

Consolidated Financial Statements of

THE BRICK GROUP INCOME FUND

For the year ended December 31, 2006

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Auditors' Report

To the Unitholders of
The Brick Group Income Fund

We have audited the consolidated balance sheets of The Brick Group Income Fund (the "Fund") as at December 31, 2006 and December 31, 2005 and the consolidated statements of earnings and deficit and cash flow for the years ended December 31, 2006 and December 31, 2005. 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, 2006 and December 31, 2005 and the results of its operations and cash flow for the years ended December 31, 2006 and December 31, 2005 in accordance with Canadian generally accepted accounting principles.

"Deloitte & Touche LLP"

Chartered Accountants

Edmonton, Canada
February 28, 2007 (except as to Notes 8 and 23,
which are as of March 14, 2007)

TABLE OF CONTENTS

	<u>PAGE</u>
Consolidated Balance Sheets	
Consolidated Statements of Earnings and Deficit	
Consolidated Statements of Cash Flow	
Notes to the Consolidated Financial Statements	4-36

The Brick Group Income Fund
Consolidated Balance Sheets
As at December 31, 2006 and December 31, 2005
(thousands of Canadian dollars)

	2006	2005
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 16,450	\$ 29,201
Accounts receivable (Note 4)	72,040	54,192
Inventory	211,159	193,670
Prepaid expenses and deposits	3,652	7,310
	303,301	284,373
MARKETABLE SECURITIES (Note 5)	25,818	26,465
DEFERRED ACQUISITION COSTS	16,412	10,223
CAPITAL ASSETS (Note 6)	131,182	128,426
GOODWILL	305,349	305,349
INTANGIBLE ASSETS AND DEFERRED CHARGES (Note 7)	166,332	168,466
FUTURE INCOME TAXES (Note 15)	750	598
	\$ 949,144	\$ 923,900
LIABILITIES		
CURRENT		
Bank indebtedness (Note 8)	\$ 10,139	\$ 6,670
Accounts payable and accrued liabilities	202,065	198,466
Corporate income taxes payable	829	776
Customers' deposits	83,589	60,862
Unpaid claims reserve	3,336	3,186
Current portion of long-term debt (Note 9 and 23)	79,530	8,253
	379,488	278,213
DEFERRED SERVICE REVENUE	499	593
DEFERRED LEASE INDUCEMENTS	13,586	12,756
DEFERRED WARRANTY PLAN REVENUE AND UNEARNED INSURANCE REVENUE (Note 10)	100,428	72,952
LONG-TERM DEBT (Note 9 and 23)	-	73,217
FUTURE INCOME TAXES (Note 15)	3,830	7,780
	497,831	445,511
COMMITMENTS AND CONTINGENCIES (Note 17)		
GUARANTEES (Note 18)		
UNITHOLDERS' EQUITY		
Trust units (Note 11)	528,213	528,213
Deficit	(76,900)	(49,824)
	451,313	478,389
	\$ 949,144	\$ 923,900

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

Approved on behalf of the Board of Trustees

"Domenic Ieraci" Trustee "Ron Barbaro" Trustee

The Brick Group Income Fund
Consolidated Statements of Earnings and Deficit
For the Years Ended December 31, 2006 and December 31, 2005
(thousands of Canadian dollars except unit and per unit amounts)

	2006	2005
SALES AND OPERATING REVENUE	\$ 1,328,321	\$ 1,214,405
COST OF SALES	799,597	739,505
GROSS MARGIN	528,724	474,900
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES	462,525	413,839
	66,199	61,061
OTHER EARNINGS (EXPENSES)		
Investment and other income	1,761	1,087
Interest on other debt	(1,672)	(1,251)
Interest on long-term debt	(4,052)	(3,982)
Amortization (Note 14)	(27,538)	(26,364)
	(31,501)	(30,510)
EARNINGS BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	34,698	30,551
INCOME TAX (EXPENSE) RECOVERY (Note 15)		
Current	(1,232)	(2,865)
Future	4,102	4,318
	2,870	1,453
EARNINGS BEFORE EXTRAORDINARY ITEM	37,568	32,004
EXTRAORDINARY ITEM NET OF INCOME TAX (Note 21)	362	-
NET EARNINGS	37,930	32,004
DEFICIT, BEGINNING OF PERIOD	(49,824)	(16,822)
DISTRIBUTIONS DECLARED	(65,006)	(65,006)
DEFICIT, END OF PERIOD	(76,900)	(49,824)
Basic and diluted earnings per unit before extraordinary item	\$ 0.69	\$ 0.59
Basic and diluted net earnings per unit	\$ 0.69	\$ 0.59
Basic and diluted average number of units outstanding	54,171,133	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 Years Ended December 31, 2006 and December 31, 2005
(thousands of Canadian dollars except unit and per unit amounts)

