AutoCanada Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)
June 30, 2012
(expressed in Canadian dollar thousands except share and per share amounts)

AutoCanada Inc.

Condensed Interim Consolidated Statement of Comprehensive Income
(Unaudited)

(in thousands of Canadian dollars except for share and per share amounts)

	Three month period ended June 30, 2012 $	Three month period ended June 30, 2011 $	Six month period ended June 30, 2012 $	Six month period ended June 30, 2011 $
Revenue (Note 6)	294,769	290,737	543,165	501,521
Cost of sales(Note 7)	(245,779)	(245,185)	(451,327)	(419,535)
Gross profit	48,990	45,552	91,838	81,986
Operating expenses (Note 8)	(37,661)	(35,127)	(73,041)	(67,018)
Operating profit before other income (expense)	11,329	10,425	18,797	14,968
(Loss) Gain on disposal of assets	(39)	35	(66)	28
Income from investment in associate (Note 11)	83	-	83	-
Operating profit	11,373	10,460	18,814	14,996
Finance costs (Note 9)	(2,943)	(2,794)	(5,274)	(4,914)
Finance income (Note 9)	497	313	940	580
Net comprehensive income for the period before taxation	8,927	7,979	14,480	10,662
Income tax (Note 10)	2,216	2,029	3,658	2,719
Net comprehensive income for the period	6,711	5,950	10,822	7,943
Earnings per share				
Basic	0.338	0.299	0.544	0.400
Diluted	0.338	0.299	0.544	0.400
Weighted average shares				
Basic	19,876,139	19,880,930	19,878,535	19,880,930
Diluted	19,876,139	19,880,930	19,878,535	19,880,930

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

Approved on behalf of the Company:

(Signed) "Gordon R. Barefoot", Director

(Signed) "Robin Salmon", Director

AutoCanada Inc.

Condensed Interim Consolidated Statement of Financial Position

(in thousands of Canadian dollars)

	June 30, 2012 (Unaudited) $	December 31, 2011 (Audited) $
ASSETS		
Current assets		
Cash and cash equivalents	51,198	53,641
Trade and other receivables (Note 12)	52,042	42,448
Inventories (Note 13)	201,302	137,016
Other current assets	2,763	1,120
	307,305	234,225
Property and equipment	28,035	25,975
Investment in associate (Note 11)	4,237	-
Intangible assets	66,181	66,181
Goodwill	380	380
Other long-term assets	7,923	7,609
	414,061	334,370
LIABILITIES		
Current liabilities		
Trade and other payables (Note 15)	33,769	32,279
Revolving floorplan facilities (Note 16)	221,174	150,816
Current tax payable	5,500	2,046
Current lease obligations (Note 17)	1,152	1,204
Current indebtedness (Note 16)	2,806	2,859
	264,401	189,204
Long-term indebtedness (Note 16)	23,027	20,115
Deferred tax	9,126	12,056
	296,554	221,375
EQUITY	117,507	112,995
	414,061	334,370

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

AutoCanada Inc.

Condensed Interim Consolidated Statement of Changes in Equity
For the Period Ended
(Unaudited)

(in thousands of Canadian dollars)

	Share capital	Treasury shares	Contributed surplus	Total capital	Accumulated deficit	Equity
	$	$	$	$	$	$
Balance, January 1, 2012	190,435	-	3,918	194,353	(81,358)	112,995
Net comprehensive income	-	-	-	-	10,822	10,822
Dividends declared on common shares	-	-	-	-	(5,765)	(5,765)
Common shares repurchased (Note 20)	-	(910)	-	(910)	-	(910)
Share-based compensation	-	-	365	365	-	365
Balance, June 30, 2012	190,435	(910)	4,283	193,808	(76,301)	117,507

	Share capital	Treasury shares	Contributed surplus	Total capital	Accumulated deficit	Equity
	$	$	$	$	$	$
Balance, January 1, 2011	190,435	-	3,918	194,353	(111,979)	82,374
Net comprehensive income	-	-	-	-	7,943	7,943
Dividends declared on common shares	-	-	-	-	(3,777)	(3,777)
Balance, June 30, 2011	190,435	-	3,918	194,353	(107,813)	86,540

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

AutoCanada Inc.

