

**AutoCanada Income Fund**

**Annual Information Form**

**For the year ended December 31, 2008**

**March 23, 2009**

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## GENERAL DISCLOSURE MATTERS

### Certain References and Glossary

In this Annual Information Form (“AIF”), unless the context otherwise requires, references to “AutoCanada”, “we”, “us”, “our” or similar terms refer to the Fund together with the Trust, AutoCanada GP, the Partnership, the Dealer LPs and any other franchised automobile dealership owned by the foregoing parties. The disclosure contained in this AIF is presented on the basis that we owned and operated the business that was previously owned by Canada One Auto Group (“CAG”) for all periods referred to in this AIF.

The “Glossary of Terms” attached as Schedule A to this AIF contains definitions of terms used in this AIF.

### Date of Information

The information in this AIF is presented as of December 31, 2008, unless otherwise indicated.

### Forward Looking Information

Certain statements contained in management’s discussion and analysis are forward-looking statements and information (collectively “forward-looking statements”), within the meaning of the applicable Canadian securities legislation. We hereby provide cautionary statements identifying important factors that could cause our actual results to differ materially from those projected in these forward-looking statements. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as “will likely result”, “are expected to”, “will continue”, “is anticipated”, “projection”, “vision”, “goals”, “objective”, “target”, “schedules”, “outlook”, “anticipate”, “expect”, “estimate”, “could”, “should”, “expect”, “plan”, “seek”, “may”, “intend”, “likely”, “will”, “believe” and similar expressions are not historical facts and are forward-looking and may involve estimates and assumptions and are subject to risks, uncertainties and other factors some of which are beyond our control and difficult to predict. Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. Therefore, any such forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this document.

In particular, material forward-looking statements in this annual information form include:

- our intentions for future growth and its effect on financial operations;
- our expectations regarding the future of the Canadian automotive retail industry;
- our future intentions for the AutoCanada Used Superstore;
- our belief that a higher percentage of all repair work will be performed at dealerships;
- our goals of retaining long-term customers;
- our statements regarding our competitive strengths
- our plans for finance and insurance and its anticipated impact on financial results;
- anticipation that lease options will be exercised;
- assumptions regarding the amount of time it takes for acquisitions and open points to achieve normalized performance;
- expectation that our supply of vehicles will meet the demand in our markets;
- targets for inventory turnover;
- assumptions regarding other automobile manufacturer agreements;
- potential future impact of provisions in our credit agreements;
- our beliefs of the future impact of internet and e-commerce on the Fund;
- assumptions regarding Provincial government regulations in jurisdictions we do not operate in;
- our anticipated compliance with governmental regulations and assumptions with respect to changes in regulations; and
- assumptions made in our discussion of risk factors.

Although we believe that the expectations reflected by the forward-looking statements presented in this release are reasonable, our forward-looking statements have been based on assumptions and factors concerning future events that may prove to be inaccurate. Those assumptions and factors are based on information currently available to us about ourselves and the businesses in which we operate. Information used in developing forward-looking

statements has been acquired from various sources including third-party consultants, suppliers, regulators, and other sources. In some instances, material assumptions are disclosed elsewhere in this release in respect of forward-looking statements. We caution the reader that the following list of assumptions is not exhaustive. The material factors and assumptions used to develop the forward-looking statements include but are not limited to:

- no significant adverse changes to the automotive market, competitive conditions, the supply and demand of vehicles, parts and service, and finance and insurance products or the political, economic and social stability of the jurisdictions in which we operate;
- no significant construction delays that may adversely affect the timing of dealership relocations and open points;
- no significant disruption of our operations such as may result from harsh weather, natural disaster, accident, civil unrest, or other calamitous event;
- no significant unexpected technological event or commercial difficulties that adversely affect our operations;
- continuing availability of economical capital resources; demand for our products and our cost of operations;
- no significant adverse legislative and regulatory changes; and
- stability of general domestic economic, market, and business conditions

Because actual results or outcomes could differ materially from those expressed in any forward-looking statements, investors should not place undue reliance on any such forward-looking statements. By their nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, which contribute to the possibility that the predicted outcomes will not occur. The risks, uncertainties and other factors, many of which are beyond our control, that could influence actual results include, but are not limited to:

- our access to capital due to uncertainty in the capital markets;
- rapid appreciation or depreciation of the Canadian dollar relative to the U.S. dollar;
- a sustained downturn in consumer demand and economic conditions in key geographic markets;
- adverse conditions affecting one or more of our automobile manufacturers;
- the ability of consumers to access automotive loans and leases;
- competitive actions of other companies and generally within the automotive industry;
- our dependence on sales of new vehicles to achieve sustained profitability;
- our suppliers ability to provide a desirable mix of popular new vehicles;
- the ability to continue financing inventory under similar interest rates;
- our suppliers ability to continue to provide manufacturer incentive programs;
- the loss of key personnel and limited management and personnel resources;
- the ability to refinance credit agreements in the future;
- changes in applicable environmental, taxation and other laws and regulations as well as how such laws and regulations are interpreted and enforced
- risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations
- the ability to obtain automotive manufacturers' approval for acquisitions;

Please refer to the section entitled "Risk Factors" for a complete listing. Further, any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by applicable law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all of such factors and to assess in advance the impact of each such factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

### **Non-GAAP Measures**

References to "EBITDA" are to earnings before interest expense (other than interest expense on floorplan financing and other interest), income taxes, depreciation, amortization and goodwill impairment charges. Management believes that, in addition to earnings or loss, EBITDA is a useful supplemental measure of both performance and cash available for distribution before debt service, changes in working capital, capital expenditures and income taxes.

We have used Adjusted EBITDA as the basis for the analysis of our past financial performance. References to “Adjusted EBITDA” are to EBITDA after adjusting for various items including the elimination of certain shareholder remuneration paid by CAG as a private company, the deduction of compensation that would have been paid to certain of our dealer principals had the Dealer Principal Compensation Arrangements been in effect for the applicable periods, the addition of incremental insurance commissions that would have been paid to us had the new insurance contract with our supplier been in effect for the applicable periods, the addition of incremental Adjusted EBITDA we estimate we would have generated had Grande Prairie Hyundai been open for all of 2005 and the addition of incremental Adjusted EBITDA we estimate we would have generated had we owned 100% of Dartmouth Dodge for the applicable periods. Adjusted EBITDA is a measure that we believe facilitates the comparability of the results of historical periods and the analysis of our financial performance.

References to “standardized distributable cash” and “adjusted distributable cash” are to cash flow provided by operating activities available for distribution to Unitholders’ in accordance with the distribution policies of the Fund. Standardized distributable cash and adjusted distributable cash of the Fund are measures generally used by Canadian open-ended trusts as an indicator of financial performance. As two of the factors that may be considered relevant by prospective investors is the cash distributed by the Fund relative to the price of the Units, management believes that standardized distributable cash and adjusted distributable cash of the Fund are useful supplemental measures that may assist prospective investors in assessing an investment in the Fund. Standardized distributable cash is calculated as cash flows from operating activities, including the effects of changes in non-cash working capital, less total capital expenditures. Adjusted distributable cash is calculated as cash flows provided by operating activities before changes in non-cash working capital, less purchases of non-growth property and equipment.

References to “standardized payout ratio” represent a comparison of distributions declared to standardized distributable cash. References to “adjusted payout ratio” represent a comparison of distributions declared to adjusted distributable cash. Management believes that both standardized payout ratio and adjusted payout ratio are indicators of the Fund’s conservatism and its ability to continue to make distributions to unitholders at current rates.

EBITDA, standardized distributable cash, adjusted distributable cash, standardized payout ratio and adjusted payout ratio are not earnings measures recognized by GAAP and do not have standardized meanings prescribed by GAAP. Investors are cautioned that EBITDA, standardized distributable cash, adjusted distributable cash, standardized payout ratio and adjusted payout ratio should not replace net earnings or loss (as determined in accordance with GAAP) as an indicator of the Fund’s performance, of its cash flows from operating, investing and financing activities or as a measure of its liquidity and cash flows. The Fund’s methods of calculating EBITDA, adjusted distributable cash, and adjusted payout ratio may differ from the methods used by other issuers. Therefore, the Fund’s EBITDA, adjusted distributable cash, and adjusted payout ratio may not be comparable to similar measures presented by other issuers. For a reconciliation of adjusted distributable cash to standardized distributable cash, please see “Adjusted Distributable Cash” below.

References to “absorption rate” are to the extent to which the gross profits of a franchised automobile dealership from parts, service and collision repair cover the costs of these departments plus the fixed costs of operating the dealership, but does not include expenses pertaining to our head office. For this purpose, fixed operating costs include fixed salaries and benefits, administration costs, occupancy costs, insurance expense, utilities expense and interest expense (other than interest expense relating to floor plan financing) of the dealerships only and do not include expenses pertaining to head office. Absorption rate is an operating measure commonly used in the retail automotive industry as an indicator of the performance of the parts, service and collision repair operations of a franchised automobile dealership. Absorption rate is not a measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, absorption rate may not be comparable to similar measures presented by other issuers that operate in the retail automotive industry.

## CORPORATE STRUCTURE

The Fund was established on January 4, 2006 and is an unincorporated, open-ended trust governed by the laws of the Province of Alberta and by the Declaration of Trust. The Fund has been formed to hold Trust Units and all of the outstanding shares of AutoCanada GP.

The Trust was established on January 16, 2006 and is an unincorporated, open-ended trust governed by the laws of the Province of Alberta and by the Trust Declaration of Trust. The Trust has been created to acquire and hold LP Units. See "AutoCanada Operating Trust".

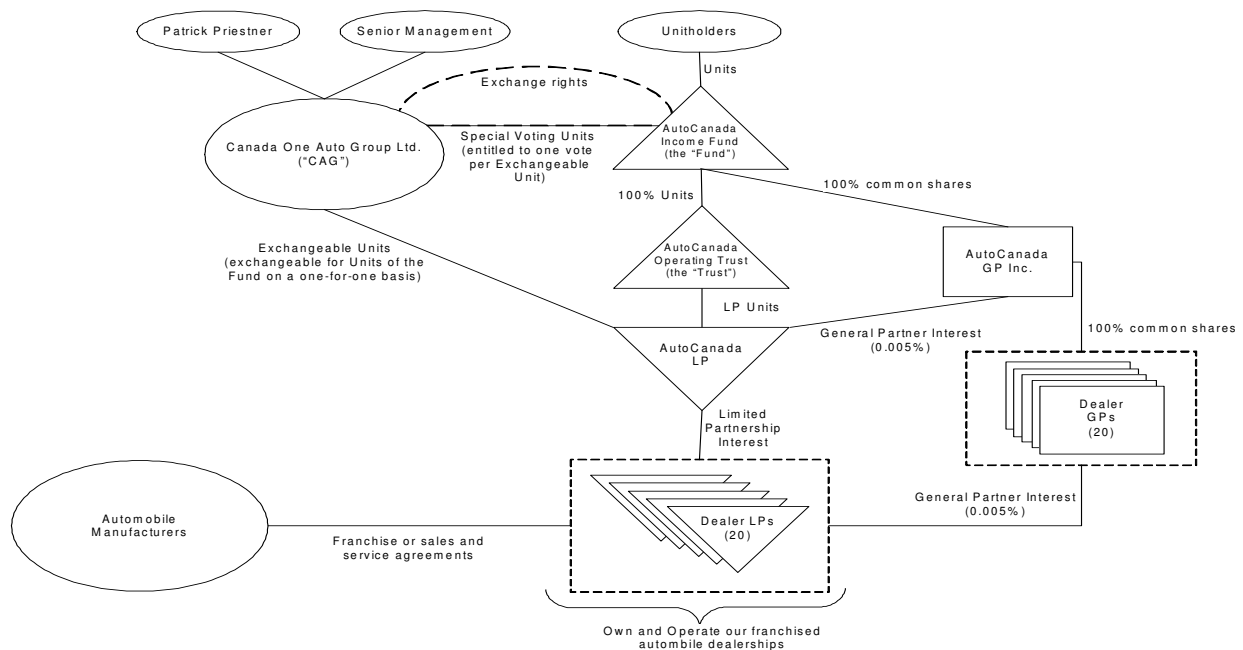
AutoCanada GP is a corporation incorporated under the CBCA on October 21, 2005. AutoCanada GP is the general partner of the Partnership and holds the shares of the general partners of the Dealer LPs. See "Dealer LPs" and "AutoCanada GP".

The Partnership is a limited partnership formed under the laws of the Province of Manitoba on January 1, 2006. The Partnership has been created to acquire and hold limited partnership units in the Dealer LPs and, indirectly through the Dealer LPs, to acquire and hold the assets and undertaking of CAG and to carry on our business. See "AutoCanada LP". The Trust holds LP Units and CAG holds Exchangeable Units, representing an approximate 53.2% and 46.8% interest, respectively, in the Partnership.

Each of the Dealer LPs is a limited partnership formed under the laws of the Province of Manitoba on January 1, 2006. Each Dealer LP has been formed to acquire the assets and undertaking relating to one of the franchised automobile dealerships owned by CAG. See "Dealer LPs".

The principal and head offices of the Fund, the Trust, AutoCanada GP and the Partnership are located at 200-15505 Yellowhead Trail, Edmonton, Alberta, T5V 1E5. The principal and head offices of each of the Dealer LPs are located at the franchised automobile dealership owned by such entity. The registered office of the Fund, the Trust, AutoCanada GP, the Partnership and each of the Dealer LPs is located at 1000, 400 - 3<sup>rd</sup> Avenue S.W., Calgary, Alberta, T3E 2A3.

The following chart illustrates our structure, not including the managed dealerships:



## OVERVIEW AND DEVELOPMENT OF OUR BUSINESS

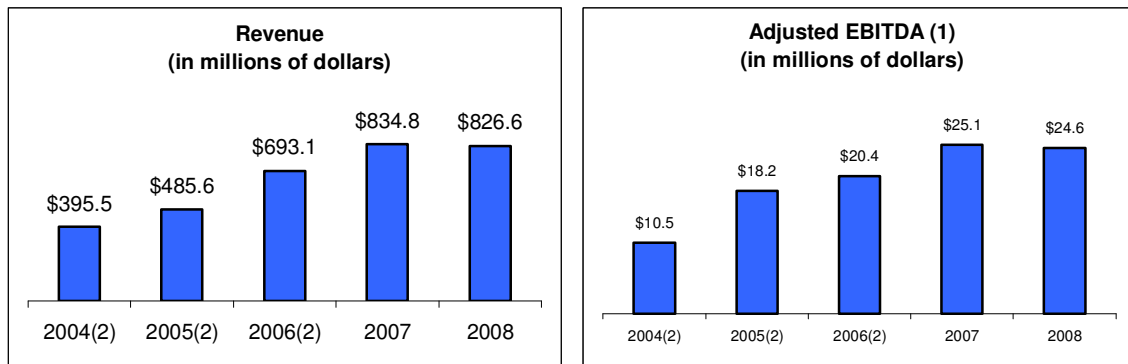
### Overview

We are a large multi-location automobile Canadian dealership group, with 20 franchised dealerships and two managed dealerships located in six provinces. In 2008, the automobile dealerships we owned and managed sold approximately 23,700 vehicles and processed approximately 277,300 service and collision repair orders in our 284 service bays. We intend to continue to grow principally through the acquisition of additional franchised automobile dealerships, opening new franchised automobile dealerships and managing dealerships owned by others.

See the table in “Description of the AutoCanada Business – Locations” for a list of the franchised automobile dealerships owned or managed by us as at March 23, 2009 and the year such dealership was opened or acquired by us or CAG, or came under our management.

We currently sell through our owned and managed dealerships the following new vehicle brands: Chrysler, Dodge, Jeep, Nissan, Infiniti, Volkswagen, Hyundai, Mitsubishi and Subaru. Vehicles manufactured by Chrysler Canada represented approximately 78% of our total new vehicle sales in 2008. In addition, we sell a broad range of used vehicles. We also offer a full range of parts, service and collision repair services and facilitate the sale of third party finance and insurance products, extended warranties and replacement and after market automotive products.

The following charts illustrate the revenue and Adjusted EBITDA growth since 2004 for the Fund and its predecessors.



#### Notes:

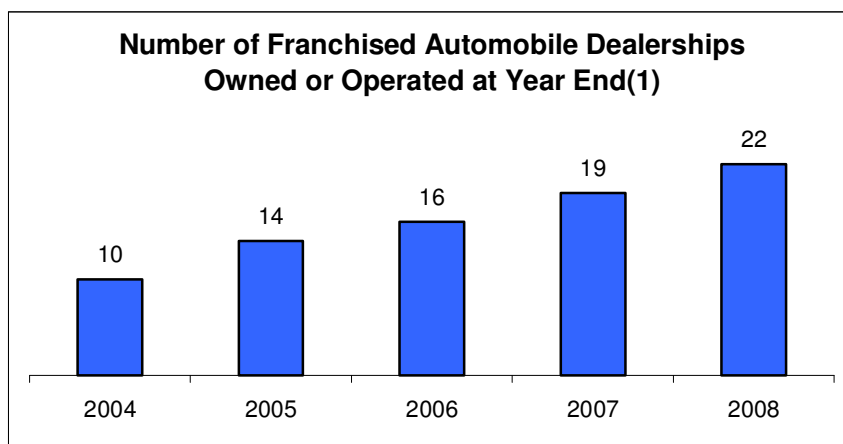
- (1) Adjusted EBITDA is not a recognized measure under GAAP and does not have a standardized meaning prescribed by GAAP. Our Adjusted EBITDA may not be comparable to similar measures presented by other issuers. See “Non-GAAP Measures”.
- (2) Revenue information for our fiscal years ended December 31, 2004 and 2005 is derived from the audited combined financial statements of CAG. Revenue for 2006 is the combined unaudited results of CAG and the Fund for the year ended December 31, 2006. Adjusted EBITDA for these years has been determined in the manner referred to in Note 1.

The Canadian retail automotive industry is highly fragmented with approximately 3,384 franchised automobile dealerships. We expect the Canadian automotive retail industry will continue to consolidate due to the rapid decline in new vehicle sales over the last few months, poor access to credit to finance dealerships, the need for increased operating efficiencies and stronger customer loyalty processes in a competitive marketplace, and the possibility of forced consolidation driven by the various auto manufacturers in Canada.

### History and Recent Developments

Our founder and Chief Executive Officer, Patrick Priestner, has been directly involved in the retail automotive industry since 1974. He was one of the founders of a predecessor to CAG when, in 1993, it purchased a franchised automobile dealership in Edmonton, Alberta that had been in business since 1952. In 2001, after growing the business to five franchised automobile dealerships, we began to implement our strategy of becoming a national multi-location automobile dealership group in Canada, a strategy that had been successfully executed by that time by owners of several franchised automobile dealers in the United States.

Between 2001 and 2004, we grew by acquiring and successfully integrating the operations of nine existing franchised automobile dealerships. In addition, on April 20, 2005, we opened our Grande Prairie Hyundai dealership and on November 15, 2006, we opened our Sherwood Park Hyundai dealership. Both of these dealerships were “open points” awarded to us by Hyundai. On May 3, 2007, we announced that we were awarded a Mitsubishi open point dealership in Grande Prairie, Alberta which commenced operations during the summer of 2007, and which was relocated to new premises in the spring of 2008. In February 2007, and July 2007, respectively, the Fund provided financing to affiliates of CAG for the acquisition of Grande Prairie Nissan and Northland Nissan, respectively, and in each case entered into a management agreement to provide management services to such dealerships. In addition, in 2008 we purchased the assets and commenced operations in respect to our Doner Nissan Infiniti (Newmarket Ontario) dealership (April 2008), Cambridge Hyundai (Ontario) dealership (July 2008), and Maple Ridge (British Columbia) Volkswagen dealership (December 2008).



**Note:**

(1) Includes Dartmouth Dodge from 2004 to 2008, of which we have owned 50% since 2002 and purchased the remaining 50% in February, 2006.

On May 11, 2006, we completed an initial public offering of 10,209,500 Units at a price of \$10 per Unit, to raise aggregate gross proceeds of \$102,095,500. On May 31, 2006, the Over-Allotment Option was exercised, resulting in the issuance by the Fund of 740,000 additional Units at a price of \$10.00 per Unit for gross proceeds of \$7,400,000. The gross proceeds of the Offering were used by the Fund to indirectly acquire the assets and undertaking of CAG and the gross proceeds of the Over-Allotment Option were used to indirectly redeem 740,000 Exchangeable Units. As a result of the Offering and the exercise of the Over-Allotment Option, there were 10,949,500 Units issued and outstanding. In August of 2008, the Fund received regulatory approval from the Toronto Stock Exchange to purchase for cancellation, the issued and outstanding units, subject to specific terms described in “Capital Structure – AutoCanada LP – *Normal Course Issuer Bid*”. During the year ended December 31, 2008, the Fund purchased for cancellation 376,070 units. As at December 31, 2008, the Trust had cancelled all repurchased units. As a result of the normal course issuer bid, there were 10,573,430 Units issued and outstanding. The Fund now owns an indirect 53.2% interest in AutoCanada LP and CAG owns the remaining 46.8%.

On February 7, 2007, we granted consent to Patrick Priestner to own and operate a new Toyota dealership, Sherwood Park Toyota. In 2008, Toyota Canada advised that they were not prepared to accept the Fund as a purchaser of its dealerships. Upon receipt of outside legal advice, the Trustees of the Fund and AutoCanada have determined that it is in the best interests of the Fund and AutoCanada to waive the non-competition agreement as it relates to the Sherwood Park Toyota dealership in consideration for a one-time payment to be made to AutoCanada in the 2009 fiscal year.

**Significant Acquisitions**

There were no significant acquisitions, for which disclosure is required under National Instrument 51-102, in the year ended December 31, 2008.



## DESCRIPTION OF THE AUTOCANADA BUSINESS

### Our Operations

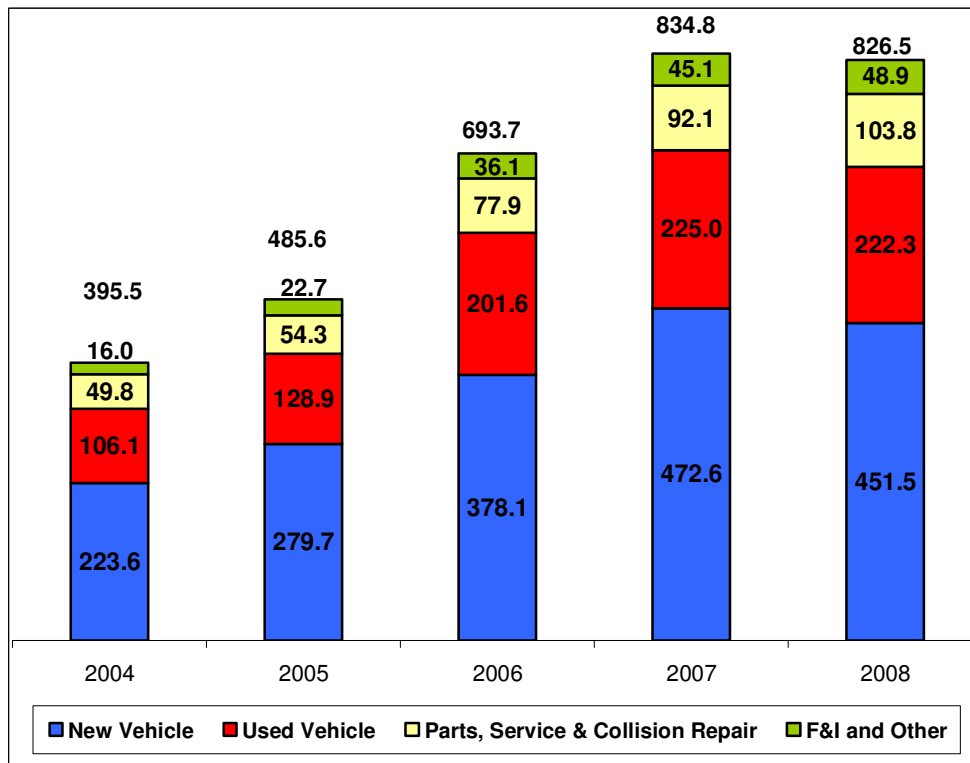
Our current multi-location automobile dealership model of 20 franchised automobile dealerships and 2 managed dealerships located in six provinces enables us to serve a diversified geographic customer base and enjoy benefits not available to single location dealerships. In addition, by operating eight dealerships in Alberta, including five dealerships in Grande Prairie, Alberta, as well as three dealerships in Prince George, British Columbia, we are able to gain the advantages associated with a “platform” of dealerships in a single geographic area.

