

AutoCanada Income Fund

Interim Consolidated Financial Statements
(Unaudited)

June 30, 2008

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

AutoCanada Income Fund

Interim Consolidated Balance Sheet

(expressed in Canadian dollar thousands)

	June 30, 2008 (Unaudited)	December 31, 2007
ASSETS	\$	\$
Current assets		
Cash and cash equivalents	18,459	18,014
Restricted cash	2,973	4,356
Accounts receivable	35,374	34,274
Inventories (note 5)	135,447	142,128
Due from related parties	-	28
Prepaid expenses	3,019	1,561
	<u>195,272</u>	<u>200,361</u>
Property and equipment	12,093	11,445
Intangible assets	82,009	79,956
Goodwill	85,448	82,501
Other assets	90	78
	<u>374,912</u>	<u>374,341</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	27,411	22,488
Revolving floorplan facility (note 6)	131,505	143,655
Distributions payable (note 10)	1,687	1,687
Due to related parties	171	-
Current portion of long-term debt (note 7)	288	210
Current portion of obligation under capital lease	140	112
	<u>161,202</u>	<u>168,152</u>
Long-term debt (note 7)	17,160	10,394
Obligation under capital lease	430	395
Future income taxes (note 12)	18,247	17,364
	<u>197,039</u>	<u>196,305</u>
Contingencies (note 8)		
UNITHOLDERS' EQUITY		
Fund units (note 9 (a) and (b))	105,200	105,200
Exchangeable units (note 9 (c))	88,847	88,847
Contributed surplus (note 9 (d))	1,059	957
Deficit	(17,233)	(16,968)
	<u>177,873</u>	<u>178,036</u>
	<u>374,912</u>	<u>374,341</u>

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

AutoCanada Income Fund

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

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

	<i>Three Months Ended June 30, 2008 (unaudited)</i>	<i>Three Months Ended June 30, 2007 (unaudited)</i>	<i>Six Months ended June 30, 2008 (unaudited)</i>	<i>Six Months ended June 30, 2007 (unaudited)</i>
	\$	\$	\$	\$
Revenue				
Vehicles	202,177	190,824	376,269	362,755
Parts, service and collision repair	26,610	23,228	50,146	45,136
Other	538	659	1,026	1,199
	229,325	214,711	427,441	409,090
Cost of sales (note 5)	189,306	177,934	354,356	341,021
Gross profit	40,019	36,777	73,085	68,069
Expenses				
Selling, general and administrative	29,916	27,522	56,233	51,156
Interest	2,291	2,740	4,581	5,125
Amortization	758	770	1,529	1,560
	32,965	31,032	62,343	57,841
Earnings before income taxes	7,054	5,745	10,742	10,228
Future income taxes (note 12)	273	19,107	883	19,107
Net earnings (loss) & comprehensive income (loss) for the period	6,781	(13,362)	9,859	(8,879)
Deficit, beginning of period	(18,952)	(1,056)	(16,968)	(478)
Distributions declared (note 10)	(5,062)	(5,061)	(10,124)	(10,122)
Deficit, end of period	(17,233)	(19,479)	(17,233)	(19,479)
Earnings per unit				
Basic	0.335	(0.660)	0.487	(0.438)
Diluted	0.335	(0.660)	0.487	(0.438)
Weighted average units				
Basic	20,257,000	20,257,000	20,257,000	20,257,000
Diluted	20,257,000	20,326,624	20,257,000	20,300,088

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

AutoCanada Income Fund

Interim Consolidated Statement of Cash Flows

(expressed in Canadian dollar thousands)

