AutoCanada Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)
March 31, 2014
(expressed in thousands of Canadian dollars except share and per share amounts)

AutoCanada Inc.

Condensed Interim Consolidated Statements of Comprehensive Income

(Unaudited)

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

	Three month period ended March 31, 2014	Three month period ended March 31, 2013
	$	$
Revenue (Note 6)	364,264	284,051
Cost of sales (Note 7)	(300,793)	(232,912)
Gross profit	63,471	51,139
Operating expenses (Note 8)	(50,400)	(40,353)
Operating profit before other income	13,071	10,786
Gain (loss) on disposal of assets, net	38	(6)
Income from investments in associates (Note 11)	893	201
Operating profit	14,002	10,981
Finance costs (Note 9)	(3,058)	(2,163)
Finance income (Note 9)	233	313
Net income for the period before income tax	11,177	9,131
Income tax (Note 10)	2,881	2,309
Net and comprehensive income for the period	8,296	6,822

Earnings per share (Note 18)		
Basic	0.383	0.345
Diluted	0.383	0.345

Weighted average shares (Note 18)		
Basic	21,685,876	19,802,048
Diluted	21,685,876	19,802,048

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 Statements of Financial Position

(in thousands of Canadian dollars)

	March 31, 2014 (Unaudited) $	December 31, 2013 $
ASSETS		
Current assets		
Cash and cash equivalents	41,541	35,113
Trade and other receivables (Note 12)	69,747	57,662
Inventories (Note 13)	261,764	278,062
Other current assets	2,505	1,603
	375,557	372,440
Property and equipment (Note 14)	126,701	122,915
Intangible assets	96,985	96,985
Goodwill	6,672	6,672
Other long-term assets	6,684	6,797
Investments in associates (Note 11)	54,417	13,131
	667,016	618,940
LIABILITIES		
Current liabilities		
Trade and other payables (Note 15)	53,106	50,469
Revolving floorplan facilities (Note 16)	261,263	264,178
Current tax payable	17,007	4,785
Current lease obligations	1,709	1,398
Current indebtedness (Note 16)	2,875	2,866
	335,960	323,696
Long-term indebtedness (Note 16)	123,811	83,580
Deferred income tax	4,271	21,422
	464,042	428,698
EQUITY	202,974	190,242
	667,016	618,940

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

AutoCanada Inc.

Condensed Interim Consolidated Statements of Changes in Equity
For the Periods Ended
(Unaudited)

(in thousands of Canadian dollars)

	Share capital	Treasury shares	Contributed surplus	Total capital	Accumulated deficit	Equity
	$	$	$	$	$	$
Balance, January 1, 2014	234,246	(1,308)	4,758	237,696	(47,454)	190,242
Net and comprehensive income	-	-	-	-	8,296	8,296
Dividends declared on common shares (Note 18)	-	-	-	-	(4,760)	(4,760)
Common shares issued (Note 18)	9,073	-	-	9,073	-	9,073
Common shares repurchased (Note 18)	-	(18)	-	(18)	-	(18)
Restricted share units settled	-	-	(16)	(16)	-	(16)
Share based compensation	-	-	157	157	-	157
Balance, March 31, 2014	243,319	(1,326)	4,899	246,892	(43,918)	202,974

	Share capital	Treasury shares	Contributed surplus	Total capital	Accumulated deficit	Equity
	$	$	$	$	$	$
Balance, January 1, 2013	190,435	(935)	4,423	193,923	(69,423)	124,500
Net and comprehensive income	-	-	-	-	6,822	6,822
Dividends declared on common shares	-	-	-	-	(3,564)	(3,564)
Common shares repurchased	-	(15)	-	(15)	-	(15)
Share based compensation	-	-	133	133	-	133
Balance, March 31, 2013	190,435	(950)	4,556	194,041	(66,165)	127,876

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

AutoCanada Inc.

