AutoCanada Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)
June 30, 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 June 30, 2014 $	Three month period ended June 30, 2013 $	Six month period ended June 30, 2014 $	Six month period ended June 30, 2013 $
Revenue (Note 7)	465,325	388,386	829,592	672,441
Cost of sales (Note 8)	(387,282)	(323,535)	(688,075)	(556,448)
Gross profit	78,043	64,851	141,517	115,993
Operating expenses (Note 9)	(58,920)	(48,639)	(109,323)	(88,992)
Operating profit before other income (expense)	19,123	16,212	32,194	27,001
Gain (loss) on disposal of assets, net	(1)	(1)	37	(7)
Income from investments in associates (Note 13)	2,238	648	3,131	850
Operating profit	21,360	16,859	35,362	27,844
Finance costs (Note 10)	(4,444)	(2,338)	(7,502)	(4,501)
Finance income (Note 10)	392	278	623	588
Net income for the period before taxation	17,308	14,799	28,483	23,931
Income tax (Note 11)	4,477	3,976	7,358	6,285
Net and comprehensive income for the period	12,831	10,823	21,125	17,646

Earnings per share (Note 21)				
Basic	0.588	0.532	0.971	0.879
Diluted	0.588	0.532	0.971	0.879

Weighted average shares (Note 21)				
Basic	21,832,777	20,346,713	21,759,732	20,075,885
Diluted	21,832,777	20,346,713	21,759,732	20,075,885

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)

	June 30, 2014 (Unaudited) $	December 31, 2013 (Audited) $
ASSETS		
Current assets		
Cash and cash equivalents	91,622	35,113
Trade and other receivables (Note 14)	85,837	57,662
Inventories (Note 15)	324,077	278,062
Other current assets	4,535	1,603
	506,071	372,440
Property and equipment (Note 16)	141,618	122,915
Investments in associates (Note 13)	67,777	13,131
Intangible assets (Note 17)	179,242	96,985
Goodwill (Note 17)	8,984	6,672
Other long-term assets	7,023	6,797
	910,715	618,940
LIABILITIES		
Current liabilities		
Trade and other payables (Note 18)	65,565	50,469
Revolving floorplan facilities (Note 19)	313,752	264,178
Current tax payable	13,331	4,785
Current lease obligations	3,361	1,398
Current indebtedness (Note 19)	2,830	2,866
	398,839	323,696
Long-term indebtedness (Note 19)	294,289	83,580
Deferred income tax	9,336	21,422
	702,464	428,698
EQUITY	208,251	190,242
	910,715	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 Period Ended
(Unaudited)

(in thousands of Canadian dollars)

	Share capital	Contributed surplus	Accumulated deficit	Equity
	$	$	$	$
Balance, January 1, 2014	232,938	4,758	(47,454)	190,242
Net and comprehensive income	-	-	21,125	21,125
Dividends declared on common shares (Note 22)	-	-	(9,782)	(9,782)
Common shares issued (Note 22)	9,073	-	-	9,073
Treasury shares acquired (Note 22)	(2,727)	-	-	(2,727)
Shares settled from treasury (Note 22)	755	(760)	-	(5)
Share-based compensation	-	325	-	325
Balance, June 30, 2014	240,039	4,323	(36,111)	208,251

	Share capital	Contributed surplus	Accumulated deficit	Equity
	$	$	$	$
Balance, January 1, 2013	189,500	4,423	(69,423)	124,500
Net and comprehensive income	-	-	17,645	17,645
Dividends declared on common shares (Note 22)	-	-	(7,326)	(7,326)
Common shares issued	43,599	-	-	43,599
Treasury shares acquired	(541)	-	-	(541)
Shares settled from treasury	202	-	-	202
Share-based compensation	-	11	-	11
Balance, June 30, 2013	232,760	4,434	(59,104)	178,090

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

AutoCanada Inc.

