



AUTOCANADA INCOME FUND

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

For the period from January 4, 2006 to December 31, 2006
(including business operations from May 11, 2006 to December 31, 2006)

As of March 22, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the audited consolidated financial statements and accompanying notes of AutoCanada Income Fund (the "Fund") for the period of January 4, 2006 to December 31, 2006 which includes operations from May 11, 2006 to December 31, 2006. The audited consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Certain dollar amounts in this discussion and analysis have been rounded as indicated. Results are reported in Canadian dollars unless otherwise stated and have been prepared in accordance with GAAP. Unless otherwise indicated, certain dollar amounts have been rounded to the nearest thousand dollars. References to notes are to the notes to the audited consolidated financial statements of the Fund unless otherwise stated.

This Management Discussion and Analysis is dated March 22, 2007.

FORWARD LOOKING STATEMENTS

Certain statements in management's discussion and analysis may constitute "forward looking" statements that involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. These statements relate to future events or future performance and reflect the expectations of management regarding growth, results of operations, performance and business prospects and opportunities. Such forward looking statements reflect current beliefs of management or of the third parties to which they are attributed and are based on information currently available to us. In some cases, the statements use such words as "may", "will", "intend", "should", "expect", "believe", "plan", "anticipate", "estimate", "predict", "potential", "continue" or the negative of these terms or other similar terminology. These statements reflect current expectations regarding future events and operating performance and speak only as of the date of management's discussion and analysis, or in the case of third party statements as of the date on which they were made. Forward looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward looking statements, including, but not limited to, the factors discussed under "Risk Factors". Although the forward looking statements contained in management's discussion and analysis are based upon what management believes are reasonable assumptions, the Fund cannot assure you that actual results will be consistent with these forward looking statements. These forward looking statements are made as of the date of management's discussion and analysis and, except as required by applicable law, the Fund assumes no obligation to update or revise them to reflect new events or circumstances.

OVERVIEW OF THE FUND

Issuance of Fund Units and Acquisition

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

The Fund commenced business operations on May 11, 2006, when it completed an initial public offering (the "IPO") of 10,209,500 trust units ("Fund Units"), at a price of \$10 per unit, for aggregate gross proceeds of \$102,095. The costs of issuance of the units were \$8,523. Concurrent with the closing of the IPO, the Fund used the net cash proceeds from the IPO to acquire a 50.4% indirect interest in AutoCanada LP which used such net proceeds to acquire, through various limited partnerships, the net assets (the "Acquired Business") of the Vendors. In connection with this transaction, 10,047,500 Exchangeable Units were issued to the Vendors in the amount of \$10 per unit for a total of \$100,475. On May 31, 2006, the underwriters exercised their over-allotment option for 740,000 additional units for \$7,400 thereby increasing the interest of the Fund to 54.05%.

The Fund is in the process of finalizing the fair value of assets acquired and liabilities assumed and is substantially complete. Pursuant to the purchase agreements with CAG, the purchase price will be adjusted to reflect the actual amount of working capital purchased when it is determined and this is expected to be finalized no later than March 31, 2007. The purchase price allocated to the assets acquired and the liabilities assumed, based on their estimated fair values, is as follows:

(In thousands of dollars)	\$
Consideration	
Cash from the Offering	102,095
Issuance of Exchangeable LP Units	100,475
Issuance costs	(8,523)
	<hr/>
Total purchase price	194,047
	<hr/>
	\$
Allocated as follows:	
Net working capital	26,695
Long-term assets	12,906
Long-term liabilities	(142)
Intangible assets	77,800
Goodwill	76,788
	<hr/>
	194,047
	<hr/>

Additional information concerning the Fund is contained in the final prospectus of the Fund dated May 3, 2006, at SEDAR (www.sedar.com) and at the Fund's website, (www.autocan.ca). The Fund Units trade on the Toronto Stock Exchange under the symbol ACQ.UN.