	<i>Three Months Ended June 30, 2008 (unaudited)</i>	<i>Three Months Ended June 30, 2007 (unaudited)</i>	<i>Six Months ended June 30, 2008 (unaudited)</i>	<i>Six Months ended June 30, 2007 (unaudited)</i>
	\$	\$	\$	\$
Cash provided by (used in)				
Operating activities				
Net earnings for the period	6,781	(13,362)	9,859	(8,879)
Items not affecting cash				
Future income taxes (note 12)	273	19,107	883	19,107
Unit-based compensation (note 9(d))	43	135	102	320
Amortization	758	770	1,529	1,560
(Gain) loss on disposal of property & equipment	20	5	14	10
	7,875	6,655	12,387	12,118
Net change in non-cash working capital balances	5,931	(4,287)	4,158	(1,221)
	13,806	2,368	16,545	10,897
Investing activities				
Business acquisitions (note 3)	(12,504)	-	(12,504)	-
Investment in variable interest entity (note 4)	-	-	-	(4,727)
Purchase of property & equipment	(1,258)	(987)	(1,672)	(2,104)
Purchase of other assets	(12)	-	(12)	-
Proceeds on sale of property & equipment	-	88	24	93
Restricted cash	1,491	394	1,383	203
	(12,283)	(505)	(12,781)	(6,535)
Financing activities				
Proceeds from long-term debt	6,858	125	7,066	6,155
Repayment of long-term debt	(132)	(95)	(222)	(150)
Repayment of obligation under capital lease	(26)	(23)	(39)	(48)
Distributions paid to Unitholders	(5,062)	(5,061)	(10,124)	(10,122)
	1,638	(5,054)	(3,319)	(4,165)
Increase (decrease) in cash	3,161	(3,191)	445	197
Cash and cash equivalents, beginning of period	15,298	24,268	18,014	20,880
Cash and cash equivalents, end of period	18,459	21,077	18,459	21,077
Supplementary information				
Cash interest paid	2,191	2,632	4,609	5,227
Transfer of inventory to property & equipment	447	253	803	918
Transfer of property & equipment to inventory	156	385	409	1,148

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

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Notes to the Interim Consolidated Financial Statements

(Unaudited)

June 30, 2008

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

1 Nature of operations and basis of presentation

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

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

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

The accompanying unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”) for interim financial statements. The accounting principles and methods of computation adopted in these financial statements are the same as those for the audited financial statements for the year ended December 31, 2007, except as described in Note 2. However, the interim consolidated financial statements do not include all information and footnote disclosures required under Canadian GAAP for annual financial statements. Accordingly, these unaudited interim consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2007.

2 Changes in accounting policies and recent Canadian accounting pronouncements

a) Financial instruments – presentation and disclosure (CICA Handbook Sections 3862 and 3863)

On January 1, 2008, the Fund adopted Section 3862, “Financial Instruments – Disclosures”, replacing Section 3861, “Financial Instruments – Disclosure and Presentation.” This Section describes the required disclosures related to the significance of financial instruments on the entity’s financial position and performance and the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. This Section complements the principles of recognition, measurement and presentation of financial instruments of Section 3855, “Financial Instruments – Recognition and Measurement,” Section 3863, “Financial Instruments – Presentation” and Section 3865, “Hedges.”

The adoption of this Section required that the Fund present sensitivity analysis regarding currency risk, interest rate risk and commodity prices risk. This disclosure has been made in Note 14 of these interim consolidated financial statements. Comparative information about the nature and extent of risks arising from financial instruments is not required in the year Section 3862 is adopted.

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On January 1, 2008, the Fund adopted Section 3863, “Financial Instruments – Presentation,” replacing Section 3861, “Financial Instruments – Disclosure and Presentation.” This Section establishes standards for presentation of financial instruments and non-financial derivatives. The adoption of this Section had no impact on the presentation of the interim consolidated financial statements.

b) Capital disclosures (CICA Handbook Section 1535)

On January 1, 2008, the Fund adopted Section 1535, “Capital Disclosures.” This Section requires that an entity disclose information that enables users of its financial statements to evaluate an entity’s objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. The adoption of this Section required that information on capital management be included in the notes to the interim consolidated financial statements. This disclosure has been made in Note 15, Capital Disclosures.

c) Inventories (CICA Handbook Section 3031)

On January 1, 2008, the Fund adopted Section 3031, “Inventories.” This standard requires the measurement of inventories at the lower of cost and net realizable value and includes guidance on the determination of cost, including allocation of overheads and other costs to inventory. The standard also requires the consistent use of either first-in, first out (FIFO) or weighted average cost formula to measure the cost of inventories and requires the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. The adoption of this Section did not have any financial impact on our financial position or results of operations.

