over the periods to the next call date of the preferred shares is 3.96% (2004 – 4.12%). The preferred shares' next call dates and the bond maturity dates are as follows:

	1 - 3 Years	4 - 6 Years	Over 6 Years	Total
Current balance	\$ 7,280	\$ 12,768	\$ 2,098	\$ 22,146
Unamortized (premium) discount	(3)	(693)	(98)	(794)
Redemption amount	\$ 7,277	\$ 12,075	\$ 2,000	\$ 21,352

## The Brick Group Income Fund

### Notes to Consolidated Financial Statements

For the Year Ended December 31, 2005 and the period from July 20, 2004 to December 31, 2004  
(thousands of Canadian dollars except unit and per unit amounts)

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#### 7. CAPITAL ASSETS

		December 31, 2005		December 31, 2004	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value	
Land	\$ 15,249	\$ -	\$ 15,249	\$ 15,249	
Buildings	31,998	2,538	29,460	31,125	
Automotive equipment	402	267	135	500	
Equipment	35,327	6,325	29,002	24,530	
Software & development costs	1,999	984	1,015	1,521	
Leasehold Improvements	66,731	13,166	53,565	46,552	
	<b>\$ 151,706</b>	<b>\$ 23,280</b>	<b>\$ 128,426</b>	<b>\$ 119,477</b>	

Amortization of capital assets for the year ended December 31, 2005 was \$16,746 (2004 - \$6,395).

For the year ended December 31, 2005, capital assets of \$632 relating mostly to signage and leasehold improvements in stores that were rebannered after year end were written off. The charge for these write offs is included in amortization expense on the Statement of Earnings.

Included in capital assets is construction in progress of \$14,247 not subject to amortization at December 31, 2005 (2004 - \$3,398).

## The Brick Group Income Fund

### Notes to Consolidated Financial Statements

For the Year Ended December 31, 2005 and the period from July 20, 2004 to December 31, 2004  
(thousands of Canadian dollars except unit and per unit amounts)

#### 8. INTANGIBLE ASSETS AND DEFERRED CHARGES

	December 31, 2005			December 31, 2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Definite Life:				
Information systems	\$ 15,158	\$ 3,352	\$ 11,806	\$ 14,119
Leasehold interests	8,414	2,218	6,196	7,719
Store pre-opening costs	7,686	2,245	5,441	6,866
Non-competitive agreements	5,164	1,600	3,564	4,622
Customer relationships	5,100	4,419	681	2,818
Customer contracts	6,450	6,292	158	507
Financing fees	80	11	69	-
Indefinite life:				
Brand	140,551	-	140,551	140,551
	\$ 188,603	\$ 20,137	\$ 168,466	\$ 177,202

Amortization of intangible assets and deferred charges for the year ended December 31, 2005 was \$9,618 (2004 - \$11,188).

For the year ended December 31, 2005, deferred charges of \$679 relating to unamortized pre-opening expenses for stores that were rebannered after year end were written off. The charge for these write offs is included in amortization expense on the Statement of Earnings.

#### 9. PROMISSORY NOTE PAYABLE

	2005	2004
Note payable to United Furniture Ltd., an unrelated third party, secured by a first charge on the assets of United Furniture Warehouse LP, non-interest bearing, repayable in monthly instalments of \$726	\$ -	\$ 2,177

## The Brick Group Income Fund

### Notes to Consolidated Financial Statements

For the Year Ended December 31, 2005 and the period from July 20, 2004 to December 31, 2004  
(thousands of Canadian dollars except unit and per unit amounts)

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#### 10. BANK INDEBTEDNESS

As at December 31, 2005, bank indebtedness is comprised of draws under the revolving credit facility of \$6,670 (2004 - \$5,077 draws under the revolving credit facility and outstanding cheques in excess of outstanding deposits of \$2,242).