Non-GAAP Measures

References to "EBITDA" are to earnings before interest expense (other than interest expense on floorplan financing and other interest), income taxes, depreciation and amortization and references to "distributable cash" are to cash flow provided by operating activities available for distribution to Unitholders' in accordance with the distribution policies of the Fund. Management believes that, in addition to earnings or loss, EBITDA is a useful supplemental measure of both performance and cash available for distribution before debt service, changes in working capital, capital expenditures and income taxes. Distributable cash of the Fund is a measure generally used by Canadian open-ended trusts as an indicator of financial performance. As one of the factors that may be considered relevant by prospective investors is the cash distributed by the Fund relative to the price of the Units, management believes that distributable cash of the Fund is a useful supplemental measure that may assist prospective investors in assessing an investment in the Fund. Distributable cash is calculated as cash flows provided by operating activities, less purchases of non-growth property and equipment.

EBITDA and distributable cash are not earnings measures recognized by GAAP and do not have standardized meanings prescribed by GAAP. Investors are cautioned that EBITDA and distributable cash should not replace net earnings or loss (as determined in accordance with GAAP) as an indicator of the Fund's performance, of its cash flows from operating, investing and financing activities or as a measure of its liquidity and cash flows. The Fund's methods of calculating EBITDA and distributable cash may differ from the methods used by other issuers. Therefore, the Fund's EBITDA and distributable cash may not be comparable to similar measures presented by other issuers.

References to "absorption rate" are to the ratio of gross profits of a franchised automobile dealership from parts, service and collision repair to the fixed operating costs of the dealership. For this purpose, fixed operating costs include fixed salaries and benefits, administration costs, occupancy costs, insurance expense, utilities expense and interest expense (other than interest expense relating to floor plan financing) of the dealerships only and do not include expenses pertaining to head office. Absorption rate is an operating measure commonly used in the retail automotive industry as an indicator of the performance of the parts, service and collision repair operations of a franchised automobile dealership. Absorption rate is not a measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, absorption rate may not be comparable to similar measures presented by other issuers that operate in the retail automotive industry.

Basis of Management’s Discussion and Analysis (“MD&A”)

To provide more meaningful information, this MD&A refers to the operating results from May 11, 2006 to December 31, 2006 of the Fund and the combined operating results of the Fund and CAG for the year ended December 31, 2006 and compares these periods to the results of CAG for similar operating accounts combined for year ended December 31, 2005 (See “Non-GAAP Measures” above). Readers should be cautioned that the results of operations of CAG for the period from January 1, 2005 to May 11, 2006 include certain expenses and contractual obligations that are not part of the Fund subsequent to May 11, 2006.

The Business of the Fund

The Fund is one of Canada’s largest multi-location automobile dealership groups, currently operating or managing 17 franchised dealerships in British Columbia, Alberta, Manitoba, Ontario, New Brunswick and Nova Scotia. In 2006, the 16 franchised automobile dealerships currently owned by the Fund, sold approximately 19,350 vehicles and processed approximately 215,000 service and collision repair orders in our 245 service bays. We have grown, and intend to continue to grow, our business through the acquisition of profitable franchised automobile dealerships in key markets, the organic growth of our existing dealerships, the opening of new franchised automobile dealerships, or “Open Points” and the management of franchised automobile dealerships.

Our revenues are derived from the following four inter-related business operations: new vehicle sales; used vehicle sales; parts, service and collision repair; and finance and insurance. While new vehicle sales are our most important source of revenue, they generally result in lower gross profits than used vehicle sales, parts, service and collision repair operations and finance and insurance sales. Our overall gross profit margins increase as revenues from our higher margin operations increase relative to revenues from lower margin operations.

The Fund’s geographical profile is illustrated below with dealerships and revenues by province for the years ended December 31, 2006 and December 31, 2005.

(In thousands of dollars except % of total and number of dealerships)	Current Number of Dealerships (1)	Year Ended December 31, 2006	% of Total	Number of Dealerships (1)	Year Ended December 31, 2005	% of Total
British Columbia	5	227,160	33%	4	113,441	23%
Alberta	7	340,799	49%	6	316,271	65%
All other	<u>4</u>	<u>125,753</u>	<u>18 %</u>	<u>4</u>	<u>55,861</u>	<u>12%</u>
Total	<u>16</u>	<u>693,712</u>	<u>100%</u>	<u>14</u>	<u>485,573</u>	<u>100%</u>

(1) Does not include the one dealership located in Alberta managed by the Fund effective February 7, 2007.

The following table sets forth the dealerships owned as at December 31, 2006 and March 22, 2007 and the date opened or acquired by the Fund or CAG. The first table excludes the dealership the Fund manages effective February 7, 2007 which is discussed below.