	2006	2005
OPERATING ACTIVITIES		
Net earnings	\$ 37,930	\$ 32,004
Add (deduct) items not affecting cash		
Amortization (Note 14)	27,538	26,364
Amortization of deferred lease inducements	(1,109)	(290)
Amortization of deferred warranty revenue	(17,942)	(9,756)
Amortization of deferred acquisition costs	1,915	288
Future income taxes (Note 15)	(4,102)	(4,318)
Amortization of preferred share premiums	244	155
(Gain) loss on sale of capital assets	(114)	93
Gain on expropriation (extraordinary item - Note 21)	(362)	-
Gain on sale of marketable securities	(215)	(16)
Cash received for leasehold inducements (Note 6)	4,701	10,432
Cash paid for deferred acquisition costs	(8,104)	(7,349)
Cash received on warranty and insurance sales	45,418	43,024
	85,798	90,631
Changes in non-cash operating working capital items (Note 16)	(5,244)	22,497
	80,554	113,128
FINANCING ACTIVITIES		
Increase (decrease) in bank indebtedness	3,469	(649)
Financing fees paid	(578)	(69)
Distributions paid (Note 12)	(65,006)	(69,989)
Promissory note payments	-	(2,177)
Mortgage monthly principal payments	(827)	(715)
Mortgage maturity principal payments	(1,113)	-
	(64,055)	(73,599)
INVESTING ACTIVITIES		
Additions to capital assets (Note 6)	(31,247)	(25,794)
Additions to marketable securities	(4,578)	(9,346)
Additions to intangible assets	(5,229)	(813)
Proceeds from sale of marketable securities	5,196	8,217
Proceeds from expropriation (extraordinary item - Note 21)	5,500	-
Proceeds on disposal of capital assets	1,108	6
	(29,250)	(27,730)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		
FOR THE PERIOD	(12,751)	11,799
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	29,201	17,402
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 16,450	\$ 29,201
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest and dividends received	\$ 3,508	\$ 1,086
Interest paid	\$ 6,162	\$ 4,511
Income taxes paid	\$ 1,430	\$ 2,592

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

The Brick Group Income Fund
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005
(thousands of Canadian dollars except unit and per unit amounts)

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 on July 20, 2004 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.

The business of the Fund includes the operations of The Brick Warehouse LP, United Furniture Warehouse LP, First Oceans Trading Corporation, 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. ACCOUNTING POLICIES

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

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, First Oceans Trading Corporation, 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.

Accounting policies related to 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.

The Brick Group Income Fund
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005
(thousands of Canadian dollars except unit and per unit amounts)

ACCOUNTING POLICIES (continued)

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 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.

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 year ended December 31, 2006, revenue of \$4,119 (2005 - \$2,122) was generated from 26 (2005 - 20) 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.

The Brick Group Income Fund
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005
(thousands of Canadian dollars except unit and per unit amounts)

ACCOUNTING POLICIES (continued)

Other accounting policies

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.

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.

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.

The Brick Group Income Fund
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005
(thousands of Canadian dollars except unit and per unit amounts)

ACCOUNTING POLICIES (continued)

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.

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 Brick Group Income Fund
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005
(thousands of Canadian dollars except unit and per unit amounts)

ACCOUNTING POLICIES (continued)

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, 2006, the Fund has assessed the fair value of its goodwill and indefinite life intangible assets and determined that no impairment in carrying value exists.

Finite life intangible assets

Intangible assets with finite 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 have been fully amortized.

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 7). 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.

During the year ended December 31, 2006, the Fund expanded its distribution centre infrastructure in existing regions with the opening of new distribution centres. Accordingly, the Fund has adopted the following policy with regard to pre-opening costs associated with distribution centres in existing regions; Pre-opening costs related to distribution centres will be deferred and amortized on a straight-line basis over a period of five years.

Finite 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.

The Brick Group Income Fund
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005
(thousands of Canadian dollars except unit and per unit amounts)

ACCOUNTING POLICIES (continued)

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.

Employee future benefits

The Fund maintains defined contribution plans for its salaried and hourly employees. Contributions of \$1,293 were made to these plans during the period ended December 31, 2006 (2005 - \$,1,200).

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.

A trustee uses this pool of funds to purchase units of the Fund (Fund Units) in the open market and holds the Fund Units until such time as ownership vests to each participant. One-third of the Fund Units purchased for each participant vest on the date of grant and an additional one-third vest on each of the first and second anniversaries of such date. LTIP participants are entitled to receive distributions on all Fund Units held for their account prior to the applicable vesting date.

For the fiscal year ended December 31, 2006, LTIP of \$225 was earned and payable with respect to the 2006 fiscal year and no Fund Units were purchased in respect of the 2006 LTIP as at December 31, 2006.

For the fiscal year ended December 31, 2005, LTIP of \$31 was awarded under the Fund's LTIP and was paid to participants in cash during 2006.

The Brick Group Income Fund
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005
(thousands of Canadian dollars except unit and per unit amounts)

ACCOUNTING POLICIES (continued)

For the period from July 20, 2004 to December 31, 2004, a total award of \$1,022 was made under the Fund's LTIP and 77,148 Fund Units were purchased in 2005 for the participants of the LTIP.

The LTIP entitlement is recorded as selling, general and administrative expense in the year it is earned.

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.

