

# **AutoCanada Inc.**

Condensed Interim Consolidated Financial Statements  
(Unaudited)

**June 30, 2013**

(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	Three month period ended	Six month period ended	Six month period ended
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
	\$	\$	\$	\$
Revenue (Note 6)	388,765	294,932	673,049	543,408
Cost of sales (Note 7)	(323,937)	(245,882)	(557,096)	(451,499)
<b>Gross profit</b>	64,828	49,050	115,953	91,909
Operating expenses (Note 8)	(48,639)	(37,659)	(88,993)	(73,040)
<b>Operating profit before other income (expense)</b>	16,189	11,391	26,960	18,869
Loss on disposal of assets	(1)	(39)	(7)	(59)
Income from investments in associates (Note 12)	648	83	850	83
<b>Operating profit</b>	16,836	11,435	27,803	18,893
Finance costs (Note 9)	(2,195)	(2,943)	(4,238)	(5,274)
Finance income (Note 9)	158	436	365	861
<b>Net comprehensive income for the period before taxation</b>	14,799	8,928	23,930	14,480
Income tax (Note 10)	3,976	2,216	6,285	3,658
<b>Net comprehensive income for the period</b>	10,823	6,712	17,645	10,822
<b>Earnings per share (Note 20)</b>				
Basic	0.532	0.338	0.879	0.544
Diluted	0.532	0.338	0.879	0.544
<b>Weighted average shares (Note 20)</b>				
Basic	20,346,713	19,876,139	20,075,885	19,878,535
Diluted	20,346,713	19,876,139	20,075,885	19,878,535

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) "Michael Ross", Director

# AutoCanada Inc.

## Condensed Interim Consolidated Statement of Financial Position

(in thousands of Canadian dollars)

	June 30, 2013 (Unaudited) \$	December 31, 2012 (Audited) \$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	35,058	34,471
Restricted cash	10,000	10,000
Trade and other receivables (Note 13)	69,656	47,993
Inventories (Note 14)	232,319	199,117
Other current assets	2,441	1,102
	<u>349,474</u>	<u>292,683</u>
<b>Property and equipment</b> (Note 15)	56,645	38,513
<b>Investments in associates</b> (Note 12)	12,637	4,730
<b>Intangible assets</b> (Note 16)	74,737	66,403
<b>Goodwill</b> (Note 16)	3,408	380
<b>Other long-term assets</b>	7,473	7,699
	<u>504,374</u>	<u>410,408</u>
<b>Current liabilities</b>		
Trade and other payables (Note 17)	47,460	35,636
Revolving floorplan facilities (Note 18)	246,325	203,525
Current tax payable	8,937	3,719
Current lease obligations	1,677	1,282
Current indebtedness (Note 18)	2,955	3,000
	<u>307,354</u>	<u>247,162</u>
<b>Long-term indebtedness</b> (Note 18)	8,744	23,937
<b>Deferred tax</b>	10,186	14,809
	<u>326,284</u>	<u>285,908</u>
<b>EQUITY</b>	178,090	124,500
	<u>504,374</u>	<u>410,408</u>

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
	\$	\$	\$	\$	\$	\$
<b>Balance, January 1, 2013</b>	190,435	(935)	4,423	193,923	(69,423)	124,500
Net comprehensive income	-	-	-	-	17,645	17,645
Common shares issued (Note 20)	43,599	-	-	43,599	-	43,599
Dividends declared on common shares (Note 20)	-	-	-	-	(7,326)	(7,326)
Common shares repurchased (Note 20)	-	(541)	-	(541)	-	(541)
Restricted share units settled (Note 20)	-	202	-	202	-	202
Share-based compensation - vested	-	-	250	250	-	250
Share-based compensation - settled	-	-	(239)	(239)	-	(239)
<b>Balance, June 30, 2013</b>	<b>234,034</b>	<b>(1,274)</b>	<b>4,434</b>	<b>237,194</b>	<b>(59,104)</b>	<b>178,090</b>