##### *Revolving Credit Facility*

Drawings under the Revolving Credit Facility are available by way of Bankers' Acceptances, Canadian Prime Rate Loans, LIBOR loans, U.S. Base Rate Loans, standby letters of credit or standby letters of guarantee as well as drawings under a Swingline. Drawings under the Revolving Credit Facility bear interest at a floating rate, plus an applicable margin based on certain financial performance ratios. For Bankers' Acceptances and LIBOR loans the margin will vary from 1.75% to 2.25% for Canadian Prime Rate Loans, drawings under the Swingline and U.S. Base Rate Loans the margin will vary from 0.75% to 1.25%. At December 31, 2005, \$7,622 (2004 - \$6,347) was drawn under the Revolving Credit Facility, comprised of \$5,359 (2004 - \$4,285) drawn as a Canadian Prime Rate Loan, \$1,311 (2004 - \$792) drawn as a U.S. Base Rate Loan and \$952 (2004 - \$1,270) related to letters of guarantee (Note 20(a)), leaving \$57,378 (2004 - \$58,653) of available undrawn credit. Standby fees are charged on undrawn portions of the Revolving Credit Facility at rates of 0.40% to 0.65% based on certain financial performance ratios.

##### *Term Credit Facility*

Drawings under the Term Credit Facility are available by way of Bankers' Acceptances and Canadian Prime Rate Loans. Drawings under the Term Credit Facility bear interest at a floating rate, plus an applicable margin based on certain financial performance ratios. For Bankers' Acceptances the margin will vary from 1.75% to 2.50% and for Canadian Prime Rate loans the margin will vary from 0.75% to 1.50%. Subject to certain requirements, the Fund is not obligated to repay principal amounts prior to maturity. At December 31, 2005 \$70,000 (2004 - \$70,000) was drawn under the Term Credit Facility bearing interest at a blended rate of 5.11% (2004 - 4.53%) (Note 11).

##### *Commercial Letter of Credit Facility*

Drawings under the Commercial Letter of Credit Facility are available by way of commercial letters of credit. At period-end, \$801 (2004 - \$1,072) was drawn under the Commercial Letter of Credit Facility (Note 20(a)) leaving \$14,199 (2004 - \$13,928) available undrawn credit.

## **The Brick Group Income Fund**

### **Notes to Consolidated Financial Statements**

**For the Year Ended December 31, 2005 and the period from July 20, 2004 to December 31, 2004**  
**(thousands of Canadian dollars except unit and per unit amounts)**

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#### **BANK INDEBTEDNESS (continued)**

The Revolving and Term Facilities and the Commercial Letter of Credit Facility are secured by a first fixed floating charge on the assets of the Fund, except for specified permitted encumbrances. The provisions under these facilities provide for restrictions on the operations and activities of the Fund. Generally, the most significant restrictions relate to permitted investments as well as the maintenance of certain financial covenants. As at December 31, 2005, the Fund is in compliance with all of its financial covenants.

#### *Amending Agreement*

During the year The Brick Warehouse LP entered into an agreement with its lending syndicate to amend certain provisions of the Credit Facilities. The documentation for these amendments was finalized on February 13, 2006. Under the terms of the amendment, the Revolving Credit Facility was replaced with a \$50,000 Operating Facility, subject to margin requirements, and a further \$50,000 Acquisition Facility. The Commercial Letter of Credit Facility was reduced to \$5,000 from \$15,000, in line with a significantly lower level of drawing requirements. The Revolving Credit Facility was extended and is now repayable in full on July 2, 2008. The \$70,000 Term Facility and Commercial Letter of Credit Facility continue to be repayable in full on July 20, 2007.

Pricing on the Credit Facilities was also amended such that interest margins applicable to the Operating Facility have been reduced to 1.25% to 1.75% for Bankers' Acceptances and LIBOR loans, 0.25% to 0.75% for Canadian Prime Rate Loans, U.S. Base Rate Loans and drawings under the Swingline. Standby fees charged on the undrawn portion have been reduced to 0.25% to 0.35% per annum. Interest margins applicable to the Term Facility have been reduced to 1.25% to 2.00% for Bankers' Acceptances, and 0.25% to 1.00% for Canadian Prime Rate Loans. Standby fees charged on the undrawn portion have been reduced to 0.25% to 0.35% per annum. Interest margins applicable to the Acquisition Facility are 1.50% to 2.00% for Bankers' Acceptances and LIBOR loans, 0.50% to 1.00% for Canadian Prime Rate Loans and U.S. Base Rate Loans and standby fees charged on the undrawn portion are 0.30% to 0.40% per annum.