Our franchised automobile dealerships are operated as distinct profit centres in which the dealer principals are given significant autonomy within overall operating guidelines. This autonomy, combined with the dealer principals’ thorough understanding of their local markets, enables the dealer principals to effectively run day-to-day operations, market to customers, recruit new employees and gauge acquisition opportunities in their local markets. Our dealer principals are required to take an active, hands-on approach to operating their respective dealerships. Each dealer principal is supported by a complete management team that provides oversight and management over every facet of the business. While each member of a dealership’s management team, other than the dealer controllers, reports directly to the dealer principal, they also report to one or more members of our head office senior management team. The dealer controllers report directly to the head office finance group. Our reporting structure is designed to facilitate the sharing of ideas and market intelligence in an efficient and effective manner.

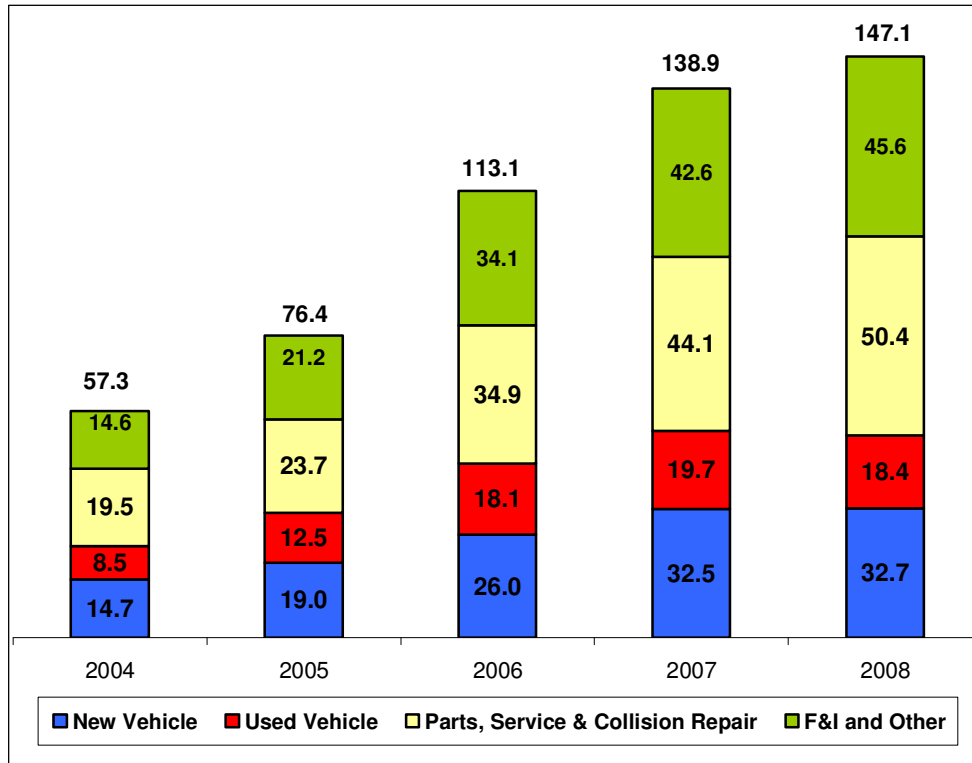
### Sources of Revenue and Gross Profit

We generate revenues and gross profit from four inter-related business operations: new vehicle sales; used vehicle sales; parts, service and collision repair; and finance and insurance. The following two charts show our revenues and gross profit from the four business operations since 2004 for the Fund and its predecessors.

**Revenue by Business Operation (in millions of dollars)**



**Gross Profit by Business Operation (in millions of dollars)**

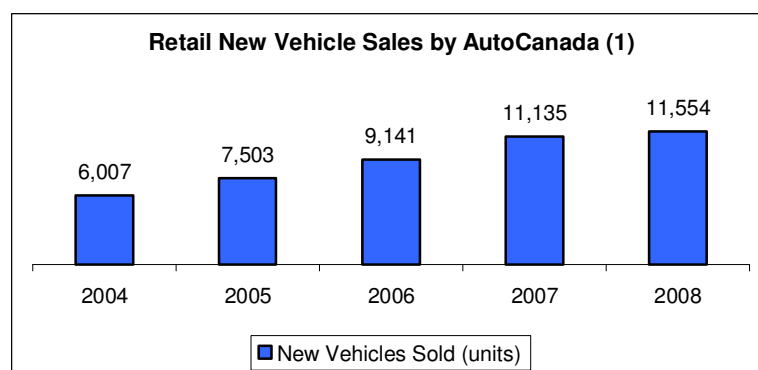


***New Vehicle Sales***

Our retail new vehicle sales include new vehicle sales and lease transactions and other similar agreements, which are made by our franchised automobile dealerships. In addition to the profit from the sale itself, a typical new vehicle sale or lease transaction creates key profit opportunities for our dealerships from the resale of any trade-in vehicle purchased by the dealer, sale of third party finance or lease transactions and vehicle service and insurance contracts in connection with the retail sale, and service and repair of the vehicle during and after the warranty period.

New vehicle leases, which are provided by third parties, generally have shorter terms, resulting in customers returning to a dealership more frequently than in the case of financed purchases. In addition, leases provide us with a steady source of late-model, off-lease vehicles for our used vehicle inventory. Generally, leased vehicles remain under factory warranty for the term of the lease, allowing franchised automobile dealers to provide repairs and service to the customer throughout the lease term.

The chart below shows our historical retail new vehicle sales over the past five years for the Fund and its predecessors.



**Note:**

(1) Includes 100% of the operating results of Dartmouth Dodge, of which we have owned 50% since 2002 and purchased the remaining 50% in February, 2006 as well as vehicles sold from our two managed dealerships.

We acquire our new vehicle inventory from automobile manufacturers. Automobile manufacturers allocate products among their dealerships based primarily on historical sales volume and planned sales.

We finance our inventory purchases through the floor plan financing provided by the finance affiliate of the automobile manufacturer, banks or other specialty lenders. Subject to floor plan limitations imposed by us and our days of supply guidelines, inventory selection and management occurs at the franchised automobile dealer level.

**Used Vehicle Sales**

Used vehicle sales typically generate higher gross margins than new vehicle sales because of their limited comparability and the subjective nature of their evaluation, which is dependent, among other things, upon a vehicle's age, warranty, mileage and condition. Valuations also vary based upon supply and demand factors, the level of new vehicle incentives, the availability of retail financing, and general economic conditions.

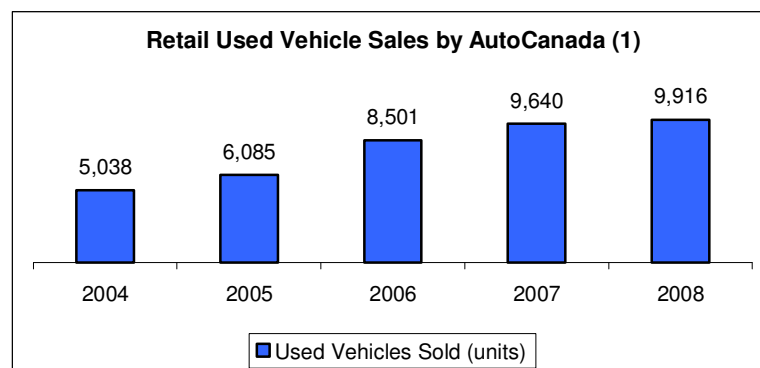
Used vehicle sales give us an opportunity to, increase new and used vehicle sales by aggressively pursuing customer trade-in vehicles, increase service contract sales provide parts and services required in the maintenance of the vehicle, and provide financing to used vehicle purchasers.

In addition, the Fund may, where appropriate, own and operate self standing used vehicle dealerships under the AutoCanada brand name.

Profits from used vehicle sales depend primarily on the ability of our franchised automobile dealers to obtain a high quality supply of used vehicles at reasonable prices and to effectively manage that inventory. Our new vehicle operations provide our used vehicle operations with a large supply of high quality trade-ins and off-lease vehicles, which we believe are the best sources of attractive used vehicle inventory. Our dealers supplement their used vehicle inventory with purchases at auctions, including manufacturer-sponsored auctions available only to franchised dealers, and from wholesalers.

We actively manage the quality and age of our used vehicle inventory and seek to increase the profitability of our used vehicle operations by participating in automobile manufacturer certification programs where available. Various manufacturers provide franchised automobile dealers the opportunity to sell certified pre-owned vehicles, which are often eligible for new vehicle benefits such as preferred vehicle finance rates, better automobile warranties and an extension of the manufacturer's warranty. Manufacturer certified pre-owned vehicles typically sell at a premium compared to other used vehicles and are available only at franchised automobile dealerships. Management believes that an extended manufacturer's warranty increases our potential to retain the pre-owned vehicle purchaser as a future parts and service customer since certified pre-owned warranty work can only be performed at franchised automobile dealerships.

The chart below shows our historical retail used vehicle sales over the past five years for the Fund and its predecessors.



**Note:**

(1) Includes 100% of the operating results of Dartmouth Dodge, of which we have owned 50% since 2002 and purchased the remaining 50% in February, 2006. The fiscal years 2007 and 2008 include the results of our two managed dealerships.

Used vehicles are generally offered at our dealerships for an average of approximately 45 days. At the end of 90 days, vehicles which have not been sold to a retail buyer are generally either sold to an outside dealer or offered at auction. Certain used vehicles acquired by us as “trade-ins” may not be suitable for sale in our used vehicle business because of their age, mileage or physical condition. Rather than reconditioning these vehicles for resale by us, we sell these vehicles immediately in the wholesale market. We do not regularly transfer used vehicles among our dealerships, except to provide balanced inventories of used vehicles at each of our dealerships. We have developed an integrated inventory system allowing us to closely monitor our sales of used vehicles.

In 2008 the Fund, on a trial basis, commenced operation of a standalone used car operation under the name AutoCanada Used Car Superstore in Edmonton, Alberta out of the former Capital Chrysler Jeep Dodge dealer location. The Fund intends to review on a quarterly basis this business to assess whether this offers a sufficiently attractive new profit opportunity for the Fund and, if so, whether it may be expanded upon.

***Parts, Service and Collision Repair***

Historically, the automotive repair industry has been highly fragmented, consisting of numerous small, independently owned service and repair garages, including service and repair facilities as a part of most gasoline service stations. However, management believes that the advanced technology used in vehicles has made it difficult for independent repair shops to have the expertise required to perform higher margin repairs. Most of the service and repair facilities at gasoline service stations have closed as the retail gasoline operators have abandoned this business. We have made investments in recruiting and training qualified technicians to work in our service and repair facilities. Additionally, automobile manufacturers require warranty work to be performed at their franchised automobile dealerships. We believe that an increasing percentage of all repair work will be performed at dealerships that have the sophisticated equipment and skilled personnel necessary to perform repairs and warranty work on today’s complex vehicles.

Our profitability in parts, service and collision repair can be attributed to our comprehensive management system, including the use of variable rate pricing structures, cultivation of strong customer relationships through an emphasis on preventive maintenance and the efficient management of parts inventory.

We use variable rate structures in both the compensation paid to our service employees and the rates charged to our customers that are designed to reflect the difficulty and sophistication of different types of repairs. The percentage mark-ups on parts are also variably priced based on market conditions for different parts.

Revenues from parts, service and collision repair were approximately 13% of our total revenues and 34% of our total gross profits in 2008.

Our franchised automobile dealers' parts departments support their sales and service departments, selling factory-approved parts for the vehicle makes and models sold by a particular franchised automobile dealer. Parts are either used in repairs made in the service department, sold at retail to customers, or sold at wholesale to independent repair shops and other dealerships. Certain of our dealerships have agreements with the automobile manufacturers that provide pricing to support wholesale operations. Our dealers employ parts managers who oversee parts inventories and sales. Our dealers also frequently share parts with each other. We continually monitor our parts inventories and make necessary adjustments frequently.

One of our major goals is to retain each vehicle purchaser as a long-term customer of our parts, service and collision repair department. A substantial number of our customers return to our dealerships for other services after the vehicle warranty expires. Each dealership has systems in place to track customer maintenance records and notify owners of vehicles purchased at the dealerships when their vehicles are due for periodic services. Parts, service and collision repair activities are an integral part of our overall approach to customer service.

### ***Finance and Insurance***

Each sale of a vehicle provides us with the opportunity to sell third party purchase and lease financing and extended warranty and insurance products.

In return for arranging third party purchase and lease financing for our customers we receive a fee from the third party lender upon completion of the financing. These third party lenders include the automobile manufacturers' captive finance companies and warranty divisions, selected commercial banks and a variety of other third party lenders, including credit unions and regional auto finance lenders. We have negotiated incentive programs with certain lenders whereby we receive additional fees upon reaching a specified volume of business. We do not own a finance company and do not retain substantial credit risk after a customer has received financing. Under certain circumstances we can become responsible for the credit obligations of our customers. For example, this would occur where the loan documentation that we have submitted does not meet the lender's requirements as stipulated in their contract with us. If the customer defaults on their loan payments in these cases the related vehicle is assigned to us as security for the loan and we are responsible to ensure collection of the loan or, in the alternative, we can seize the vehicle which is security for the loan.

We arranged customer financing on a significant portion of the retail vehicles we sold in 2008. In addition to finance commissions, each vehicle sale creates opportunities to sell other profitable products, such as optional life, dismemberment and disability insurance and extended warranties and various other products for the consumer. Our size and volume capabilities enable us to acquire these products at reduced fees compared to the industry average, which results in competitive advantages as well as acquisition related revenue synergies.

We offer our customers a variety of insurance, vehicle warranty and extended protection products in connection with purchases of new and used vehicles, including: service contracts, auto protection insurance, life disability and dismemberment insurance as well as lease "wear and tear insurance"; and theft protection.

The finance and insurance products our dealerships currently offer are generally underwritten and administered by independent third parties, including the automobile manufacturers' captive finance companies. Under our arrangements with the providers of these products, we either sell these products on a straight commission basis or participate in future profits, if any, pursuant to a retrospective commission arrangement. We may be charged back for unearned financing fees, insurance or service contract commissions in the event of early termination of these contracts by the customers.

The Fund intends to assist its dealerships in the provision of such services by creating a unified brand under which certain of these services can be offered which may lead to increased market penetration, sales and profit.

Our historical revenues include commissions from the sale of life, dismemberment and disability insurance contracts to customers when they purchased a vehicle. These insurance policies generally provide for repayment of the vehicle loan or lease if the customer dies or is seriously injured before the loan is fully repaid, or provide for the payment of the monthly loan obligations if the customer is disabled. We receive commissions on each policy sold. In addition, we also participated in the underwriting profits or losses from these insurance contracts.

## Locations

The Fund reviews in the case of each location whether it wishes to own or lease the land and building. The Fund presently leases each of our locations, save for Cambridge Hyundai, which it owns. As indicated in the notes to the table below, thirteen of our locations are leased from affiliates of CAG. The total lease payments in respect of our leases in our fiscal year ended December 31, 2008 was approximately \$8.5 million, of which \$4.9 million was paid to wholly owned subsidiaries of CAG.

The following table shows the location of our dealerships as at December 31, 2008.

Franchised Automobile Dealership Name and Location	Automobile Manufacturer Represented	Year Established	Year Acquired by Us
<b>Alberta</b>			
Crosstown Chrysler Jeep Dodge, Edmonton <sup>(1)</sup> .	Chrysler	1951	1994
Ponoka Chrysler Jeep Dodge, Ponoka <sup>(1)</sup> .....	Chrysler	1975	1998
Capital Chrysler Jeep Dodge, Edmonton <sup>(1)</sup> .....	Chrysler	1978	2003
Grande Prairie Chrysler Jeep Dodge, Grande Prairie <sup>(1)</sup>	Chrysler	1986	1998
Grande Prairie Subaru, Grande Prairie <sup>(1)</sup> .....	Subaru	1995	1998
Grande Prairie Hyundai, Grande Prairie <sup>(1)</sup> .....	Hyundai	2005	n/a
Sherwood Park Hyundai, Sherwood Park <sup>(1)</sup> .....	Hyundai	2006	n/a
Grande Prairie Mitsubishi, Grande Prairie <sup>(1)</sup> ....	Mitsubishi	2007	n/a
Grande Prairie Nissan, Grande Prairie <sup>(1),(3)</sup> .....	Nissan	1969	2007
<b>British Columbia</b>			
Maple Ridge Chrysler Jeep Dodge, Maple Ridge	Chrysler	1975	2005
Maple Ridge Volkswagen, Maple Ridge	Volkswagen	1999	2008
Okanagan Chrysler Jeep Dodge, Kelowna .....	Chrysler	1985	2003
Northland Chrysler Jeep Dodge, Prince George <sup>(1)</sup>	Chrysler	1990	2002
Northland Hyundai, Prince George <sup>(1)</sup> .....	Hyundai	1990	2005
Victoria Hyundai, Victoria <sup>(1)</sup> .....	Hyundai	1999	2006
Northland Nissan, Prince George <sup>(3)</sup> .....	Nissan	2007	2007
<b>Manitoba</b>			
Thompson Chrysler Jeep Dodge, Thompson.....	Chrysler	1974	2003
<b>Ontario</b>			
Colombo Chrysler Jeep Dodge, Woodbridge ....	Chrysler	1998	2005
Doner Nissan Infiniti, Newmarket	Nissan and Infiniti	1977	2008
Cambridge Hyundai, Cambridge	Hyundai	1996	2008
<b>New Brunswick</b>			
Moncton Chrysler Jeep Dodge, Moncton <sup>(1)</sup> .....	Chrysler	1986	2001
<b>Nova Scotia</b>			
Dartmouth Chrysler Jeep Dodge, Dartmouth <sup>(2)</sup>	Chrysler	1970	2006

### Notes:

(1) Property leased from affiliates of CAG.

(2) We have owned 50% of Dartmouth Chrysler Jeep Dodge since 2002 and we purchased the remaining 50% in February, 2006.

(3) The Fund entered into management agreements to provide management services to Grande Prairie Nissan on February 7, 2007 and Northland Nissan on July 13, 2007.

The Fund had entered into letters of intent with each of Chrysler, Hyundai and Mitsubishi to open an Open Point in Calgary, in Burnaby, BC, and Prince George, BC, respectively. The Fund has determined to defer the Chrysler open point pending the refinancing of Chrysler. Regarding Burnaby, the Fund was not able to secure land and building on an economically viable basis and hence will not be pursuing the opportunity at this time. Regarding Prince George, the Fund is working with Mitsubishi to secure an appropriate facility which it does not anticipate will occur in the next fiscal year.

We lease thirteen of our existing twenty-two locations from affiliates of CAG. Each of our leases from affiliates of CAG has been independently reviewed and provide for market rent. For this purpose, “market rent” is defined as the rental income that a property would most probably command in the open market as indicated by current rents being paid for comparable space. The leases provide for a term, including options, of not less than 15 years. The initial terms for these leases expire between February, 2011 and September, 2023. It is anticipated that all shall be extended by exercising the options. In 2008 the rental expense has increased as the Fund has relocated some dealerships to new locations.

We lease eight of our facilities from arm’s length third parties. The leases for these locations expire between March, 2009 and August, 2013. We hold options to renew four of these leases for terms ending between February, 2015 and March, 2022. Management believes it has a good relationship with its landlords.

We also lease approximately 8,405 square feet of office space in Edmonton, Alberta from an affiliate of CAG as our corporate and head office.

### **Acquisitions - Our Growth Strategy**

Our objective is to be the largest and most profitable multi-location automobile dealership group in Canada. To achieve this objective, we intend to grow primarily through targeted acquisitions in attractive markets while growing our same store gross profits and focussing on cost containment and efficiency. We also continue to seek opportunities to open or manage new franchised automobile dealerships.

Pending the return of normal credit markets however, the Fund’s ability to pursue additional dealership opportunities is limited.

#### ***Organic Growth***

We continue to focus on those areas of our business that enable us to increase the profitability of our operations. Key areas include increasing same store gross profits by controlling expenses and expanding margins at our existing franchised automobile dealerships and those that are integrated into our operations on acquisition.

#### ***Targeted Acquisitions***

Automobile manufacturers have adopted policies that limit the number of their franchised automobile dealerships we are permitted to own at the metropolitan, regional or national level. We are near the limit imposed by Chrysler Canada on the number of their franchised automobile dealerships that we may own. See “Automobile Dealership Franchise Agreements — Automobile Manufacturers’ Limitations on Acquisitions”.

We regularly review acquisition opportunities for both domestic and import brand dealerships in various regions in Canada.

#### ***New Locations for Franchised Automobile Dealerships (Open Points)***

The retail automotive industry is a mature industry and rights to open new franchised automobile dealerships are rarely awarded by the automobile manufacturers. However, from time to time automobile manufacturers may seek to establish new dealerships in attractive markets. The right to open a new franchised automobile dealership in a specific location granted by an automobile manufacturer to a dealer is referred to in the industry as an Open Point. Generally a new franchised automobile dealership is fully performing within one to three years depending on the manufacturer and location.

The Fund will review on a case by case basis whether to own or lease a particular dealership facility. In either case, the Fund would incur the costs of equipping and furnishing these facilities, including the costs relating to the integration of our management information systems into the new dealerships. These costs vary by dealership depending upon size and location.

On March 13, 2009, a commitment to purchase lands located at 17385 Leslie Street, Newmarket, ON, the land on which Doner Infiniti Nissan operates from, was transferred from a related party to the Fund, thereby committing

the Fund to purchase the above land for \$6,000,000 (which is equal to its appraised value as of February 7, 2008) less a \$500,000 deposit made by the Fund, on or before October 1, 2010.

## **Competition**

We operate in a highly competitive industry. In each of our markets, consumers have a number of choices in deciding where to purchase a new or used vehicle or where to have a vehicle serviced. According to various industry sources, there are approximately 3,384 franchised automobile dealerships in the retail automotive industry in Canada. In addition, there are numerous independent used vehicle dealers.

*New Vehicles* — In the new vehicle market, our dealerships compete with other franchised automobile dealerships in their markets. We believe the principal competitive factors in the retail new vehicle business are consumer brand and model preferences, location, quality of facility and service, and price. We are subject to competition from franchised automobile dealers that sell the same brands of new vehicles and other new vehicle brands. We do not have any cost advantage in purchasing new vehicles from the automobile manufacturers.

*Used Vehicles* — In the used vehicle market, our dealerships compete for the supply and resale of used vehicles with other franchised automobile dealerships, local independent used vehicle dealers, vehicle rental agencies and private parties. We believe the principal competitive factors in the retail used vehicle business are location, quality of facility and service, the suitability of a franchise to the market in which it is located, price and selection.

*Parts, Service and Collision Repair* — In the parts, service and collision repair market, our dealerships compete with other franchised automobile dealerships to perform warranty repairs and with franchised and independent service centre chains, and independent repair shops for non-warranty repair and maintenance business. We believe the principal competitive factors in the parts, service and collision repair business are location, quality of facility and service, the use of factory-approved replacement parts, familiarity with an automobile manufacturer's brands and models, convenience, competence of technicians and price.

*Finance and Insurance* — In the finance and insurance market, we face competition in arranging financing for our customers' vehicle purchases from a broad range of financial institutions. We believe the principal competitive factors in the finance and insurance business are convenience, interest rates and flexibility in contract length.

*Acquisitions* — We compete with owners of other franchised automobile dealerships and, in some cases, individual investors for acquisitions. An acquisition of an existing franchised automobile dealership requires the approval of the automobile manufacturer and the manufacturer may approve our competitors as a purchaser of the dealership rather than us.

## **Our Competitive Strengths**

We believe our principal competitive strengths include the following:

### ***Our Multi-Location Automobile Dealership Model***

*Economies of Scale* — Our size and consolidated purchasing power provide both cost and revenue synergies. Cost synergies include achieving lower prices for items such as insurance, advertising, benefit plans and information systems. Revenue synergies include being a preferred provider for retail service and warranty contracts and earning higher commissions on finance and insurance activities.

*Decentralized Operations and Centralized Administrative and Strategic Functions* — Our organizational structure allows us to provide market specific responses to sales, service, marketing and inventory requirements while benefiting from the resources provided by an experienced and knowledgeable head office executive team.

*"Best Practices"* — Our model enables us to benchmark the success of our dealership operations against each other and rapidly implement new and innovative ideas across our dealership group.



*Geographic Diversification* — Our diversified locations throughout Canada help to mitigate the potential effect of adverse economic conditions in any one region of Canada.

*Inventory Management* — Operating a number of franchised automobile dealerships allows us to share market information amongst our dealerships selling the same brands and quickly identify any changes in consumer buying patterns.

*Ability to Attract and Retain Key Employees* — Our size and performance allow us to attract and retain key employees both at the dealership level and at our head office.

### ***Portfolio of Brands Suited to the Markets in which We Operate***

We seek to supply new vehicles of the type and at the price points that we believe are or will be in demand in our markets.