<u>Location of Owned Dealerships</u>	<u>Operating Name</u>	<u>Franchise</u>	<u>Year Opened or Acquired</u>
Victoria, British Columbia	Victoria Hyundai	Hyundai	2006
Maple Ridge, British Columbia	Maple Ridge Chrysler Jeep Dodge	Chrysler	2005
Prince George, British Columbia	Northland Chrysler Jeep Dodge	Chrysler	2002
Prince George, British Columbia	Northland Hyundai	Hyundai	2005
Kelowna, British Columbia	Okanagan Chrysler Jeep Dodge	Chrysler	2003
Grande Prairie, Alberta	Grande Prairie Chrysler Jeep Dodge	Chrysler	1998
Grande Prairie, Alberta	Grande Prairie Hyundai	Hyundai	2005
Grande Prairie, Alberta	Grande Prairie Subaru	Subaru	1998
Edmonton, Alberta	Crosstown Chrysler Jeep Dodge	Chrysler	1994
Edmonton, Alberta	Capital Chrysler Jeep Dodge	Chrysler	2003
Sherwood Park, Alberta	Sherwood Park Hyundai	Hyundai	2006
Ponoka, Alberta	Ponoka Chrysler Jeep Dodge	Chrysler	1998
Thompson, Manitoba	Thompson Chrysler Jeep Dodge	Chrysler	2003
Woodbridge, Ontario	Colombo Chrysler Jeep Dodge	Chrysler	2005
Moncton, New Brunswick	Moncton Chrysler Jeep Dodge	Chrysler	2001
Dartmouth, Nova Scotia	Dartmouth Chrysler Jeep Dodge	Chrysler	2006

<u>Location of Managed Dealerships</u>	<u>Operating Name</u>	<u>Franchise</u>	<u>Year Management Began by the Fund</u>
Grande Prairie, Alberta	Grande Prairie Nissan	Nissan	2007

On February 7, 2007, the Fund entered into a credit agreement with CAG to finance the acquisition of a Nissan dealership (the "Nissan Dealership"), by CAG and entered into a management agreement to provide management services. The Nissan Dealership is owned by a subsidiary of CAG which owns 46% of the Fund on a fully diluted basis.

Seasonality

We have leveled the Fund's monthly distributions to provide a steady stream of cash to Unitholders although, revenues are subject to seasonal fluctuations. The following table illustrates the quarterly variation in the sales of new and used vehicles, based on the combined results of the Fund and CAG for 2006 and an average of the 2005, 2004 and 2003 results of CAG.

	<u>2006</u>		<u>Average 2003 to 2005</u>	
	<u>New Vehicle Sales</u>	<u>Used Vehicle Sales</u>	<u>New Vehicle Sales</u>	<u>Used Vehicle Sales</u>
First Quarter	20%	24%	20%	24%
Second Quarter	26%	26%	28%	27%
Third Quarter	29%	27%	30%	26%
Fourth Quarter	25%	23%	22%	23%

The results from operations of CAG have been lower in the first and fourth quarters of each year, largely due to consumer purchasing patterns during the holiday season, inclement weather and the reduced number of business days during the holiday season. As a result, our 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.

Distributable Cash and Cash Distributions

The Fund's policy is to distribute annually to Unitholders available cash provided by operations after cash required for capital expenditures, working capital reserves, growth capital reserves and other reserves considered advisable by the Trustees of the Fund. The policy allows the Fund to make stable monthly distributions to its Unitholders based on the Fund's estimate of distributable cash for the year. The Fund pays cash distributions on or about the 15th of each month to Unitholders of record on the last business day of the previous month.

The following table summarizes the distributions of the Fund for the period of May 11, 2006 to December 31, 2006:

(In thousands of dollars)

Record date	Payment date	Fund Units		Exchangeable Units		Total	
		Declared	Paid	Declared	Paid	Declared	Paid
		\$	\$	\$	\$	\$	\$
May 31, 2006	June 15, 2006	618	618	525	525	1,143	1,143
June 30, 2006	July 17, 2006	912	912	775	775	1,687	1,687
July 31, 2006	August 15, 2006	912	912	775	775	1,687	1,687
August 31, 2006	September 15, 2006	912	912	775	775	1,687	1,687
September 30, 2006	October 16, 2006	912	912	775	775	1,687	1,687
October 31, 2006	November 15, 2006	912	912	775	775	1,687	1,687
November 30, 2006	December 15, 2006	912	912	775	775	1,687	1,687
December 31, 2006	January 15, 2007	912	-	775	-	1,687	-
		7,002	6,090	5,950	5,175	12,952	11,265