## The Brick Group Income Fund

### Notes to Consolidated Financial Statements

For the Year Ended December 31, 2005 and the period from July 20, 2004 to December 31, 2004  
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#### 11. LONG-TERM DEBT

	2005	2004
Demand mortgage payable in monthly installments of \$48 including interest at prime plus \$0.65%, secured by land and buildings with a net book value of \$21,482.	\$ 6,745	\$ 6,963
Mortgage payable in monthly installments of \$23 including interest at 7.25%, due March 1, 2006, secured by land and buildings with a net book value of \$5,201.	69	332
Mortgage payable in monthly installments of \$12 including interest at 7.00%, due November 1, 2006, secured by land and buildings with a net book value of \$2,406.	1,294	1,389
Mortgage payable in monthly installments of \$24 including interest at 6.83%, due August 1, 2007, secured by land and buildings with a net book value of \$4,583.	3,362	3,501
Term credit facility (Note 10)	70,000	70,000
	<b>81,470</b>	82,185
Less: principal amounts included in current liabilities	<b>(8,253)</b>	(7,460)
	<b>\$ 73,217</b>	\$ 74,725

Due to the demand features of the demand mortgage payable the entire principal amount has been included as a current liability. Principal amounts due in future years, giving effect to the amending agreement (Note 10), are as follows:

	Prior to Maturity	Maturity Payment	Total
2006	\$ 304	\$ 7,949	\$ 8,253
2007	101	73,116	73,217
	\$ 405	\$ 81,065	\$ 81,470

## The Brick Group Income Fund

### Notes to Consolidated Financial Statements

For the Year Ended December 31, 2005 and the period from July 20, 2004 to December 31, 2004  
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#### 12. DEFERRED WARRANTY PLAN AND UNEARNED INSURANCE REVENUE

Deferred warranty plan and unearned insurance revenue will be recorded as earned revenue until the year 2015 as follows:

2006	\$ 17,268
2007	20,382
2008	17,401
2009	12,888
2010	4,707
2011 to 2015	306
	<u>\$ 72,952</u>

#### 13. UNITHOLDERS' EQUITY

##### *Authorized*

The declaration of trust provides that an unlimited number of units may be issued.

##### *Issued*

		2005	2004
	Number of Units	Amount	Amount
<b>Class A units</b>			
Issued on initial public offering (Note 2)	27,200,000	\$272,000	\$272,000
Issued as consideration for purchase of the Brick LP (Note 2)	15,724,016	157,240	157,240
	<u>42,924,016</u>	<u>429,240</u>	<u>429,240</u>
Issuance costs		(18,482)	(18,482)
		<u>410,758</u>	<u>410,758</u>
Special non-cash distribution (Note 14)		4,984	4,984
	<u>42,924,016</u>	<u>415,742</u>	<u>415,742</u>
<b>Class B units</b>			
Issued as consideration for purchase of the Brick LP (Note 2)	11,247,117	112,471	112,471
	<u>54,171,133</u>	<u>\$528,213</u>	<u>\$528,213</u>

## **The Brick Group Income Fund**

### **Notes to Consolidated Financial Statements**

**For the Year Ended December 31, 2005 and the period from July 20, 2004 to December 31, 2004  
(thousands of Canadian dollars except unit and per unit amounts)**

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#### **UNITHOLDERS EQUITY (continued)**

##### *Overallotment*

Subsequent to the offering and the acquisition described in Note 2, the underwriters of the initial public offering of Class A units of the Fund exercised their overallotment option to purchase 800,000 additional Class A units for gross proceeds of \$8,000. The net proceeds were used by the Fund to purchase for cancellation 800,000 Class A units of the Fund from the Vendor of the Brick LP. This transaction had no effect on the unitholders' equity.