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

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, 2013	Three month period ended June 30, 2012	Six month period ended June 30, 2013	Six month period ended June 30, 2012
<b>Cash provided by (used in):</b>				
<b>Operating activities</b>				
Net comprehensive income	10,823	6,712	17,645	10,822
Income taxes (Note 10)	3,976	2,216	6,285	3,658
Amortization of prepaid rent	113	113	226	226
Depreciation of property and equipment (Note 8)	1,489	1,028	2,678	2,053
Loss on disposal of assets	1	39	7	59
Share-based compensation	587	197	992	360
Income from investments in associates (Note 12)	(648)	(83)	(850)	(83)
Income taxes paid	(2,083)	(611)	(7,159)	(3,099)
Net change in non-cash working capital (Note 22)	133	(3,042)	693	(3,920)
	<u>14,391</u>	<u>6,569</u>	<u>20,517</u>	<u>10,076</u>
<b>Investing activities</b>				
Business acquisitions (Note 11)	(22,831)	-	(26,612)	-
Investment in associate (Note 12)	-	(4,154)	(7,057)	(4,154)
Purchases of property and equipment (Note 15)	(6,073)	(3,624)	(6,752)	(3,985)
Prepayments of rent	-	-	-	(540)
Proceeds on sale of property and equipment	7	6	15	40
	<u>(28,897)</u>	<u>(7,772)</u>	<u>(40,406)</u>	<u>(8,639)</u>
<b>Financing activities</b>				
Proceeds from long-term debt	-	3,000	16,500	3,000
Repayment of long-term indebtedness	(31,647)	(111)	(31,754)	(205)
Common shares repurchased	(513)	(910)	(513)	(910)
Dividends paid	(3,778)	(2,981)	(7,356)	(5,765)
Proceeds from issuance of common shares (Note 20)	43,599	-	43,599	-
	<u>7,661</u>	<u>(1,002)</u>	<u>20,476</u>	<u>(3,880)</u>
<b>(Decrease) Increase in cash</b>	<u>(6,845)</u>	<u>(2,205)</u>	<u>587</u>	<u>(2,443)</u>
<b>Cash and cash equivalents at beginning of period</b>	<u>41,903</u>	<u>53,403</u>	<u>34,471</u>	<u>53,641</u>
<b>Cash and cash equivalents at end of period</b>	<u>35,058</u>	<u>51,198</u>	<u>35,058</u>	<u>51,198</u>

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

# AutoCanada Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the Period Ended June 30, 2013

(Unaudited)

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

### 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

These condensed consolidated interim 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, and Canadian Generally Accepted Accounting Principles ("GAAP"), as issued by the Canadian Institute of Chartered Accountants. 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, 2012, 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 8, 2013.

### 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, 2012, except where described below.

#### *Changes in accounting policies*

The Company has adopted the following standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

- IAS 1 Amendment, *Presentation of Items of Other Comprehensive Income*, requires the Company to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. The Company has reclassified comprehensive income items of the comparative period. These changes did not result in any adjustments to other comprehensive income or comprehensive income.

# AutoCanada Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the Period Ended June 30, 2013

(Unaudited)

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

### 3 Significant Accounting Policies continued

#### *Changes in accounting policies continued*

- IFRS 13, *Fair Value Measurement*, provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

### 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.

#### *Critical judgments in applying accounting policies:*

##### *Investments in associates*

When assessing control over an investee, an investor considers the nature of its relationship with other parties and whether those other parties are acting on the investor's behalf; that is, acting as a de facto agent. The determination of whether other parties are acting as de facto agents requires judgment, considering not only the nature of the relationship but also how those parties interact with each other and the investor.

AutoCanada has a non-voting equity interest in an entity, Green Isle G Auto Holdings Inc. ("Green Isle"), for which the voting interests are held 100% by the Company's CEO (as described in Note 12). When assessing whether the Company has control of Green Isle, management has considered the Company's relationship with its CEO and whether the Company has the ability to direct decision-making rights of the CEO pertaining to their investment in Green Isle. In making this assessment, the Company considered that the CEO has de facto control over AutoCanada at the date of the Company's investment; therefore, the CEO should not be perceived to be a de facto agent of AutoCanada. The following facts were considered to assess the relationship between AutoCanada and its CEO:

- Regardless of employment at AutoCanada, the CEO's interest in Green Isle would remain with full ability to control decisions as they pertain to Green Isle.
- The CEO has not relied on any financial support from the Company in making his investment, and therefore the risk of loss and reward to the CEO personally is significant.
- There are no contractual rights providing the Company with decision making power over the CEO.

# AutoCanada Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the Period Ended June 30, 2013

(Unaudited)

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

### 4 Critical accounting estimates, judgments & measurement uncertainty continued

- The CEO's level of expertise and knowledge in operating Green Isle.

When combining these considerations with the fact that the CEO has the casting vote on decisions of the Board of DHL, and therefore governs relevant activities of the investee, management has concluded that the Company does not have power over Green Isle, and therefore does not consolidate this investment.

Should the nature of the relationship and/or the relevant agreements between the CEO and the Company change in the future, this assessment would need to be further evaluated.

### 5 Economic dependence

The Company has significant commercial and economic dependence on Chrysler Canada. 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.

The Company's interim 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 72% of the Company's revenue in the six month period ended June 30, 2013 (2012 – 74%), 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, 2013 and December 31, 2012 the Company had recorded the following assets that relate to transactions it has entered into with Chrysler Canada:

	<b>June 30, 2013</b>	<b>December 31, 2012</b>
	<b>\$</b>	<b>\$</b>
Accounts receivable	6,966	6,655
New vehicle inventory	133,952	122,595
Demonstrator vehicle inventory	5,250	4,784
Parts and accessories inventory	4,847	6,043

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.