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

(in thousands of Canadian dollars)

	Three month period ended June 30, 2014	Three month period ended June 30, 2013	Six month period ended June 30, 2014	Six month period ended June 30, 2013
Cash provided by (used in):				
Operating activities				
Net and comprehensive income	12,831	10,823	21,125	17,646
Income taxes (Note 11)	4,477	3,976	7,358	6,285
Amortization of prepaid rent	113	113	226	226
Depreciation of property and equipment (Note 9)	2,550	1,490	5,061	2,679
Loss (gain) on disposal of assets	1	1	(37)	7
Share-based compensation - equity-settled	169	113	326	250
Share-based compensation - cash-settled	875	475	1,852	743
Income from investments in associates (Note 13)	(2,238)	(648)	(3,131)	(850)
Dividends received from investments in associates (Note 13)	200	-	1,458	-
Income taxes paid	(2,480)	(2,083)	(9,759)	(7,159)
Net change in non-cash working capital (Note 26)	(5,580)	131	(4,712)	690
	10,918	14,391	19,767	20,517
Investing activities				
Business acquisitions (Note 12)	(108,536)	(22,831)	(108,536)	(26,612)
Investment in associate (Note 13)	(11,322)	-	(43,900)	(7,057)
Purchases of property and equipment (Note 16)	(3,702)	(6,073)	(9,037)	(6,752)
Proceeds on sale of property and equipment	2	7	14	14
	(123,558)	(28,897)	(161,459)	(40,407)
Financing activities				
Proceeds from long-term debt	232,729	37,457	368,193	83,242
Repayment of long-term indebtedness	(208,588)	(69,104)	(303,812)	(98,496)
Treasury shares purchased (Note 22)	(2,713)	(513)	(2,713)	(513)
Dividends paid	(5,022)	(3,778)	(9,782)	(7,356)
Proceeds from issuance of common shares	-	43,599	-	43,599
Proceeds from senior unsecured notes (Note 19)	146,315	-	146,315	-
	162,721	7,661	198,201	20,476
(Decrease) Increase in cash	50,081	(6,845)	56,509	586
Cash and cash equivalents at beginning of period	41,541	41,903	35,113	34,472
Cash and cash equivalents at end of period	91,622	35,058	91,622	35,058

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 based 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, Saskatchewan, Manitoba, Ontario, Quebec, 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 CPA Canada. The condensed interim consolidated financial statements should be read in conjunction with the Company's audited annual financial statements for the year ended December 31, 2013, which have been prepared in accordance with IFRS as issued by the IASB.

These financial statements were approved by the Board of Directors on August 7, 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 methods of computation as disclosed in the annual financial statements for the year ended 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 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.

During the first half of the year, AutoCanada acquired non-voting equity interests in Prairie Auto Holdings Inc. ("PAH") and Waverley BG Holdings Inc. ("WBG") for which the voting interests are held 100% by the Company's CEO (as described in Note 13). When assessing whether the Company has control of PAH and WBG, 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 investments in PAH and WBG. In making this assessment, the Company considered that the CEO has de facto control over AutoCanada at the dates of the Company's investments; 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 interests in PAH and WBG would remain with full ability to control decisions as they pertain to PAH and WBG.
- The CEO has not relied on any financial support from the Company in making his investments, 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 and WBG.

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

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 Accounting standards and amendments issued but not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are not yet effective as at June 30, 2014. The standard that is applicable to the Company is as follows:

- IFRS 15, *Revenue from Contracts with Customers* - in May 2014, the IASB issued IFRS 15, which supersedes IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single model to determine how and when an entity should recognized revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of its revenue recognition criteria. IFRS 15 is effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. The Company is in the process of evaluating the impact that IFRS 15 may have on the financial statements.