##### *Class A units*

Each unit is transferable and represents an equal undivided interest in any distributions of the Fund and in the net assets of the Fund. All units have equal rights and privileges, are not subject to future calls and assessments and entitle the holders thereof to one vote for each unit held at all meetings of the Unitholders.

##### *Class B units*

The Class B units have the same risks and privileges as the Class A units subject to certain subordination and escrow arrangements. Class B units are exchangeable on a one-for-one basis for Class A units after the subordination period described below.

##### *Escrow Arrangements*

Pursuant to an escrow agreement, the Class B units (collectively, the "Escrowed units") have been deposited in escrow with a third party escrow agent. The escrow will terminate and the Escrowed units will be released upon termination of the subordination applicable to the Escrowed units (described below). Distributions on the Class B units are subordinated in favour of the Class A units. Distributions on the Class B units will only be paid at the end of a fiscal quarter to the extent that: (i) the Fund has paid a distribution of at least \$0.10 per Class A unit in respect of the most recent month, and (ii) any deficiency in such distributions to holders of Class A units during the preceding 15 months has been satisfied.

Distributions on the Class A and Class B units are cumulative, such that the amount of any deficiency in such distributions to holders of Class A and Class B units will accumulate for 15 months. Payments of deficiencies, if any, on Class A units will be made in priority to distributions on the Class B units. Any deficiency in respect of a distribution on any Trust units not satisfied within 15 months of the date it arose will cease to be payable.

## **The Brick Group Income Fund**

### **Notes to Consolidated Financial Statements**

**For the Year Ended December 31, 2005 and the period from July 20, 2004 to December 31, 2004  
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#### **UNITHOLDERS EQUITY (continued)**

The subordination provisions of the Class B units will only apply until the earlier of: (i) December 31, 2006 if, for the fiscal year of the Brick LP ended on such date, the Brick LP has earned EBITDA (as defined in the Escrow agreement) of at least \$82,848 (the “EBITDA Target”) and the Brick LP has paid distributions of at least \$1.20 per Trust unit for such fiscal year (the “Distribution Target”), and (ii) the end of any fiscal year of the Brick LP following December 31, 2006 in respect of which the Fund has earned EBITDA of at least the EBITDA Target and the Brick LP has paid distributions per Trust unit of at least the Distribution Target for such year.

If the EBITDA Target has not been reached as at December 31, 2007, the Class B units may be exchanged at the option of the holder subject to a reduction in the exchange ratio.

#### *Redeemable rights*

Class A units are redeemable at any time at the option of the holder at amounts related to market prices at the time, subject to a maximum of \$50 in cash redemptions by the Fund in a particular month. This limitation may be waived at the discretion of the Trustees of the Fund. Redemptions in excess of this amount, assuming no waiving of the limitation, shall be paid by way of a distribution in specie of a pro rata number of notes in securities held by the Fund.

Class B units are redeemable at any time on demand by the holders thereof in the same manner and on the same terms as the Class A units, except that, if the redemption occurs at any time during the subordination period the redemption price will be adjusted to reflect the number of Class A units to which the Class B Unitholders would have been entitled to as at the relevant determination date and will be paid by an unsecured subordinated note.

## The Brick Group Income Fund

### Notes to Consolidated Financial Statements

For the Year Ended December 31, 2005 and the period from July 20, 2004 to December 31, 2004  
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#### 14. ACCUMULATED DISTRIBUTIONS DECLARED

Distributions are declared each month to the Class A Unitholders of record on the last business day of each month, and quarterly to the Class B Unitholders of record on the last business day of each fiscal quarter. Distributions declared during the period ended December 31, 2005, are as follows:

<b>Period</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Per Unit</b>	<b>Amount</b>
<b>Class A units</b>				
January 2005	January 31, 2005	February 15, 2005	\$ 0.1000	\$ 4,292
February 2005	February 28, 2005	March 15, 2005	0.1000	4,292
March 2005	March 31, 2005	April 15, 2005	0.1000	4,292
April 2005	April 29, 2005	May 16, 2005	0.1000	4,292
May 2005	May 31, 2005	June 15, 2005	0.1000	4,292
June 2005	June 30, 2005	July 15, 2005	0.1000	4,292
July 2005	July 29, 2005	August 15, 2005	0.1000	4,292
August 2005	August 31, 2005	September 15, 2005	0.1000	4,292
September 2005	September 30, 2005	October 17, 2005	0.1000	4,292
October 2005	October 31, 2005	November 15, 2005	0.1000	4,292
November 2005	November 30, 2005	December 15, 2005	0.1000	4,292
December 2005	December 30, 2005	January 16, 2006	0.1000	4,293
<b>Class B units</b>				
January 1 - March 31, 2005	March 31, 2005	April 15, 2005	0.3000	3,375
April 1 - June 30, 2005	June 30, 2005	July 15, 2005	0.3000	3,375
July 1 - September 30, 2005	September 30, 2005	October 17, 2005	0.3000	3,375
October 1 - December 31, 2005	December 30, 2005	January 16, 2006	0.3000	3,376
				\$ 65,006

For the period from commencement of operations, July 20, 2004 to December 31, 2004 total distributions of \$39,149 were declared, comprised of \$31,020 on behalf of the Class A units and \$8,129 on behalf of the Class B units. Included in these distributions are \$3,949 (Class A) and \$1,035 (Class B) special non-cash distributions paid by way of additional units in the Fund, as disclosed in Note 13. Immediately after the issuance of the additional units, the outstanding units of the Fund were consolidated such that the number of units of each class was unchanged from the number held immediately prior to the special distribution.

Declared cash distributions of \$7,669 are included in accounts payable and accrued liabilities at December 31, 2005 (December 31, 2004 - \$12,650).

## The Brick Group Income Fund

### Notes to Consolidated Financial Statements

For the Year Ended December 31, 2005 and the period from July 20, 2004 to December 31, 2004  
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#### 15. RELATED PARTY TRANSACTIONS

Included in selling, general and administrative expenses for the period July 20, 2004 to August 29, 2004 is rent expense of \$89 paid to companies that were controlled by the Vendor of the Brick LP. As at August 29, 2004 the companies changed ownership so that they are no longer controlled by the Vendor of the Brick LP. These transactions were in the normal course of operations and are measured at the exchange amount, based on commercial rates, of consideration established and agreed to by the related parties.

#### 16. AMORTIZATION

	<b>2005</b>	<b>2004</b>
Amortization of capital assets	\$ 16,746	\$ 6,395
Amortization of intangible assets	9,618	11,188
	<b>\$ 26,364</b>	<b>\$ 17,583</b>

#### 17. INCOME TAXES

The following is a reconciliation of income taxes, calculated at the Canadian combined federal and provincial income tax rate, to the income tax provision included in the consolidated statement of earnings and accumulated earnings:

	<b>2005</b>	<b>2004</b>
Earnings before income taxes	\$ 30,551	\$ 20,223
Non-taxable dividends	(881)	(1,166)
Income not subject to tax in the Fund	(34,844)	(24,652)
	<b>\$ (5,174)</b>	<b>\$ (5,595)</b>
Income tax recovery at the statutory rate of 36.0%	\$ 1,862	\$ 2,014
Increase related to:		
Other	(409)	80
	<b>\$ 1,453</b>	<b>\$ 2,094</b>
Classified as:		
Current expense	\$ (2,865)	\$ (1,883)
Future recovery	4,318	3,977
	<b>\$ 1,453</b>	<b>\$ 2,094</b>

Income taxes are recognized for future income tax consequences attributed to estimated differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases in the corporate subsidiaries of the Fund.

