

AutoCanada Income Fund

Interim Consolidated Financial Statements

(Unaudited)

June 30, 2007

(expressed in Canadian dollar thousands except unit and per unit amounts)

AutoCanada Income Fund

Interim Consolidated Balance Sheet

(expressed in Canadian dollar thousands)

	June 30, 2007	December 31, 2006
	<i>(Unaudited)</i>	
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	21,077	20,880
Restricted cash	3,273	3,476
Accounts receivable	35,980	27,742
Inventories (note 5)	132,814	112,680
Due from vendors	-	2,640
Prepaid expenses	1,865	1,419
	<u>195,009</u>	<u>168,837</u>
Property and equipment	12,134	11,839
Intangible assets	79,956	79,034
Goodwill	82,501	78,744
Other assets	<u>78</u>	<u>78</u>
	<u>369,678</u>	<u>338,532</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	26,776	23,521
Revolving floorplan facility (note 6)	133,731	113,357
Distributions payable (note 10)	1,687	1,687
Due to related parties	1,070	-
Current portion of long-term debt (note 7)	198	96
Current portion of obligation under capital lease	<u>78</u>	<u>72</u>
	163,540	138,733
Long-term debt (note 7)	11,438	5,535
Obligation under capital lease	250	240
Future income taxes	<u>19,107</u>	<u>-</u>
	<u>194,335</u>	<u>144,508</u>
Contingencies (note 8)		
UNITHOLDERS' EQUITY		
Fund units (note 9 (a) and (b))	105,200	105,200
Exchangeable units (note 9(c))	88,847	88,847
Contributed surplus (note 9(d))	775	455
Accumulated other comprehensive income	-	-
Accumulated deficit	<u>(19,479)</u>	<u>(478)</u>
	<u>175,343</u>	<u>194,024</u>
	<u>369,678</u>	<u>338,532</u>

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

AutoCanada Income Fund

Interim Consolidated Statement of Operations, Comprehensive Income and Accumulated Earnings (Deficit)

(expressed in Canadian dollar thousands except unit and per unit amounts)

	<i>Three Months Ended June 30, 2007 (unaudited)</i>	<i>Period from May 11, 2006 to June 30, 2006 (unaudited)</i>	<i>Six Months ended June 30, 2007 (unaudited)</i>
	\$	\$	\$
Revenue			
Vehicles	190,824	94,897	362,755
Parts, service and collision repair	23,228	10,734	45,136
Other	659	361	1,199
	<hr/>	<hr/>	<hr/>
Cost of sales	214,711	105,992	409,090
	<hr/>	<hr/>	<hr/>
Gross profit	36,777	17,775	68,069
	<hr/>	<hr/>	<hr/>
Expenses			
Selling, general and administrative	27,522	12,246	51,156
Interest	2,740	1,280	5,125
Amortization	770	618	1,560
	<hr/>	<hr/>	<hr/>
	31,032	14,144	57,841
	<hr/>	<hr/>	<hr/>
Net earnings before income taxes	5,745	3,631	10,228
	<hr/>	<hr/>	<hr/>
Future income taxes (note 12)	19,107	-	19,107
	<hr/>	<hr/>	<hr/>
Net earnings (loss) & comprehensive income for the period (note 2(b))	(13,362)	3,631	(8,879)
	<hr/>	<hr/>	<hr/>
Accumulated deficit, beginning of period	(1,056)	-	(478)
Distributions declared (note 10)	(5,061)	(2,830)	(10,122)
	<hr/>	<hr/>	<hr/>
Accumulated earnings (deficit), end of period	(19,479)	801	(19,479)
	<hr/>	<hr/>	<hr/>
Earnings (loss) per unit			
Basic	(0.660)	0.179	(0.438)
	<hr/>	<hr/>	<hr/>
Diluted	(0.657)	0.179	(0.437)
	<hr/>	<hr/>	<hr/>
Weighted average units			
Basic	20,257,000	20,257,000	20,257,000
	<hr/>	<hr/>	<hr/>
Diluted	20,326,624	20,308,314	20,300,088
	<hr/>	<hr/>	<hr/>