On October 31, 2006, the Government of Canada (Department of Finance) announced the "Tax Fairness Plan" whereby the income tax rules applicable to certain publicly traded income trusts and partnerships will be modified. This proposed legislation is discussed further under Note 15, Income Taxes.

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 Years Ended December 31, 2006 and December 31, 2005
(thousands of Canadian dollars except unit and per unit amounts)

ACCOUNTING POLICIES (continued)

Variable interest entities

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.

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 finite life intangibles, accruals for vendor incentives, fair value of marketable securities, 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.

The Brick Group Income Fund
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005
(thousands of Canadian dollars except unit and per unit amounts)

3. RECENTLY ADOPTED AND PENDING ACCOUNTING POLICIES

Accounting Standards Adopted in the Current Year

Section 3831 – Non-Monetary Transactions

Effective January 1, 2006 the Fund adopted the recommendations of CICA 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 has determined that there is no impact on its financial statements resulting from the adoption of Section 3831.

Accounting Standards to be Adopted in Future Year

In April 2005, the Accounting Standards Board (“AcSB”) of the Canadian Institute of Chartered Accountants (“CICA”) issued the following new Handbook Sections:

Section 1530 - Comprehensive Income

Section 3251 - Equity

Section 3855 - Financial Instruments - Recognition and Measurement

Section 3865 - Hedges

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. The Fund will adopt these standards for its fiscal year beginning January 1, 2007.

Section 1530 - Comprehensive Income, 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. For its fiscal year beginning January 1, 2007, the Fund will begin to report other comprehensive income. For the Fund, the main component of other comprehensive income is expected to be unrealized gains and losses from changes in the fair value of its marketable securities which will be classified as available for sale.

The Brick Group Income Fund
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005
(thousands of Canadian dollars except unit and per unit amounts)

RECENTLY ADOPTED AND PENDING ACCOUNTING POLICIES (continued)

Section 3251 - Equity, 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 other comprehensive income, the total for retained earnings and accumulated other comprehensive income, contributed surplus, share capital and reserves. For its fiscal year beginning January 1, 2007, the Fund will begin to report accumulated other comprehensive income as a component of equity.

Section 3855 - Financial Instruments - Recognition and Measurement, requires that all financial instruments, including derivatives, are to be included on an entity'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. As at January 1, 2007, the Fund will adjust the marketable securities included on its balance sheet to their fair values, which may differ materially from their carrying values at December 31, 2006. This adjustment will be recorded as the opening balance of accumulated other comprehensive income. Subsequent unrealized gains and losses from changes in the fair value of marketable securities will be recorded in other comprehensive income.

Section 3865 - Hedges, extends existing requirements for hedge accounting and comprehensively specifies how hedge accounting should be performed. The Fund does not currently use hedge accounting. The Fund does not expect that this new standard will have a material impact on its financial position or results of operations.

Revised Section 1506 - Accounting Changes

In July 2006, the AcSB issued revised Handbook Section 1506, Accounting Changes. The main features of the revised standard are:

- Voluntary changes in accounting policy are made only if they result in the financial statements providing reliable and more relevant information.
- Changes in accounting policy are applied retrospectively unless doing so is impracticable (as defined in the Section).
- Prior period errors are corrected retrospectively.
- New disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors.

The Brick Group Income Fund
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005
(thousands of Canadian dollars except unit and per unit amounts)

RECENTLY ADOPTED AND PENDING ACCOUNTING POLICIES (continued)

The revised Section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2007, with earlier adoption permitted. The impact of this revised standard on the Fund will be dependant upon changes to accounting policies and accounting estimates, or corrections of errors, if any, that may occur in the future.

Section 1535 – Capital Disclosures

In December 2006, the AcSB issued a new accounting standard on disclosures about capital, to converge with recent amendments to International Financial Reporting Standard IAS 1, Presentation of Financial Statements. Section 1535, Capital Disclosures, must be implemented no later than the first reporting period in the first fiscal year beginning on or after October 1, 2007. Earlier adoption is permitted. Section 1535 requires an entity to disclose information about its objectives, policies and processes for managing capital, as well as its compliance with any externally imposed capital requirements. Rather than providing a definition for capital, the Section requires entities to describe and provide quantitative data about what they manage as capital. The Fund plans to adopt this new standard beginning with its 2008 fiscal year and does not expect that this new standard will have a material impact on its financial position or results of operations.

Section 3862 – Financial Instruments - Disclosures

In December 2006, the AcSB issued a new accounting standard on disclosures about financial instruments. Section 3862, Financial Instruments — Disclosures, improves upon the disclosure requirements in Section 3861, Financial Instruments — Disclosure and Presentation, and converges with International Financial Reporting Standard IFRS 7, Financial Instruments: Disclosures. Section 3862 must be implemented no later than the first reporting period in the first fiscal year beginning on or after October 1, 2007, but was made available in time for voluntary early implementation concurrent with adoption of the suite of financial instruments standards issued in 2005 (and effective for reporting periods beginning on or after October 1, 2006). Entities choosing not to early adopt the new disclosure requirements will continue to comply with the existing disclosure requirements in Section 3861.