### ***Strong Relationships with Automobile Manufacturers***

Our strong relationships with certain automobile manufacturers have enabled us to source, finance and close new acquisitions, manage our business in an efficient manner and secure the rights to new dealerships awarded by the manufacturers. See “Acquisitions” “Our Growth Strategy — New Locations for Franchised Automobile Dealerships (Open Points)”.

### ***Higher Margin Sales***

While new vehicle sales are our most significant source of revenue, we have focused on our higher margin sources of revenue, which are the sale of used vehicles, parts, service and collision repair and finance and insurance sales.

We also derive substantial revenues and gross profits from fees and commissions earned on the sale of finance and insurance products, which produce higher margins than sales of new and used vehicles. See “Our Operations — Sources of Revenue and Gross Profit — Finance and Insurance”.

### ***Experienced and Incentivized Senior Management with a Significant Retained Interest***

Our management team has extensive experience and expertise in the retail automotive industry. Patrick Priestner, our Chief Executive Officer, has over 30 years of industry experience, including over 25 years as an owner of franchised automobile dealerships. Robert Clark joined us as our President in June, 2004 after 17 years of experience in various senior positions at Chrysler Canada where he last served as Vice President, Sales and Service. Steve Rose joined us in January, 2007 as Vice-President of Corporate Development, General Counsel and Secretary of AutoCanada GP. Prior to joining AutoCanada, Mr. Rose was with Chrysler Canada for 14 years, most recently serving as Vice President, General Counsel and Secretary, where he was responsible for all legal affairs of the Canadian company. Mr. Rose brings over 20 years experience serving in corporate counsel positions and advising on corporate finance and mergers and acquisitions. See “Trustees, Directors and Officers — Management Profiles”.

At the corporate level, Mr. Priestner and certain other senior executive officers have a significant stake in our performance through their indirect ownership, through CAG, of an approximate 46.8% interest in our business as at March 23, 2009. As at March 23, 2009, Mr. Priestner had a controlling interest in CAG of 74%; as at March 23, 2009, Mr. Clark had a 7.5% interest in CAG; and our other senior management team had minority interests for the remaining 18.5% of CAG. These and other members of our senior management may also be paid bonuses that are dependent upon increases in distributions to our Unitholders.

In addition, we have adopted the AutoCanada Option Plan which provides for the grant of options to purchase Units at their fair market value at the time of the grant to our senior management and others. At March 23, 2009, there were outstanding options to purchase an aggregate of 798,424 Units (equivalent to 4.02% of the then outstanding Units and Exchangeable Units in aggregate) held by members of our senior management team (other than Mr. Priestner), trustees, directors and certain dealer principals.

Dealer principals are compensated, to a significant extent, on the basis of the financial performance of the franchised automobile dealership for which they are responsible. Our dealer principals participate in an incentive plan that provides for the payment to them of 15% of the EBITDA of the dealer principal's franchised automobile dealership or, in the case of our Hyundai dealerships, hold a 15% interest in the Dealer LP that owns their respective dealership. The compensation of department managers and salespeople is similarly based upon departmental profitability and individual performance, respectively.

## **Inventories**

Effective management of our inventory levels is critical to our business. Careful monitoring of inventories of new and used vehicles and parts by days of supply, both in units and dollar amount leads to increased profitability by minimizing interest expense incurred from financing our inventory, while maximizing our free cash flow through prudent management of our working capital requirements.

## ***New Vehicles***

Automobile manufacturers allocate their budgeted production among franchised automobile dealerships largely based on historical selling patterns of the given dealership. Automobile manufacturers also take into account the dynamics of each marketplace and look to the number of new vehicle registrations by type to assess the automobile manufacturers' expected market share for each of their product offerings. Through their own analysis, automobile manufacturers determine a "minimum sales responsibility" for each of their dealers which is effectively a minimum selling volume.

Although automobile manufacturers determine a targeted volume of product that each dealer is expected to sell, the decision to purchase inventory is the dealer's, subject to meeting the minimum inventory levels required by the franchise or sales and service agreements with the automobile manufacturers. Our dealers prepare an annual plan at the start of each year, which is then revised and updated throughout the year with the filing of monthly plans.

In general, lead times for delivery of new vehicles are expected to be six to eight weeks from the time of placing our order. We generally expect to manage our new vehicle inventory to approximately 75 days supply (which generally includes approximately 30 days of "in transit" time) although variations are common due to in-transit times to ship vehicles from factories in North America to our Western Canadian locations. During certain times of the year certain plants operated by our OEM's are shut down for maintenance due to declines in market demand or scheduled maintenance. As we become aware of plant closures we occasionally increase inventory of the effected product lines.

We finance our inventory purchases (known in the industry as floor plan financing) through a revolving credit agreement which we have arranged through Chrysler Financial Canada. See "Financing - Floor Plan Financing". Chrysler Financial Canada establishes credit limits for each of our owned dealerships, including our non-Chrysler Canada dealerships. We also finance a portion of our inventory purchases through a revolving floorplan facility with the Bank of Nova Scotia. See "Financing - Floor Plan Financing".

We are able to mitigate interest expense from floor plan financing by effectively managing new vehicle inventories and turning our inventory regularly through continuing sales and smaller but more frequent orders, while complying with the minimum inventory requirements in our agreements with the automobile manufacturers.

## ***Used Vehicles***

Used vehicle inventory is typically acquired either through trade-ins on new or used vehicle sales, lease returns or auctions. In order to facilitate a new vehicle sale, we often take a customer's previously owned vehicle as partial consideration. If the used vehicle fits our criteria for used vehicle inventory, we recondition the vehicle in our service department before returning the vehicle to our sales lot in less than one week. In evaluating used vehicles for our inventory we consider age, brand, mileage and general fit within our respective marketplace. If a trade-in vehicle does not meet our criteria, we typically sell the vehicle to a wholesaler, a used vehicle dealership or through auction.

We acquire a significant amount of our used vehicle inventory through trade-ins and use auctions to supplement this inventory. Most automobile manufacturers, including Chrysler Canada, regularly conduct closed

auctions exclusively for its franchised automobile dealers to purchase off-lease and fleet vehicles. These vehicles typically meet our inventory criteria.

We also acquire vehicles through several other auto auctions. Some of these auctions are limited to franchised automobile dealers, while others are open to all interested parties. The used vehicle inventory at each of our dealerships is monitored at both the dealership and at head office. Our target is to turn our used vehicle inventory every six weeks.

If vehicles are not receiving interest from potential customers our dealers either reduce the suggested price or sell the vehicle to a wholesaler.

Our used vehicle inventory is primarily financed by our working capital rather than floor plan facilities.

### ***Parts Inventory***

Each of our franchised automobile dealerships has a Parts Manager who is responsible for the procurement and management of our parts inventories. We manage our parts inventories to 1.7 months supply on hand in order to be responsive to our customers' needs while managing our working capital. Each of our dealerships' Parts Managers monitors inventories for stale parts. Certain automobile manufacturers allow us to return up to six percent of our purchases each year for full refund. The effective identification of stale parts inventory allows us to reduce our working capital requirements. In addition, our Parts Managers monitor lost sales resulting from not having a customer's requested part in our inventory. Measuring these lost sales enables us to change our stocking patterns and minimize future lost sales while at the same time improving customer service. Our parts inventory is financed by our working capital.

### **Automobile Dealership Franchise Agreements**

Each of our franchised automobile dealerships is operated by a Dealer LP pursuant to automobile dealership franchise or sales and service agreements between the applicable automobile manufacturer and the Dealer LP. The typical dealership franchise or sales and service agreement specifies the location at which the Dealer LP has both the right and obligation to sell the automobile manufacturer's vehicles and related parts and products and to perform certain approved services. The agreement grants the Dealer LP the non-exclusive right to use and display the automobile manufacturer's trademarks, service marks and designs in the form and manner approved by the automobile manufacturer. The dealer principal must be an active participant in the business of the Dealer LP and its dealership, and must be approved by the automobile manufacturer under the franchise or sales and service agreement for that dealership. Our agreement with Hyundai requires us to obtain its approval of the individuals appointed as directors of the general partners of the Dealer LPs operating under dealership agreements with it.

The allocation of new vehicles among franchised automobile dealers is subject to the discretion of the automobile manufacturer, which generally does not guarantee dealers exclusivity within a given territory. A franchise agreement may impose requirements on the franchised automobile dealer concerning such matters as the showrooms, the facilities and equipment for servicing vehicles, the maintenance of minimum levels of vehicles and parts inventories, the maintenance of minimum net working capital, the achievement of certain sales targets, minimum customer service and satisfaction standards and the training of personnel. Compliance with these requirements is closely monitored by the automobile manufacturer. In addition, most automobile manufacturers require each franchised automobile dealer to submit monthly and annual financial statements.

We are subject to additional provisions contained in supplemental agreements, framework agreements or franchise addenda. These agreements impose requirements similar to those discussed above, as well as limitations on changes in our ownership or management and limitations on our market share of total vehicles sold by a particular automobile manufacturer.

### ***Termination or Non-renewal of Franchise Agreements***

Our dealership franchise or sales and service agreements are for indefinite terms or specified terms (which may be one year) with automatic renewals for successive terms unless either party elects not to renew the term of the agreement. Generally, our dealership franchise or sales and service agreements provide for termination by the automobile manufacturer under certain circumstances, including insolvency or bankruptcy of the franchised

automobile dealer, failure to adequately operate the franchised automobile dealership, failure to maintain any license, permit or authorization required for the conduct of business, or material breach of other provisions of the agreement.

### ***Provisions Affecting a Change of Control or Ownership***

A supplemental agreement between Chrysler Canada and us, to which CAG and our Chief Executive Officer, Patrick Priestner, are also parties, contains restrictions on the acquisition of our Units, the sale of Units by CAG or a change of control of CAG. Specifically, this agreement requires our Declaration of Trust to contain provisions to the effect that there will be no change of control of the Fund, or any amendment to such provisions, without the prior written consent of Chrysler Canada. In addition, without the prior written consent of Chrysler Canada, none of CAG, Mr. Priestner or us will permit or agree to: (i) a change of control of the Partnership or a sale of any shares of the general partner of a Dealer LP, except to an affiliate; (ii) the acquisition by another automobile manufacturer of more than 10% of our outstanding Units (or securities convertible into or exchangeable for our Units); or (iii) the sale by us of any of our interests in the Trust or the sale by the Partnership of all or substantially all of its assets.

In this agreement, CAG and Mr. Priestner have also agreed with Chrysler Canada that, until the fifth anniversary of the closing of the Offering (May, 2011), CAG will not, without the prior written consent of Chrysler Canada, transfer or give control over any Units, Special Voting Units or Exchangeable Units that results in CAG holding less than a 20% equity or voting interest in the Fund, on a fully-diluted basis, or permit a change of control of CAG. These restrictions permit a transfer of the shares of CAG held by Mr. Priestner to his executors, administrators or trustees on his death or incapacity, but not a further transfer by them within the five year period.

“Control” of the Fund, the Partnership or CAG is defined in this agreement as the holding (other than by way of security) of securities of the Fund, AutoCanada GP or CAG, as the case may be, to which are attached more than 50% of the votes that may be cast for the election of Trustees or directors of the Fund, AutoCanada GP or CAG, as the case may be, and those votes are sufficient, if exercised, to elect a majority of the Trustees or such directors, as the case may be.

Under this agreement, any consent required by Chrysler Canada may be withheld by it in its sole discretion.

Under a supplemental agreement with Nissan Canada, if any person or entity acquires more than 20% of the Fund, or a group of persons or entities acquire more than 50% of the Fund, and, in either case, Nissan Canada, acting reasonably, determines that such persons or entities do not have interests compatible with those of Nissan Canada, or are otherwise not qualified to have an ownership interest in a Nissan or Infiniti dealership, then Nissan Canada shall be entitled to require the Fund to divest its ownership interest in those Nissan and Infiniti dealerships owned by the Fund.

We may be required to enter into similar agreements with the other automobile manufacturers with whom we deal or wish to deal.

Our dealership franchise or sales and service agreements require the approval of the applicable automobile manufacturer to any change in the ownership of the franchised automobile dealership.

Actions by our Unitholders or prospective Unitholders that would violate certain of the above restrictions are generally outside of our control. For example, we cannot control a change of control of the Fund or the acquisition by another automobile manufacturer of more than 10% of our outstanding Units. In addition, these restrictions may also limit our ability to finance future acquisitions through the issue of additional Units or other equity securities. If we are unable to renegotiate these restrictions, we may be inhibited in our ability to acquire additional franchised automobile dealerships. These restrictions also may impede our ability to raise required capital or to issue Units, or securities exchangeable into Units, as consideration for future acquisitions.

Although our franchise or sales and service agreements may not be renewed and may be terminated by the automobile manufacturer in certain circumstances, automobile manufacturers have rarely chosen to take such action in the case of well managed and well capitalized dealerships - See “Risk Factors”. If any of our franchise or sales and service agreements is terminated, or if certain automobile manufacturers’ rights under their agreements with us are triggered, our operations could be significantly compromised.

### ***Indemnities and other Agreements***

Our supplemental agreements with Chrysler Canada and Hyundai also contain provisions which require us to indemnify the respective automobile manufacturer for breaches of the applicable agreement, for claims made against the automobile manufacturer arising out of the creation of the Fund or in respect of the Offering and, in the case of Hyundai, from any acts or omissions under any applicable securities laws, including any claim arising from any misrepresentation or public oral statement made by us.

In addition, our agreement with Hyundai requires us to obtain its approval of the individuals appointed as directors of each general partner of the Dealer LPs operating under dealer agreements with it, and to issue a 15% interest in the Dealer LP directly or indirectly to the dealer principal of that Dealer LP on terms determined by its general partner. We are also required to maintain directors and officers' and certain other types of insurance.

### ***Automobile Manufacturers' Limitations on Acquisitions***

We are required to obtain the consent of the applicable automobile manufacturer before we can acquire any additional franchised automobile dealerships that can sell the vehicles produced by that automobile manufacturer. Our automobile manufacturers impose limits on the number of franchised automobile dealerships we are permitted to own at the national, regional and metropolitan levels. These limits vary according to the agreements we have with each of the automobile manufacturers but are generally based on fixed numerical limits or on a fixed percentage of the aggregate sales of the automobile manufacturer.

Our agreement with Chrysler Canada currently limits our ability to acquire or open additional Chrysler Canada franchised automobile dealerships if this would result in the 36 month average sales of new Chrysler Canada vehicles from our Chrysler Canada dealerships exceeding the following percentages of 36 month average sales of new Chrysler Canada vehicles: 8% of sales in Canada (increased by Chrysler Canada from the original mandate of 5%); 15% of sales in any province; and 30% of sales in a major metropolitan market (as defined in the agreement). At December 31, 2008, our annual average sales of new Chrysler Canada vehicles over the preceding 36 months comprised 5.28% of national sales, 12.36% of sales in Alberta and 42.33% of sales in the major metropolitan market of Edmonton, Alberta (the province and major metropolitan area in which we have the highest concentration of Chrysler Canada franchised automobile dealerships).

Subject to Nissan's consent otherwise, our agreement with Nissan limits the Fund's ownership, to that number of Nissan or Infiniti dealerships, which aggregated, do not have sales greater than:

- (i) 5% of Nissan's national sales and Infiniti's national sales, respectively;
- (ii) 5% of Nissan's total sales within a Region; and
- (iii) 5% of all Nissan dealerships or 10% of all Infiniti dealerships.

In addition, the Fund shall not own or manage more than 1 Nissan or Infiniti dealership in a metropolitan market comprised of 2-3 dealerships of the same brand; more than 2 Nissan or Infiniti dealerships in a metropolitan market comprised of between 4-10 dealerships of the same brand; or more than 3 Nissan or Infiniti dealerships in a metropolitan market comprised of 11 or more dealerships of the same brand.

Management believes that all other automobile manufacturers have similar requirements. Unless we renegotiate these agreements or receive the consent of the automobile manufacturers, we may be prevented from making further acquisitions upon reaching the limits provided for in these agreements. We are near the limit imposed by Chrysler Canada with respect to the number of additional Chrysler Canada franchised automobile dealerships that we may acquire or open.

### **Financing**

#### ***Floor Plan Financing***

Franchised automobile dealerships finance their new vehicle inventory (and in some instances a portion of their used vehicle inventory) by way of floor plan financing, which is offered by the automobile manufacturers' captive finance companies, banks and specialty lenders. Our floor plan financing for our owned dealerships is currently provided by Chrysler Financial, including financing for our non-Chrysler Canada dealerships. Our floor plan financing for our managed dealerships is currently provided by the Bank of Nova Scotia.

Although the structures used in floor plan financing vary, a floor plan lender typically finances 100% of the purchase price of a new vehicle from the time of purchase by the dealership (which occurs when production of the new vehicle is completed).

The individual notes payable of the CFC Revolving Floorplan are due when the related vehicle is sold. During 2008, CFC made changes to its wholesale floorplan program which in turn affected our Revolving Floorplan Facility. As part of the changes, CFC updated its curtailment policy which requires the Fund to pay down vehicles financed through the Revolving Floorplan Facility based on the aging of the vehicle, regardless of whether the vehicle has been sold. The new curtailment policy is as follows:

*Effective October 1, 2008:*

- New 2007 vehicles and prior year models to be paid down to \$1,000 or less by December 31, 2008;
- New vehicles over 360 days require a 20% reduction by December 31, 2008, 10% reduction every 60 days thereafter;
- Used vehicles over 180 days require a 20% reduction by December 31, 2008, 10% reduction every 30 days thereafter.

*Effective January 1, 2009:*

- New vehicles reaching 271 days require a 10% reduction and 10% reduction every 60 days thereafter;
- Used vehicles reaching 181 days require a 10% reduction and 10% reduction every 30 days thereafter;
- Demonstrators require a 2% reduction monthly beginning the month the vehicle is placed into Demonstrator service. A further reduction of 10% will be due at 271 days and every 60 days thereafter.

At December 31, 2008 the amount owed by us under our floor plan financing with Chrysler Financial was approximately \$132.0 million. The notes payable for new and demonstrator vehicles bear interest at Royal Bank of Canada's prime rate less 0.25% per annum (3.25% at December 31, 2008). The floor plan notes payable are collateralized by a general security agreement consisting of a first security interest on all present and future property, the Fund's accounts receivable, new, used and demonstrator vehicles.

The BNS Revolving Floorplan Facility from the Bank of Nova Scotia ("BNS") is available to the two dealerships managed by the Fund. The BNS Revolving Floorplan Facility is available to finance new, used and demonstrator vehicles, is \$9,250, bears interest at Bank of Nova Scotia prime rate plus 0.75% (4.25% at December 31, 2008) for new and demonstrator vehicles and bears interest at Bank of Nova Scotia prime rate plus 1.75% (5.25% at December 31, 2008) for used vehicles 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 the Fund, and the managed dealerships' new, used and demonstrator vehicle inventory. The individual notes payable of the BNS Revolving Floorplan Facility is due when the related vehicle is sold. The balance outstanding on the BNS Revolving Floorplan Facility as of December 31, 2008 is approximately \$5.5 million.

### ***Credit Facilities***

We have entered into a Credit Agreement (collectively referred to herein as the Credit Facility) with Chrysler Financial Canada ("CFC") that provides the following:

- Revolving Floor Plan Facility of up to \$183.1 million to finance new, demonstrator, and used vehicles that bears interest at Royal Bank of Canada ("RBC") prime rate less 0.25%
- Revolving Term Facility of up to \$50,000 available to finance working capital and the acquisition of automobile dealerships that bears interest at RBC prime rate for amounts borrowed not exceeding the borrowing base and RBC prime plus 0.75% for amounts borrowed in excess of the borrowing base.

The Credit Facility, which is subject to the satisfaction of certain customary terms and conditions, was put in place upon the closing of the Offering. At the closing of the Offering, we drew an amount on the floor plan facility sufficient to pay CAG the aggregate amount of CAG's floor plan financing outstanding.

Amounts drawn on the Credit Facility to assist in the financing of our working capital are primarily used for used vehicles, parts inventory and general corporate purposes, including financing the costs incurred in equipping our Open Points, and in purchasing new equipment for our existing dealerships. Amounts drawn on the Credit

Facility to assist in acquisitions are used to finance acquisitions of franchised automobile dealerships. These facilities are available on a revolving basis. On the basis of our audited annual financial statements, at December 31, 2008 the amount of the Credit Facility that has been drawn on for acquisitions and working capital is approximately \$21.6 million.

Our indebtedness and liabilities under the Credit Facility are to be secured by all of the present and future assets of the Partnership, AutoCanada GP, each of the Dealer LPs and each of their general partners, including the limited partnership and general partnership interests of the Partnership in each of the Dealer LPs and the shares held by AutoCanada GP in the general partners of each of the Dealer LPs.

The Credit Agreement prohibits distributions by the Partnership if the amount to be distributed would exceed our distributable cash flow, a default has occurred, the distribution would result in a default or the distribution would result in a Dealer LP having less than its required minimum working capital. In addition, if advances for working capital and acquisitions exceed our Borrowing Base, we are required to repay the excess amount. These provisions could limit distributions of our available cash, unless sufficient funds are available for repayment of advances of the Credit Facility.

Both the Revolving Floorplan Facility and the Revolving Term Facility require maintenance of certain financial covenants and are collateralized by a general security agreement consisting of a first security interest on all present and future property. The Credit Facility may in certain circumstances restrict the ability of the Fund to pay distributions if the payment would result in a default under the Credit Facility. The financial covenants of the credit facilities with CFC consist of the following:

- (i) The Current Ratio shall not be less than, on a consolidated basis, 1.15:1 at any time; and
- (ii) The Fixed Charge Ratio shall not be less than, on a consolidated basis, 1.75:1 at any time; and
- (iii) The Debt to Equity Ratio shall not be greater than 0.90:1 at any time.

At December 31, 2008, the Fund was in compliance with these covenants. Additional information relating to the Credit Facility with CFC can be found on SEDAR ([www.sedar.com](http://www.sedar.com)).

The Credit Facility available to the Fund from Chrysler Financial Canada is scheduled to mature on May 10, 2010. We are presently in discussions with our lender to renegotiate the terms of this facility. Due to the deterioration of credit markets and the economy generally, if agreement on a new facility is reached, it may have negative consequences such as:

- We may be required to dedicate a substantial amount of our cash flow from operations to required payments on indebtedness, thereby reducing the availability of cash flow for working capital, capital expenditures, acquisitions, distributions, and other general activities.
- Covenants relating to new credit agreements may limit our ability to obtain financing for working capital, capital expenditures, acquisitions, and other general activities.
- Covenants relating to new credit agreements may limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate.

Management has been proactive in assessing the ability of the Fund to maintain its covenants, given the current economic conditions.

Management has determined that failure to replace the credit facility would result in a breach of the current ratio covenant in June of 2009 as long-term debt of \$21.6 million owing to CFC would then become classified as current on the balance sheet.

Management has also determined that the Fund may be in breach of the fixed charge ratio in June of 2009 based on the current economic conditions. Management believes that if EBITDA in the first and second quarters of 2009 is not in line with historical results, this may contribute to a possible breach of the fixed charge ratio in June of 2009. The fixed charge ratio is calculated on a rolling four consecutive quarter basis and is calculated on a consolidated basis, in accordance with the formula A/B where:

- (a) “A” is EBITDA (refer to our credit agreement filed on [www.sedar.com](http://www.sedar.com) for the calculation of EBITDA per the CFC Credit Facility), plus Rent Expense minus Capital Expenditures of the Consolidated Group; and
- (b) “B” is the sum of the Consolidated Group’s Total Interest Expense, Rent Expense, Taxes, all scheduled and/or required repayments of the principal portion of Debt and all mandatory Distributions, if any, required pursuant to any present or future partnership or shareholder agreement.

In an effort to deal with these issues proactively, Management has been engaged in discussions with CFC over the past few months with the intention of amending its credit facility with CFC to address these matters. Although there can be no certainty of result until a final amending agreement is signed by both parties, Management does anticipate a satisfactory result, though certain of the terms may be less favourable than the current Credit Facility and may have a material effect on our future operations.

## **Marketing**

### ***Print and Media Advertising***

Our advertising and marketing efforts are focused at the local market level, with the aim of building our business with a broad base of repeat, referral and new customers. Our primary advertising medium is local newspapers, followed by radio, direct mail, the Internet and the yellow pages. The retail automotive industry has traditionally used locally produced, largely non-professional materials, often developed under the direction of each franchised automobile dealership’s dealer principal. We have created common marketing materials for our brand names at some of our dealerships using professional advertising agencies.