Recent Canadian accounting pronouncements

a) Goodwill and intangible assets

In February, 2008, the CICA issued Handbook Section 3064, “Goodwill and Intangible Assets”, replacing Handbook Section 3062, “Goodwill and Other Intangible Assets” and Handbook Section 3450, “Research and Development Costs”. The new pronouncement establishes standards for the recognition, measurement, presentation, and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in previous Handbook Section 3062. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008, specifically January 1, 2009 for the Fund. The Fund is currently evaluating the impact of adopting this standard.

b) Convergence with International Financial Reporting Standards

In 2006, Canada’s Accounting Standards Board ratified a strategic plan that will result in Canadian generally accepted accounting principles (GAAP), as used by public companies, being evolved and converged with International Financial Reporting Standards (IFRS) over a transitional period to be complete by 2011. The official changeover date from Canadian GAAP to IFRS is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. IFRS uses a conceptual framework similar to GAAP, but there could be significant differences on recognition, measurement and disclosures that will need to be addressed. The impact of the transition to IFRS on the Fund’s consolidated financial statements has not yet been determined.

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3 Business acquisition

- a) On April 1, 2008, the Fund purchased substantially all of the net operating assets of 833676 Ontario Ltd. operating as Doner Infiniti Nissan ("Doner Infiniti Nissan") for total cash consideration of \$12,504. The acquisition was funded by drawing on the Fund's Revolving Floorplan Facility (note 6) in the amount of \$7,695 and on the Revolving Term Facility (note 7) in the amount of \$4,809. The acquisition has been accounted for using the purchase method and the consolidated financial statements include operating results of Doner Infiniti Nissan subsequent to April 1, 2008.

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

	\$
Current assets	7,530
Property and equipment	47
Intangible assets	2,053
Current liabilities	<u>(73)</u>
Net identifiable assets acquired	9,557
Goodwill	<u>2,947</u>
	<u>12,504</u>

4 Variable interest entities

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

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

On July 13, 2007, the Fund entered into a credit agreement with CAG to finance the opening of a Nissan Dealership Open Point by CAG and enter into a management agreement to provide it with management services. The Nissan Dealership Open Point is located in Prince George, British Columbia, and commenced operations on August 31, 2007 under the name Northland Nissan, and will be owned and operated by a subsidiary of CAG which owns 46% of the Fund on a fully diluted basis. In connection with this arrangement, the Fund obtained Board approval to grant consents to CAG and its subsidiary under the terms of the non-competition agreements

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entered into at the time of the Fund's IPO.

As a result of the Fund's financing of the purchase and the related agreements, the Fund has determined that the Nissan Dealership Open Point is a VIE and it is the primary beneficiary as defined by AcG-15. Accordingly, the Fund has consolidated the operating results of the Nissan Dealership Open Point subsequent to July 13, 2007.

5 Inventories

	June 30, 2008	December 31, 2007
	\$	\$
New vehicles	97,338	107,472
Demonstrator vehicles	6,873	6,484
Used vehicles	23,844	20,917
Parts and accessories	<u>7,392</u>	<u>7,255</u>
	<u>135,447</u>	<u>142,128</u>

During the three-month period ended June 30, 2008, \$189,306 of inventory was expensed as cost of goods sold which included a net increase of inventory write downs on used vehicles and demonstrator vehicles of \$127. During the six-month period ended June 30, 2008, \$354,356 of inventory was expensed as cost of goods sold which included a net recovery of inventory write downs on used vehicles and demonstrator vehicles of \$208. As at June 30, 2008 and December 31, 2007, the Fund had recorded reserves for inventory write downs of \$1,331 and \$1,538 respectively.

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6 Revolving floorplan facilities

	June 30, 2008 \$	December 31, 2007 \$
New vehicles	121,530	133,622
Demonstrator vehicles	4,840	5,451
Used vehicles	<u>5,135</u>	<u>4,582</u>
	<u>131,505</u>	<u>143,655</u>

The Revolving Floorplan Facility available to the Fund from Chrysler Financial Canada ("CFC") to finance new, demonstrator and used vehicles is \$183,125, bears interest at Royal Bank of Canada ("RBC") prime rate less 0.25%, (4.50% at June 30, 2008) and is payable monthly in arrears. The CFC Revolving Floorplan Facility requires maintenance of certain financial covenants and is collateralized by a general security agreement consisting of a first security interest on all present and future property, the Fund's accounts receivable, and new, used and demonstrator vehicle inventory. The individual notes payable of the CFC Revolving Floorplan are due when the related vehicle is sold. The CFC Revolving Floorplan Facility may in certain circumstances restrict the ability of AutoCanada LP and the Fund to pay distributions if the payment would result in a default under the CFC Revolving Floorplan Facility.