# AutoCanada Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the Period Ended June 30, 2013

(Unaudited)

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

### 6 Revenue

	Three month period ended June 30, 2013 \$	Three month period ended June 30, 2012 \$	Six month period ended June 30, 2013 \$	Six month period ended June 30, 2012 \$
New vehicles	254,403	186,649	428,814	334,032
Used vehicles	77,113	62,822	139,769	123,276
Finance, insurance and other	22,620	16,386	40,171	29,940
Parts, service and collision repair	34,629	29,075	64,295	56,160
	<u>388,765</u>	<u>294,932</u>	<u>673,049</u>	<u>543,408</u>

### 7 Cost of sales

	Three month period ended June 30, 2013 \$	Three month period ended June 30, 2012 \$	Six month period ended June 30, 2013 \$	Six month period ended June 30, 2012 \$
New vehicles	233,740	172,002	392,225	307,340
Used vehicles	71,318	58,585	130,185	114,626
Finance, insurance and other	1,836	1,519	3,208	2,730
Parts, service and collision repair	17,043	13,776	31,478	26,803
	<u>323,937</u>	<u>245,882</u>	<u>557,096</u>	<u>451,499</u>

### 8 Operating expenses

	Three month period ended June 30, 2013 \$	Three month period ended June 30, 2012 \$	Six month period ended June 30, 2013 \$	Six month period ended June 30, 2012 \$
Employee costs	31,837	23,744	57,968	45,852
Administrative costs <sup>(1)</sup>	12,314	9,908	22,368	19,222
Facility lease costs	2,999	2,979	5,979	5,913
Amortization	1,489	1,028	2,678	2,053
	<u>48,639</u>	<u>37,659</u>	<u>88,993</u>	<u>73,040</u>

<sup>(1)</sup> Administrative costs include professional fees, consulting services, technology-related expenses, selling and marketing, and other general and administrative costs.

# AutoCanada Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the Period Ended June 30, 2013

(Unaudited)

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

### 9 Finance costs and finance income

	Three month period ended June 30, 2013 \$	Three month period ended June 30, 2012 \$	Six month period ended June 30, 2013 \$	Six month period ended June 30, 2012 \$
Long term debt	175	256	369	486
Floorplan financing	1,745	2,510	3,305	4,446
Other interest expense	275	177	564	342
	<u>2,195</u>	<u>2,943</u>	<u>4,238</u>	<u>5,274</u>
Short term bank deposits	(158)	(436)	(365)	(861)

Cash interest paid during the period ended June 30, 2013 was \$4,186 (2012 - \$5,017).

### 10 Taxation

Components of income tax expense were as follows:

	Three month period ended June 30, 2013 \$	Three month period ended June 30, 2012 \$	Six month period ended June 30, 2013 \$	Six month period ended June 30, 2012 \$
Current	(497)	(3,035)	12,145	6,587
Deferred tax	4,473	5,251	(5,860)	(2,929)
<b>Income tax expense</b>	<u>3,976</u>	<u>2,216</u>	<u>6,285</u>	<u>3,658</u>

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, 2013 was 26%.

# AutoCanada Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the Period Ended June 30, 2013

(Unaudited)

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

### 11 Business acquisitions

#### *Grande Prairie Volkswagen*

On January 4, 2013, the Company purchased substantially all of the net operating and fixed assets of People's Automotive Ltd. ("Grande Prairie Volkswagen") for total cash consideration of \$1,981. The acquisition was funded by drawing on the Company's VCCI facilities (Note 18) in the amount of \$1,413 and the remaining \$568 was financed with cash from operations. The acquisition will be accounted for using the acquisition method. The purchase of this business complements the Company's other dealerships in Grande Prairie. In addition to the business, the Company also purchased land and a building used for business operations for \$1,800.

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

	Carrying amount \$	Fair value adjustments \$	Fair value \$
<b>Current assets</b>			
Trade and other receivables	16	-	16
Inventories	1,777	-	1,777
	<u>1,793</u>	<u>-</u>	<u>1,793</u>
<b>Long term assets</b>			
Property and equipment	1,897	-	1,897
	<u>3,690</u>	<u>-</u>	<u>3,690</u>
<b>Total assets</b>			
<b>Current liabilities</b>			
Trade and other payables	9	-	9
	<u>9</u>	<u>-</u>	<u>9</u>
<b>Long term liabilities</b>			
<b>Total liabilities</b>	<u>9</u>	<u>-</u>	<u>9</u>
<b>Net assets acquired</b>	3,681	-	3,681
Intangible assets	-	100	100
	<u>3,681</u>	<u>100</u>	<u>3,781</u>

The revenue of Grande Prairie Volkswagen from the date of acquisition that was included in the consolidated statement of operations for the period ended June 30, 2013 was \$5,678.