Condensed Interim Consolidated Statement of Cash Flows
For the Period Ended
(Unaudited)

(in thousands of Canadian dollars)

	Three month period ended June 30, 2012	Three month period ended June 30, 2011	Six month period ended June 30, 2012	Six month period ended June 30, 2011
Cash provided by (used in):				
Operating activities				
Net comprehensive income	6,711	5,950	10,822	7,943
Income taxes (Note 10)	2,216	2,029	3,658	2,719
Amortization of prepaid rent	113	113	226	226
Amortization of property and equipment	1,027	1,017	2,051	2,097
Loss (Gain) on disposal of assets	39	(35)	66	(28)
Share-based compensation	197	-	360	-
Income from investment in associate	(83)	-	(83)	-
Income taxes paid	(611)	-	(3,099)	-
Net change in non-cash working capital	(3,040)	(3,785)	(3,925)	(3,499)
	6,569	5,289	10,076	9,458
Investing activities				
Investment in associate (Note 11)	(4,154)	-	(4,154)	-
Purchases of property and equipment (Note 14)	(3,624)	(612)	(3,985)	(1,542)
Prepayments of rent	-	(540)	(540)	(1,080)
Proceeds on sale of property and equipment	6	9	40	6
Proceeds on divestiture of subsidiary	-	1,464	-	1,464
	(7,772)	321	(8,639)	(1,152)
Financing activities				
Proceeds from long-term debt (Note 16)	3,000	-	3,000	-
Repayment of long-term indebtedness	(111)	(115)	(205)	(220)
Common shares repurchased (Note 20)	(910)	-	(910)	-
Dividends paid	(2,981)	(995)	(5,765)	(1,790)
	(1,002)	(1,110)	(3,880)	(2,010)
(Decrease) Increase in cash	(2,205)	4,500	(2,443)	6,296
Cash and cash equivalents at beginning of period	53,403	39,337	53,641	37,541
Cash and cash equivalents at end of period	51,198	43,837	51,198	43,837

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

1 General Information

AutoCanada Inc. (“AutoCanada” or “The Company”) is a corporation from Alberta, Canada with common shares listed on the Toronto Stock Exchange ("TSX") under the symbol of "ACQ". The business of AutoCanada, held in its subsidiaries, is the operation of franchised automobile dealerships in British Columbia, Alberta, Manitoba, Ontario, Nova Scotia and New Brunswick. The Company 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 Company also arranges financing and insurance for vehicle purchases by its customers through third-party finance and insurance sources. The address of its registered office is 200, 15505 Yellowhead Trail, Edmonton, Alberta, Canada, T5V 1E5.

2 Basis of presentation

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook").

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed consolidated interim financial statements should be read in conjunction with the Company's audited annual financial statements for the year ended December 31, 2011, which have been prepared in accordance with IFRS as issued by the IASB.

The condensed interim consolidated financial statements have been prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through the statement of comprehensive income.

These financial statements were approved by the Board of Directors on August 9, 2012.

3 Significant Accounting Policies

The significant accounting policies used in the preparation of these condensed consolidated interim financial statements are the same accounting policies and methods of computation as disclosed in the annual financial statements for the year ended December 31, 2011, except for the following standards, which the Company elected to early adopt during the period ended June 30, 2012:

- IFRS 10, *Consolidated financial statements*, replaces all the guidance on control and consolidation in IAS 27, *Consolidated and separate financial statements*, and SIC-12, *Consolidation - special purpose entities*. Full retrospective application is required in accordance with the transition provisions of the standard, unless impracticable, in which case the Company applies it from the earliest practicable date.
- IAS 27 was amended following the issuance of IFRS 10. The revised IAS 27 deals only with the accounting for subsidiaries, associates and joint ventures in the separate financial statements of the parent company.
- IFRS 11, *Joint Arrangements*, supercedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities - Non-monetary Contributions by Venturers*. Under IAS 31, entities have the choice to proportionately consolidate or equity account for interests in jointly controlled entities. IFRS 11 requires an entity to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures are accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation.
- IFRS 12, *Disclosure of Interests in Other Entities*, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interest in other entities.
- IAS 28 was amended following the issuance of IFRS 11. The revised IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The Company has applied the above standards retrospectively. The above standards did not result in significant changes to the Company's previously filed financial statements and related disclosures.