Distributions are paid on Fund Units and Exchangeable Units. As of December 31, 2006 the following numbers of units were outstanding:

Fund Units	10,949,500
Exchangeable Units	<u>9,307,500</u>
	<u>20,257,000</u>

During the period of May 11, 2006 to December 31, 2006, the Fund declared distributions of \$0.639 per Fund Unit and Exchangeable Unit to Unitholders. The distributions from May 11, 2006 to December 31, 2006 were funded from cash flow generated from operations. The Fund's IPO prospectus contemplated an initial distribution of \$0.0564 per unit and thereafter monthly distributions of \$0.0833 per unit or \$1 per year in aggregate. The Fund reviews its distribution policy on a periodic basis. For 2006, the tax deferred portion of distributions for Canadian federal income tax purposes was approximately 20%. Based on the proposed legislation announced by the Department of Finance Canada on October 31, 2006 in connection with the taxation of income trusts and other flow-through entities, the taxable income distributed by the Fund would be taxed commencing in 2011 or earlier in some circumstances more fully described under the heading "Outlook" below. The Fund is actively reviewing the implications of the proposed legislation to its Unitholders and is considering deferring elective tax deductions until the new regime is in place. As such, the Fund cannot now determine the portion, if any, of the 2007 distributions that will be tax deferred.

Distributable Cash per Unit (Fund Units and Exchangeable Units)

The following table summarizes the distributable cash of the Fund for the three-month period ended December 31, 2006 and from the inception of the Fund on January 4, 2006, which includes the results of operations from May 11, 2006 to December 31, 2006.

(In thousands of dollars except unit and per unit amounts)

	October 1, 2006 to December 31, 2006	January 4, 2006 to December 31, 2006 (including operations from May 11, 2006 to December 31, 2006)
	\$	\$
Cash provided by operating activities for the period	8,125	29,313
Less: Purchase of non-growth property and equipment (1)	(197)	(519)
Distributable cash	<u>7,928</u>	<u>28,794</u>
Weighted average units outstanding at the end of period (2)	20,257,000	20,257,000
Distributable cash per unit	0.391	1.421
Distributions declared to unitholders	5,061	12,952
Distributions declared per unit	0.250	0.639
Distributable cash less distributions declared at December 31, 2006	2,847	15,842
Distributable cash less distributions declared per unit	0.141	0.782
Basic and diluted earnings per unit	0.179	0.616

(1) Purchase of non-growth property and equipment are necessary to maintain and sustain the current productive capacity of the Fund's operations and distributable cash (see "Capital Expenditures" on next page for details). Management believes that maintenance capital expenditures should be funded by cash flow provided by operating activities. Capital spending for the expansion of sales and service capacity is expected to improve future distributable cash and as such is not deducted from cash flow provided by operating activities.

(2) Includes Fund and Exchangeable Units

Distributable cash from May 11, 2006 to December, 31, 2006 varies significantly from the results of operations measured by EBITDA of \$15,521 for the same period due primarily to the net change in non-cash operating working capital balances of \$13,479. This increase is a result of lower accounts receivable, higher accounts payable, higher inventories net of floorplan financing and the amounts due from the Vendors. These same items will contribute to volatility in distributable cash when compared to EBITDA on a quarterly basis.

Distributions declared to unitholders for the period are less than distributable cash generated since the distributions of the Fund are currently \$1 per year or \$0.0833 per month and cash available for distribution will vary in connection with the seasonality and the changes in non-cash working capital balances.