6 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 nine 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, 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 June 30, 2014 and December 31, 2013 the Company had recorded the following assets that relate to transactions it has entered into with Chrysler Canada:

	June 30, 2014 $	December 31, 2013 $
Accounts receivable	8,064	6,655
New vehicle inventory	143,537	122,595
Demonstrator vehicle inventory	6,916	4,784
Parts and accessories inventory	7,284	6,043

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)

7 Revenue

	Three month period ended June 30, 2014 $	Three month period ended June 30, 2013 $	Six month period ended June 30, 2014 $	Six month period ended June 30, 2013 $
New vehicles	289,918	254,261	506,442	428,540
Used vehicles	102,025	77,113	187,994	139,769
Finance, insurance and other	27,304	22,557	48,353	40,161
Parts, service and collision repair	46,078	34,455	86,803	63,971
	465,325	388,386	829,592	672,441

8 Cost of sales

	Three month period ended June 30, 2014 $	Three month period ended June 30, 2013 $	Six month period ended June 30, 2014 $	Six month period ended June 30, 2013 $
New vehicles	266,096	233,469	464,807	391,724
Used vehicles	95,520	71,318	175,938	130,186
Finance, insurance and other	2,961	1,878	4,493	3,385
Parts, service and collision repair	22,705	16,870	42,837	31,153
	387,282	323,535	688,075	556,448

9 Operating expenses

	Three month period ended June 30, 2014 $	Three month period ended June 30, 2013 $	Six month period ended June 30, 2014 $	Six month period ended June 30, 2013 $
Employee costs	39,006	31,837	72,746	57,968
Administrative costs (1)	15,185	12,313	27,479	22,366
Facility lease costs	2,179	2,999	4,037	5,979
Depreciation of property and equipment	2,550	1,490	5,061	2,679
	58,920	48,639	109,323	88,992

(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)

10 Finance costs and finance income

	Three month period ended June 30, 2014 $	Three month period ended June 30, 2013 $	Six month period ended June 30, 2014 $	Six month period ended June 30, 2013 $
Finance costs:				
Interest on long-term indebtedness	1,844	218	2,608	456
Floorplan financing	2,146	1,888	4,111	3,563
Other interest expense	454	232	783	482
	4,444	2,338	7,502	4,501
Finance income:				
Short term bank deposits	(392)	(278)	(623)	(588)

Cash interest paid during the period ended June 30, 2014 was $7,470 (2013 - $4,186).

11 Taxation

Components of income tax expense were as follows:

	Three month period ended June 30, 2014 $	Three month period ended June 30, 2013 $	Six month period ended June 30, 2014 $	Six month period ended June 30, 2013 $
Current	(1,119)	(497)	19,007	12,145
Deferred tax	5,596	4,473	(11,649)	(5,860)
Income tax expense	4,477	3,976	7,358	6,285

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, 2014 was 25.9%.

12 Business acquisitions

During the six month period ended June 30, 2014, the Company completed six business acquisitions. All acquisitions have been accounted for using the acquisition method. Acquisitions completed during these periods are as follows:

BMW Canbec and MINI Mont Royal

On June 1 2014, the Company purchased 100% of the shares of Automobile Canbec Inc. ("BMW Canbec"), which owns and operates a BMW dealership and a MINI dealership, both located in Montreal, Quebec, for cash consideration of $27,000. Subsequent to acquisition, the Company is typically able to lower the consideration paid by financing additional inventory and lowering the purchased working capital. The acquisition was funded by drawing on the Company's revolving term facility. The purchase of this business is the Company's first BMW/MINI franchise and first dealership in Quebec.

Dodge City

On June 16, 2014, the Company purchased substantially all of the operating and fixed assets of Dodge City Auto 1984 Ltd. ("Dodge City"), in Saskatoon, Saskatchewan, for total cash consideration of $34,229. The acquisition was financed by drawing on the Company's revolving term facility. Included in the purchase price is an in-house lease portfolio of approximately $6,000 which the Company is likely to finance in the future. The purchase of this business complements the Company's other Chrysler dealerships and further expands its presence in Saskatoon, Saskatchewan.