Investment in associates

An associate is an entity over which the Company has significant influence, but not control, and is neither a subsidiary, nor an interest in a joint venture. Investments in which the Company has the ability to exercise significant influence are accounted for by the equity method. Under this method, the investment is initially recorded at cost and adjusted thereafter to record the Company's share of post-acquisition earnings or loss of the investee as if the investee had been consolidated. The carrying value of the investment is also increased or decreased to reflect the Company's share of capital transactions, including amounts recognized in other comprehensive income, and for accounting changes that relate to periods subsequent to the date of acquisition. Dilution gains and losses arising from changes in interests in investments in associates are recognized in the consolidated statement of comprehensive income.

4 Critical accounting estimates, judgments & measurement uncertainty

The preparation of interim financial statements requires management to make estimates and judgments about the future. Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

In preparing these condensed interim consolidated financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimated uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2011, with the exception of changes in estimates that are required in determining the provision for income taxes.

(in thousands of Canadian dollars except for share and per share amounts)

5 Economic dependence

The Company has significant commercial and economic dependence on Chrysler Canada and Ally Credit. As a result, the Company is subject to significant risk in the event of the financial distress of Chrysler Canada, one of the Company's major vehicle manufacturers and parts suppliers, and Ally Credit, which provides the Company with revolving floorplan facilities for 22 of its 24 wholly-owned dealerships.

The Company's consolidated financial statements include the operations of franchised automobile dealerships, representing the product lines of eight global automobile manufacturers. The Company's Chrysler, Jeep, Dodge, Ram ("CJDR") dealerships, which generated 74% of the Company's revenue in the six month period ended June 30, 2012 (2011 – 73%), purchase all new vehicles, a significant portion of parts and accessories and certain used vehicles from Chrysler Canada. In addition to these inventory purchases, the Company is eligible to receive monetary incentives from Chrysler Canada if certain sales volume targets are met and is also eligible to receive payment for warranty service work that is performed for eligible vehicles.

At June 30, 2012 and December 31, 2011 the Company had recorded the following assets that relate to transactions it has entered into with Chrysler Canada:

	June 30, 2012 **$**	**December 31, 2011** **$**
Accounts receivable	5,132	5,032
New vehicle inventory	121,194	72,749
Demonstrator vehicle inventory	4,489	4,338
Parts and accessories inventory	4,850	6,081

At June 30, 2012 and December 31, 2011, the Company had recorded the following assets and liabilities that relate to transactions it has entered into with Ally Credit:

	June 30, 2012 **$**	**December 31, 2011** **$**
Cash and cash equivalents	36,374	38,730
Revolving floorplan facility - Ally Credit	217,221	148,587

Chrysler Canada is a subsidiary of Chrysler Group LLC ("Chrysler Group") in the United States. The viability of Chrysler Canada is directly dependent on the viability of Chrysler Group.

(in thousands of Canadian dollars except for share and per share amounts)

6 Revenue

	Three month period ended June 30, 2012 $	Three month period ended June 30, 2011 $	Six month period ended June 30 2012 $	Six month period ended June 30 2011 $
New vehicles	186,649	196,850	334,032	325,153
Used vehicles	62,822	52,054	123,276	96,961
Finance and insurance	16,451	13,577	30,099	24,689
Parts, service and collision repair	28,847	28,256	55,758	54,718
	294,769	290,737	543,165	501,521

7 Cost of sales

	Three month period ended June 30, 2012 $	Three month period ended June 30, 2011 $	Six month period ended June 30, 2012 $	Six month period ended June 30, 2011 $
New vehicles	172,002	182,876	307,340	301,455
Used vehicles	58,585	47,753	114,626	89,173
Finance and insurance	1,573	1,459	2,834	2,625
Parts, service and collision repair	13,619	13,097	26,527	26,282
	245,779	245,185	451,327	419,535