Capital Expenditures

The following table provides a reconciliation of the purchase of property and equipment as reported on the Statement of Cash Flows to the purchase of property and equipment as calculated in the distributable cash on the previous page:

(In thousands of dollars)	<u>October 1, 2006 to December 31, 2006</u>	<u>May 11, 2006 to December 31, 2006</u>
	\$	\$
Purchase of property and equipment from the Statement of Cash Flows	696	1,236
Less: Amounts related to the expansion of sales and service capacity	<u>(499)</u>	<u>(717)</u>
Purchase of non-growth property and equipment	<u>197</u>	<u>519</u>

Amounts relating to the expansion of sales and service capacity are considered growth expenditures. Growth expenditures are discretionary, represent cash outlays intended to provide additional future cash flows and are expected to provide benefit in future periods and thus they have been excluded from the calculation of distributable cash. Additional details on the components of non-growth property and equipment purchases are as follows:

(In thousands of dollars)	<u>October 1, 2006 to December 31, 2006</u>	<u>May 11, 2006 to December 31, 2006</u>
	\$	\$
Leasehold improvements	7	17
Machinery and equipment	39	150
Furniture and fixtures	55	110
Computer equipment	75	150
Company vehicles	<u>21</u>	<u>92</u>
	<u>197</u>	<u>519</u>

During the three month period ended December 31, 2006 and the period from May 11, 2006 to December 31, 2006, growth capital expenditures of \$499 and \$717 respectively were incurred primarily relating to one Open Point dealership that was completed in the fourth quarter of 2006 and equipment in connection with expansion of existing facilities. Repairs and maintenance expenditures are expensed as incurred and have been deducted from earnings for the period. Repairs and maintenance expense incurred during the three-month period ended December 31, 2006, was \$433 and was \$1,058 for the period from May 11, 2006 to December 31, 2006.

SELECTED FINANCIAL INFORMATION AND RESULTS FROM OPERATIONS

The following table shows the unaudited results of the Fund for the 51-day period ended June 30, 2006, the three-month period ended June 30, 2006, the three-month period ended December 31, 2006 and the audited results from May 11, 2006 to December 31, 2006. Also included in the table are the combined unaudited results of operations of the Fund and the Vendors for the year ended December 31, 2006. Combined results of CAG for the three-month period ended December 31 2005, have been derived from the 2005 audited combined consolidated financial statements of CAG. In addition, certain combined results of CAG for the period from January 1, 2005 to September 30, 2005 as previously disclosed have been restated to arrive at the results for the three-month period ended December 31, 2005. Specifically finance, insurance and other gross profit was adjusted to reflect the reasonable quarterly allocation of amounts determined on an annual basis. The results of operations for these periods are not necessarily indicative of the results of operations to be expected in any given period.

(In thousands of dollars except Operating Data and gross profit %)	The Fund	The Fund	The Fund	The Fund	CAG (Vendors)	The Fund and CAG Combined	CAG (Vendors)
	May 11 to June 30, 2006	July 1 to September 30, 2006	October 1 to December 31, 2006	May 11 to December 31, 2006	October 1 to December 31, 2005	January 1 to December 31, 2006	January 1 to December 31, 2005
Income Statement Data							
Revenue	105,992	189,861	176,079	471,932	127,122	693,712	485,573
New vehicles	59,044	106,424	98,970	264,438	69,052	378,124	279,744
Used vehicles	30,487	53,897	46,425	130,809	36,352	201,639	128,907
Parts, service and collision repair	10,734	19,632	21,410	51,776	15,349	77,861	54,330
Finance, insurance and other	5,727	9,908	9,274	24,909	6,369	36,088	22,592
Gross profit	17,775	30,818	28,930	77,523	21,775	113,113	76,359
New vehicles	4,190	6,792	6,998	17,980	5,394	25,964	18,970
Used vehicle	3,294	5,563	3,614	12,471	3,738	18,101	12,493
Parts, service and collision repair	5,014	8,721	9,514	23,249	6,719	34,875	23,706
Finance and insurance and other	5,277	9,742	8,804	23,823	5,924	34,173	21,190
Gross profit %	16.8%	16.2%	16.4%	16.4%	17.1%	16.3%	15.7%
Sales, general and administrative expenses	12,245	22,481	21,682	56,408	15,735	84,125	55,650
Floorplan interest expense	1,256	1,854	2,085	5,195	974	7,745	4,040
Other interest expense and bank charges	24	117	405	546	297	949	775
Net earnings (1)	3,631	5,220	3,623	12,474	4,278	16,700	15,544
EBITDA(2)	4,249	6,366	4,906	15,521	5,034	20,979	17,935
Operating Data							
Vehicles (new and used) sold	3,023	5,369	4,690	13,082	3,688	19,350	14,136
New retail vehicles sold	1,515	2,741	2,199	6,455	1,598	9,141	7,014
New fleet vehicles sold	211	371	525	1,107	482	1,708	1,388
Used retail vehicles sold	1,297	2,257	1,966	5,520	1,608	8,501	5,734
Number of service and collision repair orders completed	32,565	54,345	55,393	142,303	39,445	215,232	150,336
Absorption rate (3)	n/a	97%	96%	94%	101%	92%	95%
Number of franchised automobile dealerships at year end	14	14	16	16	14	16	14
Number of service bays at period end	223	223	245	245	223	245	223
Same store revenue growth(4)	n/a	3.8%	10.4%	n/a	n/a	4.4%	13.8%
Same store gross profit growth(4)	n/a	12.5%	6.3%	n/a	n/a	10.6%	24.4%
Balance Sheet Data							
Cash and cash equivalents	20,271	20,265	20,880	20,880	9,707	20,880	9,707
Accounts receivable	25,875	30,562	27,742	27,742	27,578	27,742	27,578
Inventories	145,888	101,252	112,680	112,680	96,206	112,680	96,206
Revolving floorplan facility	146,283	103,297	113,357	113,357	98,023	113,357	98,023