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

AutoCanada Income Fund

Interim Consolidated Statement of Cash Flows

(expressed in Canadian dollar thousands)

	<i>Three Months Ended June 30, 2007 (unaudited)</i>	<i>Period from May 11, 2006 to June 30, 2006 (unaudited)</i>	<i>Six Months ended June 30, 2007 (unaudited)</i>
	\$	\$	\$
Cash provided by (used in)			
Operating activities			
Net earnings (loss) for the period	(13,362)	3,631	(8,879)
Items not affecting cash			
Future income taxes (note 12)	19,107	-	19,107
Unit-based compensation (note 9(d))	135	104	320
Amortization	770	618	1,560
Gain (loss) on disposal of property and equipment	5	(5)	10
	6,655	4,348	12,118
Net change in non-cash operating working capital balances	(4,287)	12,606	(1,221)
	2,368	16,954	10,897
Investing activities			
Business acquisitions (note 3)	-	(88,647)	-
Investment in variable interest entity (note 4)	-	-	(4,727)
Purchase of property and equipment	(987)	(123)	(2,104)
Proceeds on sale of property and equipment	88	12	93
Restricted cash	394	(344)	203
	(505)	(89,102)	(6,535)
Financing activities			
Net proceeds from issuance of units (note 3)	-	93,572	-
Proceeds from long-term debt	125	-	6,155
Repayment of long-term debt	(95)	-	(150)
Repayment of obligation under capital lease	(23)	(10)	(48)
Distributions paid to Unitholders	(5,061)	(1,143)	(10,122)
	(5,054)	92,419	(4,165)
Increase (decrease) in cash	(3,191)	20,271	197
Cash and cash equivalents, beginning of period	24,268	-	20,880
Cash and cash equivalents, end of period	21,077	20,271	21,077
Supplementary information			
Cash interest paid	2,632	1,141	5,227
Transfer of inventory to property and equipment	253	310	918
Transfer of property and equipment to inventory	385	233	1,148

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

AutoCanada Income Fund

Notes to the Interim Consolidated Financial Statements

(Unaudited)

June 30, 2007

(expressed in Canadian dollar thousands except unit and per unit amounts)

1 Nature of operations and basis of presentation

AutoCanada Income Fund (the “Fund”) is an unincorporated, open-ended trust governed by the laws of the Province of Alberta and a Declaration of Trust dated January 4, 2006 and amended May 10, 2006. The Fund has been created to invest in the franchised automobile dealership industry through an indirect acquisition of substantially all of the assets and undertakings of Canada One Auto Group (“CAG”) and such other investments as the Trustees may determine.

The Fund is engaged in the operation of franchised automobile dealerships in British Columbia, Alberta, Manitoba, Ontario, Nova Scotia and New Brunswick. The Fund offers a diversified range of automotive products and services, including new vehicles, used vehicles, vehicle parts, vehicle maintenance and collision repair services, extended service contracts, vehicle protection products and other after market products. The Fund also arranges financing and insurance for vehicle purchases through third-party finance and insurance sources.

These consolidated financial statements include the accounts of the Fund, AutoCanada Operating Trust, AutoCanada LP, AutoCanada GP Inc., several subsidiaries thereof and Durham Motors LP, operating as Grande Prairie Nissan, a variable interest entity (Note 4). All inter-entity balances and transactions have been eliminated on consolidation.

The accompanying unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”) for interim financial statements. The accounting principles and methods of computation adopted in these financial statements are the same as those for the audited financial statements for the period ended December 31, 2006, except as described in Note 2. However, the interim consolidated financial statements do not include all information and footnote disclosures required under Canadian GAAP for annual financial statements. Accordingly, these unaudited consolidated interim financial statements should be read in conjunction with the audited financial statements and notes thereto for the period ended December 31, 2006.

2 Summary of significant accounting policies

Income taxes

Prior to June 12, 2007, income tax obligations relating to distributions from the Fund were obligations of the Unitholders and, accordingly, no provision for income taxes had been made in respect of the income of the Fund. As described in Note 12, the Fund will recognize future income tax in the interim period ended June 30, 2007 as a result of new tax legislation substantively enacted on June 12, 2007. Current income tax will not be recognized until a new tax on the Fund is effective on January 1, 2011.