# AutoCanada Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the Period Ended June 30, 2013

(Unaudited)

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

### 11 Business acquisitions continued

#### *St. James Audi and Volkswagen*

On April 1, 2013, the Company purchased the shares of The St. James Group of Companies ("St. James"), which own and operate an Audi and a Volkswagen franchise in Winnipeg, Manitoba, for total cash consideration of \$22,831, which includes \$9,307 paid for real estate assets. The acquisition was financed with cash from operations. The acquisition will be accounted for using the acquisition method. The purchase of this business complements the Company's other Volkswagen dealerships and is the Company's first Audi franchise.

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

	Carrying amount \$	Fair value adjustments \$	Fair value \$
<b>Current assets</b>			
Cash and cash equivalents	316	-	316
Trade and other receivables	1,779	-	1,779
Inventories	9,323	-	9,323
Prepays	138	-	138
	<hr/>		
	11,556	-	11,556
<b>Long term assets</b>			
Property and equipment	6,484	4,184	10,668
Intangible assets	-	8,334	8,334
	<hr/>		
<b>Total assets</b>	<hr/>	<hr/>	<hr/>
	18,040	12,518	30,558
<b>Current liabilities</b>			
Floorplan payable	8,147	-	8,147
Trade and other payables	1,214	-	1,214
	<hr/>		
	9,361	-	9,361
<b>Long term liabilities</b>			
Deferred tax liabilities	58	1,236	1,294
	<hr/>		
<b>Total liabilities</b>	<hr/>	<hr/>	<hr/>
	9,419	1,236	10,655
<b>Net assets acquired</b>			
Goodwill	8,621	11,282	19,903
	<hr/>		
	-	2,928	2,928
	<hr/>		
<b>Total net assets acquired</b>	<hr/>	<hr/>	<hr/>
	8,621	14,210	22,831

The revenue of St. James from the date of acquisition that was included in the consolidated statement of operations for the period ended June 30, 2013 was \$14,465.

# AutoCanada Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the Period Ended June 30, 2013

(Unaudited)

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

### 12 Investments in associates

#### *Green Isle G Auto Holdings Inc.*

On March 1, 2013, the Company invested a total of \$7,057 to acquire an 80.0% participating, non-voting common share interest in Green Isle G Auto Holdings Inc. ("Green Isle"). Green Isle is an entity formed between a subsidiary of AutoCanada and Mr. Patrick Priestner ("Priestner"), the Company's Chairman and Chief Executive Officer. Green Isle was formed to acquire future General Motors of Canada ("GM Canada") franchised dealerships, whereby Priestner is required to maintain voting control of the dealerships, in accordance with the agreement with GM Canada. All shareholders participate equally in the equity and economic risks and rewards of Green Isle and its interests, based on the percentage of ownership acquired. Green Isle's principal place of business is Alberta, Canada.

Although the Company holds no voting rights in Green Isle, the Company exercises significant influence by virtue of its involvement in the board of directors of Green Isle and the ability to participate in financial and operating policy decisions of Green Isle. However, the Company does not have the power to make key decisions or block key decisions due to a casting vote held by Priestner. As a result, the Company has accounted for its investment in Green Isle under the equity method. There are no guarantees to Green Isle or significant relationships.

On March 1, 2013, a subsidiary of Green Isle acquired 100% of the operating assets of Peter Baljet Chevrolet Buick GMC ("Peter Baljet") in Duncan, British Columbia.

The dealership is subject to financial covenants as part of its borrowing arrangements that may restrict its ability to transfer funds to Green Isle if the payment of such funds resulted in a breach of covenants. Peter Baljet is also subject to minimum working capital requirements imposed by GM Canada, which may restrict the dealership's ability to transfer funds to Green Isle if minimum working capital requirements are not met.

As a result of Green Isle's investment, the Company has indirectly acquired an 80.0% interest in Peter Baljet. Summarized information in respect of the investment in Green Isle is as follows:

	Carrying amount	Fair value adjustments	Fair value	Interest in Green Isle G Auto Holdings Ltd.
	\$	\$	\$	\$
Current assets	1,527	-	1,527	1,222
Non-current assets	294	7,000	7,294	5,835
<b>Net assets</b>	<b>1,821</b>	<b>7,000</b>	<b>8,821</b>	<b>7,057</b>

From the date of acquisition to June 30, 2013, on a consolidated basis, Green Isle generated revenue of \$13,472 and total net comprehensive income of \$418. For the period ended June 30, 2013, no dividends have been received from Green Isle.