Hyatt Group

On June 23, 2014, the Company purchased all of the operating and fixed assets of 678938 Alberta Ltd. ("Calgary Hyundai"), 1446691 Alberta Ltd. ("Crowfoot Hyundai"), 998699 Alberta Ltd. ("Hyatt Mitsubishi"), and 588338 Alberta Ltd. ("Northland Volkswagen") (the "Hyatt Group"), in Calgary, Alberta, for total cash consideration of $45,876. The acquisition was funded by drawing on the Company's revolving term facility. The purchase of these stores complements the Company's existing Hyundai, Mitsubishi, and Volkswagen dealerships and further expands the Company's presence in Calgary, Alberta.

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

12 Business acquisitions continued

The business combinations completed during the six month period ended June 30, 2014 are summarized as follows:

	BMW Canbec $	Dodge City $	Hyatt Group $	Total $
Current assets				
Cash and cash equivalents	-	3	1	4
Trade and other receivables	6,715	512	369	7,596
Inventories	25,504	16,075	30,508	72,087
Other current assets	312	121	127	560
	32,531	16,711	31,005	80,247
Long term assets				
Property and equipment	4,096	6,489	764	11,349
Intangible assets	15,078	24,494	42,686	82,258
Other non-current assets	12	-	-	12
Total assets	51,717	47,694	74,455	173,866
Current liabilities				
Bank indebtedness	1,435	-	-	1,435
Trade and other payables	2,112	658	255	3,025
Revolving floorplan facility	22,092	13,313	29,738	65,143
	25,639	13,971	29,993	69,603
Long term liabilities				
Deferred tax liabilities	1,884	-	-	1,884
Total liabilities	27,523	13,971	29,993	71,487
Net assets acquired	24,194	33,723	44,462	102,379
Goodwill	2,806	506	1,414	4,726
Total net assets acquired	27,000	34,229	45,876	107,105

Acquisitions completed during the six month period ended June 30, 2014 generated revenue and net earnings of $18,302 and $810, respectively, since the time of acquisition. The purchase prices allocated, as presented above, are estimates and subject to change due to finalization of the associated allocations.

Goodwill arose on these acquisitions due to the potential future revenue growth and synergies expected to occur. Goodwill generated on the acquisition of BMW Canbec is not deductible for tax purposes.

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

13 Investments in associates

Waverley BG Holdings Inc.

On April 1, 2014, the Company invested a total of $11,322 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, the Company's Chief Executive Officer (the "CEO"). WBG was formed to acquire future General Motors of Canada ("GM Canada") franchised dealerships, whereby the CEO 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. The investment in WBG was reviewed and approved by the independent members of AutoCanada's Board of Directors. 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 the CEO. As a result, the Company has accounted for its investment in WBG under the equity method. There are no guarantees to WBG.

On April 1, 2014, WBG acquired 100% of the operating assets of McNaught Buick Cadillac GMC ("McNaught") in Winnipeg, Manitoba.

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	6,375	-	6,375	5,100
Non-current assets	2,136	10,000	12,136	9,709
Current liabilities	(4,358)	-	(4,358)	(3,487)
Net assets	4,153	10,000	14,153	11,322

From the date of acquisition to June 30, 2014, on a consolidated basis, WBG generated revenue of $17,802 and total net comprehensive income of $476. For the period ended June 30, 2014, no dividends have been received from WBG.

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

13 Investments in associates continued

Prairie Auto Holdings Ltd.

On March 10, 2014, the Company invested a total of $41,651, consisting of $32,578 in cash and 205,000 common shares of AutoCanada issued (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, the Company's Chief Executive Officer (the "CEO"). PAH was formed to acquire future General Motors of Canada ("GM Canada") franchised dealerships, whereby the CEO 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. The investment in PAH was reviewed and approved by the independent members of AutoCanada's Board of Directors. 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 the CEO. As a result, the Company has accounted for its investment in PAH under the equity method. There are no guarantees to PAH.