Section 3862, like Section 3861, is based on the fundamental principle that entities should provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments for the entity's financial position and performance. However, Section 3862 places an increased emphasis on disclosures about the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. Concurrent with the release of Section 3862, the AcSB also issued Section 3863, Financial Instruments — Presentation, which carries forward unchanged the presentation requirements of Section 3861. Section 3863 provides a companion

The Brick Group Income Fund
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005
(thousands of Canadian dollars except unit and per unit amounts)

RECENTLY ADOPTED AND PENDING ACCOUNTING POLICIES (continued)

standard to Section 3862 for entities subject to the latter. The Fund plans to adopt this new standard beginning with its 2008 fiscal year and does not expect that this new standard will have a material impact on its financial position or results of operations.

Exposure Draft - Internally Developed Intangible Assets

In December 2005, the AcSB issued an Exposure Draft on *Internally Developed Intangible Assets*. If approved, the revised standards will limit the deferral of certain expenditures, including pre-opening costs, and will require retroactive restatement. The revised standards were originally expected to be effective for fiscal years beginning on or after October 1, 2006, however, throughout 2006 the AcSB deliberated further on the scope of this project and its convergence with International Financial Reporting Standards. In December 2006, the AcSB announced that it intends to maintain the original scope of the project but will also issue further proposed amendments for re-exposure in the first quarter of 2007. It is believed that the effective date of the revised standards will not be earlier than the latter part of 2007. As at December 31, 2006, the Fund had deferred pre-opening costs of \$8,403 (2005 - \$5,441).

4. **ACCOUNTS RECEIVABLE**

	2006	2005
Accounts receivable - trade	\$ 46,531	\$ 38,710
Corporate income taxes	851	851
Vendor rebates	17,160	9,289
Franchise	924	731
Other	6,574	4,611
	\$ 72,040	\$ 54,192

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, 2006, accrued vendor rebates of \$496 have been recognized into income for which full requirements for entitlement have not yet been met (2005 - \$278).

The Brick Group Income Fund
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005
(thousands of Canadian dollars except unit and per unit amounts)

5. 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 fair market value of marketable securities, other than bonds, is considered to approximate market values on recognized stock exchanges based on quoted market prices. For bonds, the fair market value is considered to approximate market values in a recognized bond trading market based on quoted market prices. The marketable securities are composed entirely of common shares of major U.S. and Canadian companies, preferred shares of Canadian financial institutions, Canadian bonds, and preferred shares and trust units of other Canadian companies.

	2006		2005	
	Amortized Cost	Market	Amortized Cost	Market
Bonds	\$ 119	\$ 119	\$ 275	\$ 273
Preferred shares	20,951	21,529	21,871	22,534
	21,070	21,648	22,146	22,807
Trust units	1,711	1,751	1,958	1,969
Common shares	3,037	3,870	2,361	2,832
	\$ 25,818	\$ 27,269	\$ 26,465	\$ 27,608

The average annual effective rate of return based on carrying value over the periods to the next call date of the preferred shares is 3.67% (2005 - 3.96%). 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	15,675	3,991	1,404	21,070
Unamortized (premium) discount	(417)	(72)	(31)	(520)
Redemption amount	15,258	3,919	1,373	20,550

The Brick Group Income Fund
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005
(thousands of Canadian dollars except unit and per unit amounts)

6. CAPITAL ASSETS

	December 31, 2006			December 31, 2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 12,192	\$ -	\$ 12,192	\$ 15,249
Buildings	29,657	3,677	25,980	29,460
Automotive equipment	393	310	83	135
Equipment	42,340	12,458	29,882	29,002
Software and development costs	8,088	3,353	4,735	1,015
Leasehold improvements	78,743	20,433	58,310	53,565
	\$ 171,413	\$ 40,231	\$ 131,182	\$ 128,426

Amortization of capital assets for the year ended December 31, 2006 was \$19,597 (2005 - \$16,746).

For the year ended December 31, 2005, capital assets of \$632 relating mostly to signage and leasehold improvements in stores that were rebannered in 2006 were written off. The charge for these write offs is included in amortization expense on the Statement of Earnings for the year ended December 31, 2005.

Included in capital assets is construction in progress of \$2,489 not subject to amortization at December 31, 2006 (2005 - \$14,247).

During the year, \$2,762 of capital assets, related to store construction costs that were fully funded by a landlord, were transferred to the landlord for non-cash proceeds. Concurrent with the transfer, the Fund entered into an agreement to lease these premises from the landlord.

The Brick Group Income Fund
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005
(thousands of Canadian dollars except unit and per unit amounts)

7. INTANGIBLE ASSETS AND DEFERRED CHARGES

	December 31, 2006		December 31, 2005	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Finite Life:				
Information systems	15,157	5,665	9,492	11,806
Leasehold interests	8,414	3,604	4,810	6,196
Pre-opening costs	12,180	3,777	8,403	5,441
Non-competitive agreements	5,164	2,666	2,498	3,564
Customer relationships	5,100	4,899	201	681
Customer contracts	6,450	6,450	-	158
Financing fees	658	281	377	69
Indefinite life:				
Brand	140,551	-	140,551	140,551
	\$ 193,674	\$ 27,342	\$ 166,332	\$ 168,466

Amortization of intangible assets and deferred charges for the year ended December 31, 2006 was \$7,941 (2005 - \$9,618).