Future income tax assets and liabilities are recorded on the difference between the accounting and carrying values of the balance sheet assets and liabilities and the tax cost basis of these assets and liabilities based on substantively enacted tax laws and rates for those differences that are expected to reverse after January 1, 2011.

The Fund reviews the value of its future income tax assets and liabilities quarterly and records adjustments, as necessary, to reflect the realizable amounts of its future income tax asset and liabilities. The Fund expects that it will realize its future income tax assets and liabilities in the normal course of operations.

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Changes in accounting policies

Effective January 1, 2007, the Fund adopted four new accounting standards related to financial instruments that were issued by the Canadian Institute of Chartered Accountants (“CICA”). These accounting policy changes were adopted on a prospective basis with no restatement of prior period financial statements. The new standards and accounting policy changes are as follows:

a) **Financial Instruments – Recognition and Measurement (CICA Handbook Section 3855)**

In accordance with this new standard, the Fund now classifies all financial instruments as either held-to-maturity, available-for-sale, held for trading loans and receivables or other liabilities. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading, are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized on the statement of operations.

The Fund has made the following classifications:

- Cash and cash equivalents and restricted cash are classified as financial assets held for trading and are measured at fair value. Gains and losses related to periodical revaluation are recorded in net earnings;
- Accounts receivable are classified as loans and receivables and are initially measured at fair value and subsequent period revaluations are recorded at amortized cost; and,
- Accounts payable and accrued liabilities, revolving floorplan facility, distributions payable, long-term debt, and obligation under capital lease are classified as other liabilities and are initially measured at fair value and subsequent periodical revaluations are recorded at amortized cost.

The estimated fair value of accounts receivables, accounts payable and accrued liabilities, and revolving floorplan facility, and distributions payable approximate carrying value due to the relatively short-term nature of the instruments. The estimated fair value of the obligations under capital lease and long-term debt approximates the carrying value because interest rates are floating and are at market rates .

Consequently, as at January 1, 2007 and June 30, 2007, the impact on the consolidated balance sheet of measuring the financial assets and liabilities was nil.

The Fund selected January 1, 2003 as its transition date for embedded derivatives. An embedded derivative is a component of a financial instrument or other contract of which the characteristics are similar to a derivative. This had no impact on the consolidated financial statements.

b) **Comprehensive Income (CICA Handbook Section 1530)**

Comprehensive income is the change in unitholders’ equity during a period from transactions and other events and circumstances from non-owner sources. In accordance with this new standard, the Fund now reports a consolidated statement of comprehensive income and a new category, accumulated other comprehensive income, has been added to the unitholders’ equity section of the consolidated balance

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sheet. The components of this new category will include unrealized gains and losses on financial assets classified as available-for-sale and the effective portion of cash flow hedges, if any. There were no such components to be recognized in comprehensive income for the three-month or six-month periods ended June 30, 2007. As the Fund has no items of other comprehensive income, net earnings for the period is equivalent to comprehensive income.

c) Hedges (CICA Handbook Section 3865)

The new standard specifies the criteria under which hedge accounting can be applied and how hedge accounting can be executed. The Fund does not have any hedging items.

d) Accounting changes (CICA Handbook Section 1506)

The new standard allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retroactively unless doing so is impracticable, requires prior period errors to be corrected retroactively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact that the adoption of Section 1506 will have on the Fund's results of operations and financial condition will depend on the nature of future accounting changes. The adoption of Section 1506 effective January 1, 2007 had no impact on these unaudited interim consolidated financial statements.