(in thousands of Canadian dollars except for share and per share amounts)

8 Operating expenses

	Three month period ended June 30, 2012 $	Three month period ended June 30, 2011 $	Six month period ended June 30, 2012 $	Six month period ended June 30, 2011 $
Employee costs	23,744	21,785	45,852	39,852
Administrative costs [1]	9,911	9,384	19,225	19,209
Facility lease costs	2,979	2,941	5,913	5,860
Amortization	1,027	1,017	2,051	2,097
	37,661	35,127	73,041	67,018

[1] Administrative costs include professional fees, consulting services, technology-related expenses, selling and marketing, and other general and administrative costs.

9 Finance costs and finance income

	Three month period ended June 30, 2012 $	Three month period ended June 30, 2011 $	Six month period ended June 30, 2012 $	Six month period ended June 30, 2011 $
Long term debt	256	323	486	606
Floorplan financing	2,510	2,311	4,446	3,995
Other interest expense	177	160	342	313
	2,943	2,794	5,274	4,914
Short term bank deposits	(497)	(313)	(940)	(580)

Cash interest paid during the period ended June 30, 2012 was $5,017 (2011 - $4,928).

(in thousands of Canadian dollars except for share and per share amounts)

10 Taxation

Components of income tax expense were as follows:

	Three month period ended June 30, 2012 $	Three month period ended June 30 2011 $	Six month period ended June 30 2012 $	Six month period ended June 30 2011 $
Current	(3,035)	(776)	6,587	2,800
Deferred tax	5,251	2,805	(2,929)	(81)
Income tax expense	2,216	2,029	3,658	2,719

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual rates used for the six month period ended June 30, 2012 was 26%.

(in thousands of Canadian dollars except for share and per share amounts)

11 Investment in associate

Investment in Dealer Holdings Ltd. ("DHL")

During the three month period ended June 30, 2012, the Company invested a total of $4,154 to acquire a 60.8% non-voting common share interest in DHL. Although the Company's interest consists of non-voting common shares, the Company currently exercises significant influence over DHL by virtue of its relationship with the controlling shareholder, Patrick Priestner, the Company's Chief Executive Officer, and the Company's contractual relationship to perform management services for DHL's investments. The Company has applied equity accounting to its investment as a result of its significant influence over DHL.

During the three month period ended June 30, 2012, DHL acquired a 49% voting common share interest in Nicholson Chevrolet ("Nicholson") with an option to increase its interest to 51% upon Nicholson's successful relocation to a new facility, which is expected to occur in September of 2012. In conjunction with the Nicholson investment, DHL is subject to a put option with Romland Development Holdings Ltd. ("Romland"), the owner of the dealership and body shop real estate used in Nicholson's operations, whereby DHL may be required to purchase up to 49% of Romland. Upon Romland exercising the put option, DHL will have 180 days to purchase its portion of shares in Romland, which would require further investment in DHL from its shareholders.

During the three month period ended June 30, 2012, DHL acquired a 51% voting common share interest in Petersen Buick GMC ("Petersen").

The Nicholson and Petersen dealerships are both subject to financial covenants as part of their borrowing arrangements that may restrict their ability to transfer funds to the Company if the payment of such funds resulted in a breach of covenants.

As a result of DHL's investments, the Company has indirectly acquired a 29.79% interest in Nicholson and a 31% interest in Petersen. Summarized information in respect of the investment in DHL is as follows:

	Carrying amount	Fair value adjustments	Fair value	Interest in Dealer Holdings Ltd.
	$	$	$	$
Current assets	29,831	(92)	29,739	9,038
Non-current assets	18,050	592	18,642	5,667
Current liabilities	24,611	-	24,611	7,484
Non-current liabilities	10,050	-	10,050	3,067
Net assets	13,220	500	13,720	4,154

(in thousands of Canadian dollars except for share and per share amounts)

11 Investment in associate continued

During the period ended June 30, 2012, on a consolidated basis, DHL generated revenue of $17,565.