For the year ended December 31, 2005, deferred charges of \$679 relating to unamortized pre-opening expenses for stores that were rebannered in 2006 were written off. The charge for these write offs is included in amortization expense on the Statement of Earnings for the year ended December 31, 2005.

The Brick Group Income Fund
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005
(thousands of Canadian dollars except unit and per unit amounts)

8. BANK INDEBTEDNESS

As at December 31, 2006, bank indebtedness is comprised of draws under the Operating Credit Facility of \$10,139 (2005 - \$6,670 under the Revolving Credit Facility).

Amended Credit Facilities

During 2005 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 and the amendments came into effect on February 13, 2006. Under the terms of the amendment, the previous \$65,000 Revolving Credit Facility was replaced with a \$50,000 Operating Credit Facility and a new \$50,000 Acquisition Credit Facility was added. The Operating Credit Facility and the Acquisition Credit Facility are repayable in full on July 2, 2008. The Commercial Letter of Credit Facility was reduced from \$15,000 to \$5,000, in line with a significantly lower level of drawing requirements, and continues to be repayable in full on July 20, 2007. The \$70,000 Term Credit Facility, repayable in full on July 20, 2007, was unchanged.

Operating Credit Facility

Drawings on the \$50,000 Operating Credit Facility, subject to margin requirements, may be funded by way of LIBOR loans, Canadian Prime Rate Loans, U.S. Base Rate Loans, Bankers' Acceptances, and Standby Letters of Credit.

LIBOR loans incur interest at LIBOR plus 1.50% to 2.00%.

Canadian Prime Rate Loans and U.S. Base Rate Loans incur interest at the underlying rate plus 0.50% to 1.00%.

Bankers Acceptances incur interest at the underlying discount rate plus 1.50% to 2.00%.

Standby Letters of Credit incur interest of 1.50% to 2.00%.

Standby fees are charged on undrawn portions of the Operating Credit Facility at rates of 0.25% to 0.35%.

At December 31, 2006, \$11,014 was drawn under the \$50,000 Operating Credit Facility (2005 - \$7,622 under the \$65,000 Revolving Credit Facility). \$10,139 was drawn by way of Canadian Prime Rate Loans and U.S. Base Rate Loans (2005 - \$6,670) and \$875 related to Standby Letters of Credit (2005 - \$952) leaving \$38,986 (2005 - \$57,378) of available undrawn credit.

Standby Letters of Credit are also discussed in Note 18(a).

The Brick Group Income Fund
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005
(thousands of Canadian dollars except unit and per unit amounts)

BANK INDEBTEDNESS (continued)

Acquisition Credit Facility

Drawings on the \$50,000 Acquisition Credit Facility are available by way of LIBOR loans, Canadian Prime Rate Loans, U.S. Base Rate Loans, and Bankers' Acceptances.

LIBOR loans incur interest at LIBOR plus 1.50% to 2.00%.

Canadian Prime Rate Loans and U.S. Base Rate Loans incur interest at the underlying rate plus 0.50% to 1.00%.

Bankers Acceptances incur interest at the underlying discount rate plus 1.50% to 2.00%.

Standby fees are charged on undrawn portions of the Acquisition Credit Facility at rates of 0.30% to 0.40%.

At December 31, 2006 no amounts were drawn under the \$50,000 Acquisition Credit Facility.

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 1.50% to 2.00% and for Canadian Prime Rate loans the margin will vary from 0.50% to 1.00%. Subject to certain requirements, the Fund is not obligated to repay principal amounts prior to maturity. At December 31, 2006 \$70,000 (2005 - \$70,000) was drawn under the Term Credit Facility bearing interest at a blended rate of 5.58% (2005 - 5.11%) (Note 9). The \$70,000 Term Credit Facility matures July 20, 2007.

On March 14, 2007, the Term Credit Facility was refinanced on a long-term basis. This refinancing is discussed further in Note 23.

The Brick Group Income Fund
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005
(thousands of Canadian dollars except unit and per unit amounts)

BANK INDEBTEDNESS (continued)

Commercial Letter of Credit Facility

Drawings under the Commercial Letter of Credit Facility are available by way of commercial letters of credit. At December 31, 2006, \$581 (2005 - \$801) was drawn under the Commercial Letter of Credit Facility (Note 18(a)) leaving \$4,419 (2005 - \$14,199) available undrawn credit.

The Operating, Acquisition, Term, and Commercial Letter of Credit Facilities 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, 2006, the Fund is in compliance with all of its financial covenants.