A separate Revolving Floorplan Facility from the Bank of Nova Scotia ("BNS") is available to the two dealerships managed by the Fund. This Facility is available to finance new, used and demonstrator vehicles, is \$11,750, bears interest at Bank of Nova Scotia prime rate (4.75% at June 30, 2008) 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 a first security interest on all present and future property of the managed dealerships, 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 are due when the related vehicle is sold. The balance outstanding on the BNS Revolving Floorplan Facility as of June 30, 2008 is \$5,132 included in the "New vehicles" balance above, \$103 included in the "Demonstrator vehicles" balance above and \$127 included in the "Used vehicles" balance above.

7 Long-term debt

	June 30, 2008 \$	December 31, 2007 \$
Revolving Term Facility, due May 10, 2010 bearing interest from RBC prime to RBC prime plus 0.75% (i)	16,600	10,000
CFC lease contracts, repayable over 24 months bearing interest from 7.20% to 12.95% (ii)	<u>848</u>	<u>604</u>
	17,448	10,604
Less: Current portion	<u>(288)</u>	<u>(210)</u>
	<u>17,160</u>	<u>10,394</u>

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- (i) CFC provides the Fund a Revolving Term Facility. The amount of the Revolving Term Facility available is based on certain assets (the “borrowing base”) and a percentage of earnings before interest expense (other than interest expense on floorplan financing and other interest), income taxes, depreciation and amortization (“EBITDA”) of AutoCanada LP, up to a maximum amount of \$50,000, and is available to finance working capital and the acquisition of automobile dealerships. The Revolving Term Facility matures May 10, 2010 and bears interest at RBC prime rate for amounts borrowed not exceeding the borrowing base and RBC prime rate plus 0.75% for amounts borrowed in excess of the borrowing base. RBC prime as at June 30, 2008 was 4.75%. This Revolving Term Facility provides for a commitment fee of 0.30% of any unused portion payable quarterly in arrears, requires maintenance of certain financial covenants and is collateralized by a general security agreement consisting of a first security interest on all present and future property. The Revolving Term Facility may in certain circumstances restrict the ability of AutoCanada LP and the Fund to pay distributions if the payment would result in a default.
- (ii) CFC lease contracts are collateralized by the related lease contract and lease vehicles with a carrying value of \$843.

Principal payments for the next three years are as follows:

	\$
2008	288
2009	560
2010	<u>16,600</u>
	<u>17,448</u>

8 Contingencies

- (a) The Fund is party to a number of disputes and lawsuits in the normal course of business. Management believes that the ultimate liability arising from these matters will not have a material impact on the financial statements.
- (b) The Fund’s operations are subject to federal, provincial and local environmental laws and regulations in Canada. While the Fund has not identified any costs likely to be incurred in the next several years, based on known information for environmental matters, the Fund’s ongoing efforts to identify potential environmental concerns in connection with the properties it leases may result in the identification of additional environmental costs and liabilities. The magnitude of such additional liabilities and the costs of complying with environmental laws or remediating contamination cannot be reasonably estimated at the balance sheet date due to lack of technical information, absence of third party claims, the potential for new or revised laws and regulations and the ability to recover costs from any third parties. Thus the likelihood of any such costs or whether such costs would be material cannot be determined at this time.
- (c) As of June 30, 2008, the Fund had \$200 outstanding in letters of credit with financial institutions. These letters expire at different points in 2008. These letters of credit are being maintained as security for premium payments to an insurance company and to fulfill legislative requirements of the Motor Dealer Act in the province of British Columbia.

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9 Unitholders' equity

(a) Authorized

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

(b) Issued

	Units #	Amount \$
Units issued on initial public offering	10,209,500	102,095
Issuance costs	-	(4,295)
Units issued in connection with over-allotment option exercised	740,000	7,400
	<hr/>	<hr/>
Balance at June 30, 2008 and December 31, 2007	10,949,500	105,200

(c) Exchangeable LP units

	Units #	Amount \$
Units issued on initial public offering	10,047,500	100,475
Issuance costs	-	(4,228)
Exchanges in connection with the over-allotment option	(740,000)	(7,400)
	<hr/>	<hr/>
Balance at June 30, 2008 and December 31, 2007	9,307,500	88,847

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(d) Contributed surplus

The Fund has an Incentive Unit Option Plan (the "Plan") for certain employees, officers, directors and trustees. Options issued under the Plan vest at a rate of one third on the three subsequent award date anniversaries. All the options must be exercised over specified periods not to exceed five years from the date granted. At June 30, 2008, 1,519,275 units remained reserved for issuance under the option plan. During the three-month period ended June 30, 2008, nil options (2007 – 127,170) were granted to purchase Fund Units and 55,000 options (2007 – nil) were cancelled. During the six-month period ended June 30, 2008, 30,000 options (2007 – 247,170) were granted to purchase Fund Units and 94,671 options (2007 – 72,819) were cancelled. At June 30, 2008, 714,658 options were exercisable at a weighted average exercise price of \$9.96.