The following table summaries the Company's carrying value of its investment in DHL for the period:

	Three month period ended June 30, 2012 $	**Six month period ended June 30, 2012 $**
Balance, beginning of the period	-	-
Investment in Dealer Holdings Ltd.	4,154	4,154
Equity earnings	83	83
Balance, end of period	4,237	4,237

12 Trade and other receivables

	June 30, 2012 $	**December 31, 2011 $**
Trade receivables	49,072	41,294
Less: Allowance for doubtful accounts	(361)	(359)
Net trade receivables	48,711	40,935
Other receivables	3,331	1,513
Trade and other receivables	52,042	42,448

The Company is exposed to normal credit risk with respect to its accounts receivable and maintains provisions for potential credit losses. Potential for such losses is mitigated because there is no significant exposure to any single customer and because customer creditworthiness is evaluated before credit is extended.

(in thousands of Canadian dollars except for share and per share amounts)

13 Inventories

	June 30, 2012 $	December 31, 2011 $
New vehicles	159,496	101,135
Demonstrator vehicles	6,677	6,302
Used vehicles	27,260	21,531
Parts and accessories	7,869	8,048
	201,302	137,016

During the three month period ended June 30, 2012, $245,779 of inventory (2011 - $245,185) was expensed as cost of goods sold which included a net write-down on used vehicles of $316 (2011 - $70). During the period ended June 30, 2012, $282 of demonstrator expense (2011 - $295) was included in selling, general, and administration expense.

During the six month period ended June 30, 2012, $451,327 of inventory (2011 - $419,535) was expensed as cost of goods sold which included a net write-down on used vehicles of $381 (2011 - $1 net recovery of write-down). During the six month period ended June 30, 2012, $557 of demonstrator expense (2011 - $627) was included in selling, general, and administration expense. As at June 30, 2012, the Company had recorded reserves for inventory write downs of $1,683 (2010 - $1,415).

14 Property and equipment

During the quarter ended June 30, 2012, the Company purchased $3,624 of fixed assets, which included land purchased at a cost of $3,218. The land is being held for future dealership operations.

15 Payables, accruals and provisions

	June 30, 2012 $	December 31, 2011 $
Trade payables	15,925	15,093
Accruals and provisions	5,893	5,302
Sales tax payable	942	2,239
Wages and witholding taxes payable	11,009	9,645
	33,769	32,279

(in thousands of Canadian dollars except for share and per share amounts)

16 Indebtedness

This note provides information about the contractual terms of the Company's interest-bearing debt, which are measured at amortized cost.

	June 30, 2012 $	December 31, 2011 $
Current indebtedness		
Current portion of term loans (iv,v)	2,806	2,859
Revolving floorplan facilities - Ally (i)	217,221	148,587
Revolving floorplan facilities - VCCI (ii)	3,953	2,228
	223,980	153,674
Non-current indebtedness		
HSBC revolving term loan (iii)	20,000	17,000
HSBC non-revolving fixed term loan (iv)	3,027	3,115
Total indebtedness	247,007	173,789

Terms and conditions of outstanding loans were as follows:

i The revolving floorplan facilities (“Ally facilities”) are available to the Company from Ally Credit to finance new, demonstrator and used vehicles bears interest at the Prime Rate plus 0.20% (4.20% at June 30, 2012) and is payable monthly in arrears. Prime Rate is defined as the greater of the Royal Bank of Canada (“RBC”) prime rate (3.00% at June 30, 2012) or 4.00%. The maximum amounts of financing provided by the Ally facilities are based on a maximum number of new, used and demonstrator vehicles to be financed on an individual dealership basis. The Ally facilities are collateralized by all of the dealerships’ new, used and demonstrator inventory financed by the Ally facilities and a general security agreement and cross guarantee from each of the Company’s dealerships. The individual notes payable of the Ally facilities are due when the related vehicle is sold or according to an aging based repayment policy as mandated by Ally Credit.

ii The revolving floorplan facilities (“VCCI facilities”) are available to the Company from VW Credit Canada, Inc. ("VCCI") to finance new and used vehicles for the Abbotsford and Chilliwack Volkswagen dealerships. The VCCI facilities bear interest at the Royal Bank of Canada ("RBC") prime rate plus 0.75% for new vehicles and 1.25% for used vehicles (RBC prime rate = 3.00% at June 30, 2012). The maximum amount of financing provided by the VCCI facilities is $7,300. The VCCI facilities are collateralized by both of the dealerships’ assets financed by VCCI and all cash and other collateral in the possession of VCCI and a general security agreement from the Abbotsford and Chilliwack Volkswagen dealerships. The individual notes payable of the VCCI facilities are due when the related vehicle is sold, as outlined in the agreement with VW Credit Canada, Inc.