# AutoCanada Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the Period Ended June 30, 2013

(Unaudited)

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

### 12 Investments in associates continued

#### *Green Isle G Auto Holdings Inc. continued*

#### *Carrying value of Investments in Associates*

The following table summarizes the Company's consolidated carrying value of its investments in Dealer Holdings Ltd. and Green Isle G Auto Holdings Inc. as at June 30, 2013:

	<b>Dealer Holdings Ltd.</b>	<b>Green Isle G Auto Holdings Inc.</b>	<b>Total</b>
	\$	\$	\$
Balance, January 1, 2013	4,730	-	4,730
Investment in Green Isle	-	7,057	7,057
Income from investment in associate	536	314	850
<b>Balance, June 30, 2013</b>	<b>5,266</b>	<b>7,371</b>	<b>12,637</b>

The following table summarizes the Company's consolidated carrying value of its investment in Dealer Holdings Ltd. as at June 30, 2012:

	<b>Dealer Holdings Ltd.</b>	<b>Total</b>
	\$	\$
Balance, January 1, 2012	-	-
Investment in DHL	4,154	4,154
Income from investment in associate	83	83
<b>Balance, June 30, 2012</b>	<b>4,237</b>	<b>4,237</b>

### 13 Trade and other receivables

	<b>June 30, 2013</b>	<b>December 31, 2012</b>
	\$	\$
Trade receivables	67,336	45,998
Less: Allowance for doubtful accounts	(385)	(447)
<b>Net trade receivables</b>	<b>66,951</b>	<b>45,551</b>
Other receivables	2,705	2,442
<b>Trade and other receivables</b>	<b>69,656</b>	<b>47,993</b>

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.

# AutoCanada Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the Period Ended June 30, 2013

(Unaudited)

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

### 14 Inventories

	<b>June 30, 2013</b>	<b>December 31, 2012</b>
	<b>\$</b>	<b>\$</b>
New vehicles	182,846	158,142
Demonstrator vehicles	9,019	7,333
Used vehicles	31,455	25,622
Parts and accessories	8,999	8,020
	<u>232,319</u>	<u>199,117</u>

During the three month period ended June 30, 2013, \$323,937 of inventory (2012 - \$245,882) was expensed as cost of goods sold which included a net write-down on used vehicles of \$156 (2012 - \$316). During the three month period ended June 30, 2013, \$325 of demonstrator expense (2012 - \$282) was included in selling, general, and administration expense. During the three month period ended June 30, 2013, demonstrator reserves increased by \$291 (2012 - \$252).

During the six month period ended June 30, 2013, \$557,096 of inventory (2012 - \$451,499) was expensed as cost of goods sold which included a net write-down on used vehicles of \$335 (2012 - \$381). During the six month period ended June 30, 2013, \$662 of demonstrator expense (2012 - \$557) was included in selling, general, and administration expense. During the six month period ended June 30, 2013, demonstrator reserves increased by \$390 (2012 - \$292). As at June 30, 2013, the Company had recorded reserves for inventory write downs of \$2,236 (2012 - \$1,644).

### 15 Property and equipment

During the quarter ended June 30, 2013, the Company purchased \$6,073 of fixed assets, which included land at a cost of \$5,181. The land is being held for the relocation of one of the Company's existing dealerships. In addition, the Company purchased land and a building at a cost of \$9,307, both of which are being used for operations at the St. James Volkswagen and Audi dealership (Note 11).

### 16 Intangible assets and Goodwill

During the quarter ended June 30, 2013, in conjunction with the acquisition of St. James, the Company recorded goodwill of \$2,928 and intangible assets of \$8,334. The intangible assets consist of rights under franchise agreements with Volkswagen and Audi. Included in goodwill is \$1,236 that is not deductible for tax purposes arising from deferred tax liabilities for taxable temporary differences.

# AutoCanada Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the Period Ended June 30, 2013

(Unaudited)

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

### 17 Payables, accruals and provisions

	<b>June 30, 2013</b>	<b>December 31, 2012</b>
	<b>\$</b>	<b>\$</b>
Trade payables	21,784	19,307
Accruals and provisions	6,934	4,977
Sales tax payable	3,596	282
Wages and withholding taxes payable	15,146	11,070
	<u>47,460</u>	<u>35,636</u>

The following table provides a continuity schedule of all recorded provisions:

	<b>Finance and insurance (a)</b>	<b>Litigation</b>	<b>Other</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>December 31, 2012</b>	1,053	-	551	1,604
Provisions arising during the year	205	30	57	292
<b>June 30, 2013</b>	<u>1,258</u>	<u>30</u>	<u>608</u>	<u>1,896</u>

(a) Represents an estimated chargeback reserve provided by the Company's insurance provider.

# AutoCanada Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the Period Ended June 30, 2013

(Unaudited)

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

### 18 Indebtedness

This note provides information about the contractual terms of the Company's interest-bearing debt, which are measured at amortized cost. For more information about the Company's exposure to interest rate, foreign currency, and liquidity risk, see Note 21 - Financial instruments in the annual financial statements for the year ended December 31, 2012.