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 SMP and MNAS at any time following the 36 months from the acquisition date. To comply with GM Canada's approval, the CEO is required to have 100% voting control of PAH.

The dealerships are subject to financial covenants as part of its 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	37,395	-	37,395	30,797
Non-current assets	3,850	51,474	55,324	45,561
Current liabilities	(33,219)	-	(33,219)	(27,357)
Non-controlling interest (ii)	-	(8,925)	(8,925)	(7,350)
Net assets	8,026	42,549	50,575	41,651

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

13 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 SMP and MNAS.

From the date of acquisition to June 30, 2014, on a consolidated basis, PAH generated revenue of $63,219 and total net comprehensive income of $1,635. For the period ended June 30, 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 June 30, 2014:

	Dealer Holdings Ltd. $	Green Isle G Auto Holdings Inc. $	Prairie Auto Holdings Ltd. $	Waverley BG Holdings Inc. $	Total $
Balance, beginning of the period	5,361	7,770	-	-	13,131
Investments in PAH and WBG	-	-	41,651	11,322	52,973
Income from investment in associate	767	838	1,145	381	3,131
Dividends received	(458)	(1,000)	-	-	(1,458)
Balance, end of period	5,670	7,608	42,796	11,703	67,777

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 investment in associate	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)

14 Trade and other receivables

	June 30, 2014 $	December 31, 2013 $
Trade receivables	82,965	55,724
Less: Allowance for doubtful accounts	(490)	(518)
Net trade receivables	82,475	55,206
Other receivables	3,362	2,456
Trade and other receivables	85,837	57,662

15 Inventories

	June 30, 2014 $	December 31, 2013 $
New vehicles	240,442	224,350
Demonstrator vehicles	17,904	9,375
Used vehicles	51,329	33,454
Parts and accessories	14,402	10,883
	324,077	278,062

During the three month period ended June 30, 2014, $384,321 of inventory (2013 - $321,657) was expensed as cost of goods sold which included a net write-downs on used vehicles of $107 (2013 - $156). During the three month period ended June 30, 2014, $350 of demonstrator expense (2013 - $325) was included in selling, general, and administration expense. During the three month period ended June 30, 2014, demonstrator reserves increased by $865 (2013 - $291).

During the six month period ended June 30, 2014, $683,582 of inventory (2013 - $553,063) was expensed as cost of goods sold which included a net recovery of write-downs on used vehicles of $17 (2013 - $335). During the six month period ended June 30, 2014, $671 of demonstrator expense (2013 - $662) was included in selling, general, and administration expense. During the six month period ended June 30, 2014, demonstrator reserves increased by $777 (2013 - $390). As at June 30, 2014, the Company had recorded reserves for inventory write downs of $1,748 (2013 - $2,085).

16 Property and equipment

During the quarter ended June 30, 2014, the Company purchased $1,929 of fixed assets plus land and a building purchased at a cost of $1,773. In conjunction with the acquisitions completed during the quarter ended June 30, 2014, the Company acquired $11,349 of additional property and equipment.

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

17 Intangible assets and goodwill

During the six month period ended June 30, 2014, in conjunction with the six dealership acquisitions completed, the Company recorded intangible assets of $82,258 and goodwill of $4,726 (see Note 12). The intangible assets consist of rights under franchise agreements with the various manufacturers. Included in the goodwill of BMW Canbec is $1,884 that is not deductible for tax purposes arising from deferred tax liabilities for taxable temporary differences.

18 Payables, accruals and provisions

	June 30, 2014 $	December 31, 2013 $
Trade payables	32,201	26,398
Accruals and provisions	8,094	7,008
Sales tax payable	4,388	1,354
Wages and withholding taxes payable	20,882	15,709
	65,565	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 year	1,033	122	1,155
Amounts expired or disbursed	(886)	(665)	(1,551)
June 30, 2014	1,695	424	2,119

(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)

19 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.