Recent Canadian accounting pronouncements issued and not yet adopted

a) Capital disclosures

In December 2006, the CICA issued Handbook Section 1535, "Capital Disclosures". This standard requires that an entity disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Fund. The Fund is currently evaluating the impact of this standard.

b) Financial Instruments – Presentation and Disclosure

In October, 2006, the CICA issued Handbook Sections 3862 and 3863 to replace Section 3861, "Financial Instruments – Disclosure and Presentation." This standard requires an increased emphasis on disclosures about the nature and extent of risk arising from financial instruments and how an entity manages those risks. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Fund. The Fund is currently evaluating the impact of this standard.

c) Inventories

In June 2007, the CICA issued Handbook Section 3031, "Inventories" to harmonize accounting for inventories under Canadian GAAP with International Financial Reporting Standards. This standard requires the measurement of inventories at the lower of cost and net realizable value and includes guidance on the determination of cost, including allocation of overheads and other costs to inventory. The

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standard also requires the consistent use of either first-in, first out (FIFO) or weighted average cost formula to measure the cost of other inventories and requires the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, specifically January 1, 2008 for the Fund. The Fund is currently evaluating the impact of this standard.

3 Business acquisitions

- a) On May 10, 2006, the Fund completed an initial public offering (“IPO”) for aggregate cash proceeds of \$102,095. The Fund used the net proceeds from the initial public offering to acquire an indirect 50.4% interest in AutoCanada LP, represented by 10,209,500 AutoCanada LP Units. AutoCanada LP, through a series of transactions, including the issuance of 10,047,500 Exchangeable Units, acquired 100% of the net business assets of CAG. The costs of issuance of the Fund Units and Exchangeable Units were \$8,523. The acquisition of the Fund’s interest in the acquired business has been accounted for using the purchase method.

On May 31, 2006, 740,000 Exchangeable Units were exchanged and 740,000 additional Fund Units were issued pursuant to the over-allotment option granted to underwriters (note 9(c)).

The purchase price allocated to the assets acquired and the liabilities assumed, based on their fair values, is as follows:

	\$
Cash	102,095
Issuance of Exchangeable Units	100,475
Issuance costs	<u>(8,523)</u>
Total purchase price	<u>194,047</u>
Current assets (including cash acquired of \$4,925)	168,566
Property and equipment	12,828
Other assets	78
Current liabilities	(142,184)
Long-term liabilities	(142)
Intangible assets	<u>77,800</u>
Net identifiable assets acquired	116,946
Goodwill	<u>77,101</u>
	<u>194,047</u>

- (b) On October 31, 2006, the Fund purchased substantially all of the net operating assets of 500672 BC Ltd. operating as Victoria Hyundai (“Victoria Hyundai”) for total cash consideration of \$8,090. The

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acquisition was funded by drawing on the Fund's Revolving Floorplan Facility (note 6) in the amount of \$3,520 and on the Revolving Term Facility (note 7) in the amount of \$4,570. The acquisition has been accounted for using the purchase method and the consolidated financial statements include operating results of Victoria Hyundai subsequent to October 31, 2006.

The purchase price allocated to the assets acquired and the liabilities assumed, based on their fair values, is as follows:

	\$
Current assets	4,499
Property and equipment	448
Intangible assets	1,234
Current liabilities	<u>(47)</u>
Net identifiable assets acquired	6,134
Goodwill	<u>1,956</u>
	<u><u>8,090</u></u>

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(expressed in Canadian dollar thousands except unit and per unit amounts)

4 Variable interest entity

On February 7, 2007, the Fund entered into a credit agreement with CAG to finance the acquisition of a Nissan dealership (the "Nissan Dealership") by CAG for total cash consideration of \$4,727. In addition, the Fund entered into a management agreement to provide the Nissan Dealership with management services. The Nissan Dealership is owned and operated by a subsidiary of CAG which owns 46% of the Fund on a fully diluted basis. The Fund obtained the funds to finance the acquisition of the Nissan dealership through its existing Revolving Term Facility (note 7) in the amount of \$4,727. In connection with this arrangement, the Fund has granted consents to CAG and its subsidiary under the terms of the non-competition agreements entered into at the time of the Fund's IPO.

As a result of the Fund's financing of the purchase and the related agreements, the Fund has determined that the Nissan Dealership is a VIE and it is the primary beneficiary as defined by AcG-15. Accordingly, the Fund has consolidated the operating results of the Nissan Dealership subsequent to February 7, 2007.