### ***Internet and e-Commerce***

We believe that the Internet and e-commerce represents a potential opportunity to build our franchised automobile dealerships’ brands and expand the geographic borders of their markets. We use the scope and size of our operations to expand the use of the Internet in our sales of new and used vehicles, as we believe our customers are increasingly using the Internet as a key part of their product research.

Each of our franchised automobile dealerships has established a website that incorporates a professional design to reinforce the dealership’s unique brand and advanced functionalities to ensure that the website can hold the attention of customers and perform the informational and interactive functions for which the Internet is uniquely suited. Automobile manufacturer website links provide our dealerships with key sources of referrals. Many of our dealerships use the Internet to communicate with customers both prior to vehicle purchase and after purchase to coordinate and market maintenance and repair services.

## **Management Information Systems**

We consolidate financial, accounting and operational data received from our franchised automobile dealerships nationwide through an exclusive private communications network.

Our financial information, operational and accounting data and other related statistical information are consolidated, processed and maintained at our headquarters in Edmonton, Alberta and Maple Ridge, British Columbia on a network of server computers and work stations. There is also an off-site storage maintained by ADP. The flexible nature of our installed network allows for accumulation, processing and distribution of information using ADP and Reynolds and Reynolds computing programs. These two companies provide software for many companies in Canada, including franchised automobile dealerships. All sales and expense information, and other data related to the operations of each of our dealerships are entered at each location. This system allows our senior management to access detailed information on a “real time” basis from all of our dealerships regarding, for example, the makes and models of vehicles in our inventory, the mix of new and used vehicle sales, the number of vehicles being sold or leased, the percentage of vehicles for which we arranged financing or sold ancillary products and services, the profit margins achieved on sales and the relative performances of our dealerships to each other. This information is also available to each of our dealer principals. Reports can be generated that set forth and compare revenue and expense data by department and by dealership, allowing our management to quickly analyze the results of operations, identify trends in the business and focus on areas that require attention or improvement.



We believe that our management information system is a key factor in successfully incorporating newly acquired businesses. Following each acquisition, we install our management information system at the dealership location as soon as possible for the dealership utilizing ADP, thereby quickly making financial, accounting and other operational data for that dealership easily accessible to our senior management. With access to this data, we can more efficiently incorporate our operating strategy at the newly acquired dealership. Because our management information system is scalable, we can integrate new acquisitions without significantly increasing the cost of operating the system.

We continue to upgrade our dealer management system with newer versions of ADP. Under our current arrangement, we lease dealer management systems from both ADP and Reynolds and Reynolds.

## **Employees**

As of December 31, 2008 we employed approximately 1,113 individuals.

Management believes that our employee relations are excellent and a strong contributing factor to our success.

Our employees in parts, service and collision repair and sales activities at Moncton Chrysler Jeep Dodge and Maple Ridge Chrysler Jeep Dodge are represented by labour unions. The collective bargaining agreement with the union at Moncton Chrysler Jeep Dodge expires on December 31, 2009. The collective bargaining agreement with the union at Maple Ridge Chrysler Jeep Dodge expires on June 30, 2010. We have never experienced a strike, lock-out or other labour disturbance.

## **Our Intellectual Property and Proprietary Rights**

Registration of the trademark "AutoCanada" and the corresponding logo have been applied for in Canada by CAG. We also own other trademarks, trade names and various domain names, including autocan.ca, autocanada.net and autocanada.biz.

## **Regulatory Matters and Policies**

### ***National Automobile Dealer Arbitration Program ("NADAP")***

In addition to our dealership franchise or sales and service agreements, our relationships with automobile manufacturers are governed by NADAP. NADAP is a program organized by the Canadian Vehicle Manufacturers' Association, the Association of International Automobile Manufacturers of Canada and CADA that provides rules for dispute resolution between the automobile manufacturers and the franchised automobile dealers in the Canadian automobile industry.

The NADAP Rules provide for the mediation and arbitration of disputes between an automobile manufacturer and its franchised automobile dealers involving: the interpretation or application of the dealership agreement; the renewal or termination of the dealership agreement; the length of a cure period provided by the automobile manufacturer in light of any franchised automobile dealer deficiencies to be cured; the sale or transfer of the franchised automobile dealership; whether a dealer owes money to an automobile manufacturer (or vice versa); and the decision of an automobile manufacturer to appoint or relocate a dealership into the market of an existing dealer. The NADAP Rules provide that an existing franchised automobile dealer can challenge an automobile manufacturer's proposal to create a new dealership or relocate a dealership, with identical brands, in a location that is within eight kilometres (in metropolitan areas) of the existing dealership's location (20 kilometres if relocated more than two kilometres closer to the existing dealership in non-metropolitan areas). Some of our agreements with the automobile manufacturers contain waivers by us of certain NADAP Rules.

NADAP was established in 1997 for an initial five year term. The existing NADAP Rules were adopted in 2007 for a further five year term.

### ***Dealership Code of Conduct***

We have developed and implemented a code of conduct that reflects our commitment to conducting our business in accordance with the highest ethical standards. Our code of conduct is intended to provide guidance on recognizing and dealing with ethical issues, provide mechanisms to report unethical conduct, and help foster a culture of honesty, integrity and accountability. The code deals with, among other things, advertising standards, clarity of pricing, sales techniques and standards, customer relationships and other matters. The code of conduct applies to all of our directors, officers and employees and sets policies and standards that go beyond mere compliance with the minimum legal standards. A copy of the code of conduct may be obtained from our website at [www.autocan.ca](http://www.autocan.ca) or from SEDAR at [www.sedar.com](http://www.sedar.com).

### ***Governmental Regulations***

A number of federal, provincial and local regulations affect our marketing, selling, financing and servicing of vehicles.

Each of the jurisdictions in which we operate regulates the licensing of franchised automobile dealers. Our dealers and salespeople must be licensed, and must comply with ongoing provincial regulations in order to maintain their licensed status. Dealerships are also generally prohibited under provincial laws from employing individuals in certain automobile repair positions unless the individuals are appropriately certified. In addition, our dealerships are subject to various consumer protection laws which regulate sales transactions and advertising. Dealerships that offer financing products must also comply with regulations concerning matters such as credit agreement provisions, cost of borrowing disclosure and advertising regarding the terms of credit. Other provinces into which we may expand our operations in the future are likely to have similar requirements.

The Provinces of Alberta, British Columbia and Ontario have established self-regulatory bodies which are responsible for licensing automobile dealers and their sales and management personnel, as well as overseeing consumer protection legislation applicable to motor dealers, including standard setting and enforcement, compliance with advertising restrictions, complaint resolution and public industry education. Operating under delegated authority from their respective provincial governments, these bodies administer and enforce compliance with many of the provincial laws which affect the day-to-day operations of automobile dealers.

The sale of third party financing products to our customers is subject to federal and provincial truth-in-lending, consumer leasing, financing regulations, instalment finance laws and insurance laws.

We believe that we comply substantially with all laws and regulations affecting our business and do not have any material liabilities under such laws and regulations and that compliance with all such laws and regulations do not, individually or in the aggregate, have a material adverse effect on our capital expenditures, earnings or competitive position, and we do not anticipate that such compliance will have a material effect on us in the future.

### ***Environmental Matters***

We are subject to a wide range of environmental laws and regulations, including those governing discharges into the air and water, the storage of petroleum substances and chemicals, the handling and disposal of wastes and the remediation of contamination. As with dealerships generally, and service and parts and collision repair centre operations in particular, our business involves the generation, use, handling and disposal of hazardous or toxic substances and wastes. Pursuant to these laws, provincial environmental agencies have established approved methods for the handling, storage, treatment, transportation and disposal of regulated substances and wastes with which we must comply.

Our business also involves the use of above ground and underground storage tanks. Under applicable laws and regulations, we are responsible for the proper use, maintenance and abandonment of our regulated storage tanks and for remediation of subsurface soils and groundwater impacted by releases from existing or abandoned storage tanks. In addition to these regulated tanks, we own, operate, or have otherwise closed in-place other underground and above ground devices or containers (such as automotive lifts and service pits) that may not be classified as regulated which could or may have released stored materials into the environment, thereby potentially obligating us to clean up any contaminated soils or groundwater resulting from such releases.

We are also subject to laws and regulations governing remediation of contamination at or from our facilities or to which we send hazardous or toxic substances or wastes for treatment, recycling or disposal.

All dealership locations are subject to the obtaining of Phase I environmental assessments from independent environmental consultants prior to purchase. The only location at which these environmental assessments identified contaminants in excess of applicable standards is the Crosstown Chrysler location in Edmonton, Alberta. The Investment and Acquisition Agreement provides for an indemnity from CAG and the Principal Shareholders in respect of the environmental condition of each of the Fund's locations that were acquired when the Fund was created, as well as certain related covenants requiring CAG to maintain at least a 20% equity interest in the Fund (on a fully-diluted basis) until certain conditions are satisfied.

Environmental laws and regulations are very complex and it has become difficult for businesses that routinely handle hazardous and non-hazardous wastes to achieve and maintain full compliance with all applicable environmental laws. Like any business involved in the repair and servicing of vehicles, from time to time we experience incidents and encounter conditions that are not in compliance with environmental laws and regulations. However, none of our dealerships have been subject to any material environmental liabilities in the past and we do not anticipate that any material environmental liabilities will be incurred in the future.

Environmental laws and regulations and their interpretation and enforcement are changed frequently and we believe that the trend of more expansive and stricter environmental legislation and regulations is likely to continue. Hence, there can be no assurance that compliance with environmental laws or regulations or the future discovery of unknown environmental conditions will not require additional expenditures by us, or that such expenditures would not be material. See "Risk Factors — Risks Related to Our Business — Governmental Regulations and Environmental Regulation Compliance Costs".

## CAPITAL STRUCTURE

### **The Fund**

An unlimited number of Units and an unlimited number of Special Voting Units may be issued pursuant to the Declaration of Trust.

### *Units*

Each Unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund, whether of net income, net realized capital gains (other than net realized capital gains distributed to redeeming Unitholders) or other amounts, and in the net assets of the Fund in the event of termination or winding-up of the Fund. All Units are of the same class with equal rights and privileges. The Units are not subject to future calls or assessments, and entitle the Unitholders thereof to one vote for each whole Unit held at all meetings of Voting Unitholders.

Units are redeemable at any time on demand by the Unitholders. As the Units are issued in book-entry form, a Unitholder who wishes to exercise the redemption right will be required to obtain a redemption notice form from the Unitholder's investment dealer who will be required to deliver the completed redemption notice form to the Fund at its head office and to CDS. Upon receipt of the redemption notice by the Fund, all rights to and under the Units tendered for redemption shall be surrendered and the Unitholder shall be entitled to receive a price per Unit (the "Redemption Price") equal to the lesser of:

- (i) 90% of the "market price" of a Unit calculated as of the date on which the Units were surrendered for redemption (the "Redemption Date"); and
- (ii) 100% of the "closing market price" on the Redemption Date.

The Units have no other conversion, retraction, redemption or pre-emptive rights.

The Declaration of Trust also provides that the Trustees shall refuse to allow the transfer of any Units, where such transfer would result in a change of control of the Fund, without the prior written consent of Chrysler Canada, which may be withheld in Chrysler Canada's sole discretion. For this purpose, "control" means the holding (other than by way of security) of securities of the Fund to which are attached more than 50% of the votes that may be cast for the election of Trustees and those votes are sufficient, if exercised, to elect a majority of the Trustees. The Fund has also agreed with Chrysler Canada not to permit, acquiesce in or agree to a change of control of the Partnership or AutoCanada GP or the acquisition by an automobile manufacturer of more than 10% of the outstanding Units (including securities convertible into or exchangeable for Units). We expect that the other automobile manufacturers with whom we deal with will require similar provisions.

The Declaration of Trust contains provisions to the effect that if a take-over bid is made for the Units and not less than 90% of the Units (including Units that may be acquired on the exchange of any Exchangeable Units pursuant to their terms, but excluding Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Units held by Unitholders who did not accept the take-over bid on the terms on which the offeror acquired Units from Unitholders who accepted the take-over bid. The Declaration of Trust does not provide a mechanism for Unitholders who do not tender their Units to a take-over bid to apply to a court to fix the fair value of their Units.

The Partnership Agreement of AutoCanada LP provides that if a non-exempt take-over bid from a person acting at arm's length to holders of Partnership Units (or any associate or affiliate thereof) is made for the Units and a contemporaneous identical offer is not made for Partnership Units held by persons other than the Fund or the Trust (in terms of price, timing, proportion of securities sought to be acquired and conditions, provided that the offer for Partnership Units may be conditional on Units being taken up and paid for under the take-over bid), then, provided that: (i) not less than 25% of the Units (other than Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken-up and paid for pursuant to the non-exempt bid from and after the date of first take-up of Units under the said take-over bid in excess of the foregoing threshold; and (ii) the take-over bid is not for any and all Units tendered or is not structured such that holders of Partnership Units, including Exchangeable Units, can exchange such units into Units conditional on take-up, Partnership Units held by

persons other than the Fund or the Trust will be exchangeable at an exchange ratio equal to 110% of the exchange ratio previously in effect, such that, based on the current one-to-one exchange ratio, on exchange the holder of Partnership Units will receive 1.1 Units for each Unit that the holder would otherwise have received. Notwithstanding any adjustment on completion of an exclusionary offer as described above, the voting rights attaching to the Special Voting Units will not be similarly adjusted, and the distribution rights attaching to Partnership Units will not be adjusted until the exchange right is actually exercised.

The Partnership Agreement also provides that the Exchangeable Units may not be disposed of other than in the exchange for Units in accordance with the terms of the Exchange Agreement and the Partnership Agreement.

### ***Special Voting Units***

The Special Voting Units are not entitled to any beneficial interest in any distribution from the Fund whether of net income, net realized capital gains or other amounts, or in the net assets of the Fund in the event of a termination or winding up of the Fund. The Fund shall redeem Special Voting Units at the option of the holder at any time for no consideration.

The Special Voting Units may be issued in series and will only be issued in connection with or in relation to Exchangeable Units or other securities that are, directly or indirectly, exchangeable for Units, in each case for the sole purpose of providing voting rights at the Fund level to the holders of such securities. Special Voting Units are issued in conjunction with, and are not transferable separately from, the Exchangeable Units (or other exchangeable securities) to which they relate. Conversely, the Special Voting Units are automatically transferred upon a transfer of the associated Exchangeable Units or other exchangeable securities. Each Special Voting Unit entitles the holder thereof to a number of votes at any meeting of Voting Unitholders equal to the number of Units which may be obtained upon the exchange of the Exchangeable Units (or other exchangeable security) to which the Special Voting Unit relates.

Upon the exchange of the securities representing Exchangeable Units (or other exchangeable securities) for Units, the Special Voting Units attached to such securities will immediately be cancelled without any further action of the Trustees or the former holder of such Special Voting Units, and the former holder of such Special Voting Units will cease to have rights with respect thereto.

CAG presently holds 9,307,500 Exchangeable Units in the aggregate which, after giving effect to the exchange of the Exchangeable Units for Units, represents approximately 46.8% of the issued and outstanding Units. Pursuant to the terms of the Exchangeable Units, holders of Exchangeable Units are entitled at any time to indirectly exchange all or a portion of their Exchangeable Units for Units on a one-for-one basis, subject to adjustment in certain events.

### ***Rights of Unitholders***

The rights of the Unitholders are established by the Declaration of Trust. Although the Declaration of Trust confers upon a Unitholder many of the same protections, rights and remedies as an investor would have as a shareholder of a corporation governed by the CBCA, significant differences exist.

Many of the provisions of the CBCA respecting the governance and management of a corporation have been incorporated in the Declaration of Trust. For example, Voting Unitholders are entitled to exercise voting rights in respect of their holdings of Units in a manner comparable to shareholders of a CBCA corporation and to elect Trustees (except Trustees to be appointed by CAG) and appoint auditors. The Declaration of Trust also includes provisions modelled after comparable provisions of the CBCA dealing with the calling and holding of meetings of Voting Unitholders and Trustees, the quorum for and procedures at such meetings and the right of Voting Unitholders to participate in the decision making process where certain fundamental actions are proposed to be undertaken. Unlike shareholders of a CBCA corporation, Unitholders do not have a comparable right of a shareholder to make a proposal at a general meeting of the Fund. The matters in respect of which Voting Unitholder approval is required under the Declaration of Trust are generally less extensive than the rights conferred on the shareholders of a CBCA corporation, but effectively extend to certain fundamental actions that may be undertaken by the Fund's subsidiary entities, as described under "The Trust — Exercise of Certain Voting Rights Attached to Securities of the Trust, the Partnership and AutoCanada GP". These Voting Unitholder approval rights are

supplemented by provisions of applicable securities laws that are generally applicable to issuers (whether corporations, trusts or other entities) that are “reporting issuers” or the equivalent or listed on the TSX.

Unitholders do not have recourse to a dissent right under which shareholders of a CBCA corporation are entitled to receive the fair value of their shares where certain fundamental changes affecting the corporation are undertaken (such as an amalgamation, a continuance under the laws of another jurisdiction, the sale of all or substantially all of its property, a going private transaction or the addition, change or removal of provisions restricting: (i) the business or businesses that the corporation can carry on; or (ii) the issue, transfer or ownership of shares). As an alternative, Unitholders seeking to terminate their investment in the Fund are entitled to receive, subject to certain conditions and limitations, their pro rata share of the Fund’s net assets through the exercise of the redemption rights provided by the Declaration of Trust, as described under “Redemption at the Option of Unitholders” above. Unitholders similarly do not have recourse to the statutory oppression remedy that is available to shareholders of a CBCA corporation where the corporation undertakes actions that are oppressive, unfairly prejudicial or disregarding the interests of security holders and certain other parties.

Shareholders of a CBCA corporation may also apply to a court to order the liquidation and dissolution of the corporation in those circumstances, whereas Unitholders may rely only on the general provisions of the Declaration of Trust which permit the winding up of the Fund with the approval of a Special Resolution of the Voting Unitholders. Shareholders of a CBCA corporation may also apply to a court for the appointment of an inspector to investigate the manner in which the business of the corporation and its affiliates is being carried on where there is reason to believe that fraudulent, dishonest or oppressive conduct has occurred. The Declaration of Trust allows Voting Unitholders to pass resolutions appointing an inspector to investigate the Trustees’ performance of their responsibilities and duties, but this process would not be subject to court oversight or assure the other investigative procedures, rights and remedies available under the CBCA. The CBCA also permits shareholders to bring or intervene in derivative actions in the name of the corporation or any of its subsidiaries, with the leave of a court. The Declaration of Trust does not include a comparable right of the Unitholders to commence or participate in legal proceedings with respect to the Fund.

### ***Distributions***

The Fund makes monthly distributions of a substantial portion of its available cash to Unitholders. The amount of the Fund’s available cash is equal to the distributions on or in respect of Trust Units owned by the Fund less: (i) administrative expenses and other obligations of the Fund; (ii) amounts that may be paid by the Fund in connection with any cash redemptions or repurchases of Units; (iii) satisfaction of the Fund’s debt service obligations (principal and interest) on indebtedness, if any; and (iv) any amount that the Trustees may reasonably consider to be necessary to provide for the payment of any costs or expenses, including any tax liability of the Fund, that have been or are reasonably expected to be incurred in respect of the activities and operations of the Fund (to the extent that such costs or expenses have not otherwise been taken into account in the calculation of the available cash available for distribution of the Fund).

The available cash of the Fund is indirectly derived from the distributions made by the Partnership to its partners upon the Partnership Units, including the LP Units held by the Trust. The amounts of these distributions are determined by AutoCanada GP as general partner of the Partnership. AutoCanada GP has adopted a distribution policy for the Partnership to distribute a substantial portion of its available cash to its partners as regular monthly distributions.

The Fund makes monthly cash distributions to Unitholders of record on the last business day of each month, and the distributions are paid on or about the 15th day following the end of each month. The amount of monthly cash distributions is approximately \$0.0833 per Unit (an annual cash distribution of \$1.00 per Unit).

The Fund may make additional distributions in excess of the aforementioned monthly distributions during the year, as the Trustees may determine. The distribution declared in respect of the month ending December 31 in each year will include such amount in respect of the taxable income and net realized capital gains, if any, of the Fund for such year as is necessary to ensure that the Fund will not be liable for income taxes under Part I of the Tax Act in such year.

Any income of the Fund that is unavailable for cash distribution will, to the extent necessary to ensure that the Fund does not have any income tax liability under Part I of the Tax Act, be distributed to Unitholders in the form of

additional Units. Such additional Units will be issued pursuant to exemptions under applicable securities laws, discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing.

On February 13, 2009, in view of the continued market unpredictability, general economic deterioration both within the auto industry and generally, rising unemployment, and tight credit markets, the Board of Trustees had concluded that it was prudent to reduce monthly distribution from \$0.0833 per unit to \$0.0417 per unit, commencing February 2009, in order to provide additional financial flexibility.

On March 14, 2009, in response to the continued deteriorating retail credit markets and continued economic decline, the Board of Trustees determined it would be prudent to temporarily suspend distributions until such times as market conditions stabilize.

### **The Trust**

An unlimited number of Trust Units may be issued pursuant to the Trust Declaration of Trust. Trust notes may be issued pursuant to the Trust Note Indenture.

### ***Trust Units and Distributions***

All of the Trust Units are held by the Fund. The Trust Units are redeemable at any time on demand by the holders thereof. The Trust Trustees are also entitled to call for redemption, from time to time and at any time, of all or part of the outstanding Trust Units registered in the name of the holders thereof (other than the Fund) at the same redemption price as described above for each Trust Unit called for redemption, calculated with reference to the date the Trust Trustees approved the redemption of Trust Units.

The Trust makes monthly cash distributions of its cash available for distribution. The amount of cash to be distributed monthly per Trust Unit to the Trust Unitholders is equal to a pro rata share of distributions on or in respect of Partnership Units owned by the Trust and all other amounts, if any, from any other investments from time to time held by the Trust received in such period, less amounts which are paid, payable, incurred or provided for in such period in connection with: (i) administrative expenses and other obligations of the Trust; (ii) amounts that may be paid by the Trust in connection with any cash redemptions or repurchases of Trust Units or repayments of Trust Notes; (iii) satisfaction of its debt service obligations (principal and interest) on Trust Notes and other indebtedness, if any; and (iv) any amount that the Trust Trustees may reasonably consider to be necessary to provide for the payment of any costs or expenses, including any tax liability of the Trust, that have been or are reasonably expected to be incurred in the activities and operations of the Trust (to the extent that such costs or expenses have not otherwise been taken into account in the calculation of the cash available for distribution of the Trust).

Such distributions are payable to holders of record of Trust Units on the last business day of each month and are paid within 15 days following each month end. The cash distributions payable by the Trust are received by the Fund prior to its related cash distribution to Unitholders.

### ***Trust Notes***

Trust Notes are reserved by the Trust to be issued exclusively to holders of Trust Units as full or partial payment of the redemption price of Trust Units and the Trust Notes are issuable in Series 1 and/or Series 2.

Each Series 1 Trust Note will bear interest at a market rate to be determined by the Trust Trustees at the time of issuance thereof, payable on the 15th day of each calendar month that such Series 1 Trust Note is outstanding and will mature on a date which is no later than the first anniversary of the date of issuance thereof. Each Series 2 Trust Note will bear interest at a market rate to be determined by the Trust Trustees at the time of issuance thereof, payable on the 15th day of each calendar month that such Series 2 Trust Note is outstanding and will mature on the 25th anniversary of the date of issue of the Trust Units being redeemed.

On maturity, the Trust will repay the Trust Notes by paying to the Trustee under the Trust Note Indenture, in cash, an amount equal to the principal amount of the outstanding Trust Notes that have then matured, together with accrued and unpaid interest if any, thereon. The Trust Notes will be redeemable at the option of the Trust prior to maturity, in whole or in part, at a redemption price equal to the principal amount thereof plus accrued and unpaid

interest if any, thereon, payable in cash. The Trust Notes will be direct unsecured obligations of the Trust, ranking *pari passu* with other unsecured liabilities of the Trust.

***Exercise of Certain Voting Rights Attached to Securities of the Trust, the Partnership and AutoCanada GP***

The Declaration of Trust provides that the Fund will not vote any securities of the Trust, the Partnership, AutoCanada GP or any of their respective subsidiaries to authorize any transaction which is adverse to the Unitholders including, among other things:

- any sale, lease or other disposition of all or substantially all of the assets of the Trust, the Partnership, AutoCanada GP or any of their respective subsidiaries except in conjunction with an internal reorganization or good faith pledges or mortgages in the ordinary course of business or in connection with permitted guarantees of the Trust, AutoCanada GP, the Partnership, as applicable, or permitted charge, pledge or lien;
- any amalgamation, arrangement, merger or capital reorganization of the Trust, AutoCanada GP, the Partnership or any of their respective subsidiaries with any other entity, except in conjunction with an internal reorganization;
- the winding-up or dissolution of the Trust, AutoCanada GP or the Partnership prior to the end of the term of the Fund except in conjunction with an internal reorganization; or
- any material amendment to the constating documents of the Trust, AutoCanada GP or the Partnership to change the authorized Unit or partnership capital or partnership interests which may be prejudicial to the Fund,

without the authorization of the Voting Unitholders by a Special Resolution.