	June 30, 2013	December 31, 2012
	\$	\$
Current portion of indebtedness (iv,v, vi)	2,955	3,000
Revolving floorplan facility - Scotiabank (i)	235,862	194,791
Revolving floorplan facilities - VCCI (ii)	10,463	8,734
	<hr/> 249,280	<hr/> 206,525
<b>Non-current indebtedness</b>		
HSBC revolving term loan (iii)	-	15,000
HSBC non-revolving fixed term loan (iv)	2,852	2,940
Servus Mortgage (vi)	5,892	5,997
	<hr/> 8,744	<hr/> 23,937
<b>Total indebtedness</b>	<hr/> 258,024	<hr/> 230,462

Terms and conditions of outstanding loans were as follows:

- i The Bank of Nova Scotia ("Scotiabank") provides the Company with a revolving floorplan facility in the amount of \$290,000 to finance new and use vehicle inventory. The facility for the new vehicle inventory bears interest at Bankers' Acceptance Rate plus 1.30% per annum (2.50% at June 30, 2013). The facility for the used vehicle inventory bears interest at Bankers' Acceptance Rate plus 1.80% per annum (3.00% at June 30, 2013). The facility is collateralized by each individual dealership's inventories that are directly financed by Scotiabank, a general security agreement with each dealership financed, and a guarantee from AutoCanada Holdings Inc., a subsidiary of the Company.
- 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 Company's Volkswagen and Audi dealerships. The VCCI facilities bear interest at the Royal Bank of Canada ("RBC") prime rate for new vehicles and RBC prime rate plus 0.25-1.00% for used vehicles (RBC prime rate = 3.00% at June 30, 2013). The maximum amount of financing provided by the VCCI facilities is \$29,770. The VCCI facilities are collateralized by all 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 Company's Volkswagen and Audi 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.

# AutoCanada Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the Period Ended June 30, 2013

(Unaudited)

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

### 18 Indebtedness continued

- iii HSBC Bank Canada ("HSBC") provides the Company with various credit facilities (the "HSBC Credit Facilities") with total credit availability of \$70,000. The Company has been provided a committed, extendible revolving term loan (the "HSBC Revolver") of \$45,000 that may be increased to \$50,000 subject to credit approval by HSBC. The HSBC Revolver bears interest at HSBC's Prime Rate plus 0.75% (3.75% at June 30, 2013) or Bankers' Acceptance Rate plus 2.25% (3.45% at June 30, 2013). The Company has also been provided an acquisition facility (the "Acquisition Facility") in the amount of \$20,000 that provides assistance for future dealership acquisitions. The Acquisition Facility bears interest at HSBC Prime Rate plus 2.00% (5.00% at June 30, 2013) or Bankers' Acceptance Rate plus 3.25% (4.45% at June 30, 2013). The Company is also provided with an evergreen lease line (the "Capital Lease Line") in the amount of \$5,000 which may be used to finance capital asset purchases for its dealerships. The Capital Lease Line bears interest at rates determined by HSBC when amounts are drawn. The HSBC Credit Facilities' maturity date is June 30, 2015 and may be extended annually for an additional 365 days at the request of the Company and upon approval by HSBC. The HSBC Revolver is collateralized by all of the present and future assets of the subsidiaries of AutoCanada Inc. As part of a priority agreement signed by HSBC, Scotiabank, VCCI, and the Company, the collateral for the HSBC Credit Facilities excludes all new, used and demonstrator inventory financed with the Scotiabank and VCCI revolving floorplan facilities.
- iv HSBC provides the Company with a committed, extendible, non-revolving term loan (the "HSBC Term Loan"). The HSBC Term Loan has a maturity date of June 30, 2014; 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 June 30, 2015. The HSBC Term Loan bears interest at HSBC's Prime Rate plus 1.75% (4.75% at June 30, 2013). 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, 2013, the carrying amount of the Newmarket Infiniti Nissan property was \$5,231.
- v Bank of Montreal ("BMO") provides the Company a non-revolving Demand Loan (the "BMO Demand Loan"). The BMO Demand Loan bears interest at BMO's Prime Rate plus 0.50% (3.50% at June 30, 2013). Repayments consist of fixed monthly principal payments totaling \$15 plus interest per month. The BMO Demand 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, 2013, the carrying amount of the Cambridge Hyundai property was \$3,156.
- vi Servus Credit Union provides the Company with a mortgage (the "Servus Mortgage"). The Servus Mortgage bears a fixed annual rate of 3.90% and is repayable with monthly blended instalments of \$38, originally amortized over a 20 year period with term expiring September 27, 2017. The Servus Mortgage requires certain reporting requirements and financial covenants and is collateralized by a general security agreement consisting of a first fixed charge over the property. At June 30, 2013, the carrying amount of the property was \$8,409.