## The Brick Group Income Fund

### Notes to Consolidated Financial Statements

For the Year Ended December 31, 2005 and the period from July 20, 2004 to December 31, 2004  
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#### INCOME TAXES (continued)

Future income taxes are comprised of:

	2005	2004
Future income tax assets		
Marketable securities and other assets	\$ 598	\$ 499
Future income tax liabilities		
Marketable securities	\$ (22)	\$ (149)
Deferred acquisition costs	2,348	3,659
Deferred warranty revenue	(9,779)	(15,348)
Customer relationships	(242)	(1,004)
Other	(85)	-
Non-capital losses	-	843
Future income tax liabilities - net	\$ (7,780)	\$ (11,999)
Classified as:		
Long-term asset	\$ 598	\$ 499
Long-term liability	(7,780)	(11,999)
	\$ (7,182)	\$ (11,500)

## The Brick Group Income Fund

### Notes to Consolidated Financial Statements

For the Year Ended December 31, 2005 and the period from July 20, 2004 to December 31, 2004  
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#### 18. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	2005	2004
Cash provided by (used in)		
Accounts receivable	\$ (16,660)	\$ 2,831
Inventory	(24,807)	986
Prepaid expenses and deposits	(1,771)	1,597
Accounts payable and accrued liabilities - trade	44,641	(10,354)
Corporate income taxes payable	273	(648)
Customers' deposits	20,250	(12,684)
Deferred service revenue	(225)	76
Unpaid claims reserve	796	(300)
	<u>\$ 22,497</u>	<u>\$ (18,496)</u>
Accounts payable and accrued liabilities - pre-closing employee amounts and issuance costs (Note 2)	-	(44,590)
	<u>\$ 22,497</u>	<u>\$ (63,086)</u>

#### 19. COMMITMENTS AND CONTINGENCIES

##### *Operating leases*

The Fund is the lessee under a series of long-term operating leases for stores, equipment and vehicles. Minimum payments over the next five years and thereafter to end of term under the lease arrangements are as follows:

2006	\$ 56,589
2007	54,625
2008	53,121
2009	48,670
2010	43,796
2011 - 2025	254,642
	<u>\$ 511,443</u>

## The Brick Group Income Fund

### Notes to Consolidated Financial Statements

For the Year Ended December 31, 2005 and the period from July 20, 2004 to December 31, 2004  
(thousands of Canadian dollars except unit and per unit amounts)

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#### COMMITMENTS AND CONTINGENCIES (continued)

##### *Contingencies*

Trans Global Warranty Corp. does not remit provincial premium tax related to the sale of protection plans in any other province other than Ontario. In the opinion of management, the relevant provincial legislation supports this filing position. The Alberta tax authorities have assessed Trans Global Warranty Corp. for premium taxes related to sales from 1987 to 2004. The estimated total liability related to this period is \$5,504 (\$4,664 - net of income taxes). Trans Global Warranty Corp. is disputing these assessments and is defending its position with the Alberta tax authorities. No other provinces have assessed Trans Global Warranty Corp. for premium taxes. If Trans Global Warranty Corp. is required to remit premium taxes related to the sale of protection plans in Alberta and/or any of the other provinces, the estimated total liability due to non-remittance of premium taxes as at December 31, 2005 is \$8,187 (\$6,530 net of income taxes). No provision has been made in these consolidated financial statements for such taxes.

In the normal course of its business activities, the Fund is subject to a number of claims and legal actions that may be made by customers, suppliers and others in respect of which either an adequate provision has been made or for which no material liability is expected.

As at December 31, 2005, a provision of \$1,000 related to a judgment on a landlord dispute originating in 2000 was recorded in the Brick LP. This \$1,000 represents the full amount of damages and estimated costs related to the judgment which was received subsequent to year end. Management intends to appeal the court's decision. Any gain resulting from the appeal will be recorded as a reduction in selling, general and administrative expenses in the period in which it occurs.

#### 20. **GUARANTEES**

In the normal course of operations, the Fund, including its subsidiaries, enters into agreements that may involve providing certain guarantees or indemnifications to third parties and others, which extend over the term of the agreement. These include, but are not limited to, residual value guarantees on operating leases, letters of credit and indemnifications that are customary for the type of transaction. The terms of these agreements will vary based upon the contract. Management does not expect the potential amount of these counterparty payments to have a material effect on the Fund's financial position or operating results.

##### (a) *Letters of credit and guarantees*

The Fund has a letter of credit facility in the amount of \$15,000 related to overseas product purchases. At December 31, 2005, \$801 (2004 - \$1,072) was drawn under this facility leaving undrawn credit available of \$14,199 (2004 - \$13,928).