Condensed Interim Consolidated Statements of Cash Flows
For the Periods Ended
(Unaudited)

(in thousands of Canadian dollars)

	Three month period ended March 31, 2014	Three month period ended March 31, 2013
Cash provided by (used in):		
Operating activities		
Net and comprehensive income	8,296	6,822
Income taxes (Note 10)	2,881	2,309
Income taxes paid	(7,279)	(5,076)
Amortization of prepaid rent (Note 8)	113	113
Depreciation of property and equipment	2,512	1,189
(Gain) Loss on disposal of assets	(38)	6
Share-based compensation - equity-settled	157	137
Share-based compensation - cash-settled (Note 11)	977	268
Income from investments in associates (Note 20)	(893)	(201)
Dividends received from investments in associates (Note 11)	1,258	-
Net change in non-cash working capital (Note 20)	866	558
	8,850	6,125
Investing activities		
Business acquisitions	-	(3,781)
Investment in associate (Note 11)	(32,578)	(7,057)
Purchases of property and equipment (Note 14)	(5,335)	(590)
Proceeds on sale of property and equipment	12	7
	(37,901)	(11,421)
Financing activities		
Proceeds from long-term indebtedness	135,463	45,785
Repayment of long-term indebtedness	(95,224)	(29,392)
Dividends paid	(4,760)	(3,578)
	35,479	12,815
Increase in cash	6,428	7,519
Cash and cash equivalents at beginning of period	35,113	34,472
Cash and cash equivalents at end of period	41,541	41,991

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

1 General Information

AutoCanada Inc. ("AutoCanada" or "The Company") is incorporated in 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 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, and Canadian Generally Accepted Accounting Principles ("GAAP") as issued by the Canadian Institute of Chartered Accountants. The condensed interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2013, 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, except for the revaluation of liabilities for cash-settled share-based payment arrangements to fair value.

These financial statements were approved by the Board of Directors on May 8, 2014.

3 Significant Accounting Policies

The significant accounting policies used in the preparation of these condensed interim consolidated financial statements are the same accounting policies and method of computation as disclosed in the consolidated annual financial statements for the year end December 31, 2013.

Changes in accounting policies

The Company has adopted the following interpretation, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

- IFRIC 21, *Levies*, requires the Company to consider certain government imposed payments, or levies, such as property tax, to determine whether the obligating event requiring recognition of a liability arises at a point in time, or over a period of time. The adoption of IFRIC 21 did not require any current or retrospective adjustments as at January 1, 2014.

4 Critical accounting estimates, judgments & measurement uncertainty

The preparation of 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.

During the first quarter, AutoCanada acquired a non-voting equity interest in an entity, Prairie Auto Holdings Inc. ("PAH"), for which the voting interests are held 100% by the Company's CEO (as described in Note 11). When assessing whether the Company has control of PAH, 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 PAH. In making this assessment, the Company considered that the CEO has de facto control over AutoCanada; 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 PAH would remain with full ability to control decisions as they pertain to PAH.
- 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.
- The CEO's level of expertise and knowledge in operating PAH.

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

(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. 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 74% of the Company’s revenue in the period ended March 31, 2014 (2013 – 72%), 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 March 31, 2014 and December 31, 2013 the Company had recorded the following assets that relate to transactions it has entered into with Chrysler Canada:

	March 31, 2014 $	**December 31, 2013 $**
Accounts receivable	6,798	7,945
New vehicle inventory	149,903	177,861
Demonstrator vehicle inventory	5,239	5,334
Parts and accessories inventory	6,597	7,874

Chrysler Canada is a subsidiary of Chrysler Group LLC (“Chrysler Group”) in the United States. The Chrysler Group is wholly owned by Fiat Chrysler Automobiles NV ("Fiat Chrysler"). The viability of Chrysler Canada is directly dependent on the viability of Chrysler Group and Fiat Chrysler.