**AutoCanada LP**

***Partnership Units***

The Partnership may issue an unlimited number of LP Units and Exchangeable Units to any person. The Partnership Agreement authorizes AutoCanada GP to cause the Partnership to issue additional LP Units, Exchangeable Units or other Partnership Units for any consideration and on any terms and conditions as are established by AutoCanada GP.

Exchangeable Units are indirectly exchangeable into Units in accordance with their terms. Exchangeable Units have economic and voting rights that are equivalent to LP Units in all other respects. Additionally, Exchangeable Units held by CAG are accompanied by Special Voting Units that entitle CAG to receive notice of, attend, and to vote at all meetings of Voting Unitholders (except in respect of Exchangeable Units previously exchanged pursuant to their terms).

The Partnership has issued and outstanding partnership interests consisting of 10,573,430 LP Units held by the Trust and 9,307,500 Exchangeable Units held by CAG, a general partner interest held by AutoCanada GP and an administrative general partner interest held by CAG.

The LP Units and Exchangeable Units have economic and voting rights per unit that are equivalent in all material respects.

***Normal Course Issuer Bid***

In August 2008, the Fund received regulatory approval from the Toronto Stock Exchange to purchase for cancellation, from time to time, as the Fund considers advisable, the issued and outstanding units. Pursuant to the normal course issuer bid (the “Bid”), the Fund may purchase for cancellation up to a maximum of 547,475 units, being approximately 5% of the outstanding “public float”. The Bid commenced on August 21, 2008 and will terminate on August 20, 2009 or such earlier time as the Bid is completed or terminated at the Fund’s option.



During the year ended December, 2008, the Fund purchased for cancellation 376,070 units at an average cost of \$2.46 per unit for total cash consideration of \$925,132. At December 31, 2008 the Trust cancelled all repurchased units with the difference between purchased cost and carrying value being charged to the contributed surplus of the Fund.

### ***Exchange Rights***

Pursuant to the terms of the Exchangeable Units, holders of Exchangeable Units have the right indirectly to exchange all or any portion of their Exchangeable Units for Units in the Fund on a one-for-one basis. The Fund, the Trust, the Partnership, AutoCanada GP, CAG and Mr. Priestner have entered into an Exchange Agreement, which provides the mechanism by which a holder of Exchangeable Units may exchange Exchangeable Units for Units. Subject to the following paragraph, the exchange rights may be exercised by a holder of Exchangeable Units at any time at its discretion so long as all of the following conditions have been met: (i) the exchange would not cause the Fund to breach the restrictions respecting non-resident ownership contained in the Declaration of Trust (ii) the Fund is legally entitled to issue the Units in connection with the exercise of the exchange rights; (iii) the Partnership would not cease to be a “Canadian Partnership” under the Tax Act; and (iv) the person receiving the Units upon the exercise of the exchange rights complies with all applicable securities laws.

Under the Exchange Agreement, CAG and Mr. Priestner agreed with the Fund and the Partnership that, until May 11, 2011, CAG will not without the prior written consent of Chrysler Canada, transfer or give control over any Units, Special Voting Units or Exchangeable Units that results in CAG holding less than a 20% equity or voting interest in the Fund, on a fully-diluted basis, or permit a change of control of CAG. We expect that CAG and Mr. Priestner will be required to enter into similar agreements with the other automobile manufacturers with whom we deal.

The exchange rights may not be disposed of by CAG except in connection with the exchange of the Exchangeable Units for Units.

CAG (and persons to whom Units issued upon the exchange of the Exchangeable Units by CAG are transferred) have been granted “demand” and “piggy back” registration rights by us which enable them to require us to file a prospectus and otherwise assist with a public offering of Units subject to certain limitations, with our expenses to be borne by CAG or such transferees (or on a pro rata basis if both CAG or such transferees and we are offering Units). In the event of a “piggy back” offering, our financing requirements are to take priority.

### ***Distributions***

AutoCanada GP, as general partner of the Partnership, causes the Partnership to distribute to its partners, including its partners (of record) holding Partnership Units on the last day of each month, their pro rata portions of a substantial portion of its available cash as set out below. Distributions are made on or about the 15th day following the end of each month. Distributions on Partnership Units are received by the Trust in time to make its related distribution to the Fund prior to its related distributions to Unitholders. The Partnership may, in addition, make a distribution at any other time.

Available cash represents, in general, all of the Partnership’s cash, after satisfaction of:

- general and administrative expenses and other expense obligations;
- debt service obligations on indebtedness of the Partnership;
- obligations under the Partnership’s incentive plans;
- any other amounts that AutoCanada GP, as general partner of the Partnership, may consider reasonably necessary for:
  - the payment of any liability or expense that has been or is reasonably expected to be incurred in the activities or operations of the Partnership, for reasonable reserves (including amounts on account of working capital and capital expenditures and to stabilize distributions); and

- investment in the growth of the business of the Partnership.

The amount distributed from time to time by the Partnership on interests in the Partnership, including the Partnership Units is determined by the board of directors of AutoCanada GP as the general partner of the Partnership.

The income of the Partnership for each fiscal year is allocated first to the holders of LP units in an amount equal to the Fund Priority Distribution and the remainder as to 0.001% thereof to the partners holding general partnership interests (the 0.005% share of the interest of the general partners is allocated, as to 90% thereof, to the general partner and, as to the balance thereof, to the administrative general partner) and as to 99.995% thereof to partners holding Partnership Units.

### ***Transfer of Partnership Units and Other Rights***

The LP Units are transferable, subject to compliance with applicable securities restrictions, provided that non-residents of Canada (and partnerships that are not Canadian partnerships within the meaning of the Tax Act) may not acquire or hold a Partnership Unit. A Partnership Unit is not transferable in part, and no transfer of a Partnership Unit will be accepted by AutoCanada GP, unless a transfer form, duly completed and signed by the registered holder of the Partnership Unit and the transferee, has been remitted to the registrar and transfer agent of the Partnership. A transferee of a Partnership Unit will become a partner and will be subject to the obligations and entitled to the rights of a partner under the Partnership Agreement on the date on which the transfer is recorded. In addition, the Partnership has agreed with Chrysler Canada not to permit, acquiesce in or agree to the sale by the Partnership of all or substantially all of its assets without the prior written consent of Chrysler Canada. We expect that we may enter into similar agreements with the other automobile manufacturers with whom we deal.

The Partnership Agreement provides that, so long as CAG and its related parties collectively own, directly or indirectly, 10% of the Units on a fully-diluted basis, they will have pre-emptive rights exercisable to acquire additional Partnership Units in the event that the Partnership decides to issue additional debt or equity securities. If the Partnership issues additional debt or equity securities, CAG, and any assignee who is now a related party of CAG, is entitled to participate in such issuance on a pro rata basis, but only to the extent necessary to maintain its proportionate fully-diluted interest in the Partnership. CAG and such related parties will be entitled to participate in the additional financing transaction at the most favourable price and on the most favourable terms as such securities are to be offered to the Fund or a third party, excluding commissions and other transaction expenses paid by the Fund.

The Partnership Agreement and the voting agreement referred to under “Trustees, Directors and Officers” respectively provide that, so long as CAG and its related parties collectively own, directly or indirectly, 10% of the Units on a fully-diluted basis, the Fund shall not sell or enter into any agreement to sell any Trust Units or Trust Notes (other than in connection with a distribution in specie upon redemption of Units) and the Trust shall not sell or enter into any agreement to sell any LP Units unless such Trust Units, Trust Notes or LP Units, as the case may be, are first offered to CAG, commonly referred to as a right of first refusal.

The Partnership Agreement and the voting agreement referred to under “Trustees, Directors and Officers” provide that the Fund shall not sell or enter into any agreement to sell any of the Trust Units or Trust Notes (other than as a distribution in specie in connection with a redemption of Units) and the Trust shall not sell or enter into any agreement to sell any of the LP Units held by it unless the person to whom such Trust Units, Trust Notes or LP Units, as the case may be, are to be sold makes a contemporaneous identical offer to the holders of the Exchangeable Units for the purchase of the Units into which their Exchangeable Units may be exchanged (in terms of price, timing, proportion of securities sought to be acquired and conditions). Such right is commonly referred to as a piggy back right.

### **Dealer LPs**

All of the limited partnership interests in each Dealer LP are held, directly or indirectly, by the Partnership, except for 15% interests in the Dealer LPs that own our Hyundai dealerships which are held by our dealer principals responsible for those dealerships. This interest may be acquired by us if the dealer principal’s employment with us is terminated for any reason.

## ***Distributions***

The general partners of the Dealer LPs cause the Dealer LPs to distribute to the Partnership a substantial portion of their respective available cash as set out below. Distributions are made on or about the 15th day following the end of each month. Distributions to the Partnership are received by the Partnership in time for the Partnership to make its related distributions on the Partnership Units. The general partners of the Dealer LPs may, in addition, cause any of the Dealer LPs to make a distribution at any other time.

Available cash of a Dealer LP consists, in general, of all of the Dealer LP's cash, after satisfaction of:

- general and administrative expenses and other expense obligations;
- debt service obligations on indebtedness of the Dealer LP;
- incentive bonuses under the applicable Dealer Principal Employment Agreement and incentive bonuses under the AutoCanada Bonus Plan;
- working capital requirements of the Dealer LP, including the working capital required under the franchise or sales and service agreement with the automobile manufacturer; and
- any other amounts that AutoCanada GP, as general partner of the Dealer LP, may consider reasonably necessary for the payment of any liability or expense that has been or is reasonably expected to be incurred in the activities or operations of the Dealer LP, for reasonable reserves (including amounts on account of working capital and capital expenditures and to stabilize distributions).

The amount distributed from time to time by any Dealer LP on interests in the Dealer LPs is determined by the board of directors of its general partner.

The income and loss of the Dealer LPs for each fiscal year, including income or loss for tax purposes is allocated, as to 0.005% thereof, to the general partner thereof and, as to 99.995% thereof, to the Partnership or, where a dealer principal holds an interest in the Dealer LP, 84.995% to the Partnership and 15% to the dealer principal.

The fiscal year end of the Dealer LPs is December 31.

## **AutoCanada GP**

AutoCanada GP is authorized to issue an unlimited number of common shares. A holder of a common share is entitled to one vote for each share held by such holder, to receive dividends as and when declared by the directors of AutoCanada GP in an equal amount per common share and to share equally in the assets and properties of AutoCanada GP on a per share basis distributed to shareholders of AutoCanada GP on the liquidation or winding up of AutoCanada GP.

## **RISK FACTORS**

*The risks and uncertainties described below are not the only risks and uncertainties we face. Additional risks and uncertainties not currently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks actually occur, our business, results of operations and financial condition, and the amount of cash available for distribution to our Unitholders, could suffer.*

### **Risks Related to Our Business and the Industry in Which We Operate**

#### ***Risks Related to the Retail Automotive Industry***

##### ***Capital Markets***

Uncertainty in the capital markets risks greater difficulty to access capital, as well as possible higher interest

rates and less favourable terms.

#### *Economic Conditions*

Unfavourable economic conditions may negatively impact the Fund's financial viability. The decline in economic conditions could also increase the Fund's financing costs, decrease net earnings, limit access to capital markets and negatively impact the availability of credit facilities to the Fund.

#### *Currency Fluctuations*

Rapid appreciation or depreciation of the Canadian dollar relative to the U.S. dollar, impacts the relative price of used and new vehicles, as well as vehicle parts in Canada relative to the U.S., making the same either more attractive, in the case of a depreciation, or less attractive, in the case of appreciation, thus posing risks to some of the Fund's operations. In response to the rapid change in the value of the Canadian dollar when compared U.S. dollar manufacturers may or may not adjust prices or incentives to accommodate such changes, and, if adjusted, could amend or discontinue same at any time. In addition, such currency appreciation could have a negative impact on businesses that operate in the communities in which our dealerships are located which could in turn, negatively impact our dealerships' performance.

#### *Overall Consumer Demand*

Our business is heavily dependent on consumer demand and preferences. Our revenues will be materially and adversely affected if there is a severe or sustained downturn in overall levels of consumer spending. Retail vehicle sales are cyclical and historically have experienced periodic downturns characterized by oversupply and weak demand. These cycles are often dependent on general economic conditions and consumer confidence, as well as the level of discretionary personal income and credit availability. We are presently experiencing what appears to be a meaningful economic downturn of indeterminate severity which if it continues may have a material and adverse effect on our retail business, particularly sales of new and used vehicles.

#### *Deterioration of Credit Markets*

The present turmoil in the credit markets has resulted in tighter credit conditions and has adversely impacted our business. In the automotive finance market, tight credit conditions have resulted in a decrease in the availability of automotive loans and leases and more stringent lending restrictions. If the unfavourable economic conditions continue and the availability of automotive loans and leases remains limited, we anticipate that our vehicle sales and margins will be adversely impacted. In addition, we obtain a significant amount of financing for our customers through the captive finance companies of automotive manufacturers which may have been adversely affected by the conditions in the credit markets. In the fourth quarter of 2008, the availability of automotive loans and leases has declined significantly, forcing us to seek alternate financing sources. To the extent that we are unable to obtain financing for our customers through these sources, our sales of vehicles, could continue to be adversely affected.

#### *Substantial Competition in Vehicle Sales and Services*

The retail automotive industry is highly competitive. Depending on the geographic market, we compete with: franchised automobile dealerships in our markets that sell the same or similar makes of new and used vehicles that we offer, in some cases at lower prices than we do, private market buyers and sellers of used vehicles' service centre chain stores, independent service and repair shops, and other providers of financing and insurance contracts.

We also compete with regional and national vehicle rental companies that sell their used rental vehicles. As we seek to acquire franchised automobile dealerships in new markets, we may face significant competition as we strive to gain market share. Some of our competitors may have greater financial, marketing and personnel resources and lower overhead and sales costs than we have. We do not have any cost advantage in purchasing new vehicles from automobile manufacturers and typically rely on advertising, merchandising, sales expertise, service reputation and dealership location in order to sell new vehicles. Our franchise agreements do not grant us the exclusive right to sell a manufacturer's product within a given geographic area. Our revenues and profitability may be materially and adversely affected if competing dealerships expand their market share or are awarded additional franchises by manufacturers that supply our dealerships.

In addition to competition for vehicle sales, our franchised automobile dealerships compete with other franchised automobile dealerships to perform warranty repairs and with other franchised automobile dealerships, franchised and independent service centre chains and independent garages for non-warranty repair and routine maintenance business. Our franchised automobile dealerships compete with other franchised automobile dealerships, service stores and automobile parts retailers in their parts operations. We believe that the principal competitive factors in service and parts sales are the quality of customer service, the use of factory-approved replacement parts, familiarity with an automobile manufacturer's brands and models, convenience, the competence of technicians, location, and price. A number of regional or national chains offer selected parts and services at prices that may be lower than our franchised automobile dealerships' prices. We also compete with a broad range of financial institutions in arranging financing for our customers' vehicle purchases. See "Overview and Development of Our Business — Competition" for more discussion of competition in our industry.

#### *Dependence upon Vehicle Sales*

The success of our franchised automobile dealerships depends in large part on the level of vehicle sales generally, and the level of demand for and sales of the brands of vehicles sold by us. New vehicle sales generate the majority of our total revenue and lead to sales of higher-margin products, including the sales of used vehicles, parts, service and collision repair operations and finance products. Although we have sought to limit our dependence on any one vehicle brand, a majority of our new vehicle sales operations are vehicles manufactured by Chrysler Canada under the brand names "Chrysler", "Jeep" and "Dodge". If one or more of the brands that separately or collectively account for a significant percentage of our new vehicle sales suffer from decreasing consumer demand, or are no longer offered for sale to us by the manufacturers, our new vehicle sales and related revenues may be materially reduced.

#### *Mix of New Vehicles*

We depend on automobile manufacturers to provide us with a desirable mix of popular new vehicles. Automobile manufacturers generally allocate their vehicles among their franchised automobile dealerships based on the sales history of each franchised automobile dealership. If our franchised automobile dealerships experience prolonged sales slumps, automobile manufacturers may cut back their allotments of popular vehicles to our franchised automobile dealerships and new vehicle sales and profits may decline.

#### *Interest Rates*

We finance our purchases of new and, to a lesser extent, used vehicle inventory under a floor plan borrowing arrangement under which we are charged interest at floating rates. We obtain capital for acquisitions and for some working capital purposes under a similar arrangement. As a result, our debt service expenses may rise with increases in interest rates. Rising interest rates may also have the effect of depressing demand in the interest rate sensitive aspects of our business, particularly new and used vehicle sales, because many of our customers finance their vehicle purchases. As a result, rising interest rates may have the effect of simultaneously increasing our costs and reducing our revenues.

#### *Automobile Manufacturer Incentive Programs*

Our franchised automobile dealerships depend on automobile manufacturers for certain sales incentives, warranties and other programs that are intended to promote and support new vehicle sales. Some key incentive programs include customer rebates on new vehicles, franchised automobile dealership incentives on new vehicles, special financing or leasing terms, warranties on new and used vehicles and sponsorship of used vehicle sales by authorized new vehicle franchised automobile dealerships.

A reduction or discontinuation of key automobile manufacturers' incentive programs may reduce our new vehicle sales volume resulting in decreased vehicle sales and related revenues.

#### *Seasonality*

The retail automotive industry is subject to seasonal variations in revenues. Demand for vehicles is generally lower during the first and fourth quarters of each year. Accordingly, we expect our revenues and operating results generally to be lower in our first and fourth quarters than in our second and third quarters. Therefore, if conditions

surface during the second or third quarters that adversely affect vehicle sales, such as depressed economic conditions or similar adverse conditions, our revenues for the year will be disproportionately adversely affected.

#### *Import Product Restrictions and Foreign Trade Risks*

A significant portion of our new vehicle business involves the sale of vehicles, parts or vehicles containing parts that are manufactured outside Canada. As a result, our operations are subject to customary risks of importing merchandise, including fluctuations in the relative values of currencies, import duties, exchange controls, trade restrictions, work stoppages and general political and socio-economic conditions in foreign countries. Canada, or the countries from which our products are imported may, from time to time, impose new quotas, duties, tariffs or other restrictions, or adjust presently prevailing quotas, duties or tariffs, which may affect our operations and our ability to purchase imported vehicles and/or parts at reasonable prices.

#### ***Risks Related to Our Business***

##### *The Loss of Key Personnel and Limited Management and Personnel Resources*

Our success depends to a significant degree upon the continued contributions of our management team, particularly our senior management and service and sales personnel. Additionally, automobile manufacturer franchise agreements may require the prior approval of the applicable automobile manufacturer before any change is made in franchised automobile dealership general managers. Consequently, the loss of the services of one or more of these key employees may materially impair the efficiency and productivity of our operations.

In addition, we may need to hire additional managers as we expand. The market for qualified employees in the industry and in the regions in which we operate, particularly for general managers and sales and service personnel, is highly competitive and may subject us to increased labour costs during periods of low unemployment. The loss of the services of key employees or the inability to attract additional qualified managers may adversely affect the ability of our franchised automobile dealerships to conduct their operations in accordance with the standards set by our head office management.

##### *Unfavourable Conditions in Key Geographic Markets*

Our performance is also subject to local economic, competitive and other conditions prevailing in the particular geographic areas of our franchised automobile dealerships. Because 16 of our 22 owned and managed dealerships, are located in Alberta and British Columbia, our performance may, in particular, be subject to local economic, competitive and other conditions prevailing in one or both of those provinces.

##### *Ability to Refinance our Credit Agreements in the Future*

The Revolving Term Facility available to the Fund from Chrysler Financial Canada is scheduled to mature on May 10, 2010. The balance outstanding on the revolving term facility at December 31, 2008 and March 23, 2009 was \$21.6 million. We are presently in discussions with our lender to renegotiate the terms of this facility. See the section, "Description of the AutoCanada Business – Financing – Credit Facilities" for a description of risks associated with our ability to refinance our credit agreements in the future.

##### *Governmental Regulations and Environmental Regulation Compliance Costs*

We are subject to a wide range of federal, provincial and municipal laws and regulations, such as local licensing requirements, consumer protection laws and environmental requirements governing, among other things, discharges into the air and water, above ground and underground storage of petroleum substances and chemicals, handling and disposal of wastes and remediation of contamination arising from spills and releases. We are also subject to the rules imposed by self regulation authorities in various jurisdictions. If we or our properties violate these laws and regulations, we may be subject to civil and criminal penalties, or a cease and desist order may be issued against our operations that are not or are alleged not to be in compliance. Our future acquisitions may also be subject to governmental regulation, including antitrust reviews. We believe that all of our franchised automobile dealerships comply in all material respects with all applicable laws and regulations relating to our business, but future laws and regulations may be more stringent and require us to incur significant additional costs. See

“Overview and Development of Our Business — Governmental Regulations” and “Overview and Development of Our Business — Environmental Matters”.

#### *Goodwill and Intangible Assets*

Goodwill and Intangible Assets are subject to impairment assessments at least annually (or more frequently when events or circumstances indicate that an impairment may have occurred) by applying a fair-value based test. During 2008, we recorded non-cash impairment charges of \$125.4 million associated with goodwill and intangible assets. We may be required to incur additional impairment charges in the future. Additional impairment losses could have an adverse impact on our ability to satisfy the financial ratios or other covenants under our credit agreements and could have a material adverse impact on our results of operations and unitholders' equity.

#### *International Financial Reporting Standards*

The Canadian Accounting Standards Board confirmed in February 2008 that publicly accountable entities will be required to adopt International Financial Reporting Standards (IFRS) for interim and annual financial statements on January 1, 2011.

AutoCanada has a multiyear transition plan which includes four phases – diagnostic, project planning, policy design and implementation. In 2008, the Fund completed the diagnostic phase and has identified the relevant differences between GAAP and IFRS. The Fund is in the policy design stage and is also assessing the impact of policy alternatives on its financial statements, systems, processes and controls. As the transition progresses, the Fund will provide increased clarity into the anticipated consequences of accounting policy changes. The Fund is in the process of developing a detailed project plan for 2009 and 2010 which will include staff communications, a training plan and an external stakeholder's communication plan. Policy design will be completed in 2009 and implementation will begin during 2009 and be completed by the end of 2010.

Changes in accounting policies and processes and collection of additional information for disclosure will require modifications to the Fund's information technology systems and processes as well as its system of internal controls. The impact on internal controls over financial reporting and disclosure controls and procedures will be determined during the policy design and implementation phases.

#### *Insurance Coverage*

We maintain insurance coverage in respect of our potential liabilities, including theft and the accidental loss of value of our assets from risks, in amounts, with such insurers, and on such terms as we consider appropriate, taking into account all relevant factors. However, there are certain types of losses, generally of a catastrophic nature, such as earthquakes and floods that may be uninsurable or not economically insurable. We will use our discretion in determining amounts, coverage limits and deductibility provisions of insurance, with a view to maintaining appropriate insurance coverage on our assets and the business at a reasonable cost and on suitable terms. This may result in insurance coverage that, in the event of a substantial loss, would not be sufficient to pay the full current market value or current replacement cost of our lost investment. Certain factors also might make it unattractive to use insurance proceeds to replace the property after such property has been damaged or destroyed. Under such circumstances, the insurance proceeds we would receive might not be adequate to recover our economic position with respect to such property. There are no assurances that our insurance coverage will continue to be available to us on reasonable terms, including reasonable premium, deductible and co-insurance requirements, or that our insurer will not disclaim coverage of any future claim. Our business, financial condition, liquidity and results of operations could be materially and adversely affected if any of the foregoing developments were to occur.

#### *Governmental Laws and Regulations*

The automotive retailing industry is subject to a wide range of laws and regulations. With respect to motor vehicle sales, leasing, and the sale of finance, insurance, and other products at our stores, we are subject to various laws and regulations, the violation of which could subject us to lawsuits or government investigations and adverse publicity. The violation of laws and regulations may also jeopardize our relationships with our various stakeholders, which could result in inability to operate under the present conditions and would adversely affect our operations.