## The Brick Group Income Fund

### Notes to Consolidated Financial Statements

For the Year Ended December 31, 2005 and the period from July 20, 2004 to December 31, 2004  
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#### GUARANTEES (continued)

The Fund has letters of guarantee outstanding in the amount of \$952 (2004 - \$1,270) as of December 31, 2005, related to general operating matters. No funds have been advanced on these letters of guarantee.

(b) *Indemnifications*

The Fund has agreed to indemnify its Trustees, Directors and Officers for certain events or occurrences while the Trustee, Director or Officer is or was serving at the Fund's request in such capacity. The maximum potential amount of future payments is unlimited. However, the Fund has Trustee, Director and Officer insurance coverage that limits its exposure and enables the Fund to recover a portion of any future amounts paid.

(c) *Limited recourse liability*

The Fund is exposed to risks of default on Brick Card balances owned and underwritten by an unrelated external service provider. This limited recourse liability relates only to the unique situation whereby the service provider initially declines to accept the customer's credit application, but subsequently accepts the application upon the Fund's authorization. The customer account balances outstanding related to this arrangement as at December 31, 2005 total \$7,435 (2004 - \$10,628). Based on historical collection experience, The Fund estimates that its portion of the total collection defaults on these outstanding account balances to be \$656 (2004 - \$433) and, therefore, has accrued a liability in respect of this obligation in these financial statements.

(d) *Residual values*

The Fund has guaranteed a portion of the residual values of certain assets under operating leases to the benefit of the lessor. If the fair value of the assets, at the end of their respective Lease Terms, is less than the residual value guaranteed, then the Fund must, under certain conditions, compensate the lessor for all or a portion of the shortfall. The maximum exposure in respect of these guarantees at December 31, 2005, is \$1,450 (2004 - \$1,461). As at December 31, 2005, the Fund has not recorded a liability related to these arrangements as it does not expect to make payments pertaining to the guaranteed residual values.

(e) *Price guarantees*

The Fund has guaranteed to meet or beat any publicly advertised price of its merchandise sold if the customer provides valid proof either at the time of purchase, or within 30 days after delivery. As at December 31, 2005, the Fund has accrued a provision for price guarantees relating to sales recognized prior to period end based on historical experience of \$348 (2004 - \$255).

**The Brick Group Income Fund**  
**Notes to Consolidated Financial Statements**  
**For the Year Ended December 31, 2005 and the period from July 20, 2004 to December 31, 2004**  
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21. **FINANCIAL INSTRUMENTS**

*Risk management*

The Fund is exposed to financial risks that arise from fluctuations in interest rates and foreign exchange rates and the degree of volatility of these rates. The Fund does not use financial instruments to reduce those risks, nor does it issue financial instruments for trading purposes.

The majority of the Fund's retail sales are funded through cash, traditional credit cards and private label credit cards carried on a non-recourse basis by third parties.

(a) *Credit risk*

The Fund is exposed to credit risk from accounts receivable that arise upon sales to corporate customers. This risk is mitigated by performing credit assessments and implementing credit limits for each customer. The risk is also limited due to the large number of customers and their dispersion across geographic areas.

(b) *Interest rate risk*

The Fund is exposed to interest rate risk on the floating-rate credit facilities as disclosed in Note 10 and Note 11.

The revenue of the Fund depends, in part, in supplying financing alternatives to its customers through third party credit providers. The terms of these financing products are affected by changes in interest rates.

(c) *Currency risk*

The Fund is exposed to foreign currency fluctuations to the extent that approximately 15% of inventory purchases are made in U.S. dollar prices. This risk is offset to the extent that foreign currency costs are included in product costs when setting retail prices.

The Fund enters into foreign exchange contracts in U.S. dollars. These contracts are to minimize a portion of the risk associated with future purchases of foreign currency denominated goods and services with an emphasis on those purchases that are expected to be completed the following month. These derivative contracts, not accounted for as hedges, are marked to market, and any changes in the market value are recorded in income or expense when the changes occur. The fair values of these instruments are recorded in accounts payable or accounts receivable.