# AutoCanada Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

For the Period Ended June 30, 2013

(Unaudited)

(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:

	<b>June 30, 2013</b>	<b>June 30, 2012</b>
	<b>Number of RSUs</b>	<b>Number of RSUs</b>
Outstanding, beginning of the period	92,710	12,245
Settled	(35,475)	-
Granted	47,608	76,916
Dividends reinvested	1,732	1,354
Outstanding, end of period	<u>106,575</u>	<u>90,515</u>

#### *Deferred Share Units (DSUs)*

Independent members of the Board of Directors are paid a portion of their annual retainer in the form of DSUs. They may also elect to receive up to 100% of their remaining cash remuneration in the form of DSUs. The underlying security of DSUs are the Company's common shares and are valued based on the Company's average share price for the five business days prior to the date on which Directors' fees are paid. The DSUs are also entitled to earn additional units based on dividend payments made by the Company and the share price on date of payment. The DSUs granted are scheduled to vest upon the termination date of the Director, at which time, the DSUs will be settled in cash no earlier than the termination date and no later than December 15 of the calendar year following the Director's termination date.

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

	<b>June 30, 2013</b>	<b>June 30, 2012</b>
	<b>Number of DSUs</b>	<b>Number of DSUs</b>
Outstanding, beginning of the period	3,435	-
Granted	5,624	-
Dividends reinvested	135	-
Outstanding, end of the period	<u>9,194</u>	<u>-</u>

# AutoCanada Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the Period Ended June 30, 2013

(Unaudited)

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

### 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.

The Company issued 1,840,000 shares on June 3, 2013 (8.5% of the total share capital issued) to the shareholders. The common shares issued have the same rights as the other common shares in issue. The fair value of the shares issued amounted to \$46,000 (\$25 per share). The related transaction costs amounting to \$2,401 have been recognized against the gross proceeds.

#### *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 third party trustee will administer the distribution of cash and shares to the beneficiaries upon vesting, as directed by the Company. During the quarter ended June 30, 2013, the Company contributed cash to the trustee to purchase 17,925 additional shares of the Company a total cost of \$513 on the open market to fund the future payment of awards to eligible individuals under the Plan and directed the trustee to transfer a total of 16,131 shares to members of the Executive Management Team for fully vested RSUs. Dividends earned to date on the shares held in trust of \$56 are reinvested to purchase additional shares. 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, 2013. As the Company controls the Trust, it has consolidated the Trust in its condensed interim consolidated financial statements for the period ended June 30, 2013.

The following table shows the change in shareholders' capital from January 1, 2013 to June 30, 2013:

	<b>June 30, 2013 Number</b>	<b>June 30, 2013 Amount \$</b>
Outstanding, beginning of the period	19,802,149	189,500
Common shares issued	1,840,000	43,599
Common shares repurchased	(17,925)	(513)
Dividends reinvested	(1,414)	(28)
Treasury shares settled	16,131	202
Outstanding, end of the period	<u>21,638,941</u>	<u>232,760</u>

# AutoCanada Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the Period Ended June 30, 2013

(Unaudited)

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

### 20 Share capital continued

#### *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 six month period ended June 30, 2013, eligible dividends totaling \$0.37 per common share were declared and have been paid. On August 8, 2013, the Board of Directors of the Company declared a quarterly eligible dividend of \$0.20 per common share on the Company's outstanding Class A common shares, payable on September 16, 2013 to shareholders of record at the close of business on August 30, 2013.

#### *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:

	<b>Three month period ended June 30, 2013</b>	<b>Three month period ended June 30, 2012</b>	<b>Six month period ended June 30, 2013</b>	<b>Six month period ended June 30, 2012</b>
	\$	\$	\$	\$
Earnings attributable to common shares	10,823	6,712	17,645	10,822

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

	<b>Three month period ended June 30, 2013</b>	<b>Three month period ended June 30, 2012</b>	<b>Six month period ended June 30, 2013</b>	<b>Six month period ended June 30, 2012</b>
<b>Weighted-average number of shares outstanding</b>	20,346,713	19,876,139	20,075,885	19,878,535

# AutoCanada Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the Period Ended June 30, 2013

(Unaudited)

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

### 21 Related party transactions

#### *Transactions with Companies Controlled by the CEO of AutoCanada*

During the period ended June 30, 2013, the Company had financial transactions with entities controlled by the Company's Chairman and CEO. Mr. Priestner is the controlling shareholder of Canada One Auto Group ("COAG") and its subsidiaries, which beneficially own approximately 22.9% of the Company's shares. In addition to COAG, Mr. Priestner is the controlling shareholder of other companies in which AutoCanada earns administrative fees. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. All transactions between AutoCanada and companies controlled by Mr. Priestner are approved by the Company's independent members of the board of Directors.

a Rent paid to companies with common directors

During the six month period ended June 30, 2013, total rent paid to companies with common directors amounted to \$4,285 (2012 - \$3,948). The Company currently leases thirteen of its leased facilities 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.

b Administrative support fees

During the six month period ended June 30, 2013, total administrative support fees received from companies controlled by Mr. Priestner amount to \$414 (2012 - \$159).