The purchase price allocated to the assets acquired and the liabilities assumed, based on their estimated fair values, is as follows:

	\$
Current assets	3,546
Property and equipment	19
Intangible assets	922
Current liabilities	<u>(3,203)</u>
Net identifiable assets acquired	1,284
Goodwill	<u>3,443</u>
	<u>4,727</u>

5 Inventories

	June 30, 2007	December 31, 2006
	\$	\$
New vehicles	94,466	82,103
Demonstrator vehicles	5,549	5,374
Used vehicles	26,263	19,166
Parts and accessories	<u>6,536</u>	<u>6,037</u>
	<u>132,814</u>	<u>112,680</u>

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(Unaudited)

June 30, 2007

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6 Revolving floorplan facility

	June 30, 2007	December 31, 2006
	\$	\$
New vehicles	117,876	102,963
Demonstrator vehicles	4,371	4,404
Used vehicles	<u>11,484</u>	<u>5,990</u>
	<u>133,731</u>	<u>113,357</u>

The Revolving Floorplan Facility available to the Fund from Chrysler Financial Canada ("CFC") to finance new, demonstrator and used vehicles is \$183,125, bears interest at Royal Bank of Canada ("RBC") prime rate less 0.25%, (5.75% at June 30, 2007) and is payable monthly in arrears. The CFC Revolving Floorplan Facility requires maintenance of certain financial covenants and is collateralized by a general security agreement consisting of a first security interest on all present and future property, the Fund's accounts receivable, and new, used and demonstrator vehicle inventory. The individual notes payable of the CFC Revolving Floorplan are due when the related vehicle is sold. The CFC Revolving Floorplan Facility may in certain circumstances restrict the ability of AutoCanada LP and the Fund to pay distributions if the payment would result in a default under the CFC Revolving Floorplan Facility.

A separate Revolving Floorplan Facility from the Bank of Nova Scotia ("BNS") is available to a dealership managed by the Fund. This Facility is available to finance new and demonstrator vehicles, is \$5,000, bears interest at Bank of Nova Scotia prime rate (6.00% at June 30, 2007) and is payable monthly in arrears. The BNS Revolving Floorplan Facility requires maintenance of certain financial covenants and is collateralized by a general security agreement consisting of first security interest on all present and future property of the managed dealership, a \$1,000 guarantee from CAG to the Fund, and the managed dealership's new and demonstrator vehicle inventory. The individual notes payable of the BNS Revolving Floorplan are due when the related vehicle is sold. The balance outstanding on the BNS Revolving Floorplan Facility as of June 30, 2007 is \$3,684 and is included in the "New vehicles" balance above.

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(Unaudited)

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7 Long-term debt

	June 30, 2007	December 31, 2006
	\$	\$
Revolving Term Facility, due May 10, 2009 bearing interest from RBC prime to RBC prime plus 0.75% (i)	11,000	5,300
CFC lease contracts, repayable over 24 months bearing interest from 7.35% to 7.75% (ii)	636	331
	<u>11,636</u>	<u>5,631</u>
Less: Current portion	(198)	(96)
	<u>11,438</u>	<u>5,535</u>

- (i) CFC provides the Fund a Revolving Term Facility. The amount of the Revolving Term Facility available is based on certain assets (the "borrowing base") and a percentage of EBITDA of AutoCanada LP, up to a maximum amount of \$50,000, and is available to finance working capital and the acquisition of automobile dealerships. The Revolving Term Facility matures May 10, 2009 and bears interest at RBC prime rate for amounts borrowed not exceeding the borrowing base and RBC prime rate plus 0.75% for amounts borrowed in excess of the borrowing base. RBC prime as at June 30, 2007 was 6.0%. This Revolving Term Facility provides for a commitment fee of 0.25% of any unused portion and a draw fee of 1.5% of any amount borrowed, both payable quarterly in arrears, requires maintenance of certain financial covenants and is collateralized by a general security agreement consisting of a first security interest on all present and future property. The Revolving Term Facility may in certain circumstances restrict the ability of AutoCanada LP and the Fund to pay distributions if the payment would result in a default.
- (ii) CFC lease contracts are collateralized by the related lease contract and lease vehicles with a carrying value of \$695.