## The Brick Group Income Fund

### Notes to Consolidated Financial Statements

For the Year Ended December 31, 2005 and the period from July 20, 2004 to December 31, 2004  
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#### FINANCIAL INSTRUMENTS (continued)

As at December 31, 2005, foreign exchange contracts with a notional maturity amount of \$11,541 CDN were outstanding with a weighted average term to maturity of 26 days and an unrealized gain of \$81 CDN.

(d) *Market price risk*

The Fund is exposed to fluctuations in the market prices of its marketable securities. This risk is managed by the Fund's investment policies. The Fund's investments in marketable securities are disclosed in Note 6.

(e) *Fair value*

The carrying values of financial instruments approximate their fair values, with the exception of marketable securities for which fair value information is disclosed in Note 6.

#### 22. SEGMENTED INFORMATION

The Fund's reportable segments are strategic business units that offer different products and services. The Fund has two operating segments: Retail and Financial Services.

The Fund operates retail stores concentrating on the sales of furniture, mattresses, appliances and electronics. Retail customers are offered credit through the Brick Card which is funded and billed by unrelated external service providers.

Financial Services are primarily engaged in providing extended warranty services on products sold to customers of The Brick and credit insurance on balances that arise from customers' use of their Brick Card. Credit balances are insured against the cardholder's loss of life, property or source of income, thereby providing protection to many customers who do not carry other similar insurance policies. The Financial Services segment also offers property and credit insurance product to third parties.

The reportable segments reflect the basis on which management measures performance and makes decisions regarding the allocation of resources.

The accounting policies of the segments are the same as those described in the significant accounting policies in Note 3. All inter-company transactions and balances have been appropriately eliminated.

## The Brick Group Income Fund

### Notes to Consolidated Financial Statements

For the Year Ended December 31, 2005 and the period from July 20, 2004 to December 31, 2004  
(thousands of Canadian dollars except unit and per unit amounts)

#### SEGMENTED INFORMATION (continued)

	For the period ending December 31, 2005			From July 20, 2004 to December 31, 2004		
	Retail	Financial Services	Total	Retail	Financial Services	Total
Sales & operating revenue	\$ 1,189,224	\$ 25,181	\$ 1,214,405	\$ 603,675	\$ 8,695	\$ 612,370
Net earnings	15,734	16,270	32,004	16,219	6,108	22,327
Interest expense	5,229	4	5,233	1,914	-	1,914
Interest income	61	208	269	108	59	167
Amortization of capital assets	16,743	3	16,746	6,394	1	6,395
Income tax Recovery	-	1,453	1,453	-	2,094	2,094
Goodwill	\$ 305,349	\$ -	\$ 305,349	\$ 305,349	\$ -	\$ 305,349
Total assets	879,629	44,271	923,900	809,638	50,862	860,500
Capital expenditures	\$ 25,793	\$ 1	\$ 25,794	\$ 6,731	\$ -	\$ 6,731

The Fund's consumer credit department arranges retail purchase financing through unrelated external service providers. For 2005, management views and manages the consumer credit department as a support function within retail operations. Previously, net earnings from the consumer credit department had been included in the Financial Services segment. Segmented information for the period July 20, 2004 to December 31, 2004 has been restated accordingly.

#### 23. SUBSEQUENT EVENTS

Subsequent to year end, land together with a store owned by the Fund and located in Calgary, Alberta was expropriated by the City of Calgary. Proceeds from the expropriation are expected to result in a loss on disposal of approximately \$11. The Fund continues to operate in Calgary through its other retail locations located in the city.

#### 24. SEASONAL NATURE OF THE BUSINESS

The Fund's results for any quarter are not necessarily indicative of the results that may be expected for the full year due to seasonal variations in sales levels. The Fund's subsidiaries historically experience a higher level of sales during the third and fourth quarters, while the first and second quarters experience lower sales levels due to seasonal shopping patterns. Occupancy-related expenses, certain general and administrative expenses, depreciation and amortization, and interest expense remain relatively steady throughout the year.