16 Indebtedness continued

iii HSBC Bank Canada ("HSBC") provides the Company with a fully committed, extendible revolving term loan (the "HSBC Revolver") in the amount of $30,000. The HSBC Revolver's maturity date is July 31, 2012, however the facility may be extended for an additional 365 days prior to the maturity of the HSBC Revolver at the request of the Company and upon approval by HSBC. If the HSBC Revolver is not extended by HSBC, repayment of the outstanding amount is not due until July 31, 2013. The HSBC Revolver bears interest at HSBC's Prime Rate plus 0.75% (3.75% at June 30, 2012). The HSBC Revolver is collateralized by all of the present and future assets of the subsidiaries of AutoCanada Inc, the various Limited Partnerships and the General Partners of each dealership within the Company. As part of a priority agreement signed by HSBC, Ally Credit and the Company, the collateral for the HSBC Revolver excludes all new, used and demonstrator inventory financed with the Ally facilities provided by Ally Credit.

iv HSBC provides the Company with a committed, extendible non-revolving term loan (the "HSBC Term Loan"). The HSBC Term Loan's maturity date is July 31, 2012, however the facility may be extended at the request of the Company and upon approval by HSBC. If the HSBC Term Loan is not extended by HSBC, repayment of the outstanding amount is not due until July 31, 2013. The HSBC Term Loan bears interest at HSBC's Prime Rate plus 1.75% (4.75% at June 30, 2012). Repayments are based on a 20 year amortization of the original loan amount; consisting of fixed monthly principal repayments of $15 plus applicable interest. The HSBC Term Loan requires maintenance of certain financial covenants and is collateralized by a first fixed charge in the amount of $3,510 registered over the Newmarket Infiniti Nissan property. At June 30, 2012, the carrying amount of the Newmarket Infiniti Nissan property was $5,494.

v Bank of Montreal provides the Company a Fixed Rate Term Loan (the "BMO Term Loan"). The BMO Term Loan matures September 30, 2012 and bears interest at a fixed rate of 5.11%. Repayments consist of fixed monthly payments totaling $20 per month. The BMO Term Loan requires maintenance of certain financial covenants and is collateralized by a general security agreement consisting of a first fixed charge in the amount of $3,450 registered over the Cambridge Hyundai property. At June 30, 2012, the carrying amount of the Cambridge Hyundai property was $3,291.

(in thousands of Canadian dollars except for share and per share amounts)

17 Leases

This note provides information about the contractual terms of the Company's lease obligations.

	June 30, 2012 $	December 31, 2011 $
Current		
Vehicle repurchase obligations (i)	1,094	1,082
Current finance lease obligations (ii)	58	122
Total lease obligations	1,152	1,204

Terms and conditions of lease obligations were as follows:

i The Company provides a corporate fleet customer with vehicles for individual terms not to exceed six months, at which time the Company has an obligation to repurchase each vehicle at a predetermined amount. The Company has determined that the transactions shall be treated as operating leases, whereby the Company acts as lessor. As a result, the Company has recorded the contractual repurchase amounts as outstanding vehicle repurchase obligations and have classified the liability as current due to the short term nature of the instruments.

ii A number of equipment leases are classified as a finance leases. At inception of the leases, the Company recognized an asset and a liability at an amount equal to the estimated fair value of the equipment. The imputed finance costs on the liability were determined based on the lower of the Company's incremental borrowing rate and the rates implicit in each lease.