	Weighted average remaining contractual life Yrs	Units #	Weighted average exercise price \$
Balance, December 31, 2007	3.61	894,318	10.03
Granted	4.74	30,000	8.17
Cancelled	3.54	(94,671)	10.22
Options outstanding, June 30, 2008	3.11	<u>829,647</u>	<u>10.00</u>

On March 21, 2008, the Fund granted 30,000 options to employees of the Fund. The exercise price of the units was equal to the fair value as at the grant date. The fair value of the options granted was estimated as at the grant date using the Black-Scholes option pricing model, using the following assumptions:

Risk free interest rate	2.91 %
Expected life in years	5.0 years
Expected volatility	35.3 %
Expected dividends	\$1
Fair value per option	\$0.65

The impact of expensing the unit options for the three-month period ended June 30, 2008 was \$43 (2007 - \$135) and for the six-month period ended June 30, 2008 was \$102 (2007 - \$320), with a corresponding increase to contributed surplus.

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10 Distributions

Distributions are discretionary and are determined based on earnings, before amortization, but reduced by capital expenditures, subject to approval of the Trustees. Distributions totaling \$0.250 were declared per Fund Unit and the Exchangeable LP Unit respectively by the Fund for the three-month period ended June 30, 2008.

	Declared	Paid
	\$	\$
Fund Units	2,736	1,824
Exchangeable Units	2,326	1,551
	<u>5,062</u>	<u>3,375</u>

Distributions payable to all Unitholders in the amount of \$1,687 as at June 30, 2008 were paid in July, 2008.

11 Related party transactions and balances

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

	Three months ended June 30, 2008	Six months ended June 30, 2008
	\$	\$
Management fees and non-competition fees received from a director and companies with common directors	172	331
Rent paid to companies with common directors	1,130	2,179
Consulting fees paid to company controlled by a trustee	16	29

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

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

12 Future income taxes

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

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

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While the Fund will not be liable for current taxes until January 1, 2011, it provides for future income taxes arising from those temporary tax differences expected to reverse after January 1, 2011, at tax rates ranging from 25% to 31% applicable to the Fund.

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

	June 30, 2008	December 31, 2007
	\$	\$
Property and equipment	476	416
Intangible assets	16,673	16,058
Goodwill	1,098	890
	<u>18,247</u>	<u>17,364</u>

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

13 Economic dependence

The Fund purchases a significant proportion of new vehicles and parts and accessories from Chrysler Canada Inc and obtains the majority of its financing from Chrysler Financial Canada.

14 Financial instruments

The Fund's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, revolving floorplan facilities, distributions payable, long-term debt and obligation under capital lease.

The Fund has made the following classifications:

- Cash and cash equivalents and restricted cash are classified as financial assets held for trading and are measured at fair value. Gains and losses related to subsequent revaluations are recorded in net earnings;
- Accounts receivable are classified as loans and receivables and are initially measured at fair value with subsequent measurement at amortized cost. All accounts receivable bad debts are charged to selling, general and administrative expenses;
- Accounts payable and accrued liabilities, revolving floorplan facilities, distributions payable, long-term debt and obligation under capital lease are classified as other liabilities and are initially measured at fair value with subsequent measurement at amortized cost;
- Transaction costs are expensed as incurred for financial instruments; and,
- Interest expense is recorded in net earnings.

(a) Financial risk management

The Fund's activities are exposed to a variety of financial risks of varying degrees of significance which

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could affect the ability to achieve strategic objectives. The Fund's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on the Fund's financial performance. Risk management is carried out by financial management in conjunction with overall Fund governance. The principal financial risks to which the Fund is exposed are described below.

(b) Foreign currency risk

Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. The Fund is not significantly exposed to foreign currency risk.

(c) Interest rate risk

The Fund's Revolving Floorplan Facilities and Revolving Term Facility are subject to interest rate fluctuations and the degree of volatility in these rates. The Fund does not currently hold any financial instruments that mitigate this risk. At June 30, 2008, a change in the annual interest on floating rate debt of one percent would result in a change in annual interest expense of approximately \$1,490.