## ***Risks Related to Our Acquisition Strategy***

### *Automobile Manufacturers' Restrictions on Acquisitions*

We are required to obtain the consent of the applicable automobile manufacturer before we can acquire any additional franchised automobile dealerships. We cannot provide assurance that the automobile manufacturers will consent to future acquisitions, or consent in a timely manner, particularly in the case of manufacturers with whom do not have a prior relationship, which may prevent us from being able to take advantage of a market opportunity. Toyota Canada has confirmed that it will not approve the Fund's ownership of a Toyota dealership. Obtaining automobile manufacturer consent for acquisitions may also take a significant amount of time, which may negatively affect our ability to acquire an attractive target. In addition, under an applicable franchise agreement, an automobile manufacturer may have a right of first refusal to acquire a franchised automobile dealership that we seek to acquire. Many automobile manufacturers place limits on the total number of franchises, or the market share of its vehicles, that any group of affiliated franchised automobile dealerships may obtain. The automobile manufacturers have also placed generic limits on the number of franchises or share of total franchises or vehicle sales maintained by an affiliated franchised automobile dealership group on a national, regional or local basis. Automobile manufacturers may also tailor these types of restrictions to particular franchised automobile dealership groups. We may have difficulty in obtaining additional franchises from automobile manufacturers once we reach their franchise limits.

As a condition to granting their consent to our acquisitions, automobile manufacturers may impose additional restrictions on us. Automobile manufacturers' restrictions typically prohibit changes of control or extraordinary corporate transactions such as mergers, sales of a substantial amount of assets or the removal of a dealer principal without the consent of the automobile manufacturer and the use of franchised automobile dealership facilities to sell or service new vehicles of other automobile manufacturers. Automobile manufacturers may direct us to apply our resources to capital projects that we may not otherwise have chosen to participate in. Automobile manufacturers may direct us to implement costly capital improvements to franchised automobile dealerships as a condition for maintaining our franchise agreements with them. Automobile manufacturers also typically require that their franchises meet specific standards of appearance. These factors, either alone or in combination, could cause us to divert our financial resources to capital projects from uses that management believes may be of higher long-term value to us.

### *Integration of Acquisitions*

Our future growth depends in large part on our ability to acquire additional franchised automobile dealerships, manage expansion, control costs in our operations and integrate acquired franchised automobile dealerships. In pursuing our strategy of acquiring other franchised automobile dealerships, we face risks commonly encountered with growth through acquisition strategies. These risks include, but are not limited to, incurring significantly higher capital expenditures and operating expenses, failing to integrate the operations and personnel of the acquired franchised automobile dealerships, entering new markets with which we are unfamiliar, incurring undiscovered liabilities at acquired franchised automobile dealerships, disrupting our ongoing business, diverting our management resources, failing to maintain uniform standards, controls and policies, impairing relationships with employees, automobile manufacturers and customers as a result of changes in management, causing increased expenses for accounting and computer systems, failing to obtain automobile manufacturers' consents to acquisitions of additional franchises, and incorrectly valuing acquired entities.

We may not adequately anticipate all the demands that our growth will impose on our personnel, procedures and structures, including our financial and reporting control systems, data processing systems and management structure. Moreover, our failure to retain qualified management personnel at any acquired franchised automobile dealership may increase the risk associated with integrating the acquired franchised automobile dealership. If we cannot adequately anticipate and respond to these demands, we may fail to realize acquisition synergies and our resources will be focused on incorporating new operations into our structure rather than on areas that may be more profitable. In addition, although we conduct what we believe to be a prudent level of investigation regarding the operating condition of the businesses we purchase, in light of the circumstances of each transaction, an unavoidable level of risk remains regarding the actual operating condition of these businesses. Until we actually assume operating control of such business assets, we may not be able to ascertain the actual value of the acquired entity.



### *Financing Constraints*

Our substantial indebtedness represented by the floor plan financing that we use to finance our new vehicle inventories could limit the future availability of debt financing to fund acquisitions. We have obtained a commitment from Chrysler Financial as part of our Credit Facility for acquisition purposes, but are presently renegotiating same. See “Financing — Credit Facilities”. However, this line of credit, or a line of credit for acquisition purposes, may not be available to us on as favourable terms once negotiated. We intend to finance some of our acquisitions in part by issuing additional Partnership Units (which will be exchangeable for Units) as full or partial consideration for acquired franchised automobile dealerships. The extent to which we will be able or willing to provide Partnership Units that are exchangeable for Units for acquisitions will depend on the market value of our Units from time to time and the willingness of potential acquisition candidates to accept Units or securities exchangeable for Units as part of the consideration for the sale of their businesses. At present, the decline in market value of our units precludes financing acquisitions through issuing additional units and we have no assurance as to when this may change. Moreover, automobile manufacturer consent is required before we can acquire additional franchised automobile dealerships and, in some cases, to issue additional equity. See “Risk Factors — Risks Related to Our Business and the Industry in Which We Operate — Risks Related to Our Acquisition Strategy — Automobile Manufacturers’ Restrictions on Acquisitions” and “Risk Factors — Risks Related to Our Business and the Industry in Which We Operate — Risks Related to Our Dependence on Automobile Manufacturers — Restrictions on Ownership Threshold and the Sale of Our Business”. We may be required to use available cash or other sources of debt or equity financing. In the result, there can be no assurance that we will be able to obtain additional financing by issuing additional Units or Partnership Units that are exchangeable for Units or debt securities, and using cash to complete acquisitions may substantially limit our operating or financial flexibility. If we are unable to obtain financing on acceptable terms, our ability to add dealerships shall be materially and adversely affected.

Management cannot determine the costs of equity at a future point in time and if new equity cannot be issued at a favourable cost, the Fund may not be able to continue to grow through acquisitions or through opening new dealerships.

### *Competition with Other Franchised Automobile Dealerships*

We believe that the Canadian retail automotive market is fragmented and offers many potential acquisition candidates that meet our acquisition target criteria. However, we compete with several other franchised automobile dealerships in each of our markets, some of which may have greater financial and other resources. In addition, we compete with other franchised automobile dealerships and private investors in the acquisition of franchised automobile dealerships, and this competition for attractive acquisition targets may result in fewer acquisition opportunities and increased acquisition costs. We will have to forego acquisition opportunities to the extent that we cannot negotiate acquisitions on acceptable terms.

### ***Risks Related to Our Dependence on Automobile Manufacturers***

#### *Adverse Conditions Affecting One or More Automobile Manufacturers*

The success of each of our franchised automobile dealerships depends to a great extent on automobile manufacturers’ financial condition, marketing efforts, vehicle design, production capabilities, reputation, management, and labour relations. Adverse conditions affecting these and other important aspects of automobile manufacturers’ operations and public relations may adversely affect our ability to market their vehicles to the public and, as a result, significantly and detrimentally affect our profitability. Similarly, the late delivery of vehicles from automobile manufacturers, which sometimes occurs during periods of new product introductions, can lead to reduced sales during those periods. We have no control over labour disturbances at any of the automobile manufacturers with which we deal, and a labour disturbance at one of our automobile manufacturers may restrict our supply of new vehicles, and therefore have an adverse affect upon our results of operations.

Vehicles manufactured by Chrysler Canada represented approximately 72% of our total new vehicle unit sales and 75% of our new sales revenues in 2008. Accordingly, we are particularly susceptible to the overall sales and acceptance of vehicles manufactured by Chrysler Canada. Chrysler Canada and its parent are presently engaged in working with the U.S. and Canadian governments to obtain additional financing for its operations. The success of such negotiations may impact on Chrysler’s ability to offer competitive products and/or incentives, and/or its financing arm’s ability to finance the purchase or lease of Chrysler, Dodge and Jeep products.

Chrysler Canada is a subsidiary of Chrysler LLC (“Chrysler”) in the United States. As well, CFC is a subsidiary of Chrysler Financial, a company related to Chrysler. The viability of the Canadian subsidiaries is directly dependent on the viability of their respective U.S. parents.

On December 2, 2008, Chrysler submitted its Plan for Short-Term and Long-Term Viability to U.S. Congress as part of its request for a \$7 billion working capital loan from the U.S. government to support its short term restructuring and long term viability. On January 2, 2009, Chrysler received an initial \$4 billion from the US Department of Treasury, the terms of which require Chrysler to submit a restructuring plan to achieve and sustain long-term viability, international competitiveness and energy efficiency. An update of Chrysler’s Plan was submitted on February 17, 2009.

On January 16, 2009, the U.S. Department of Treasury’s Troubled Asset Relief Program (“TARP”) gave Chrysler Financial access to \$1.5 billion in funds under the Emergency Economic Stabilization Act of 2008 to provide the necessary liquidity to support Chrysler Financial’s retail finance program.

On February 17, 2009, Chrysler released a long-term strategic plan titled “Chrysler Restructuring Plan for Long-Term Viability” to U.S. Treasury Secretary Geithner. Due to continued deterioration in the economy which has led to an unprecedented decline in the automotive sector, Chrysler requested an additional \$2 billion, on top of the original \$7 billion (\$4 billion of which was received on January 2, 2009) it requested on December 2, 2008. Chrysler is required to display the progress it has made on its restructuring efforts to the US Government on March 31, 2009, at which time the U.S. Government will make its decision on whether to give any further funding.

The Canadian and Ontario Governments have also been asked by Chrysler’s Canadian subsidiaries for similar long-term financial support and are scheduled to make their decisions to grant additional funding after the US Government has made these commitments to Chrysler in the U.S.

Although the Fund has reduced its exposure to Chrysler Canada since its IPO in 2006, the Fund has significant commercial and economic dependence on Chrysler Canada as noted above. The event of a bankruptcy of Chrysler Canada, or a bankruptcy of Chrysler Canada’s parent Chrysler, may result in the manufacturer seeking protection from its creditors and/or commencing an orderly wind-down of its operations. The impact of liquidation would likely have a material adverse effect on the Fund’s results from operations, cash flows and financial condition unless the operations were promptly sold to, and assumed by, another manufacturer. A reorganization of Chrysler may result in the termination of certain makes of vehicles and/or the termination of all or any of the Fund’s franchises. It may also impair the Fund’s ability to collect significant receivables from the manufacturer and/or obtain financing for new vehicle inventory. The effect of either a bankruptcy or reorganization would be the reduction in consumer demand for Chrysler products, thus adversely affecting the revenue of the Fund. As a result, a potential bankruptcy, restructuring, merger or other major event impacting Chrysler Canada or Chrysler could have a significant adverse effect on the Fund’s future operations.

#### *Our Automobile Dealership Franchise Agreements*

Each of our franchised automobile dealerships operates under the terms of a dealership franchise or sales and service agreement with the automobile manufacturer of each vehicle brand it carries. Our franchised automobile dealerships may obtain new vehicles from automobile manufacturers, sell new vehicles and display automobile manufacturers’ trademarks only to the extent permitted under these agreements. As a result of our dependence on our rights under these agreements, automobile manufacturers exercise a great deal of control over our day-to-day operations and the terms of our dealership franchise or sales and service agreements implicate key aspects of our operations, acquisition strategy and capital spending. Each of our dealership franchise or sales and service agreements provides the automobile manufacturer with the right to terminate the agreement under specified circumstances and, in certain agreements, to elect not to renew the agreement on an annual basis. Our dealership franchise or sales and service agreements include provisions that permit the automobile manufacturer to terminate the agreement or direct us to divest the subject franchised automobile dealerships if the franchised automobile dealership undergoes a change of control or if the dealer principal named in the agreement changes without the approval of the automobile manufacturer. However, in our experience, and historically in the franchised automobile dealership industry, in the case of well managed and well capitalized dealerships, the dealership franchise or sales and service agreements are rarely terminated involuntarily or not renewed by the manufacturer.

In the event that a breach of the provisions in our dealership or sales and service agreements occurred, we may be required to sell our franchised automobile dealerships operating under agreements with the automobile manufacturers to purchasers approved by the automobile manufacturers, or the agreement may be terminated by the manufacturer. Our dealership franchise or sales and service agreements also provide the automobile manufacturer with the right to purchase from us any franchise we seek to sell. Provisions such as these may provide automobile manufacturers with superior bargaining positions in the event that they seek to terminate our franchise agreements or renegotiate the agreements on terms that are disadvantageous to us. Our results of operations may be materially and adversely affected to the extent that our franchise rights become compromised or our operations restricted due to the terms of our franchise agreements or if we lose substantial franchises. See “Overview and Development of Our Business — Automobile Dealership Franchise Agreements”.

#### *Restrictions on Ownership Thresholds and the Sale of Our Business*

We have also entered into a supplemental agreement with Chrysler Canada which prohibits a change of control of the Fund, the Partnership or AutoCanada GP, the acquisition of more than 10% of our Units by an automobile manufacturer, or the sale by us of all or substantially all of the assets of the Partnership or the shares of any of the general partners of our Dealer LPs, except to an affiliate of us. In addition, CAG and our Chief Executive Officer, Patrick Priestner, have agreed with Chrysler Canada that, until May 11, 2011, without the prior written consent of Chrysler Canada, CAG will not transfer or give control over any Units, Special Voting Units or Exchangeable Securities that results in CAG holding less than a 20% equity or voting interest in the Fund, on a fully-diluted basis, and CAG will not permit a change of control of CAG. See “Overview and Development of Our Business — Automobile Dealership Franchise Agreements”. We expect the other automobile manufacturers with whom we deal with may require similar agreements. Acquisition of Units by our Unitholders in violation of these ownership restrictions or actions by CAG or Mr. Priestner under this agreement with Chrysler Canada are generally outside of our control and may result in the termination of one or more franchises, which may have a material and adverse effect on us. We have also agreed with Chrysler Canada, and may be required to agree with the other automobile manufacturers, not to permit a change of control of the Partnership of AutoCanada GP or sell all or substantially all of our assets, without the prior written consent of Chrysler Canada or such other automobile manufacturers. Our agreement with Hyundai requires us to obtain its approval of the individuals appointed as directors of the general partners of the Dealer LPs operating under dealership agreements with it. These restrictions may affect the marketability of our business as a going concern, or our ability to introduce other investors into parts of our business. Under a supplemental agreement with Nissan Canada, if any person or entity acquires more than 20% of the Fund, or a group of persons or entities acquire more than 50% of the Fund, and, in either case, Nissan Canada, acting reasonably, determines that such persons or entities do not have interests compatible with those of Nissan Canada, or are otherwise not qualified to have an ownership interest in a Nissan or Infiniti dealership, then Nissan Canada shall be entitled to require the Fund to divest its ownership interest in those Nissan and Infiniti dealerships owned by the Fund. Moreover, if we are unable to obtain the requisite approval to a change of control or sale of our business in a timely manner we may not be able to take advantage of a market opportunity. These restrictions may also prevent or deter prospective acquirers from acquiring control of us and, therefore, may materially and adversely impact the value of our Units.

#### *Maintenance of Minimum Working Capital*

The dealership franchise or sales and service agreements require us to maintain a specified minimum amount of working capital at each of our franchised automobile dealerships, and prohibit any distribution by a franchised automobile dealership if these minimum working capital requirements are not maintained. Compliance with these minimum working capital requirements may affect the amount of cash available to us to pay distributions on our Units.

#### ***Risks Related to Our Structure***

##### *Dependence upon the Partnership to Fund Cash Distributions*

The Fund is an unincorporated, open-ended trust that is ultimately entirely dependent on the operations and assets of the Partnership. Cash distributions to Unitholders are ultimately dependent on, among other things, the ability of the Partnership to make cash distributions. The Fund’s ability to make cash distributions or other payments or advances is subject to applicable laws and regulations and contractual restrictions contained in the instruments governing any indebtedness of the Partnership, including restrictive covenants in the Credit Facility. In

addition, our agreements with the automobile manufacturers represented by us require us to maintain, at each Dealer LP, an amount of working capital stipulated in our agreements with the automobile manufacturers. Maintaining these amounts of working capital may adversely affect the amounts that might otherwise be available for distribution to Unitholders.

#### *Cash Distributions are Not Guaranteed and Will Fluctuate with Business Performance*

Although the Fund intends to distribute the cash distributions indirectly received by the Fund upon the LP Units, less expenses and amounts, if any, paid by the Fund in connection with the redemption of Units, there can be no assurance regarding the amounts of income to be generated by the business of the Partnership or ultimately distributed to the Fund. The Fund's ability to make cash distributions, and the actual amount distributed, is ultimately entirely dependent on the operations and assets of the Partnership, and is subject to various factors including its financial performance, its rights and obligations under the Credit Facility, fluctuations in its working capital, the sustainability of its margins and its capital expenditure requirements.

#### *Distributions are Discretionary*

The Fund is not obligated to pay distributions on the Units. The payment of distributions is at the sole discretion of the Trustees and, indirectly, the Trust Trustees and the board of directors of AutoCanada GP, and they may decide to eliminate or reduce any distributions paid on the Units, or retain cash otherwise available for distribution for investment in our business. Any reduction or elimination of distributions could cause the market price of the Units to decline and could further cause the Units to become less liquid, which may result in losses to Unitholders.

#### *Nature of the Units*

Securities like the Units include certain attributes of equity securities and of debt instruments. The Units do not represent a direct investment in the business of the Partnership and should not be viewed by you as direct securities of the Partnership. The Units represent a fractional interest in the Fund. The Fund's primary assets are Trust Units. The price per Unit is a function of anticipated distributable income, interest rates and other factors.

#### *Limited Liability*

The Declaration of Trust includes provisions intended to limit the liability of Unitholders for liabilities and other obligations of the Fund. In addition, under the *Income Trusts Liability Act*, a new Alberta statute, Unitholders are not liable, as beneficiaries of a Fund, for any act, default, obligation or liability of the Fund or the Trustees. This statute has not yet been judicially considered and it is possible that reliance on the statute by a Unitholder could be successfully challenged on jurisdictional or other grounds. In addition, Unitholders who are resident in jurisdictions which have not enacted legislation similar to the Alberta legislation may not be entitled to the protection of the Alberta legislation.

#### *Unpredictability and Volatility of Unit Prices*

The market price of the Units could be subject to significant fluctuations in response to variations in quarterly operating results, monthly distributions, and other factors. In addition, industry specific fluctuations in the stock market may adversely affect the market price of the Units regardless of our operating performance. There can be no assurance that the price of the Units will remain at current levels. The annual yield on the Units as compared to the annual yield on other financial instruments may also influence the price of Units in the public trading markets. In addition, the securities markets have experienced significant price and volume fluctuations from time to time in recent years that often have been unrelated or disproportionate to the operating performance of particular issuers. These broad fluctuations may adversely affect the market price of the Units.

#### *Attributes of Securities Distributed on Redemption of Units or Termination of the Fund*

Upon termination of the Fund, the Trustees may distribute the Trust Units directly to the Unitholders, subject to obtaining all required regulatory approvals. Upon redemption of Units, the Trustees may distribute Trust Notes directly to Unitholders, subject to obtaining all required regulatory approvals and complying with the terms of such approvals. There is currently no market for the Trust Units and Trust Notes. In addition, Trust Units and

Trust Notes are not freely tradable or listed on any stock exchange and no established market is expected to develop for the Trust Units or Trust Notes. See “AutoCanada Income Fund — Term of the Fund” and “— Redemption at the Option of Unitholders”. Securities so distributed may not be qualified investments for Funds governed by Plans, depending on the circumstances at the time.

#### *Dilution*

The Declaration of Trust authorizes the Fund to issue an unlimited number of Units for that consideration and on those terms and conditions as shall be established by the Trustees without the approval of any Unitholders. The Unitholders have no pre-emptive rights in connection with such further issues. Additional Units will be issued by the Fund in connection with the indirect exchange of the Exchangeable Units. In addition, the Partnership is permitted to issue additional Partnership Units for any consideration and on any terms and conditions.

#### *Requirements as a Public Issuer*

As a public issuer with listed equity securities, we need to comply with certain laws, regulations and requirements, certain additional provisions relating to corporate governance and certification of our financial statements and disclosure controls and related regulations and requirements of the TSX that we did not need to comply with as a private company. Complying with new statutes, regulations and requirements occupies a significant amount of the time of our board of directors, management and our officers, increases our costs and expenses, and may divert management’s attention from other business concerns.

#### *Leverage and Restrictive Covenants*

The ability of the Partnership to make advances and distributions to the Trust and ultimately to the Fund to enable the Fund to make distributions to Unitholders is subject to applicable laws and contractual restrictions contained in the Credit Agreement. The degree to which the Partnership is leveraged could have important consequences to the Unitholders including:

- the Partnership’s ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited;
- a significant portion of the Partnership’s cash flow from operations could become dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for future operations;
- certain borrowings are at variable rates of interest, which exposes the Partnership to the risk of increased interest rates; and
- the Partnership may be more vulnerable to economic downturns and be limited in its ability to withstand competitor pressures.

These factors may increase the sensitivity of our cash available for distribution to interest rate variations and could have a negative impact on our ability to make distributions to our Unitholders.

The Credit Agreement contains numerous restrictive covenants that limit the discretion of the Partnership’s management with respect to certain business matters. These covenants place significant restrictions on, among other things:

- the incurrence of additional debt and guarantees of any debt, except purchase money debt to a maximum aggregate amount;
- capital expenditures in excess of a permitted maximum amount;
- the creation of liens;
- the payment of distributions;

- the ability to make investments and finance acquisitions;
- the ability to carry on any business other than a franchised automobile dealership, and related activities;
- the sale of any of our assets except in the normal course of the operation of our business; and
- the merger or consolidation with another entity.

These restrictions could limit our financial flexibility, prohibit or limit strategic initiatives and limit our ability to grow and respond to competitive changes. We may also be prevented from taking advantage of business opportunities that arise because of the restrictions contained in the Credit Agreement. In addition, the Credit Agreement contains a number of financial covenants that require the Partnership to meet certain financial ratios and financial conditions the effect of which could require the Partnership to take certain action to reduce our debt or take some other action should the Partnership not satisfy these financial ratios or tests. These restrictions, and the factors referred to above, may also inhibit us from refinancing the Credit Facility at all or on terms that are favourable to us, and could have a negative impact on our ability to make distributions to our Unitholders.

The occurrence of a change of control, as defined in the Credit Agreement, is an event of default, entitling Chrysler Financial to require immediate repayment of our Credit Facility.

A failure by the Partnership to comply with the obligations in the Credit Agreement could result in a default which, if not cured or waived, could result in a termination of distributions by the Partnership and permit acceleration of the relevant indebtedness. If the indebtedness under the Credit Agreement were to be accelerated, there can be no assurance that the assets of the Partnership would be sufficient to repay in full that indebtedness. There can be no assurance that future borrowings or equity financing will be available to the Partnership, or available on acceptable terms, in an amount sufficient to repay this indebtedness or to meet the Partnership's needs. See "Financing — Credit Facilities".

#### *Substantial Interest of CAG*

CAG owns 46.8% of our outstanding Units on a fully-diluted basis and, in addition, has the right to designate two of the five directors of AutoCanada GP. As a result, CAG has a substantial influence over our affairs and business.

This concentration of ownership, as well as various provisions contained in our agreements with automobile manufacturers, could have the effect of discouraging, delaying or preventing a change in control of us or unsolicited acquisition proposals that a Unitholder might consider favourable. These provisions include ownership requirements and limits and approval rights with respect to the composition of the board of directors of the general partners of certain of the Dealer LPs. See "— Risks Related to Our Dependence on Automobile Manufacturers — Restrictions on Ownership Thresholds and the Sale of Our Business". Thus, the concentration of ownership and such provisions may materially and adversely impact the value of our Units.

#### *Expanded Business Structure*

The expansion of our business structure in relation to Managed Dealerships and Sherwood Park Toyota gives rise to additional risks inherent in this structure. These additional risks include: (i) the contractual nature of the relationships requiring monitoring by us of compliance with the contractual terms and limiting the amounts that might be earned by us from these dealerships to the amounts payable under these contractual relationships; (ii) the dependency upon CAG and its principal shareholder, Patrick Priestner, as the owner and principal operator of these dealerships; (iii) possible conflicts of interest that may arise between our objectives and the objectives of CAG and Patrick Priestner including the fact that these dealerships compete directly with our dealerships; and (vi) our inability to direct the management and strategic objectives of these dealerships.

#### *Future Sales of Units by CAG*

Upon the closing of the Offering, CAG held all of the Exchangeable Units, representing in aggregate approximately 46.8% of the outstanding Units on a fully-diluted basis. These Exchangeable Units can be exchanged

for Units at any time. CAG has also been granted certain registration rights by the Fund. See “Retained Interest and Exchange Rights — Exchange Rights”. If CAG sells substantial amounts of Units in the public market, the market price of the Units could fall. The perception among the public that these sales will occur could also produce the same effect.

#### *Income Tax Matters*

On June 12, 2007, the Government of Canada enacted legislation to impose additional income taxes on Specified Investment Flow-Through (“SIFT”) trusts and SIFT partnerships, including AutoCanada, effective January 1, 2011. Prior to June 2007, we estimated the future income tax on certain temporary differences between amounts recorded on our balance sheet for book and tax purposes at a nil effective tax rate.