(in thousands of Canadian dollars except for share and per share amounts)

18 Commitments and Contingencies

Commitments

The Company has operating lease commitments, with varying terms through 2029, to lease premises and equipment used for business purposes. The Company leases the majority of the lands and buildings used in its franchised automobile dealership operations from related parties (note 21) and other third parties. The future aggregate minimum lease payments under non-cancelable operating leases are as follows:

	June 30, 2012	**December 31, 2011**
	$	**$**
2012	4,777	10,109
2013	9,074	8,611
2014	8,770	8,307
2015	8,447	7,984
2016	7,262	6,881
Thereafter	56,481	56,481
	94,811	98,373

Lawsuits and legal claims

The Company's operations are subject to federal, provincial and local environmental laws and regulations in Canada. While the Company has not identified any costs likely to be incurred in the next several years, based on known information for environmental matters, the Company'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.

In addition to the matters described above, the Company is engaged in various legal proceedings and claims that have arisen in the ordinary course of business. The outcome of all of the proceedings and claims against the Company, including those described above, is subject to future resolution, including the uncertainties of litigation. Based on information currently known to the Company and after consultation with outside legal counsel, management believes that the probable ultimate resolution of any such proceedings and claims, individually or in the aggregate, will not have a material adverse effect on the financial condition of the Company, taken as a whole.

(in thousands of Canadian dollars except for share and per share amounts)

19 Share-based payments

The Company operates a combination of cash and equity settled compensation plan under which it receives services from employees as consideration for cash payments. The plan is described below:

Restricted Share Units (RSUs)

The Company grants RSUs to designated management employees entitling them to receive a combination of cash and common shares based on the Company's share price at each vesting date. The RSUs are also entitled to earn additional units based on dividend payments made by the Company and the share price on date of payment. The RSUs granted are scheduled to vest evenly over three years conditional upon continued employment with the Company.

The following table shows the change in the number of RSUs for the six month periods ended:

	June 30, 2012 Number of RSUs	**June 30, 2011 Number of RSUs**
Outstanding, beginning of the period	12,245	-
Granted	76,916	11,752
Dividends reinvested	1,354	-
Outstanding, end of the period	90,515	11,752

20 Share capital

Common shares of the Company are voting shares and have no par value. The authorized common share capital is an unlimited number of shares.

Restricted Share Unit Trust

In June 2012, the Company established a trust ("Trust") to hedge the risk of future share price increases from the time the Restricted Share Units ("RSU" - see Note 19) are granted to when they are fully vested and can be exercised. The beneficiaries of the Trust are members of the Executive Management Team who participate in the long-term incentive compensation plan called the Restricted Share Unit Plan (the "Plan"). Under the Trust Agreement, the trustee will administer the distribution of cash and shares to the beneficiaries upon vesting, as directed by the Company. The Company contributed cash to the trustee to purchase a total of 76,916 shares of the Company at a total cost of $910 on the open market to fund the future payment of awards to eligible individuals under the Plan. As the Company controls the Trust, it has consolidated the Trust in its condensed interim consolidated financial statements for the period ended June 30, 2012. The shares held in the Trust are accounted for as treasury shares and have been deducted from the Company's consolidated equity as at June 30, 2012.

(in thousands of Canadian dollars except for share and per share amounts)

20 Share capital continued

The following table shows the change in shareholders' capital from January 1, 2012 to June 30, 2012:

	June 30, 2012 Number	June 30, 2012 Amount $
Outstanding, beginning of the period	19,880,930	190,435
Common shares repurchased	(76,916)	(910)
Outstanding, end of the period	19,804,014	189,525

Dividends

Dividends are discretionary and are determined based on a number of factors. Dividends are subject to approval of the Board of Directors. During the period ended June 30, 2012, eligible dividends totaling $0.29 per common share were declared and have been paid. On August 9, 2012, the Board of Directors of the Company declared a quarterly eligible dividend of $0.16 per common share on the Company's outstanding Class A common shares, payable on September 17, 2012 to shareholders of record at the close of business on August 31, 2012.