	June 30, 2014 $	December 31, 2013 $
Current portion of indebtedness	2,830	2,866
Revolving floorplan facility - Scotiabank and CIBC (i)	269,335	248,329
Revolving floorplan facilities - VCCI	20,067	15,849
Revolving floorplan facility - BMW Financial (ii)	24,350	-
	316,582	267,044
Non-current indebtedness		
Senior unsecured notes (iii):		
5.625% Notes due May 25, 2021	149,739	-
Embedded derivative	261	-
Unamortized deferred financing costs	(3,685)	-
	146,315	-
HSBC revolving term facility (iv):		
HSBC revolving term facility	142,750	40,124
Unamortized deferred financing costs	(1,344)	(344)
	141,406	39,780
Other long-term debt:		
HSBC non-revolving fixed term loan	-	2,764
Servus Mortgage	5,446	5,785
HSBC non-revolving term facility (iv)	-	35,251
VCCI Mortgage (v)	1,122	-
	6,568	43,800
Total indebtedness	610,871	350,624

19 Indebtedness continued

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 June 30, 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 June 2, 2014, in conjunction with the purchase of BMW Canbec, the Company signed an Inventory Financing and Security Agreement (the "BMW Facility") with BMW Financial Services Canada ("BMW Financial"), a division of BMW Canada Inc., to finance new and used vehicles for the Company's BMW and MINI dealerships. The BMW Facility has a current advance limit of $40,700. The BMW Facility bears a variable interest rate of prime minus 0.40% per 360-day annum (2.60% at June 30, 2014). The BMW Facility is collateralized by the dealerships' movable and immovable property. The agreement requires the Company to maintain a certain working capital ratio.

iii On May 22, 2014, the Company announced that it completed a private offering of $150,000 5.625% Senior Unsecured Notes due May 25, 2021 (the "Notes"). The Notes were issued at par. Interest is payable semi-annually on May 15 and November 15 of each year the Notes are outstanding. In connection with the issuance of the Notes, the Company incurred issue costs of $3,638 which were recorded as a deduction to the carrying amount of the long-term debt. The proceeds from the Notes were used to repay the Company's revolving term facility. The Notes agreement contains certain redemption options whereby the Company can redeem all or part of the Notes are prices set forth in the agreement from proceeds of equity offering or following certain dates specified in the agreement. In addition, the Note holders have the right to require the Company to redeem the Notes or a portion thereof, at the redemption prices set forth in the agreement in the event of change in control or in the event certain asset sale proceeds are not re-invested in the time and manner specified in the agreement. These redemption features constitute embedded derivatives that are required to be separated from the Notes and measured at fair value. The embedded derivative components of these compound financial instruments are measured at fair value at each reporting date with gains or losses in fair value recognized through profit or loss.

iv On May 22, 2014, the Company amended the existing Credit Agreement with 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 Credit Agreement provides the Company with the following:

- a $200,000 revolving operating facility that may be used for general corporate purposes, including repayment of existing indebtedness, funding working capital requirements, capital expenditures and financing acquisitions.

19 Indebtedness continued

Fees and interest on borrowings under the Credit Agreement are subject to a pricing grid whereby the pricing level is determined by the leverage ratio. As at June 30, 2014, the Company is in the first of five tiers of the pricing grid, with the first tier providing interest rates of HSBC's prime rate plus 2.00% (5.00% at June 30, 2014) or Bankers' Acceptance Rate plus 3.00% (4.49% at June 30, 2014). Amounts drawn under the Credit Agreement as at June 30, 2014 are due May 22, 2018 and may be extended annually for an additional 365 days at the request of the Company and upon approval by the lenders. 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, BMW Financial, and the Company, the collateral for the Credit Agreement excludes all new, used and demonstrator inventory financed with the Scotiabank, VCCI, and BMW Financial revolving floorplan facilities.

v VW Credit Canada Inc. provides the Company with a mortgage (the "VCCI Mortgage"), which bears interest at a floating rate of interest per annum equal to the Royal Bank of Canada's prime rate plus 0.50% (3.50% at June 30, 2014). The VCCI Mortgage is repayable with fifty-nine equal blended monthly payments of $8 amortized over a twenty year period with term expiring in April 2019. The VCCI Mortgage has 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, 2014, the carrying amount of the property was $1,763.