Principal payments for the next three years are as follows:

	\$
2007	198
2008	438
2009	<u>11,000</u>
	<u>11,636</u>

8 Contingencies

- (a) The Fund is party to a number of disputes and lawsuits in the normal course of business. Management believes that the ultimate liability arising from these matters will not have a material impact on the financial statements.

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Notes to the Interim Consolidated Financial Statements

(Unaudited)

June 30, 2007

(expressed in Canadian dollar thousands except unit and per unit amounts)

- (b) The Fund's operations are subject to federal, provincial and local environmental laws and regulations in Canada. While the Fund has not identified any costs likely to be incurred in the next several years, based on known information for environmental matters, the Fund's ongoing efforts to identify potential environmental concerns in connection with the properties it leases may result in the identification of additional environmental costs and liabilities. The magnitude of such additional liabilities and the costs of complying with environmental laws or remediating contamination cannot be reasonably estimated at the balance sheet date due to lack of technical information, absence of third party claims, the potential for new or revised laws and regulations and the ability to recover costs from any third parties. Thus the likelihood of any such costs or whether such costs would be material cannot be determined at this time.

9 Unitholders' equity

- (a) Authorized

An unlimited number of Fund Units may be created and issued pursuant to the Declaration of Trust. All Fund Units entitle the holder thereof to one vote and each Fund Unit has equal voting rights and privileges.

- (b) Issued

	Units #	Amount \$
Units issued on initial public offering (note 3(a))	10,209,500	102,095
Issuance costs	-	(4,295)
Units issued in connection with over-allotment option exercised	740,000	7,400
	<u>10,949,500</u>	<u>105,200</u>

- (c) Exchangeable LP units

	Units #	Amount \$
Units issued on initial public offering (note 3(a))	10,047,500	100,475
Issuance costs	-	(4,228)
Exchanges in connection with the over-allotment option	(740,000)	(7,400)
	<u>9,307,500</u>	<u>88,847</u>

- (d) Contributed surplus

The Fund has an Incentive Unit Option Plan (the "Plan") for certain employees, officers, directors and trustees. Options issued under the Plan vest at a rate of one third on the three subsequent award date anniversaries. All the options must be exercised over specified periods not to exceed five years from the date granted. At June 30, 2007, 1,519,275 units remained reserved for issuance under the option plan.

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During the three-month period ended June 30, 2007, 127,170 options (2006 – 759,638) were granted to purchase Fund Units. During the six-month period ended June 30, 2007, 247,170 options (2006 – 759,638) were granted to purchase Fund Units. At June 30, 2007, 235,716 options were exercisable.

	Weighted average remaining contractual life Yrs	Units #	Weighted average exercise price \$
Balance, December 31, 2006	3.86	719,967	10
Granted	4.70	247,170	10.21
Cancelled	4.41	(72,819)	9.92
Options outstanding, end of period		<u>894,318</u>	<u>10.06</u>

On January 10, 2007, the Fund granted 120,000 options to employees of the Fund. The fair value of the units were equal to the exercise price as at the grant date. The fair value of the options granted were estimated as at the grant date using the Black-Scholes option pricing model, using the following assumptions:

Risk free interest rate	3.97%
Expected life in years	5.0 years
Expected volatility	36.0%
Expected dividends	\$1
Fair value per option	\$1.56

On May 14, 2007, the Fund granted 127,170 options to employees and directors of the Fund. The fair value of the units were equal to the exercise price as at the grant date. The fair value of the options granted were estimated as at the grant date using the Black-Scholes option pricing model, using the following assumptions:

Risk free interest rate	4.19%
Expected life in years	5.0 years
Expected volatility	36.0%
Expected dividends	\$1
Fair value per option	\$1.47

The impact of expensing the unit options for the three-month period ended June 30, 2007 was \$135 (2006 - \$104) and for the six-month period ended June 30, 2007 was \$320 (2006 - \$104), with a corresponding increase to contributed surplus.