In December 2007, the Government of Canada substantively enacted rate reductions which lowered corporate tax rates for the years 2008 to 2012 and beyond. The federal corporate tax rates were reduced from 19.5 percent in 2008 to 15 percent in 2012 and future years.

On March 4, 2009, the Government of Canada substantively enacted tax legislation that repeals the proposed “Provincial SIFT Tax Factor” of 13% and implements the “Provincial SIFT Tax Rate” which will be equal to the general corporate income tax rate for each province in which the SIFT has a permanent establishment and 10% for SIFT’s that do not have a permanent establishment in a province.

The above legislation results in rate reductions to the trust taxation from 31.5% as enacted by the Government of Canada in the second quarter of 2007 for years commencing 2011, to 27.6% in 2011 and 26.13% in 2012 (at current activity levels).

The Fund currently has unused tax deductions of approximately \$73 million which can be utilized in the future to reduce the Fund’s taxable income. We plan to maximize the amount of the tax pools that can be carried forward to reduce and defer, as much as possible, our income tax exposure beginning in 2011. To achieve this objective, we plan to maximize the taxable component of all distributions declared in 2008 through 2010.

The SIFT rules provide that, while there is no intention to prevent “normal growth” during the transitional period, any “undue expansion” could result in the transition period being “revisited”, presumably with the loss of the benefit to the Fund of that transitional period. As a result, the adverse tax consequences result from the SIFT Rules could be realized sooner than January 1, 2011. On December 15, 2006, the Government of Canada issued guidelines with respect to what is meant by “normal growth” in this context. Specifically, the Government of Canada stated that “normal growth” would include equity growth within certain “safe harbour” limits, measure by reference to a SIFT’s market capitalization as of the end of trading on October 31, 2006 (which would include only the market value of the SIFT’s issued and outstanding publicly-traded units, and not any convertible debt, options, or other interests convertible into or exchangeable for trust units). These guidelines have been incorporated into the SIFT Rules. Those safe harbour limits are the greater of \$50 million or 40 percent of the market capitalization benchmark for the period from November 1, 2006 to December 31, 2007, and 20 percent each for calendar 2008, 2009, and 2010. Moreover, these limits are cumulative (other than the \$50 million annual limit), so that any unused limit for a period carries over into the subsequent period.

On December 4, 2008 the normal growth guidelines were revised by the Government of Canada. The calculation of the safe harbour amount was not revised; however the guidelines were revised to accelerate the access to the growth amounts. A transitional SIFT can now use the remaining growth room in a single year, rather than staging it (i.e. at 20% per year) over the 2009 and 2010 years.

AutoCanada’s market capitalization as of the close of trading on October 31, 2006, having regard only to issued and outstanding publicly-traded units, was approximately \$133 million.

AutoCanada’s management will continue to review and consider alternatives for the most efficient organizational structure for AutoCanada. The Fund is established in Alberta where a corporation is subject to lower overall tax rates than the rate that will apply to SIFT’s in 2011.

On July 14, 2008, the Government of Canada released proposed amendments to the Income Tax Act that are intended to permit the conversion of income trusts into corporations. The Fund is currently evaluating the impact of

these proposed amendments. AutoCanada expects to take advantage of the flow-through mechanism of the trust structure until 2011, unless there are more compelling reasons for converting prior to 2011. Management believes that similar to American public companies which own and operate franchised automotive dealerships, AutoCanada continues to be a long-term value investment in the automotive industry in Canada and does not rely on the tax efficiency of a flow-through trust model to sustain our business.

#### *Taxation of the Fund, the Partnership and the Dealer LPs*

Expenses incurred by the Fund, the Trust, the Partnership and the Dealer LPs are deductible only to the extent that they are reasonable. There can be no assurance that the taxation authorities will not seek to challenge the reasonableness of certain expenses. If a challenge were to succeed, it could materially and adversely affect the amount and composition of distributions to Unitholders. Management believes that the expenses inherent in the structure of the Fund, the Trust, the Partnership and the Dealer LPs are supportable and reasonable in the circumstances. The Declaration of Trust provides that an amount equal to the taxable income of the Fund will be distributed each year to Unitholders in order to eliminate the Fund's taxable income. Where in a particular year the Fund has insufficient available cash to distribute the full amount of the taxable income of the Fund to Unitholders, the Declaration of Trust provides that additional Units must be distributed to Unitholders in lieu of cash distributions. Unitholders will generally be required to include an amount equal to the amount of such taxable income in their taxable income, even though they do not directly receive a cash distribution.

#### *Nature of Distributions*

Unlike interest payments on an interest-bearing security, distributions by income trusts on trust units (including those of the Fund) are, for Canadian tax purposes, composed of different types of payments (portions of which may be fully or partially taxable "return on capital" and portions of which may constitute non-taxable "returns of capital"). The composition for tax purposes of those cash distributions may change over time, thus affecting the after-tax return to Unitholders. Therefore, a Unitholder's rate of return over a defined period may not be comparable to the rate of return on a fixed-income security that provides a return on capital over the same period. This is because a Unitholder may receive distributions that constitute a return of capital (rather than a return on capital) to some extent during the relevant period. Returns on capital are generally taxed as ordinary income or taxable capital gains in the hands of a Unitholder while returns of capital are generally non-taxable to a Unitholder (but reduce the Unitholder's adjusted cost base in the Unit for tax purposes). Unitholders are advised to consult their own tax advisors with respect to the implications of the distinction discussed above in their own circumstances.

Trust Notes received as a result of the redemption of Units may not be qualified investments for trusts governed by Plans and their acquisition may give rise to adverse consequences to a Plan and/or an annuitant under the Plan.

#### *Limitations on Future Growth and Cash Flow*

The payout by AutoCanada of substantially all of AutoCanada's operating cash flow makes additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of those funds could limit AutoCanada's future growth and cash flow.

#### *Restrictions on the Ownership of Units by Non-Residents of Canada*

The Declaration of Trust imposes various restrictions on Unitholders. Non-resident Unitholders are prohibited from beneficially owning more than 49% of the Units (on a non-diluted and a fully-diluted basis). If the Trustees become aware that non-resident Unitholders beneficially own more than 45% of the Units (on a non-diluted or fully-diluted basis), the Fund may impose restrictions that may limit (or inhibit the exercise of) the rights of certain non-residents of Canada, including U.S. persons, to acquire Units, to exercise their rights as Unitholders and to initiate and complete take-over bids in respect of the Units. As a result, these restrictions may limit the demand for Units from certain Unitholders and adversely affect the liquidity and market value of the Units held by the public.

#### *Indemnities Provided by CAG and the Principal Shareholders*

In connection with acquisition of the Partnership's assets and undertaking from CAG, we obtained certain representations and warranties from CAG and the Principal Shareholders respecting such business and assets. If



such representations and warranties were incorrect in any material respect, we would be required to make a claim under the indemnities received from CAG and the Principal Shareholders. There is no assurance that we would be successful in pursuing any such claim. The discovery of any material liabilities for which indemnities were not obtained from CAG and the Principal Shareholders could have an adverse effect on the Fund's results of operation, financial condition or future prospects.

Pursuant to the Investment and Acquisition Agreement, CAG and the Principal Shareholders agreed to indemnify the Partnership in respect of the inaccuracy of representations and warranties of CAG and the Principal Shareholders contained in that agreement, subject to the limitations contained in the agreement. There is no restriction on the use of the cash proceeds received directly or indirectly by CAG or the Principal Shareholders pursuant to the Investment and Acquisition Agreement or on the ability of CAG or the Principal Shareholders to dispose of their assets (other than Units for which the Exchangeable Units may be exchanged) which may limit the recourse available to the Partnership against CAG and the Principal Shareholders. As such, there can be no assurance that the Partnership will be able to obtain any amount of any claim for indemnification made by it against CAG or the Principal Shareholders. CAG also agreed to indemnify the Fund with respect to the existing environmental condition of each of the locations to be leased or acquired by us from it and obliges CAG to pay for the costs of remediation that we are required to undertake at these locations (and locations to which contamination has migrated from these locations) by reason of governmental requirements or third party claims. There can be no assurance as to the sufficiency of the assets of CAG or the Principal Shareholders to satisfy any judgements obtained against them in connection with a claim for indemnification under the Investment and Acquisition Agreement.

#### *Unitholders are not afforded Certain Statutory Rights*

Purchasers of Units are cautioned that the Fund is not regulated by established corporate law and Unitholders' rights are governed by the specific provisions of the Declaration of Trust, which addresses such items as the nature of the Units, the entitlement of Unitholders to cash distributions, restrictions respecting non-resident holdings, meetings of Unitholders, delegation of authority, administration, Fund governance and liabilities and duties of the Trustees to Unitholders. Unitholders do not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions or rights of dissent. See "AutoCanada Income Fund — Rights of Unitholders". As well, under certain existing legislation such as the *Bankruptcy and Insolvency Act* (Canada) and the *Companies Creditors Arrangement Act* (Canada), the Fund is not a legally recognized entity within the definitions of these statutes. In the event of insolvency or restructuring of the Fund, the rights of Unitholders will be different from those of shareholders of an insolvent or restructuring corporation.

## **DISTRIBUTIONS**

### **Distribution Policy**

We distribute a substantial portion of our available cash to our Unitholders. The actual amount that we will distribute to our Unitholders is determined at the discretion of our Trustees and the directors of AutoCanada GP, taking into account the relevant circumstances prevailing at the time of a distribution. In making this determination, our agreements with the automobile manufacturers represented by us require us to maintain, at each Dealer LP, an amount of working capital stipulated in our agreements with the automobile manufacturers. Maintaining these amounts of working capital may adversely affect the amounts that might otherwise be available for distribution to Unitholders.

Distributions are paid on or about the 15th day following the end of each month to Unitholders of record on the last business day of that month. See "AutoCanada Income Fund — Distributions". The Fund periodically reviews its distribution policy throughout the year.

On February 13, 2009, in view of the continued market unpredictability, general economic deterioration both within the auto industry and generally, rising unemployment, and tight credit markets, the Board of Trustees had concluded that it was prudent to reduce monthly distribution from \$0.0833 per unit (\$1.00 per unit annually) to \$0.0417 per unit (\$0.50 per unit annually), commencing February 2009, in order to provide additional financial flexibility.

On March 14, 2009, in response to the continued deteriorating retail credit markets and continued economic decline, the Board of Trustees determined it would be prudent to temporarily suspend distributions until such times as market conditions stabilize.

### Historical Distributions

The following table summarizes the distributions declared by the Fund from inception on January 4, 2006 to December 31, 2008 (including operations from May 11, 2006 to December 31, 2008).

(In thousands of dollars)

Record date	Payment date	Fund Units		Exchangeable Units		Total	
		Declared	Paid	Declared	Paid	Declared	Paid
		\$	\$	\$	\$	\$	\$
May 31, 2006	June 15, 2006	618	618	525	525	1,143	1,143
June 30, 2006	July 17, 2006	912	912	775	775	1,687	1,687
July 31, 2006	August 15, 2006	912	912	775	775	1,687	1,687
August 31, 2006	September 15, 2006	912	912	775	775	1,687	1,687
September 30, 2006	October 16, 2006	912	912	775	775	1,687	1,687
October 31, 2006	November 15, 2006	912	912	775	775	1,687	1,687
November 30, 2006	December 15, 2006	912	912	775	775	1,687	1,687
December 31, 2006	January 15, 2007	912	912	775	775	1,687	1,687
		7,002	7,002	5,950	5,950	12,952	12,952
January 31, 2007	February 15, 2007	912	912	775	775	1,687	1,687
February 28, 2007	March 15, 2007	912	912	775	775	1,687	1,687
March 31, 2007	April 16, 2007	912	912	775	775	1,687	1,687
April 30, 2007	May 15, 2007	912	912	775	775	1,687	1,687
May 31, 2007	June 15, 2007	912	912	775	775	1,687	1,687
June 29, 2007	July 16, 2007	912	912	775	775	1,687	1,687
July 31, 2007	August 15, 2007	912	912	776	776	1,688	1,688
August 31, 2007	September 17, 2007	913	913	775	775	1,688	1,688
September 28, 2007	October 15, 2007	912	912	776	776	1,688	1,688
October 31, 2007	November 15, 2007	913	913	775	775	1,688	1,688
November 30, 2007	December 17, 2007	912	912	776	776	1,688	1,688
December 31, 2007	January 15, 2008	912	912	775	775	1,687	1,687
		10,946	10,946	9,303	9,303	20,249	20,249
January 31, 2008	February 15, 2008	912	912	775	775	1,687	1,687
February 28, 2008	March 17, 2008	912	912	775	775	1,687	1,687
March 31, 2008	April 15, 2008	912	912	775	775	1,687	1,687
April 30, 2008	May 15, 2008	912	912	775	775	1,687	1,687
May 30, 2008	June 16, 2008	912	912	775	775	1,687	1,687
June 30, 2008	July 15, 2008	912	912	776	776	1,688	1,688
July 31, 2008	August 15, 2008	912	912	776	776	1,688	1,688
August 29, 2008	September 15, 2008	912	912	776	776	1,688	1,688
September 30, 2008	October 15, 2008	907	907	776	776	1,683	1,683
October 31, 2008	November 17, 2008	906	906	776	776	1,682	1,682
November 28, 2008	December 15, 2008	884	884	776	776	1,660	1,660
December 31, 2008	January 15, 2009	881	881	775	775	1,656	1,656
		10,874	10,874	9,306	9,306	20,180	20,180

## MARKET FOR SECURITIES

### Trading Price and Volume

The Units are listed and posted for trading on the Toronto Stock Exchange under the symbol “ACQ.UN”. The following table sets forth certain trading information for the Units on the Toronto Stock Exchange for the most recently completed financial year based on information believed to be reliable by the Fund:

Month	High	Low	Close	Volume
2008				
January	9.25	8.03	9.06	410,997
February	9.50	8.51	9.10	563,734
March	9.25	7.41	7.80	222,196
April	8.79	7.80	8.50	232,654
May	8.86	6.61	6.94	487,179
June	6.90	5.38	5.60	677,405
July	5.50	3.81	4.00	969,115
August	5.55	3.90	5.30	1,703,154
September	5.40	3.00	3.53	1,056,180
October	3.69	2.50	2.55	1,257,565
November	2.67	1.84	2.05	2,299,740
December	2.45	1.94	2.19	359,082

The following table sets out the number of options to purchase Units granted, the exercise prices of such options and the date of grant of such options during the most recently completed financial year.

Date	Number of Options Granted	Exercise Price of Options
March 21, 2008	30,000	\$8.17

## TRUSTEES, DIRECTORS AND OFFICERS

The following table sets out, for each of the trustees of the Fund and the Trust and directors and executive officers of AutoCanada GP/and or the Partnership (collectively, the “Management Group”), the person’s name, province or state, and country of residence, positions with the Fund, the Trust, AutoCanada GP or the Partnership, principal occupation, number of Voting Units beneficially owned, directly or indirectly, or over which control or direction is exercised and number of securities under options granted to the individual.

Name and Province or State, and Country of Residence	Position	Principal Occupation	No. of Voting Units <sup>(4)</sup>
GORDON R. BAREFOOT <sup>(1)(2)(3)(4)</sup> ..... British Columbia, Canada	Trustee, since March 20, 2006; Chairman of the Board of Trustees; Lead Director (Director, since March 7, 2006)	Board Director and Consultant, Corix Water Group of companies; President, Cabgor Management Inc., a management consulting company and Board Director of various corporations; prior thereto Chief Financial Officer of Terasen Inc. (a natural gas distributor) and other various senior executive positions from 1998 to 2005	9,000 Units
R.E.T. (RUSTY) GOEPEL <sup>(1)(2)(3)(4)</sup> ..... British Columbia, Canada	Trustee, since March 20, 2006; Director, since March 7, 2006	Senior Vice President, Raymond James Ltd. (a brokerage firm); Board Director of Telus Corporation; Baytex Energy Trust; Amerigo Resources; and Spur Ventures Inc.	10,000 Units
ROBIN (ROB) SALMON <sup>(1)(2)</sup> .....	Trustee, since March 20, 2006	Chief Financial Officer, Almac Machine Works Ltd.; prior thereto Chief Financial Officer of ViRexx Medical Corp. (a biotechnology company) from 2001 to 2005	26,000 Units
MICHAEL (MIKE) ROSS <sup>(3)</sup> .....	Director, since April 4, 2007	Managing Partner, Conroy Ross Partners (business advisory and executive search firm).	–
DENNIS S. DESROSIERS <sup>(2)</sup> .....	Trustee, since May 9, 2007	President, DesRosiers Automotive Consultants Inc. (an automobile manufacturer consultant), Board Director of the University of Windsor.	3,500 Units
PATRICK J. (PAT) PRIESTNER <sup>(5)</sup> .....	Director, since May 11, 2006; Chair of the Board of Directors and Chief Executive Officer	Prior to November 2005, President and Dealer Principal at CAG since 1993	9,307,500 Special Voting Units <sup>(5)</sup>
ROBERT A. (BOB) CLARK <sup>(7)</sup> ...	Director, since May 11, 2006 and President	Prior to November 2005, President of CAG since 2004; prior thereto Vice President, Sales and Service and various other senior executive positions with DaimlerChrysler Canada since 1987	–
THOMAS L. ORYSIUK .....	Executive Vice President and Chief Financial Officer	Prior to November 2005, Chief Financial Officer for Liquor Stores Income Fund since June, 2004; prior thereto Chief Financial Officer of Alberta Oats Milling Ltd. and a principal with Dito Capital Ltd since 2002	10,000 Units <sup>(6)</sup>
S.R.E. (STEVE) ROSE .....	Vice-President, Corporate Development, General Counsel and Secretary	Prior to January 2007, Vice President, General Counsel and Secretary of Chrysler Canada, and assistant general counsel and assistant secretary of Chrysler Canada and its predecessors since 1992.	–
DANIEL M. (DAN) WINCENTAYLO .....	Vice President, Fixed Operations	Vice President, Fixed Operations with AutoCanada and Canada One Auto Group since 2000	–
FLORENDO (JOE) MEDINA .....	Vice President, Finance and Insurance	Various senior positions in automotive sales and management with Crosstown Motors Ltd. since 1983 until present	4,300 Units

**Notes:**

- (1) Member of the audit committee of the Fund .
- (2) Member of the nominating and governance committee of the Fund.
- (3) Member of the compensation committee of the Partnership
- (4) This information has been based upon information furnished by the individual and upon reports filed on the System for Electronic Disclosure by Insiders (SEDI) at www.sedi.ca and is as of March 1, 2008.
- (5) Patrick J. (Pat) Priestner holds 74% of the outstanding voting securities of CAG, and therefore controls and directs the 9,307,500 Special Voting Units owned by CAG in its wholly owned subsidiaries. The remaining 26% of the outstanding voting securities of CAG are held by employees of AutoCanada GP.
- (6) The Units are registered in the name of Mr. Orysiuk's wife, Heidi Orysiuk.
- (7) Robert A. Clark holds 7.5% of the outstanding voting securities of CAG.

As of March 23, 2008, the Management Group, as a group, collectively beneficially owned, directly or indirectly, or exercised control or direction over, 62,800 Units (0.6% of the outstanding Units on a non-diluted basis) and 9,307,500 Exchangeable Units (100% of the outstanding Exchangeable Units on a non-diluted basis), representing approximately 47.1% of the then issued and outstanding Voting Units.

A voting agreement entered into between the Fund and CAG provides that so long as CAG and its related parties (as defined in Ontario Securities Commission Rule 61-501) hold or control, directly and indirectly, at least 20% of the issued and outstanding Units, on a fully-diluted basis, CAG and its related parties will be entitled to appoint two of the five directors of AutoCanada GP, and so long as CAG and its related parties holds or controls, directly and indirectly, less than 20% but at least 10% of the issued and outstanding Units, on a fully-diluted basis, CAG and its related parties will be entitled to appoint one of the five directors of AutoCanada GP. The other directors will be elected by the Trust. See "AutoCanada Income Fund — Trustees".

**Corporate Cease Trade Orders or Bankruptcies**

To the knowledge of the Trustees, other than as disclosed herein, no member of the Management Group is, or within the ten years prior to the date hereof, has been, a trustee, director or executive officer of any company that, while that person was acting in that capacity: (i) was the subject of a cease trade order or similar order, or an order that denied the relevant company access to any exemption under Canadian securities legislation, for a period of more than 30 consecutive days; or (ii) was subject to an event that resulted, after the trustee, director or executive officer ceased to be a trustee, director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days.

To the knowledge of the Trustees, other than as disclosed herein, no member of the Management Group or a Unitholder holding a sufficient number of securities of the Fund to affect materially the control of the fund, is, or within the ten years prior to the date hereof, has been, a trustee, director or executive officer of any company that, while that person was acting in that capacity: (iii) or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Mr. Barefoot is currently a Director of Earth First Canada Inc. (a wind power developer) which sought Company Creditor Arrangement Act protection in November of 2008. The Company is currently in the process of restructuring its affairs under Court supervision.

**Penalties or Sanctions**

To the knowledge of the Trustees, no member of the Management Group or a Unitholder holding a sufficient number of Units of the Fund to affect materially the control of the Fund has been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities authority, or any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

## **Personal Bankruptcies**

To the knowledge of the Trustees, no member of the Management Group or a Unitholder holding a sufficient number of Units of the Fund to affect materially the control of the Fund has, during the ten years prior to the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or became subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold such person's assets.

## **Conflicts of Interest**

Other than as disclosed herein, to the knowledge of the Trustees, there are no existing or potential material conflicts of interest among us and any member of the Management Group.

## **PROMOTERS**

CAG and Patrick Priestner may be considered to have been promoters of the Fund within the three most recently completed years by reason of their initiative in organizing the business and affairs of the Fund - See "Overview and Development of Our Business".

## **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

Other than as disclosed below and herein, we are not aware of any legal proceedings to which we are or were a party to, or that any of our property is or was the subject of, during our financial year ended December 31, 2008, where such claims do not exceed 10% of our current assets. In addition, we are not aware of any penalties or sanctions imposed against us by a court relating to securities legislation or by a securities regulatory authority during our financial year ended December 31, 2008 or any other penalties or sanctions imposed by a court or regulatory body against us that would likely be considered important to a reasonable investor in making an investment decision, and we have not entered into any settlement agreements with a court relating to securities legislation or with a securities regulatory authority during our financial year ended December 31, 2008.

From time to time, we are named in claims involving the manufacture of vehicles, contractual disputes and other matters arising in the ordinary course of our business. Currently, no legal proceedings are pending against us that, in management's opinion, could be expected to have a material adverse effect on our business, financial condition or results of operations.

Because of their vehicle inventory and the nature of their business, franchised automobile dealerships generally require significant levels of insurance covering a broad variety of risks. Our insurance program includes three umbrella policies with a total per occurrence and aggregate limit of \$15 million. We also have insurance on our leased property, comprehensive coverage for our vehicle inventory, garage liability and general liability insurance, employee dishonesty insurance and errors and omissions insurance in connection with our vehicle sales and financing activities.

## **TRANSFER AGENT AND REGISTRAR**

The transfer agent and registrar for the Units is Computershare Investor Services Inc. at its principal transfer offices in Vancouver, British Columbia and Toronto, Ontario.

## **MATERIAL CONTRACTS**

The only contracts entered into by us, that are material to us and that were entered into within the most recently completed financial year, or before the most recently completed financial year but are still in effect, are as follows:

1. Chrysler Standard Dealer Sales and Service Agreement and Additional Terms has been signed by each Dealership and sets out the terms under which each Dealership may sell new Chrysler, Dodge and Jeep vehicles
2. the Credit Agreement described under "Financing — Credit Facilities";

3. the Chrysler Approval Agreement;
4. the Hyundai Framework Agreement;
5. the voting agreement referred to under “Trustees, Directors and Officers”;
6. the Investment and Acquisition Agreement;
7. the Exchange Agreement;
8. the Declaration of Trust;
9. the Administration Agreement;
10. the Trust Declaration of Trust;
11. the Trust Note Indenture; and
12. the Partnership Agreement.

The contracts listed above are filed on SEDAR at [www.sedar.com](http://www.sedar.com).

#### **INTEREST OF EXPERTS**

There is no person or company whose profession or business gives authority to a statement made by such person or company and who is named as having prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing, made under NI 51-102 by the Fund during, or related to, its most recently completed financial year other than PricewaterhouseCoopers LLP, the external auditors of the Fund.

None of the partners, employees or consultants of PricewaterhouseCoopers LLP have any registered or beneficial interests, direct or indirect, in any of the Fund’s securities or other property or of RMDI’s associates or affiliates either at the time they prepared the statement, report or valuation prepared by it, at any time thereafter or to be received by them.