Earnings per share

Basic earnings per share was calculated by dividing earnings attributable to common shares by the sum of the weighted-average number of shares outstanding during the period. The Company does not have any dilutive stock options or other securities. Earnings used in determining earnings per share from continuing operations are presented below:

	Three month period ended June 30, 2012 $	Three month period ended June 30, 2011 $	Six month period ended June 30, 2012 $	Six month period ended June 30, 2011 $
Earnings attributable to common shares	6,711	5,950	10,822	7,943

(in thousands of Canadian dollars except for share and per share amounts)

20 Share capital continued

Earnings per share continued

The weighted-average number of shares outstanding is presented below:

	Three month period ended June 30, 2012	**Three month period ended June 30, 2011**	**Six month period ended June 30, 2012**	**Six month period ended June 30 2011**
Weighted-average number of shares outstanding, opening	19,881	19,881	19,881	19,881
Common shares held in treasury	(5)	-	(2)	-
Weighted-average number of shares outstanding, closing	19,876	19,881	19,879	19,881

21 Related party transactions

Transactions with COAG and affiliates

As of June 30, 2012, Canada One Auto Group ("COAG") and affiliates beneficially owned approximately 42.3% of the Company's shares. In the normal course of business, COAG and certain of its affiliates had transactions with the Company. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Details of these transactions are noted below:

a Prepaid rent

During the six month period ended June 30, 2012, the Company prepaid rent to a company with common directors as part of an agreement for a long term rent reduction which was entered into in 2009. Total prepayments of rent for the six month period ended June 30, 2012 was $540 (2011 - $1,080) of which $226 (2011 - $226) has been amortized as a reduction in current period facilities lease costs.

b Rent paid to companies with common directors

During the six month period ended June 30, 2012, total rent paid to companies with common directors amounted to $3,948 (2011 - $3,951). The Company currently leases thirteen of twenty-four wholly-owned properties from affiliates of COAG. The Company's independent board of directors has received advice from a national real estate appraisal company that the market rents at each of the COAG properties were at fair market value rates when the leases were entered into.

c Management fees and non-competition fees

During the six month period ended June 30, 2012, total management and non-competition fees received from companies with common directors amounted to $159 (2011 - $85).

22 Subsequent Events

Scotiabank

On July 31, 2012, the Company entered into an agreement with The Bank of Nova Scotia ("Scotiabank"), whereby Scotiabank would provide the Company a revolving floorplan facility to finance new and used vehicle inventory in the total amount of $240,000. The facility for new vehicle inventory bears interest at the lower of Scotiabank prime rate plus 0.50% (3.50% at June 30, 2012) or Bankers' Acceptance rate plus 1.80% per annum (3.05% at June 30, 2012). The facility for used vehicle inventory bears interest at Scotiabank prime rate plus 0.50% (3.50% at June 30, 2012). The facility is collateralized by the individual dealership's assets which are directly financed by Scotiabank and a general security agreement with each dealership financed and AutoCanada Holdings Inc.

HSBC

Subsequent to the period ended June 30, 2012, the Company received a renewal letter from HSBC with respect to its HSBC Revolver. The HSBC Revolver has been increased to $40,000 and may be increased to $50,000 subject to a 30 day notice and credit approval by HSBC. The HSBC Revolver will bear interest at the lower of HSBC Prime Rate plus 0.75% per annum or Bankers' Acceptance rate plus 2.25%. The HSBC Revolver will have a two year term and is extendible by one year on the first anniversary of the term. Security, covenants, fees and other terms remain consistent with the current HSBC Revolver.

Subsequent to the period ended June 30, 2012, the Company also received a renewal letter from HSBC with respect to its HSBC Term Loan. The HSBC Term Loan has been extended to September 30, 2012, which if not renewed at the time will become payable on September 30, 2013. The security, covenants, fees, interest rates and other terms remain consistent with the current HSBC Term Loan.

With respect to the HSBC renewals, the Company is currently reviewing the agreements and has yet to sign the renewal letters.

23 Seasonal nature of the business

The Company’s results from operations for the period ended June 30, 2012 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 Company have historically 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, the Company's financial performance is generally not as 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.

24 Comparative figures

Certain comparative figures have been reclassified to conform with the current period's interim consolidated financial statements presentation.