- (1) Net earnings for the Vendors from January 1, 2006 to May 10, 2006 and from January 1, 2005 to December 31, 2005 are net earnings as defined by GAAP plus income taxes, stock-based compensation and shareholder bonuses (including the performance component related to dealership management's compensation) to be consistent with the results of the Fund from May 11, 2006 to December 31, 2006.
- (2) EBITDA has been calculated as described under "Non-GAAP Measures" above. EBITDA for the Vendors is defined under "Non-GAAP Measures" with the exception that to facilitate comparison to the Fund we have added stock-based compensation and shareholder bonuses (including the performance component related to dealership management's compensation) expensed by the Vendors.
- (3) Absorption has been calculated as described under "Non-GAAP Measures" above.
- (4) Same store revenue growth and same store gross profit growth is calculated using franchised automobile dealerships that we have owned for at least two full years.

Annual Operating Results

The year ended December 31, 2006 showed an improvement over the previous year. The first quarter is historically the industry's weakest in terms of revenues, earnings and EBITDA and the results to date follows this pattern. Historically revenues, earnings and EBITDA vary each quarter throughout a year with the second and third quarter producing the strongest results and the first and fourth quarters being the weakest quarters. References to "we" during the year ended December 31, 2006 is to the results of the Fund and the Vendors on a combined basis. The Vendors and the Fund's results have been combined in 2006 in order to facilitate comparison to the results of CAG in 2005. In calculating EBITDA for the year ended 2006 the combined results of the Vendors and the Fund for 2006 does not include \$448 of compensation expense relating to amounts that would have been paid by the Vendors to our Dealer Principals for the period from January 1, 2006 to May 11, 2006 under the compensation plan that was put into effect on May 11, 2006 for the Fund. As well during the period from May 11, 2006 to December 31, 2006 the Fund incurred stock based compensation of \$455 which is included in selling, general and administrative expenses ("SG&A"). Under the terms of the AutoCanada Incentive Unit Option Plan these options may be exercised by an optionee only if, at the time of exercise, the total amount of the cash available for the 12 month period ended immediately preceding the time of exercise is at least \$1.20 per Unit on a fully-diluted basis.

Revenues

Revenues for the year ended December 31, 2006 increased to \$693.7 million from \$485.6 million in the prior year. The 42.9% year-over-year increases in revenue results largely from acquired dealerships. For the year ended December 31, 2006 the four new dealerships that were acquired or opened during 2005 and the three dealerships that were opened or acquired in 2006 accounted for approximately 91% of the increase in revenues over the prior year.

The following table summarizes the results for the year ended December 31, 2006 on a same store basis by revenue source for the nine dealerships that were owned and operated for all of 2006 and 2005.