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

6 Revenue

	Three month period ended March 31, 2014 $	Three month period ended March 31, 2013 $
New vehicles	216,524	174,279
Used vehicles	85,969	62,656
Finance, insurance and other	21,047	17,601
Parts, service and collision repair	40,724	29,515
	364,264	284,051

7 Cost of sales

	Three month period ended March 31, 2014 $	Three month period ended March 31, 2013 $
New vehicles	198,711	158,256
Used vehicles	80,418	58,867
Finance, insurance and other	1,533	1,506
Parts, service and collision repair	20,131	14,283
	300,793	232,912

8 Operating expenses

	Three month period ended March 31, 2014 $	Three month period ended March 31, 2013 $
Employee costs	33,740	26,130
Administrative costs (1)	12,291	10,054
Facility lease costs	1,857	2,980
Depreciation of property and equipment	2,512	1,189
	50,400	40,353

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

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

9 Finance costs and finance income

	Three month period ended March 31, 2014 $	Three month period ended March 31, 2013 $
Finance costs:		
Interest on long-term indebtedness	764	237
Floorplan financing	1,965	1,675
Other interest expense	329	251
	3,058	2,163
Finance income:		
Short term bank deposits	(233)	(313)

Cash interest paid during the three-month period ended March 31, 2014 was $3,021 (2013 - $2,140).

10 Taxation

Components of income tax expense are as follows:

	Three month period ended March 31, 2014 $	Three month period ended March 31, 2013 $
Current	20,126	12,642
Deferred	(17,245)	(10,333)
Income tax expense	2,881	2,309

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 rate used for the period ended March 31, 2014 was 25.8% (March 31, 2013 - 25.4%).

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

11 Investments in associates

Prairie Auto Holdings Ltd.

On March 10, 2014, the Company invested a total of $41,651 consisting of $32,578 in cash and issued 205,000 common shares of AutoCanada (at a value of $9,073) to acquire an 82.353% equity interest in Prairie Auto Holdings Ltd. ("PAH"). PAH is an entity formed between a subsidiary of AutoCanada and Mr. Patrick Priestner ("Priestner"), the Company's Chief Executive Officer. PAH 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 PAH and its interests, based on the percentage of ownership acquired. PAH's principal place of business is Alberta, Canada.

Although the Company holds no voting rights in PAH, the Company exercises significant influence by virtue of its involvement in the board of directors of PAH and the ability to participate in financial and operating policy decisions of PAH. 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 PAH under the equity method. There are no guarantees to PAH or significant relationships.

On March 10, 2014, PAH acquired an 85% equity interest in the shares of Saskatoon Motor Products Ltd. ("SMP"), a Chevrolet dealership in Saskatoon, Saskatchewan, and Mann-Northway Auto Source ("MNAS"), a Chevrolet Buick GMC Cadillac dealership in Prince Albert, Saskatchewan. The remaining 15% equity interest in the two dealerships is held by Mr. Robert Mann, our Dealer Partner at the two stores. As part of the agreement, there is an option to put the shares back to MNAS and SMP at any time following the 36 months from the acquisition date. To comply with GM Canada's approval, Mr. Priestner is required to have 100% voting control of PAH. The investment in PAH was reviewed and approved by the independent members of AutoCanada's Board of Directors.

The dealerships are subject to financial covenants as part of their borrowing arrangements that may restrict their ability to transfer funds to PAH if the payment of such funds resulted in a breach of covenants. SMP and MNAS are also subject to minimum working capital requirements imposed by GM Canada, which may restrict the dealerships' ability to transfer funds to PAH if minimum working capital requirements are not met.

As a result of PAH's investment, the Company has indirectly acquired a 70.0% interest in SMP and MNAS. Summarized information in respect of the investment in PAH is as follows:

	Carrying amount	**Fair value adjustments**	**Fair value**	**Interest in PAH (i)**
	$	**$**	**$**	**$**
Current assets	37,063	-	37,063	30,522
Non-current assets	3,850	51,474	55,324	45,561
Current liabilities	(32,886)	-	(32,886)	(27,083)
Non-controlling interest (ii)	-	(8,925)	(8,925)	(7,350)
Net assets	8,027	42,549	50,576	41,651

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

11 Investments in associates continued

(i) 82.353% of the assets and liabilities are attributed to AutoCanada Inc.

(ii) The non-controlling interest represents the 15% interest held by Robert Mann and is puttable back to MNAS and SMP.

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

From the date of acquisition to March 31, 2014, on a consolidated basis, PAH generated revenue of $6,168 and total net comprehensive income of $210. For the period ended March 31, 2014, no dividends have been received from PAH.