(d) Market risk

The Fund's exposure to financial market risk is limited since there are no significant financial instruments which will fluctuate as a result of changes in market prices.

(e) Credit risk

The Fund's exposure to credit risk associated with its accounts receivable is the risk that a customer will be unable to pay amounts due to the Fund or its subsidiaries. Concentration of credit risk with respect to contracts-in-transit and accounts receivable is limited primarily to automobile manufacturers and financial institutions. Credit risk arising from receivables from commercial customers is not significant due to the large number of customers dispersed across various geographic locations comprising our customer base.

Accounts receivable are aged as at June 30, 2008 by the following approximate percentages:

Current	87%
31 to 60 days	8%
61 to 90 days	3%
91 to 120 days	1%
Over 120 days	1%

The Fund evaluates receivables for collectability based on the age of the receivable, the credit history of the customers and past collection experience. During the quarter, \$294 of accounts receivable were allowed for and \$513 of previously allowed amounts were recovered. The allowance for doubtful accounts amounted to \$612 as of June 30, 2008 (\$965 as of December 31, 2007). Allowances are provided for potential losses that have been incurred at the balance sheet date. The amounts disclosed on the balance sheet for accounts receivable are net of the allowance for bad debts.

Concentration of cash and cash equivalents exists due to the significant amount of cash held with CFC.

AutoCanada Income Fund

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(Unaudited)

June 30, 2008

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

(f) Liquidity risk

Liquidity risk is the risk that the Fund is not able to meet its financial obligations as they become due or can do so only at excessive cost. The Fund's growth is financed through a combination of the cash flows from operations, borrowing under existing credit facilities and the issuance of equity. Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through adequate amount of committed credit facilities. One of management's primary goals is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as cash flows. Due to the dynamic nature of the business, the Fund aims to maintain flexibility in funding by keeping committed credit facilities available (note 6 & 7).

The Fund's liabilities have contractual maturities which are summarized below:

	Current within 12 months \$	Non-current 1-5 years \$
Accounts payable and accrued liabilities	27,411	-
Revolving floorplan facility	131,505	-
Distributions payable	1,687	-
Long-term debt	288	17,160
Obligation under capital lease	140	430
	<u>161,031</u>	<u>17,590</u>

(g) Fair value

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

15 Capital disclosures

The Fund's objective when managing its capital is to safeguard the Fund's assets and its ability to continue as a going concern while at the same time maximizing the growth of the business, returns to unitholders, and benefits for other stakeholders. The Fund views its capital as the combination of long-term debt and Unitholders' equity.

The calculation of the Fund's capital as of June 30, 2008 is summarized below:

Long-term debt	17,448
Unitholders' equity	<u>177,873</u>
Total capital	<u>195,321</u>

The Fund manages its capital structure in accordance with changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Fund may assume additional debt, refinance existing debt with different characteristics, sell assets to reduce debt, issue new units, adjust the amount of distributions paid to its unitholders, or return capital to its unitholders.

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

The Fund has externally imposed capital requirements as governed through its credit facilities and dealership agreements with manufacturers. These requirements are to ensure the Fund continues to operate in the normal course of business and to ensure that the Fund manages its working capital. The Fund is subject to certain covenants on its credit facilities which include a current ratio, debt to tangible net worth ratio and fixed charge coverage ratio. The Fund met all externally imposed capital requirements for the three-month period ended June 30, 2008.

16 Seasonal nature of the business

The Fund's results from operations for the period ended June 30, 2008 are not necessarily indicative of the results that may be expected for the full year due to seasonal variations in sales levels. The results from operations of the Fund have been lower in the first and fourth quarters of each year, largely due to consumer purchasing patterns during the holiday season, inclement weather and the number of business days during the period. As a result, our financial performance is generally less strong during the first and fourth quarters than during the other quarters of each fiscal year. The timing of acquisitions may also cause substantial fluctuations in operating results from quarter to quarter.

17 Subsequent events

On July 7, 2008, the Fund purchased the net operating assets of Cambridge Hyundai, located in Cambridge, Ontario. The Fund is in the process of finalizing its measurement and valuation of the net assets acquired, including the identification of goodwill and intangible assets and thus the allocation of the purchase price is subject to the completion of this process.