20 Commitments

The Company has a $14,062 capital commitment related to the relocation of one of its dealerships. Expected completion of the construction contract is June 1, 2015.

21 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.

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

21 Share-based payments continued

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

	June 30, 2014 Number of RSUs	**June 30, 2013 Number of RSUs**
Outstanding, beginning of the period	107,680	92,710
Settled - equity	(26,222)	(35,475)
Settled - cash	(22,026)	-
Granted	23,823	47,608
Dividends reinvested	715	1,732
Outstanding, end of period	83,970	106,575

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:

	June 30, 2014 Number of DSUs	**June 30, 2013 Number of DSUs**
Outstanding, beginning of the period	12,184	3,435
Granted	2,563	5,624
Dividends reinvested	95	135
Outstanding, end of the period	14,842	9,194

22 Share capital

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

The Company issued 205,000 common shares on March 10, 2014 in conjunction with the acquisition of Prairie Auto Holdings Ltd. (see Note 13). The shares were issued at a deemed price of $44.26 per share, resulting in an addition of $9,073 to share capital.

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

22 Share capital continued

Restricted Share and Deferred Share Unit 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") and Deferred Share Units ("DSU") (see Note 21) are granted to when they are fully vested and can be exercised. The beneficiaries of the Trust are members of the Executive and Senior Management Team who participate in the long-term incentive compensation plan called the Restricted Share Unit Plan (the "Plan") and independent members of the Board of Directors who participate in the DSU 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 six month period ended June 30, 2014 on the shares held in trust of $40 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, 2014. As the Company controls the Trust, it has consolidated the Trust in its condensed interim consolidated financial statements for the period ended June 30, 2014.

The following table shows the change in share capital from January 1, 2014 to June 30, 2014:

	June 30, 2014 Number	June 30, 2014 Amount $
Outstanding, beginning of the period	21,638,089	232,938
Common shares issued	205,000	9,073
Common shares repurchased	(41,833)	(2,687)
Dividends reinvested	(625)	(40)
Treasury shares settled	26,221	755
Outstanding, end of the period	21,826,852	240,039

As at June 30, 2014, 99,078 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 six month period ended June 30, 2014, eligible dividends totaling $0.23 per common share were declared and have been paid. On August 7, 2014, the Board of Directors of the Company declared a quarterly eligible dividend of $0.24 per common share on AutoCanada's outstanding Class A common shares, payable on September 15, 2014 to shareholders of record at the close of business on August 29, 2014. The quarterly eligible dividend of $0.24 represents an annual dividend rate of $0.96 per share.

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

22 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 June 30, 2014 $	Three month period ended June 30, 2013 $	Six month period ended June 30, 2014 $	Six month period ended June 30, 2013 $
Earnings attributable to common shares	12,831	10,823	21,125	17,646

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

	Three month period ended June 30, 2014	Three month period ended June 30, 2013	Six month period ended June 30, 2014	Six month period ended June 30, 2013
Weighted-average number of shares outstanding	21,832,777	20,346,713	21,759,732	20,075,885

23 Related party transactions

Transactions with Companies Controlled by the CEO of AutoCanada

During the period ended June 30, 2014, 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 9.6% 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.

23 Related party transactions continued

a Rent paid to companies with common directors

During the six month period ended June 30, 2014, total rent paid to companies with common directors amounted to $1,427 (2013 - $4,285). 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.

b Administrative support fees

During the six month period ended June 30, 2014, total administrative support fees received from companies controlled by Mr. Priestner amount to $523 (2013 - $414).