Carrying value of Investments in Associates

The following table summarizes the Company's consolidated carrying value of its investments in associates as at March 31, 2014:

	Dealer Holdings Ltd. $	Green Isle G Auto Holdings Inc. $	Prairie Auto Holdings Ltd. $	Total $
Balance, beginning of the period	5,361	7,770	-	13,131
Investment in PAH	-	-	41,651	41,651
Income from investments in associates	352	394	147	893
Dividends received	(458)	(800)	-	(1,258)
Balance, end of period	5,255	7,364	41,798	54,417

The following table summarizes the Company's consolidated carrying value of its investments in associates as at December 31, 2013:

	Dealer Holdings Ltd. $	Green Isle G Auto Holdings Inc. $	Total $
Balance, beginning of the period	4,730	-	4,730
Investment in Green Isle	-	7,057	7,057
Income from investments in associates	1,224	1,017	2,241
Dividends received	(593)	(304)	(897)
Balance, end of period	5,361	7,770	13,131

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

12 Trade and other receivables

	March 31, 2014 $	December 31, 2013 $
Trade receivables	67,702	55,707
Less: Allowance for doubtful accounts	(497)	(518)
Net trade receivables	67,205	55,189
Other receivables	2,542	2,473
Trade and other receivables	69,747	57,662

13 Inventories

	March 31, 2014 $	December 31, 2013 $
New vehicles	203,894	224,350
Demonstrator vehicles	9,016	9,375
Used vehicles	37,567	33,454
Parts and accessories	11,287	10,883
	261,764	278,062

During the period ended March 31, 2014, $299,261 of inventory (2013 - $231,406) was expensed as cost of goods sold which included net recovery of write-downs on used vehicles of $124 (2013 - net write-downs of $179). During the period ended March 31, 2014, $321 of demonstrator expense (2013 - $337) was included in selling, general, and administration expense. During the period ended March 31, 2014, demonstrator reserves increased by $180 (2013 - $94). As at March 31, 2014, the Company had recorded reserves for inventory write downs of $1,799 (2013 - $2,353).

14 Property and equipment

During the quarter ended March 31, 2014, the Company purchased $1,274 of fixed assets plus land and a building purchased at a cost of $4,061. The land and building are being used for expansionary operations at the Crosstown Chrysler dealership.

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

15 Payables, accruals and provisions

	March 31, 2014 $	December 31, 2013 $
Trade payables	23,715	26,398
Accruals and provisions	7,266	7,008
Sales tax payable	4,418	1,354
Wages and withholding taxes payable	17,707	15,709
	53,106	50,469

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

	Finance and insurance (a) $	Other $	Total $
December 31, 2013	1,548	967	2,515
Provisions arising during the period	336	70	406
Amounts expired or disbursed	(317)	(458)	(775)
March 31, 2014	1,567	579	2,146

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

(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. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see Note 22 - Financial instruments in the annual financial statements for the year ended December 31, 2013.

	March 31, 2014 $	December 31, 2013 $
Current portion of indebtedness	2,875	2,866
Revolving floorplan facility - Scotiabank (i)	241,415	248,329
Revolving floorplan facilities - VCCI	19,848	15,849
	264,138	267,044
Non-current indebtedness		
HSBC revolving term facility (ii)	49,495	40,124
HSBC non-revolving fixed term loan	-	2,764
Servus Mortgage	5,500	5,785
HSBC non-revolving term facility (ii)	49,137	35,251
HSBC revolving acquisition facility (ii)	20,000	-
Unamortized deferred financing costs	(321)	(344)
	123,811	83,580
Total indebtedness	387,949	350,624

Terms and conditions of outstanding loans were as follows:

i On April 23, 2014, the Company announced that it had increased its existing syndicated floorplan credit facility (the "Facility") with The Bank of Nova Scotia ("Scotiabank") and the Canadian Imperial Bank of Commerce ("CIBC"), with Scotiabank serving as administrative agent to the Facility, by $200,000. Total availability of the Facility is now $550,000. All significant terms and conditions of the previous facility remain unchanged. The Facility bears a rate of Bankers' Acceptance plus 1.15% (2.37% as at March 31, 2014) per annum. 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. The financial covenants and repayment terms of the Facility remain consistent with the Company's previous floorplan facility with Scotiabank.