(In thousands of dollars except % change and vehicle data)	Same Store Revenue and Vehicles Sold		
	For the Year Ended		
	December 31, <u>2006</u>	December 31, <u>2005</u>	<u>% Change</u>
Revenue Source			
New vehicles	260,588	257,705	1.1%
Used vehicles	127,303	119,817	6.2%
Parts, service and collision repair	55,800	52,200	6.9%
Finance, insurance and other	<u>25,831</u>	<u>19,999</u>	<u>29.2%</u>
Total	<u>469,522</u>	<u>449,721</u>	<u>4.4%</u>
New vehicles sold	7,108	7,630	(6.8)%
Used vehicles sold	<u>5,326</u>	<u>5,236</u>	<u>1.7%</u>
Total	<u>12,434</u>	<u>12,866</u>	<u>(3.4)%</u>

Same Store Analysis

Same store revenue increased by \$19.8 million or 4.4% in the year ended December 31, 2006. New vehicle revenues increased by \$2.9 million or 1.1% in the year ended December 31, 2006 due to a combination of an increase in the average selling price per new vehicle retailed (“PNVR”) of \$2,886 in 2006 and a 522 unit decrease in sales of new vehicles from the prior year. The increase in the PNVR was largely as a result of a change in vehicle sales mix between vehicle types and a decline in fleet sales. The decrease in new vehicle units sold in 2006 compared to 2005 was a result of a decrease of 249 retail units and 273 low margin fleet unit sales. A significant portion of the decrease was largely as a result of a decline of low margin fleet units and 92 retail units at one location in the three months ended March 31, 2006 due to a temporary increase in the level of competition during the quarter at this location.

The increase in used vehicle revenues of \$7.5 million or 6.2% was primarily a result of the increase in average selling price per used vehicle retailed (“PUVR”) of \$1,019 a unit for the year ended December 31, 2006. This was as a result of our continued focus on our strategy of purchasing low mileage late model vehicles from manufacturers’ closed auctions.

The increase in parts, service and collision repair revenues of \$3.6 million or 6.9% for the year ended December 31, 2006 compared to the prior year was a result of the increase in both the average revenue per service and collision repair order completed and the number of service and collision repair orders completed for the year ended December 31, 2006.

Finance and insurance and other revenue increased by \$5.8 million or 29.2% in the year ended December 31, 2006 over the prior year. Approximately 50% of this increase is as a result of the increase in the commission rate received on life, dismemberment and disability insurance contracts sold by our dealerships to customers who purchase new and used vehicles. Prior to January 1, 2006, CAG also participated in the underwriting profits or losses from these insurance contracts. Effective January 1, 2006, the insurer of these contracts pays a higher commission rate at the time of sale and there is no participation in the underwriting profits or losses. The remaining increase was as a result of increased finance and insurance revenue per vehicle and increased interest income associated with the higher average cash balances during the year ended December 31, 2006 compared to the prior year.

Gross profit

During the year ended December 31, 2006 the gross profit increased by 48.1% to \$113.1 million. Approximately 83% of this increase in the year ended December 31, 2006 was the result of the four new dealerships that were opened or acquired during 2005 and the three dealerships that were opened or acquired in 2006.

The following table summarizes the results for the year ended December 31, 2006 on a same store basis by revenue source for the nine dealerships that were owned and operated for all of 2006 and 2005.

Same Store Gross Profit and Gross Profit Percentage

(In thousands of dollars except % change and gross profit %)	For the Year Ended					
	Gross Profit			Gross Profit %		
	Dec. 31, 2006	Dec. 31, 2005	% Change	Dec. 31, 2006	Dec. 31, 2005	% Change
Revenue Source						
New vehicles	17,407	17,505	(0.6)%	6.7%	6.8%	(0.1)%
Used vehicles	10,657	11,372	(6.3)%	8.4%	9.5%	(1.1)%
Parts, service and collision repair	25,040	22,816	9.7%	44.9%	43.7%	1.2%
Finance, insurance and other	<u>24,834</u>	<u>18,744</u>	<u>32.5%</u>	<u>96.1%</u>	<u>93.7%</u>	<u>2.4%</u>
Total	<u>77,938</u>	<u>70,437</u>	<u>10.6%</u>	<u>16.6%</u>	<u>15.7%</u>	<u>0.9%</u>

Same Store Analysis

Same store gross profit increased by 10.6% to \$77.9 million in the year ended December 31, 2006. New vehicle gross profit was relatively unchanged as it decreased by \$0.1 million or 0.6% in the year ended December 31, 2006 compared to the prior year as a result of the decrease of 249 retail units and 273 low margin fleet unit sales which was offset by the increase in the average gross margin PNVR of \$115 in 2006 compared to the prior year. The change in the average gross margin PNVR is largely as a result of a change in vehicle sales mix between vehicle types, change in manufacturer volume incentive programs, introduction of new vehicle models and the decline in fleet sales.