9. LONG-TERM DEBT

	2006	2005
Demand mortgage payable in monthly installments of \$51 including interest at prime plus \$0.65%, secured by land and buildings with a net book value of \$20,736.	\$ 6,548	\$ 6,745
Mortgage payable in monthly installments of \$23 including interest at 7.25%, due March 1, 2006.	-	69
Mortgage payable in monthly installments of \$12 including interest at 7.00%, due November 1, 2006.	-	1,294
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 \$4,424.	2,982	3,362
Term credit facility (Note 8)	70,000	70,000
	79,530	81,470
Less: principal amounts included in current liabilities	(79,530)	(8,253)
	\$ -	\$ 73,217

The Brick Group Income Fund
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005
(thousands of Canadian dollars except unit and per unit amounts)

LONG-TERM DEBT (continued)

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 a future year are as follows:

	Prior to Maturity	Maturity Payment	Total
2007	\$ 233	\$ 79,297	\$ 79,530

10. **DEFERRED WARRANTY PLAN AND UNEARNED INSURANCE REVENUE**

Deferred warranty plan and unearned insurance revenue will be recorded as earned revenue until the year 2016 as follows:

2007	\$ 26,637
2008	29,040
2009	24,076
2010	14,974
2011	5,304
2012 to 2016	397
	\$ 100,428

The Brick Group Income Fund
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005
(thousands of Canadian dollars except unit and per unit amounts)

11. **TRUST UNITS**

Authorized

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

Issued

		2006	2005
	Number of Units	Amount	Amount
Class A units			
Issued on initial public offering	27,200,000	\$272,000	\$272,000
Issued as consideration for purchase of the Brick LP	15,724,016	157,240	157,240
	42,924,016	429,240	429,240
Issuance costs		(18,482)	(18,482)
		410,758	410,758
Special non-cash distribution		4,984	4,984
	42,924,016	415,742	415,742
Class B units			
Issued as consideration for purchase of the Brick LP	11,247,117	112,471	112,471
	54,171,133	\$528,213	\$528,213

The Brick Group Income Fund
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005
(thousands of Canadian dollars except unit and per unit amounts)

TRUST UNITS (continued)

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 Years Ended December 31, 2006 and December 31, 2005
(thousands of Canadian dollars except unit and per unit amounts)

TRUST UNITS (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.

The EBITDA Target was not reached as at December 31, 2006, and therefore, the subordination provisions will continue to apply through 2007.

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 Years Ended December 31, 2006 and December 31, 2005
(thousands of Canadian dollars except unit and per unit amounts)

12. 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, 2006, are as follows:

Period	Record Date	Payment Date	Per Unit	Amount
Class A units				
January 2006	January 31, 2006	February 15, 2006	\$ 0.1000	\$ 4,292
February 2006	February 28, 2006	March 15, 2006	0.1000	4,292
March 2006	March 31, 2006	April 17, 2006	0.1000	4,292
April 2006	April 28, 2006	May 15, 2006	0.1000	4,292
May 2006	May 31, 2006	June 15, 2006	0.1000	4,292
June 2006	June 30, 2006	July 17, 2006	0.1000	4,292
July 2006	July 31, 2006	August 15, 2006	0.1000	4,292
August 2006	August 31, 2006	September 15, 2006	0.1000	4,292
September 2006	September 30, 2006	October 16, 2006	0.1000	4,292
October 2006	October 31, 2006	November 15, 2006	0.1000	4,292
November 2006	November 30, 2006	December 15, 2006	0.1000	4,292
December 2006	December 31, 2006	January 15, 2007	0.1000	4,293
				51,505
Class B units				
January 1 - March 31, 2006	March 31, 2006	April 17, 2006	0.3000	3,375
April 1 - June 30, 2006	June 30, 2006	July 17, 2006	0.3000	3,375
July 1 - September 30, 2006	September 30, 2006	October 16, 2006	0.3000	3,375
October 1 - December 31, 2006	December 31, 2006	January 15, 2007	0.3000	3,376
				13,501
				\$ 65,006

For the year ended December 31, 2005 total distributions of \$65,006 were declared, comprised of \$51,505 on behalf of the Class A units and \$13,501 on behalf of the Class B units.

Declared cash distributions of \$7,669 are included in accounts payable and accrued liabilities at December 31, 2006 (December 31, 2005 - \$7,669).

The Brick Group Income Fund
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005
(thousands of Canadian dollars except unit and per unit amounts)

13. RELATED PARTY TRANSACTIONS

Included in selling, general and administrative expenses is rent expense of \$850 for the year ended December 31, 2006 (2005 - \$850), paid to a joint venture partially owned by an officer of the Fund. These transactions are in the normal course of operations and are measured based on commercial rates established and agreed to by the related parties.