ii On April 3, 2014, the Company announced that it increased its existing syndicated credit agreement ("Credit Agreement") by $60,000, bringing total availability to $190,000. The facility now includes HSBC Bank Canada ("HSBC"), Alberta Treasury Branches ("ATB"), and Royal Bank of Canada ("RBC"), with HSBC acting as administrative agent to the Credit Agreement. The revised Credit Agreement provides the Company with the following facilities:

- a $70,000 revolving operating facility that may be used for ongoing working capital and general corporate purposes, including acquisitions;

16 Indebtedness continued

- a $30,000 revolving acquisition facility that may be used for the acquisition of auto dealerships and associated real estate; and
- a $90,000 non-revolving term facility that may be used to purchase owner occupied real estate, refinance existing real estate and to fund construction costs of new dealerships.

Fees and interest on borrowings under the revolving operating facility and revolving acquisition facility are subject to a pricing grid whereby the pricing level is determined by the funded debt to EBITDA ratio. As at March 31, 2014, the Company is in the third of five tiers of the pricing grid, with the third tier providing interest rates of HSBC's prime rate plus 1.25% (4.25% at March 31, 2014) or Bankers' Acceptance Rate plus 2.25% (3.47% at March 31, 2014). The non-revolving term facility bears interest at HSBC's prime rate plus 1.00% (4.00% at March 31, 2014) or Bankers' Acceptance Rate plus 2.00% (3.22% at March 31, 2014). Amounts drawn under the Credit Agreement as at March 31, 2014 are due on October 31, 2015 and may be extended annually for an additional 365 days at the request of the Company and upon approval by HSBC. The Credit Agreement is collateralized by all of the present and future assets of AutoCanada Holdings Inc., a subsidiary of AutoCanada Inc., and all of its subsidiaries. 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.

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.

17 Share-based payments

The Company operates a 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 on a graded basis over three years conditional upon continued employment with the Company.

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

17 Share-based payments continued

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

	March 31, 2014 Number of RSUs	March 31, 2013 Number of RSUs
Outstanding, beginning of the period	107,680	92,710
Settled - equity	(26,222)	(16,131)
Settled - cash	(22,026)	(19,344)
Granted	22,245	47,608
Dividends reinvested	492	980
Outstanding, end of the period	82,169	105,823

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 periods ended:

	March 31, 2014 Number of DSUs	March 31, 2013 Number of DSUs
Outstanding, beginning of the period	12,184	3,435
Granted	1,314	3,302
Dividends reinvested	58	71
Outstanding, end of the period	13,556	6,808

18 Share capital

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

The Company issued 205,000 common shares on March 10, 2014 in conjunction with the acquisition of Prairie Auto Holdings Ltd. (see Note 11). The shares were issued at a deemed price of $44.26 per share.

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

18 Share capital continued

RSU Trust

In June 2012, the Company established a trust ("Trust") to offset the risk of future share price increases from the time the Restricted Share Units ("RSU" - see Note 17) 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. Dividends earned during the quarter ended March 31, 2014 on the shares held in trust of $18 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 March 31, 2014. As the Company controls the Trust, it has included the Trust in its condensed interim consolidated financial statements for the period ended March 31, 2014.

The following table shows the change in share capital from January 1, 2014 to March 31, 2014:

	March 31, 2014 Number	March 31, 2014 Amount $
Outstanding, beginning of the period	21,638,089	232,938
Common shares issued	205,000	9,073
Dividends reinvested	(379)	(18)
Outstanding, end of the period	21,842,710	241,993

As at March 31, 2014, 83,220 common shares were held in trust for the Restricted Share Unit Plan, resulting in a total of 21,925,930 common shares issued.

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 three month period ended March 31, 2014, eligible dividends totaling $0.22 per common share were declared and paid.

On May 8, 2014, the Board declared a quarterly eligible dividend of $0.23 per common share on AutoCanada’s outstanding Class A common shares, payable on June 16, 2014 to shareholders of record at the close of business on May 30, 2014. The quarterly eligible dividend of $0.23 represents an annual dividend rate of $0.92 per share.