#### **AUDIT COMMITTEE INFORMATION**

##### **Charter of the Audit Committee**

The audit committee charter of the Fund is attached as Schedule B to this AIF.

##### **Composition of the Audit Committee**

The audit committee of the Fund consists of Gordon R. Barefoot, R.E.T. (Rusty) Goepel and Robin (Rob) Salmon.

Each member of the audit committee of the Fund is independent and financially literate, as such terms are defined in *Multilateral Instrument 52-110 – Audit Committees*.

##### **Relevant Education and Experience**

The education and experience of each audit committee member of the Fund that is relevant to the performance of his responsibilities as an audit committee member is described below:

*Gordon R. Barefoot* – Mr. Barefoot is a chartered accountant. Mr. Barefoot was, until November, 2005, the Senior Vice President, Finance & Chief Financial Officer of Terasen Inc. where he served in various senior executive positions since July, 1998. Mr. Barefoot is currently a member of the audit committee of one other public company and two other private entities. Mr. Barefoot also served on the board of directors of Nventa

Biopharmaceuticals Corporation until June of 2008. Prior to joining Terasen, Mr. Barefoot was a partner of Ernst & Young, where, during a 20 year career, he worked with a variety of clients in a broad range of industries. Each of the foregoing positions required Mr. Barefoot to have an understanding of, and assess, accounting principles, including in the context of estimates, accruals and reserves, as well as have an understanding of internal controls and procedures for financial reporting. The positions also required Mr. Barefoot to prepare, analyze and evaluate financial statements and supervise others who prepared analyzed and evaluated financial statements. Mr. Barefoot also participates in accounting seminars and programs to help maintain the skill and knowledge necessary to perform his duties as the chair of the audit committee.

*R.E.T. (Rusty) Goepel*– Mr. Goepel is currently the Senior Vice President of Raymond James Ltd., a Canadian investment dealer. Mr. Goepel has held various positions in the investment dealer industry in Canada since 1969 (including various senior executive positions). Mr. Goepel was one of the founders in 1989 of Goepel Shields Ltd, the predecessor to Raymond James Ltd. Mr. Goepel is currently a member of the board of directors of four other public entities. As a result, Mr. Goepel has an understanding of accounting principles, including in the context of estimates, accruals and reserves, and has regularly reviewed internal controls and procedures for financial reporting.

*Robin (Rob) Salmon* – Mr. Salmon is a chartered accountant. Mr. Salmon is currently the Chief Financial Officer of Almac Machine Works Ltd. and was the Chief Financial Officer of ViRexx from September, 2001 until November, 2005. Mr. Salmon was also a director of ViRexx until 2004 and corporate secretary thereafter. From May 2003 until December 2004, Mr. Salmon served as the Chief Financial Officer and director of AltaRex Medical Corp. Prior to September, 2001, from September, 2000, Mr. Salmon was the Chief Financial Officer of Indico Technologies Limited. Prior thereto, Mr. Salmon was a partner of KPMG LLP, where, during a 20 year career, he focused on taxation and corporate finance for private and public companies. In the foregoing positions, Mr. Salmon was responsible for, and supervised others engaged in, preparing, analyzing and evaluating financial statements and for understanding and assessing accounting principles, including in the context of estimates, accruals and reserves, as well as implementing internal controls and procedures for financial reporting.

#### **Prior Approval Policies and Procedures**

The audit committee of the Fund must pre-approve all non-audit services to be provided to the Fund or its subsidiaries by the Fund’s external auditor, other than non-audit services where:

- (a) the aggregate amount of all such non-audit services that were not pre-approved is reasonably expected to constitute no more than five per cent of the total amount of fees paid by the Fund and its subsidiaries to the Fund’s external auditor during the fiscal year in which the services are provided;
- (b) the Fund or its subsidiaries, as the case may be, did not recognize the services as non-audit services at the time of the engagement; and
- (c) the services are promptly brought to the attention of the audit committee of the Fund and approved, prior to the completion of the audit, by the audit committee of the Fund or by one or more of its members to whom authority to grant such approvals had been delegated by the audit committee of the Fund.

#### **External Auditor Service Fees (by category)**

The following table sets forth, by category, the fees billed by PricewaterhouseCoopers LLP, the Fund’s auditors, for the year ended December 31, 2008:

<b>Fee category</b>	<b>2008</b>	<b>2007</b>
Audit fees	\$413,627	\$461,075
Audit-related fees	–	–
Tax fees	\$37,870	\$38,350
All other fees	\$23,000	–



Total	\$474,497	\$499,425
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“**Audit fees**” include all fees paid to PricewaterhouseCoopers LLP for the audit of the annual consolidated financial statements, review of the interim financial statements and other services in connection with regulatory filings.

## ADDITIONAL INFORMATION

Additional information relating to us may be found on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information, including trustees', directors' and officers' remuneration and indebtedness, principal holders of our securities and securities authorized for issuance under equity compensation plans, as applicable, is contained in our information circular for our most recent annual meeting of Unitholders that involves the election of Trustees. Additional financial information is provided in our audited consolidated financial statements and management's discussion and analysis for our most recently completed financial year.

## SCHEDULE A GLOSSARY OF TERMS

“**Administration Agreement**” means the administration agreement between the Fund, the Trust and the Partnership, pursuant to which the Partnership acts as administrator of the Fund and the Trust.

“**ADP**” means ADP Dealer Services Ltd.

“**affiliate**” has the meaning provided for in Rule 45-106 of the Ontario Securities Commission as at the date of this AIF.

“**AIF**” means this annual information form of the Fund for the year ended December 31, 2007.

“**AutoCanada**” means the Fund and its interests in the Trust, the Partnership, AutoCanada GP, the Dealer LPs and any other franchised automobile dealership owned or operated by the foregoing parties or CAG.

“**AutoCanada GP**” means AutoCanada GP Inc., a corporation incorporated under the federal laws of Canada.

“**AutoCanada Option Plan**” means the AutoCanada 2006 Incentive Unit Option Plan.

“**BNS**” means the Bank of Nova Scotia.

“**BNS Revolving Floorplan Facility**” means the Revolving Floorplan Facility from the Bank of Nova Scotia.

“**CADA**” means Canadian Automobile Dealer’s Association.

“**CAG**” means Canada One Auto Group Ltd. and its subsidiaries.

“**CBCA**” means the *Canada Business Corporations Act* and the regulations thereto, as amended.

“**CDS**” means The Canadian Depository for Securities Limited or a successor thereof.

“**Chrysler Canada**” means Chrysler Canada Inc.

“**Chrysler Financial**” means Chrysler Financial (a division of Chrysler Canada Financial Services Canada Inc.).

“**Credit Agreement**” means the credit agreement we have entered into with Chrysler Financial dated May 11, 2006 and as amended on November 1, 2007.

“**Credit Facility**” means the floor plan facility of up to \$183.125 million and the working capital and acquisition credit facility of up to \$50 million made available to the Partnership by Chrysler Financial.

“**Dealer LP**” means a limited partnership established under the laws of the Province of Manitoba to carry on the business of owning and operating one of AutoCanada LP’s franchised automobile dealerships, as well as activities ancillary thereto.

“**dealer principal**” means an individual, approved by the automobile manufacturer, who is responsible for the day to day management and operations of a franchised automobile dealership.

“**Declaration of Trust**” means the declaration of trust by which the Fund is governed, as it may be amended, supplemented or restated from time to time.

“**Exchange Agreement**” means the exchange agreement entered into between the Fund, the Trust, the Partnership, AutoCanada GP, CAG and Mr. Priestner.

“**Exchangeable Units**” means the Exchangeable Units of the Partnership having the attributes described in this AIF.

“**floor plan financing**” is a type of asset-based financing used by franchised automobile dealerships to finance their new (and in some instances used) vehicle inventories. See “Financing — Floor Plan Financing”.

“**fully-diluted**” in respect to the number of securities of any person to be issued and outstanding at such time means the number of such securities of such person that would be issued and outstanding at such time if all rights to acquire or be issued such securities under all issued and outstanding rights of conversion, exchange, issue or purchase had been exercised at such time, including, in the case of the Fund, the exchange of all Exchangeable Units for Units.

“**Fund**” means AutoCanada Income Fund, an unincorporated, open-ended trust established under the laws of the Province of Alberta.

“**Fund Priority Distribution**” has the meaning ascribed thereto under “AutoCanada LP-Ranking”.

“**GAAP**” means generally accepted accounting principles in Canada.

“**Hyundai**” means Hyundai Auto Canada, a division of Hyundai Motor America, a California corporation.

“**Investment and Acquisition Agreement**” means the investment and acquisition agreement entered into between the Fund, the Trust, the Partnership, AutoCanada GP, the Dealer LPs, CAG and the Principal Shareholders.

“**LP Units**” means the units representing an interest as a limited partner of the Partnership designated as LP Units and having the attributes described in this AIF.

“**Management Group**” means the trustees of the Fund and the Trust and directors and executive officers of AutoCanada GP and/or the Partnership.

“**Mitsubishi**” means Mitsubishi Motor Sales of Canada, Inc.

“**NADAP Rules**” means the rules adopted by the Canadian Vehicle Manufacturer’s Association, the Association of International Automobile Manufacturers of Canada and CADA that provide for dispute resolution between the automobile manufacturers and the franchised automobile dealerships in the Canadian automobile industry.

“**Non-Competition Agreement**” means the non-competition agreement entered into by CAG, the Principal Shareholders and AutoCanada upon the closing of the Offering, which provided that, for certain specified periods, CAG and Patrick Priestner shall not be involved in, or have a direct or indirect interest in, any business that competes with our business and each of the Principal Shareholders shall not be involved in, or have a direct or indirect interest in, the retail automotive dealership business.

“**Offering**” means the initial public offering of Units issued and sold by the Fund.

“**Open Point**” means a new franchised automobile dealership opened, or to be opened, pursuant to the right to open a new franchised automobile dealership in a specific location granted to a dealer by an automobile manufacturer.

“**Over-Allotment Option**” means the option granted by the Fund to the underwriters to the Offering to purchase up to 765,715 additional Units, which was exercisable for a period of 30 days from the closing of the Offering.

“**Partnership**” means AutoCanada LP, a limited partnership established under the laws of the Province of Manitoba.

“**Partnership Agreement**” means the Partnership limited partnership agreement.

“**Partnership Units**” means units representing an interest as a limited partner of the Partnership, including the LP Units and the Exchangeable Units.

“**Plans**” means trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans, each as defined in the Tax Act.

“**Principal Shareholders**” means Patrick J. (Pat) Priestner, Robert A. (Bob) Clark, Daniel (Dan) Wincentaylo and Florendo (Joe) Medina, the indirect equity shareholders of Canada One Auto Group Ltd.

“**Redemption Date**” has the meaning ascribed thereto under “Capital Structure - The Fund Units”

“**Redemption Price**” has the meaning ascribed thereto under “Capital Structure - The Fund Units”

“**Reynolds and Reynolds**” means the Reynolds and Reynolds Company.

“**Series 1 Trust Notes**” means the series 1 notes of the Trust issued under the Trust Note Indenture.

“**Series 2 Trust Notes**” means the series 2 notes of the Trust issued under the Trust Note Indenture.

“**Special Resolution**” means a resolution passed by the affirmative vote of the holders of not less than 66 2/3% of the Voting Units who voted in respect of that resolution at a meeting of Voting Unitholders at which a quorum was present or a resolution or instrument signed in one or more counterparts by the holders of not less than 66 2/3% of the Voting Units entitled to vote on such resolution.

“**Special Voting Units**” means units of the Fund to be issued to represent voting rights in the Fund that accompany the Exchangeable Units.

“**Subaru**” means Subaru Canada Inc.

“**subsidiary**” has the meaning provided for in the CBCA, read as if the word “body corporate” includes a trust, partnership, limited liability company or other form of business organization.

“**Tax Act**” means the *Income Tax Act* (Canada) and the regulations thereunder, as amended.

“**Trust**” means AutoCanada Operating Trust, an unincorporated, open-ended trust established under the laws of the Province of Alberta.

“**Trust Declaration of Trust**” means the declaration of trust by which the Trust is governed, as it may be amended, supplemented or restated from time to time.

“**Trust Note Indenture**” means the note indenture governing the Trust Notes entered into between the Trust and Computershare Fund Company of Canada.

“**Trust Notes**” means, collectively, the Series 1 Trust Notes and Series 2 Trust Notes.

“**Trust Trustees**” means the trustees of the Trust.

“**Trust Units**” means units of the Trust.

“**Trustees**” means the trustees of the Fund.

“**TSX**” means the Toronto Stock Exchange.

“**Unitholders**” means the holders of Units.

“**Units**” means Units of the Fund other than Special Voting Units.

“**Voting Unitholders**” means the holders of Voting Units.

“**Voting Units**” means Units and Special Voting Units.

**SCHEDULE B  
AUTOCANADA INCOME FUND**

**AUDIT COMMITTEE CHARTER**

The term “**Fund**” refers to AutoCanada Income Fund, the term “**Board**” refers to the board of trustees of the Fund and the term “**Administrator**” refers to AutoCanada LP (the “**LP**”) in its capacity as administrator of the Fund pursuant to the **Administration Agreement** between the Fund, AutoCanada Operating Trust (“**ACOT**”) and the Administrator. The term “**Governance Agreements**” refers, collectively, to the declaration of trust of the Fund, the declaration of trust of ACOT, the Administration Agreement between the Fund, ACOT and the LP and the Limited Partnership Agreement governing the LP.

**PURPOSE**

The Audit Committee (the “**Committee**”) is a standing committee appointed by the Board to assist the Board in fulfilling its oversight responsibilities with respect to the Fund's financial reporting including responsibility to:

oversee the integrity of the Fund's consolidated financial statements and financial reporting process, including the audit process and the Fund's internal accounting controls and procedures and compliance with related legal and regulatory requirements;

oversee the qualifications and independence of the Fund's external auditors;

oversee the work of the Fund's financial management and external auditors in these areas; and

provide an open avenue of communication between the external auditors, the Board, the board of directors of the GP, the trustees of ACOT, the Administrator and the officers (collectively, “**Management**”) of the Fund, the Administrator, the GP and AutoCanada Limited Partnership (“**AutoCanada LP**”).

In addition, the Committee will review and/or approve any other matter specifically delegated to the Committee by the Board.

**COMPOSITION AND PROCEDURES**

In addition to the procedures and powers set out in any resolution of the Board, the Committee will have the following composition and procedures:

**2. Composition**

The Committee shall consist of no fewer than three members. None of the members of the Committee shall be an officer or employee of the Fund, AutoCanada LP or the GP or any of their respective subsidiaries and each member of the Committee shall be an “independent trustee” (in accordance with the definition of “independent director” from time to time under the requirements or guidelines for audit committee service under applicable securities laws and the rules of any stock exchange on which the Fund's units are listed for trading); provided that the fact that a trustee is also a director of the GP will not disqualify the trustee from being a member of the Committee provided that the trustee would otherwise be eligible to be a member of the Committee.

**2. Appointment and Replacement of Committee Members**

Any member of the Committee may be removed or replaced at any time by the Board and shall automatically cease to be a member of the Committee upon ceasing to be a trustee. The Board may fill vacancies on the Committee by election from among its members. The Board shall fill any vacancy if the membership of the Committee is less than three trustees. If and whenever a vacancy shall exist on the Committee, the remaining members may exercise all its power so long as a quorum remains in office. Subject to the foregoing, the members of the Committee shall be elected by the Board annually and each member of the Committee shall hold office as such until the next annual meeting of unitholders after his or her election or until his or her successor shall be duly elected and qualified.

### **3. Financial literacy**

All members of the Committee must be “financially literate” (as that term is interpreted by the Board in its reasonable judgment or as may be defined from time to time under the requirements or guidelines for audit committee service under securities laws and the rules of any stock exchange on which the Fund's units are listed for trading) or must become financially literate within a reasonable period of time after his or her appointment to the Committee.

### **4. Separate Executive Meetings**

The Committee will endeavour to meet at least once every quarter, and more often as warranted, with the Chief Financial Officer of the Administrator and the external auditors in separate executive sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately.

### **5. Professional Assistance**

The Committee may retain special legal, accounting, financial or other consultants to advise the Committee at the Fund's expense.

### **6. Reliance**

Absent actual knowledge to the contrary (which will be promptly reported to the Board), each member of the Committee shall be entitled to rely on (i) the integrity of those persons or organizations within and outside the Fund from which it receives information, (ii) the accuracy of the financial and other information provided to the Committee by such persons or organizations and (iii) representations made by the Administrator, AutoCanada LP or the GP or their respective senior managements and the external auditors, as to any information, technology, internal audit and other non-audit services provided by the external auditors to the Fund and its subsidiaries.

### **7. Review of Charter**

The Committee will periodically review and reassess the adequacy of this Charter as it deems appropriate and recommend changes to the Board. The Committee will evaluate its performance with reference to this Charter. The Committee will approve the form of disclosure of this Charter, where required by applicable securities laws or regulatory requirements, in the annual proxy circular or annual report of the Fund.

### **8. Delegation**

The Committee may delegate from time to time to any person or committee of persons any of the Committee's responsibilities that lawfully may be delegated.

### **9. Reporting to the Board**

The Committee will report through the Committee Chair to the Board following meetings of the Committee on matters considered by the Committee, its activities and compliance with this Charter.

## **SPECIFIC MANDATES OF THE COMMITTEE**

The Committee will:

### **A. In Respect of the Fund's External Auditors**

- (1) review the performance of the external auditors of the Fund who are accountable to the Committee and the Board as the representatives of the unitholders of the Fund, including the lead partner of the independent auditor team and make recommendations to the Board as to the reappointment or appointment of the external auditors of the Fund to be proposed in the Fund's proxy circular for unitholder approval and shall have authority to terminate the external auditors;

- (2) review the reasons for any proposed change in the external auditors of the Fund which is not initiated by the Committee or Board and any other significant issues related to the change, including the response of the incumbent auditors, and enquire as to the qualifications of the proposed replacement auditors before making its recommendation to the Board;
- (3) approve the terms of engagement and the compensation to be paid by the Fund to the Fund's external auditors;
- (4) review the independence of the Fund's external auditors, including a written report from the external auditors respecting their independence and consideration of applicable auditor independence standards;
- (5) approve in advance all permitted non-audit services to be provided to the Fund or any of its affiliates by the external auditors or any of their affiliates, subject to any de minimus exception allowed by applicable law; the Committee may delegate to one or more designated members of the Committee the authority to grant pre-approvals required by this subsection;
- (6) review the disclosure with respect to its pre-approval of audit and non-audit services provided by the Fund's external auditors;
- (7) approve any hiring by the Fund or its subsidiaries of employees or former employees of the Fund's external auditors;
- (8) review a written or oral report describing:
  - a) critical accounting policies and practices to be used in the Fund's annual audit,
  - b) alternative treatments of financial information within generally accepted accounting principles that have been discussed with the Administrator or other Management and that are significant to the Fund's consolidated financial statements, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditors, and
  - c) other material written communication between the Fund's external auditors and the Administrator or other Management, such as any management letter or schedule of unadjusted differences;
- (9) review with the external auditors and Management the general audit approach and scope of proposed audits of the consolidated financial statements of the Fund, AutoCanada LP and the GP, the objectives, staffing, locations, co-ordination and reliance upon Management in the audit, the overall audit plans, the audit procedures to be used and the timing and estimated budgets of the audits;
- (10) if a review engagement report is requested of the external auditors, review such report before the release of the Fund's interim consolidated financial statements; and
- (11) discuss with the external auditors any difficulties or disputes that arose with the Administrator or other Management during the course of the



audit, any restrictions on the scope of activities or access to requested information and the adequacy of the Administrator's or other Management's responses in correcting audit-related deficiencies.

**B. In Respect of the Fund's Financial Disclosure**

- (1) review with the external auditors and Management:
  - a) the Fund's audited consolidated financial statements and the notes and Managements' Discussion and Analysis relating to such consolidated financial statements, the annual report, the annual information form, the financial information of the Fund contained in any prospectus or information circular or other disclosure documents or regulatory filings of the Fund, the recommendations for approval of each of the foregoing from each of the Chairman of the Board, CEO and CFO of the GP and based on such recommendations provide, where applicable, its own recommendations to the Board for their approval and release of each of the foregoing to the public;
  - b) the Fund's interim consolidated financial statements and the notes and Managements' Discussion and Analysis relating to such consolidated financial statements, the recommendations for approval of each of the foregoing from each of the Chairman of the Board, CEO and CFO of the GP and based on such recommendations provide, where applicable, its own recommendations to the Board for their approval and release of each of the foregoing to the public;
  - c) the quality, appropriateness and acceptability of the Fund's accounting principles and practices used in its financial reporting, changes in the Fund's accounting principles or practices and the application of particular accounting principles and disclosure practices by Management to new transactions or events;
  - d) all significant financial reporting issues and judgments made in connection with the preparation of the Fund's consolidated financial statements, including the effects of alternative methods in respect of any matter considered significant by the external auditor within generally accepted accounting principles on the consolidated financial statements and any "second opinions" sought by Management from an independent or other audit firm or advisor with respect to the accounting treatment of a particular item;
  - e) the effect of regulatory and accounting initiatives on the Fund's consolidated financial statements and other financial disclosures;
  - f) any reserves, accruals, provisions or estimates that may have a significant effect upon the consolidated financial statements of the Fund;
  - g) the use of special purpose entities and the business purpose and economic effect of off balance sheet transactions, arrangements, obligations, guarantees and other relationships of the Fund and their impact on the reported financial results of the Fund;

- h) any legal matter, claim or contingency that could have a significant impact on the consolidated financial statements, the Fund's compliance policies and any material reports, inquiries or other correspondence received from regulators or governmental agencies and the manner in which any such legal matter, claim or contingency has been disclosed in the Fund's consolidated financial statements;
  - i) review the treatment for financial reporting purposes of any significant transactions that are not a normal part of the Fund's operations; and
  - j) the use of any "pro forma" or "adjusted" information not in accordance with generally accepted accounting principles.
- (2) review and resolve disagreements between Management and the Fund's external auditors regarding financial reporting or the application of any accounting principles or practices;
  - (3) review earnings press releases, as well as financial information and earnings guidance provided to analysts and ratings agencies, it being understood that such discussions may, in the discretion of the Committee, be done generally (i.e., by discussing the types of information to be disclosed and the type of presentation to be made) and that the Committee need not discuss in advance each earnings release or each instance in which the Fund gives earning guidance;
  - (4) establish and monitor procedures for the receipt and treatment of complaints received by the Fund regarding accounting, internal accounting controls or audit matters and the anonymous submission by employees of concerns regarding questionable accounting or auditing matters and review periodically with the Management these procedures and any significant complaints received;
  - (5) receive from the Chief Executive Officer and the Chief Financial Officer of the Administrator a certificate certifying in respect of each annual and interim report the matters such officers are required to certify in connection with the filing of such reports under applicable securities laws; and
  - (6) review and discuss the Fund's major financial risk exposures and the steps taken to monitor and control such exposures, including the use of any financial derivatives and hedging activities.

**C. In Respect of Insurance**

- (1) review periodically insurance programs relating to the Fund and its investments.

**D. In Respect of Internal Controls**

- (1) review the adequacy and effectiveness of the Fund's internal accounting and financial controls based on recommendations from Management and the external auditors for the improvement of accounting practices and internal controls; and
- (2) oversee compliance with internal controls and the Joint Code of Business Conduct.

**E. In respect of Other Items**

- (1) on an annual basis review and assess committee member attendance and performance and report thereon to the Board and review this Charter and, if required implement amendments to this Charter;
- (2) on a quarterly basis review compliance with Governance Agreements with respect to matters that relate to the financial statements of the Fund;
- (3) on a quarterly basis review the prior quarter distributions;
- (4) on an annual basis review the performance of the Board under the Board's mandate;
- (5) on a quarterly basis review compliance with the Joint Disclosure Policy of the Fund.

**OVERSIGHT FUNCTION**

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Fund's consolidated financial statements are complete and accurate or are in accordance with GAAP and applicable rules and regulations. These are the responsibilities of Management and the Fund's external auditors. The Committee, its Chair and any Committee members identified as having accounting or related financial expertise are members of the Board, appointed to the Committee to provide broad oversight of the financial, risk and control related activities of the Fund, and are specifically not accountable or responsible for the day-to-day operation or performance of such activities. Although the designation of a Committee member as having accounting or related financial expertise for disclosure purposes or otherwise is based on that individual's education and experience, which that individual will bring to bear in carrying out his or her duties on the Committee, such designation does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the Committee and Board in the absence of such designation. Rather, the role of a Committee member who is identified as having accounting or related financial expertise, like the role of all Committee members, is to oversee the process, not to certify or guarantee the internal or external audit of the Fund's financial information or public disclosure.