14. AMORTIZATION

	2006	2005
Amortization of capital assets	\$ 19,597	\$ 16,746
Amortization of intangible assets	7,941	9,618
	\$ 27,538	\$ 26,364

15. 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:

	2006	2005
Earnings before income taxes and extraordinary item	\$ 34,698	\$ 30,551
Non - taxable dividends	(836)	(881)
Income allocated to unitholders	(41,825)	(34,844)
	\$ (7,963)	\$ (5,174)
Recovery of income taxes at the statutory rate of 34.5% (2005 - 36.0%).	\$ 2,747	\$ 1,862
Increase related to:		
Other	123	(409)
	\$ 2,870	\$ 1,453
Classified as:		
Current (expense) recovery	\$ (1,232)	\$ (2,865)
Future (expense) recovery	4,102	4,318
	\$ 2,870	\$ 1,453

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 Years Ended December 31, 2006 and December 31, 2005
(thousands of Canadian dollars except unit and per unit amounts)

INCOME TAXES (continued)

Future income taxes are comprised of:

	2006	2005
Future income tax assets		
Marketable securities and other assets	\$ 750	\$ 598
Future income tax liabilities		
Marketable securities	(54)	\$ (22)
Deferred acquisition costs	1,135	2,348
Deferred warranty revenue	(4,758)	(9,779)
Customer relationships	(68)	(242)
Other	(85)	(85)
Non-capital losses	-	-
Future income tax liabilities - net	\$ (3,830)	\$ (7,780)

Classified as:

Long-term asset	\$ 750	\$ 598
Long-term liability	(3,830)	(7,780)
	\$ (3,080)	\$ (7,182)

On October 31, 2006, the Government of Canada (Department of Finance) announced the "Tax Fairness Plan" whereby the income tax rules applicable to certain publicly traded income trusts and partnerships will be modified. These entities within the Brick Group Income Fund's structure would be impacted by the proposed legislation announced, which if enacted, would result in the distributions being taxed in a manner similar to the income earned (and distributed) in a corporation. The plan, if adopted, would not become effective until the 2011 taxation year for trusts, such as the Brick Group Income Fund, that were publicly traded prior to November 1, 2006. The Fund is currently considering these proposals, but is unable to make an estimate, at this time, of the possible impact they will have on the Fund and its unitholders.

If the legislation is enacted, the tax status of the trusts would change and this would result in the recognition of future income tax assets and liabilities at the substantively enacted tax rates in respect of temporary differences that are expected to reverse after the date those tax changes take effect.

The Brick Group Income Fund
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005
(thousands of Canadian dollars except unit and per unit amounts)

16. **CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS**

	2006	2005
Cash provided by (used in)		
Accounts receivable	\$ (17,848) \$	(16,660)
Inventory	(17,489)	(24,807)
Prepaid expenses and deposits	3,658	(1,771)
Accounts payable and accrued liabilities	3,599	44,641
Corporate income taxes payable	53	273
Customers' deposits	22,727	20,250
Deferred service revenue	(94)	(225)
Unpaid claims reserve	150	796
	\$ (5,244) \$	22,497

17. **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:

2007	\$ 68,690
2008	67,340
2009	64,691
2010	61,573
2011	59,412
2011 - 2026	418,762
	\$ 740,468

Contingencies

As a result of legislative amendments to the Alberta Corporate Tax Act effective May 24, 2006, Trans Global Warranty Corp. will commence remitting premium taxes in Alberta. Prior to this date, Trans Global Warranty Corp. was not required to remit provincial premium tax related to the sale of protection plans in any other province other than Ontario. The Alberta tax authorities have assessed Trans Global Warranty Corp. for premium taxes related to sales from 1987 to 2004. As at December 31, 2006 the estimated potential liability related to these assessments is \$6,225 (\$5,930 - net of income taxes). Trans Global Warranty Corp. is disputing these assessments and is defending its position with the Alberta tax authorities. In the opinion of management, the relevant provincial legislation supports this filing position and no accrual has been recorded. No other provinces have assessed Trans Global Warranty Corp. for premium taxes.

The Brick Group Income Fund
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005
(thousands of Canadian dollars except unit and per unit amounts)

COMMITMENTS AND CONTINGENCIES (continued)

If Trans Global Warranty Corp. is required to remit premium taxes related to the sale of protection plans in Alberta before May 24, 2006, or is required to remit premium taxes related to its sales in any province other than Ontario, the estimated potential total liability due to non-remittance of premium taxes as at December 31, 2006 is \$7,531 (\$6,750 net of income taxes). No provision has been made in these consolidated financial statements for any such taxes as the outcome of this contingency is not determinable.

The Fund has been named in two claims related to a specific, third party sponsored, sales promotion offered at United Furniture stores during 2004. The plaintiffs are seeking an order certifying the actions as a class proceeding. The likely outcome of the claims is not determinable.

For the year ended 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. Management is appealing 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 a decision is received from the Court of Appeal.

Entities within the Fund, and their predecessor entities, may be subject to audits from federal and provincial tax authorities regarding commodity and capital taxes. These audits may give rise to assessments related to tax filing positions the Fund or its predecessors have taken. While management of the Fund believes that the filing positions are appropriate and supportable, the possibility exists that certain matters may be reviewed and challenged by the tax authorities. Management of the Fund regularly reviews the potential for adverse outcomes and the adequacy of provisions relating to these matters. The Fund believes it has adequately provided for these matters.

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.

The Brick Group Income Fund
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005
(thousands of Canadian dollars except unit and per unit amounts)

18. **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 Standby Letters of Credit outstanding in the amount of \$875 as at December 31, 2006 (2005 - \$952) related to general operating matters. No funds have been advanced on these Standby Letters of Credit.