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10 Distributions

Distributions are discretionary and are determined based on earnings, before amortization, but reduced by capital expenditures, subject to approval of the Trustees. Distributions totaling \$0.250 were declared per Fund Unit and the Exchangeable LP Unit respectively by the Fund for the three-month period ended June 30, 2007.

	Declared \$	Paid \$
Fund Units	2,736	1,824
Exchangeable Units	2,325	1,550
	<u>5,061</u>	<u>3,374</u>

Distributions payable to all Unitholders in the amount of \$1,687 as at December 31, 2006 were paid in January, 2007.

Distributions payable to all Unitholders in the amount of \$1,687 as at June 30, 2007 were paid in July, 2007.

11 Related party transactions and balances

(a) The following summarizes the Fund's related party transactions not disclosed elsewhere:

	Three-month period ended June 30, 2007 \$	Six-month period ended June 30, 2007 \$
Management fees and non-competition fees received from a director and companies with common directors	90	156
Rent paid to companies with common directors	925	1,649

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

(b) In accordance with a credit agreement in place between the Fund and a related party, there is a guarantee in place to the Fund from the related party for \$1,000. The Nissan Dealership has a non-interest bearing loan, payable on demand to this related party of \$1,000. This loan has been included in Due to related parties on the balance sheet.

12 Future income taxes

On October 31, 2006, the Department of Finance Canada announced proposed legislation in connection with the taxation of income trusts and other flow-through entities ("trust legislation") that will apply beginning with the taxation year ended December 31, 2011 for those income trusts that are already publicly traded. In 2011, when the Fund becomes a taxable entity, current income taxes payable will reduce net earnings and will affect

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(expressed in Canadian dollar thousands except unit and per unit amounts)

distributable cash by an equal amount.

The October 31, 2006 trust legislation was substantively enacted into law on June 12, 2007, at which time the Fund must give accounting recognition to these new taxation rules.

While the Fund will not be liable for current taxes until January 1, 2011, it must give recognition in the interim period ended June 30, 2007 to future income taxes arising from those temporary tax differences expected to reverse after January 1, 2011, at the 31.5% tax rate applicable to the Fund.

Future income tax assets and liabilities are recognized on temporary differences between the accounting and tax bases of existing assets and liabilities as follows:

	\$
Property and equipment	549
Intangible assets	18,059
Goodwill	499
	<u>19,107</u>

Future income taxes are not recorded on \$43,900 of non-tax deductible goodwill.

13 Economic dependence

The Fund purchases substantially all new vehicles and parts and accessories from DaimlerChrysler Canada Ltd.

14 Seasonal nature of the business

The Fund's results from operations for the period ended June 30, 2007 are not necessarily indicative of the results that may be expected for the full year due to seasonal variations in sales levels. The results from operations of the Fund (CAG prior to May 10, 2006) have been lower in the first and fourth quarters of each year, largely due to consumer purchasing patterns during the holiday season, inclement weather and the reduced number of business days during the holiday season. As a result, our financial performance is generally less strong during the first and fourth quarters than during the other quarters of each fiscal year. The timing of acquisitions may also cause substantial fluctuations in operating results from quarter to quarter.

15 Subsequent events

On July 13, 2007, the Fund announced that it intends to enter into a credit agreement with CAG to finance the opening of a Nissan Dealership Open Point by CAG and enter into a management agreement to provide it with management services. The Nissan Dealership Open Point will be located in Prince George, British Columbia, will carry on business under the name Northland Nissan, and will be owned and operated by a subsidiary of CAG which owns 46% of the Fund on a fully diluted basis. In connection with this arrangement, the Fund shall seek Board approval to grant consents to CAG and its subsidiary under the terms of the non-competition agreements entered into at the time of the Fund's IPO. It is anticipated that such approval shall be forthcoming.

AutoCanada Income Fund

Notes to the Interim Consolidated Financial Statements

(Unaudited)

June 30, 2007

(expressed in Canadian dollar thousands except unit and per unit amounts)

The Fund is in the process of finalizing the structure and related agreements with CAG to assess whether Northland Nissan will be a variable interest entity requiring the Fund to consolidate its results subsequent to July 13, 2007.