# AutoCanada Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the Period Ended June 30, 2013

(Unaudited)

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

### 22 Net change in non-cash working capital

Changes in non-cash working capital consist of fluctuations in the balances of trade and other receivables, inventories, other current assets, trade and other payables and revolving floorplan facilities. Factors that can affect these items include seasonal sales trends, strategic decisions regarding inventory levels, the addition of new dealerships, and the day of the week on which period end cutoffs occur.

The following table summarizes the net increase in cash due to changes in non-cash working capital for the three and six month periods ended June 30, 2013 and June 30, 2012:

	Three month period ended June 30, 2013 \$	Three month period ended June 30, 2012 \$	Six month period ended June 30, 2013 \$	Six month period ended June 30, 2012 \$
Trade and other receivables	(10,235)	(678)	(19,917)	(9,594)
Inventories	(6,894)	(46,160)	(23,480)	(64,479)
Other current assets	(932)	(1,460)	(1,201)	(1,643)
Trade and other payables	4,735	1,698	10,227	1,426
Leased vehicle repurchase obligations	668	529	411	12
Revolving floorplan facilities	12,791	43,029	34,653	70,358
	<u>133</u>	<u>(3,042)</u>	<u>693</u>	<u>(3,920)</u>

### 23 Seasonal nature of the business

The Company's results from operations for the period ended June 30, 2013 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 Subsequent Events

#### *Eastern Chrysler Dodge Jeep Ram*

On July 30, 2013, the Company announced it has obtained approval from Chrysler Canada to purchase the operating assets and real estate of Eastern Chrysler Plymouth Inc. ("Eastern Chrysler"), located in Winnipeg, Manitoba. The dealership operates out of a single facility with a total building size of approximately 42,500 square feet, including a service department consisting of 18 service bays, a body shop consisting of 20 service bays, and a six car showroom. The dealership has been in operation for over 66 years and in 2012 retailed 660 new vehicles and 470 used vehicles. The targeted closing date for the transaction is September 9, 2013.

# AutoCanada Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the Period Ended June 30, 2013

(Unaudited)

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

### 24 Subsequent Events continued

#### *Sale of Land*

On July 26, 2013, the Company sold land for proceeds of \$3,233.

#### *Courtesy Chrysler*

On July 1, 2013, the Company purchased substantially all of the operating and fixed assets, except real estate, of Courtesy Chrysler Dodge (1987) ("Courtesy Chrysler") for total cash consideration of \$17,292. The acquisition was financed with cash from operations. The acquisition will be accounted for using the acquisition method. The purchase of this business complements the Company's other Chrysler dealerships and is the Company's first dealership in Calgary, Alberta's largest city.

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

	Carrying amount \$	Fair value adjustments \$	Fair value \$
<b>Current assets</b>			
Cash and cash equivalents	2	-	2
Trade and other receivables	598	-	598
Inventories	21,259	-	21,259
Prepays	4	-	4
	<hr/> 21,863	-	<hr/> 21,863
<b>Long term assets</b>			
Property and equipment	731	-	731
	<hr/> 22,594	-	<hr/> 22,594
<b>Current liabilities</b>			
Floorplan payable	20,558	-	20,558
Trade and other payables	290	-	290
	<hr/> 20,848	-	<hr/> 20,848
<b>Net assets acquired</b>	1,746	-	1,746
Goodwill and intangible assets	-	15,546	15,546
	<hr/> 1,746	15,546	<hr/> 17,292

The purchase price allocated, as presented above, is an estimate and subject to change.

# **AutoCanada Inc.**

## **Notes to the Condensed Interim Consolidated Financial Statements For the Period Ended June 30, 2013**

*(Unaudited)*

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

### **25 Fair value of financial instruments**

The Company's financial instruments at June 30, 2013 are represented by cash and cash equivalents, trade and other receivables, accounts payable and accrued liabilities, revolving floorplan facilities, lease obligations and long-term debt. The fair values of cash equivalents, trade and other receivables, accounts payable and accrued liabilities, and revolving floorplan facilities approximate their carrying values due to their short-term nature. Although most of the long-term indebtedness has a carrying value that approximates the fair value due to the floating rate nature of the debt, there is a portion that has a fixed rate. The long-term indebtedness has a carrying value that is not materially different from its fair value.

The fair value was determined based on the prevailing and comparable market interest rates.