The Fund has a Commercial Letter of Credit Facility in the amount of \$5,000 (2005 - \$ 15,000) related to overseas product purchases. At December 31, 2006, \$581 (2005 - \$801) was drawn under this facility leaving undrawn credit available of \$4,419 (2005 - \$14,199).

(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*

Prior to June 1, 2006 the Fund was exposed to risks of default on Brick Card balances owned and underwritten by an unrelated external service provider. This limited recourse liability related only to the unique situation whereby the service provider initially declined to accept the customer's credit application, but subsequently accepted the application upon the Fund's authorization. During the second quarter of 2006, the Fund renegotiated its contract with the service provider and was released from this limited recourse liability. As at June 30, 2006, the limited recourse liability in the amount of \$1,523 was removed from the Fund's balance sheet and an equal amount was recognized as a recovery of Selling, General and Administrative expenses on the Fund's consolidated statement of earnings.

The Brick Group Income Fund
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005
(thousands of Canadian dollars except unit and per unit amounts)

GUARANTEES (continued)

At December 31, 2006, the Fund had an accrued liability in respect of this obligation of NIL (2005 - \$656).

(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 this guarantee at December 31, 2006, is \$1,562 (2005 - \$1,450). As at December 31, 2006, the Fund has not recorded a liability related to this arrangement 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 90 days after delivery. As at December 31, 2006, the Fund has accrued a provision for price guarantees relating to sales recognized prior to period end based on historical experience of \$199 (2005 - \$348).

(f) *Performance guarantee*

Under the terms of a credit card services contract, the Fund has guaranteed the performance of a portfolio of Brick Card balances owned and underwritten by an unrelated external service provider. The guarantee sets out minimum performance benchmarks, measured on an annual basis, for certain features of the portfolio such as term, interest rate, losses, early payout, and fraud. If these benchmarks are not met, the service provider has the right to propose and negotiate amendments to the discount rates charged. Should the service provider and the Fund not succeed in agreeing to a change to the discount rates, the agreement would terminate, and the guarantee would require a payment to be made by the Fund. The estimated maximum exposure in respect of this guarantee at December 31, 2006, is \$4,515 (2005 - \$102). As at December 31, 2006, the Fund has not recorded a liability related to this arrangement as it does not expect to make payments pertaining to the guaranteed portfolio performance.

The Brick Group Income Fund
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005
(thousands of Canadian dollars except unit and per unit amounts)

19. **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 may, from time to time, use financial instruments to reduce those risks.

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 8 and Note 9.

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 19% 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 Years Ended December 31, 2006 and December 31, 2005
(thousands of Canadian dollars except unit and per unit amounts)

FINANCIAL INSTRUMENTS (continued)

As at December 31, 2006, no foreign exchange contracts were outstanding (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 5.

(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 5.

20. 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 2. All inter-company transactions and balances have been appropriately eliminated.

The Brick Group Income Fund
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005
(thousands of Canadian dollars except unit and per unit amounts)

SEGMENTED INFORMATION (continued)

	For the year ended December 31, 2006			For the year ended December 31, 2005		
	Retail	Financial Services	Total	Retail	Financial Services	Total
Sales and operating revenue	\$ 1,291,804	\$ 36,517	\$ 1,328,321	\$ 1,189,224	\$ 25,181	\$ 1,214,405
Earnings before extraordinary item	13,294	24,274	37,568	15,734	16,270	32,004
Interest expense	5,724	-	5,724	5,229	4	5,233
Interest income	147	121	268	61	208	269
Amortization of capital assets	19,593	4	19,597	16,743	3	16,746
Income tax recovery	-	2,870	2,870	-	1,453	1,453
Goodwill	\$ 305,349	\$ -	\$ 305,349	\$ 305,349	\$ -	\$ 305,349
Total assets	\$ 900,263	\$ 48,881	\$ 949,144	\$ 879,629	\$ 44,271	\$ 923,900
Capital expenditures	\$ 31,244	\$ 3	\$ 31,247	\$ 25,793	\$ 1	\$ 25,794

21. EXTRAORDINARY ITEM NET OF INCOME TAX

During the year, the Fund recorded the disposal of land together with a store that was owned by the Fund and located in Calgary, Alberta. This disposal was the result of an expropriation by the City of Calgary. The Fund recognized a gain on this disposal of \$362. The Fund continues to operate in Calgary through its other retail locations in the city.

22. 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.

The Brick Group Income Fund
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005
(thousands of Canadian dollars except unit and per unit amounts)

23. **SUBSEQUENT EVENT**

On March 14, 2007, the Term Credit Facility was refinanced on a long-term basis. The debt was refinanced through the private placement of senior secured notes with an aggregate principal amount of \$83,000. These notes, issued to six institutional investors, have a term of seven years and pay a semi-annual coupon of 6.431%. The proceeds were used to repay the \$70,000 Term Credit Facility, the two remaining outstanding mortgages (\$9,530 at December 31, 2006) and to fund general operations. The notes are secured by substantially all of the Fund's assets, and rank *pari passu* with the Fund's existing credit facilities.