24 Fair value of financial instruments

The Company's financial instruments at June 30, 2014 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. Embedded derivatives are remeasured at fair value each reporting period with the gain or loss being recognized through profit or loss. The derivatives are classified as Level 2 fair value measurement in the fair value hierarchy.

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

25 Seasonal nature of the business

The Company's results from operations for the period ended June 30, 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.

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

26 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, 2014 and June 30, 2013:

	Three month period ended June 30, 2014 $	Three month period ended June 30, 2013 $	Six month period ended June 30, 2014 $	Six month period ended June 30, 2013 $
Trade and other receivables	(8,494)	(10,235)	(20,579)	(19,917)
Inventories	7,083	(6,894)	22,417	(23,480)
Other current assets	(1,470)	(932)	(2,372)	(1,201)
Trade and other payables	8,306	4,733	9,430	10,225
Leased vehicle repurchase obligations	1,649	668	1,961	411
Revolving floorplan facilities	(12,654)	12,791	(15,569)	34,653
	(5,580)	131	(4,712)	691

27 Subsequent Events

Common control business combination

On July 11, 2014, Canada One Auto Group ("COAG"), a company controlled by the CEO of the Company, completed a secondary offering of shares in AutoCanada held by COAG and its subsidiaries. As a result of the transaction, COAG reduced its ownership interest in AutoCanada to 9.6% of the outstanding common voting shares. This caused the Company to re-evaluate its significant judgment dealing with the accounting for its investments in associates (the "investees"). Since the Company does not retain voting shares in the investees, the Company evaluated whether it exercised power over the investees through a de facto agency relationship with its CEO. The following facts were considered to assess the relationship between AutoCanada and its CEO:

- The Company has the ability to control the decision-making of the CEO by virtue of the employment agreement with the CEO. Should the CEO no longer be employed by the Company, this assessment would need to be further evaluated;
- The directors and officers of the investees are related parties to the Company; and
- The Company is involved in the operational decision-making of its investees.

27 Subsequent Events continued

Prior to the secondary offering, the CEO was considered to have de facto control over AutoCanada, which was considered to be a critical factor in concluding that he also controlled the investees. The loss of de facto control over AutoCanada changed the Company's assessment with respect to a number of factors, including those listed above. As a result of its assessment, management has concluded that, as of July 11, 2014, the Company has power over its investees and shall consolidate the results of its investees on a common control basis using the predecessor values method.

Equity offering

On July 11, 2014, the Company issued 2,565,000 shares (11.7% of the total share capital issued) as part of a public offering of shares. The common shares issued have the same rights as all other common shares in issue. The shares were issued for gross proceeds of $200,070 ($78 per share) and related transaction costs amounted to $8,674 for net proceeds of $191,396.

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

27 Subsequent Events continued

Hyatt Group

On July 1, 2014, the Company purchased substantially all of the operating and fixed assets of 969642 Alberta Ltd. ("Fish Creek Nissan") and 1791109 Alberta Ltd. ("Hyatt Infiniti"), both located in Calgary, Alberta, for total cash consideration of $45,513. The acquisition was financed by drawing on the Company's revolving term facility. In addition, the Company issued 18,753 common shares at a deemed price of $79.99 per share on July 1, 2014 as consideration for the purchase of the exclusive right to build and operate a Nissan motor vehicle dealership on a designated property in southeast Calgary. The purchase of these businesses complements the Company's other existing Nissan and Infiniti dealerships and further expands its presence in Calgary, Alberta.

	Hyatt Group $
Current assets	
Cash and cash equivalents	1
Trade and other receivables	324
Inventories	17,940
Other current assets	96
	18,361
Long term assets	
Property and equipment	675
Intangible assets	39,729
Total assets	58,765
Current liabilities	
Trade and other payables	93
Revolving floorplan facility	14,831
	14,924
Long term liabilities	
Total liabilities	14,924
Net assets acquired	43,841
Goodwill	1,672
Total net assets acquired	45,513

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