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

18 Share capital continued

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 March 31, 2014 $	Three month period ended March 31, 2013 $
Earnings attributable to common shares	8,296	6,822

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

	Three month period ended March 31, 2014	Three month period ended March 31, 2013
Weighted-average number of shares outstanding	21,685,876	19,802,048

19 Related party transactions

Transactions with Companies Controlled by the CEO of AutoCanada

During the period ended March 31, 2014, the Company had financial transactions with entities controlled by the Company's CEO. Mr. Priestner is the controlling shareholder of Canada One Auto Group ("COAG") and its subsidiaries, which beneficially own approximately 22.6% of the Company's shares. In addition to COAG, Mr. Priestner is the controlling shareholder of other companies from 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. Details of these transactions are noted below:

a Rent paid to companies with common directors

During the period ended March 31, 2014, total rent paid to companies controlled by Mr. Priestner amounted to $713 (2013 - $1,971). The Company currently leases two of its 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.

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

19 Related party transactions continued

b Administrative support fees

During the period ended March 31, 2014, total administrative support fees received from companies controlled by Mr. Priestner amount to $269 (2013 - $207). Administrative support fees consist of a fixed monthly fee in exchange for information technology, accounting, and other administrative support. The fees are determined annually based on the estimated cost of services provided.

20 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 periods ended:

	March 31, 2014 $	**March 31, 2013 $**
Accounts receivable	(12,085)	(9,682)
Inventories	15,334	(16,586)
Prepaid expenses	(902)	(269)
Accounts payable and accrued liabilities	1,122	5,490
Leased vehicle repurchase obligations	312	(257)
Revolving floorplan facility	(2,915)	21,862
	866	558

21 Seasonal nature of the business

The Company's results from operations for the period ended March 31, 2014 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.

22 Fair value of financial instruments

The Company's financial instruments at March 31, 2014 are represented by cash and cash equivalents, trade and other receivables, trade and other payables, revolving floorplan facilities, lease obligations and long-term indebtedness. The fair values of cash equivalents, trade and other receivables, trade and other payables, 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.

23 Subsequent Events

Acquisition announcement

On April 29, 2014, the Company announced that it signed a purchase agreement for a dealer group, as well as purchase agreements for additional unrelated dealerships outside of the dealer group. In total, the Company executed purchase agreements for eight dealerships, which the Company expects to close at various times within the next 90 days. All such agreements are in different stages of progress with respect to due diligence, and all are subject to manufacturer approval, which is anticipated but not assured.

Purchase of existing facility

On April 3, 2014, the Company purchased the existing Chilliwack Volkswagen facility that was formerly leased from a third party. The purchase price of the land and building was $1,773.

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

23 Subsequent Events continued

Investment in Waverley BG Holdings Inc.

On April 1, 2014, the Company invested a total of $10,123 to acquire an 80.0% participating, non-voting common share interest in Waverley BG Holdings Inc. ("WBG"). WBG is an entity formed between a subsidiary of AutoCanada and Mr. Patrick Priestner ("Priestner"), the Company's Chief Executive Officer. WBG 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 WBG and its interests, based on the percentage of ownership acquired. WBG's principal place of business is Alberta, Canada.

Although the Company holds no voting rights in WBG, the Company exercises significant influence by virtue of its involvement in the board of directors of WBG and the ability to participate in financial and operating policy decisions of WBG. 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 WBG under the equity method. There are no guarantees to WBG or significant relationships.

On April 1, 2014, WBG acquired 100% of the operating assets of McNaught Buick Cadillac GMC ("McNaught") in Winnipeg, Manitoba. The investment in WBG was reviewed and approved by the independent members of AutoCanada's Board of Directors.

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

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

	Carrying amount	**Fair value adjustments**	**Fair value**	**Interest in WBG**
	$	**$**	**$**	**$**
Current assets	2,017	-	2,017	1,614
Non-current assets	636	10,000	10,636	8,509
Net assets	2,653	10,000	12,653	10,123

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