Used vehicle gross profit decreased by \$0.7 million or 6.3% as a result of both a decrease of 90 unit sales and a decrease in the average gross margin PUVR of \$171 in the year ended December 31, 2006 compared to the prior year. The change in the average gross margin PUVR is largely as a result of mix between vehicle types.

The increase in parts, service and collision repair gross profit of \$2.2 million or 9.7% for the year ended December 31, 2006 compared to the prior year was primarily a result of the increase in both the average gross profit per service and collision repair order completed and the number of service and collision repair orders completed for the year ended December 31, 2006.

Finance and insurance and other gross profit increased by 32.5% in the year ended December 31, 2006 over the prior year. Approximately 47% of this increase was as a result of the increase in the commission rate received on life, dismemberment and disability insurance contracts sold by our dealerships to customers who purchase new and used vehicles. Prior to January 1, 2006, CAG also participated in the underwriting profits or losses from these insurance contracts. Effective January 1, 2006, the insurer of these contracts pays a higher commission rate at the time of sale and there is no participation in the underwriting profits or losses. The remaining increase was as a result of increased finance and insurance revenue per vehicle and increased interest income associated with the higher average cash balances during the year ended December 31, 2006 compared to the prior year.

Selling, general and administrative expenses

During the year ended December 31, 2006, SG&A expenses increased by 51.2% to \$84.1 million primarily due to the four dealerships that were opened or acquired during 2005 and the three dealerships that were opened or acquired in 2006. During the year ended December 31, 2006, SG&A as a percentage of gross profit increased from 72.9% to 74.4%. SG&A as a percentage of gross profit increased primarily due to the increased rental costs associated with new facilities at two dealerships, unit-based compensation, a planned increase in administrative costs associated with head office and the inclusion of the variable component of dealership management's compensation in SG&A from May 11, 2006 to December 31, 2006 that was included in "Shareholder bonuses" in the December 31, 2005 audited combined financial statements of CAG in the Fund's final prospectus dated May 3, 2006. The difference in disclosure of dealership management's compensation is a result of the difference in ownership structure and contracts that were put in place between the Vendors in 2005 and the Fund subsequent to our IPO on May 10, 2006. The increase in SG&A was partially offset by the increase in the gross profit as a result of the increase in the commission rate received on life, dismemberment and disability insurance contracts discussed above.

Amortization expense

During the year ended December 31, 2006, amortization was \$3,796 while it was \$1,728 for the year ended December 31, 2005 for CAG. This is a significant increase in amortization expensed by the Fund over the amounts previously reported by CAG. The increase is due primarily to the four dealerships acquired in the fourth quarter of 2005 and the three dealerships that were opened or acquired in 2006 and the increase in the carrying amount of property and equipment as a result of the Fund acquiring certain property and equipment at fair values that exceeded the carrying amount of CAG's property and equipment by approximately \$3.9 million at May 10, 2006. The majority of the \$2,068 increase in amortization is in leasehold improvements, which are amortized over the remaining lease term, which in some cases is a period of less than two years from May 11, 2006. The amortization expense in 2007 will be impacted to a lesser degree from the amortization of leasehold improvements.

Floorplan interest expense

During the year ended December 31, 2006, floorplan interest expense increased by 91.7% to \$7,745 over 2005. Of this increase in interest expense, approximately 53% was a result of the four new dealerships opened or acquired in 2005 and the three dealerships that were opened or acquired in 2006 and the remainder was caused by an increase in interest rates and higher inventory levels.

The manufacturer provides non-refundable credits on the floorplan interest to offset the dealership's cost of inventory that, on

average, effectively provide the dealerships with interest-free floorplan financing for the first 45 to 60 days of ownership. During the year ended December 31, 2006, the net floorplan credits were \$4,492. GAAP requires the floor-plan credits to be accounted for as a reduction in the cost of new vehicle inventory and subsequently a reduction in the cost of sales as vehicles are sold.

Fourth Quarter Operating Results

The three-month period ended December 31, 2006 showed a decrease over the previous quarter in 2006 and the comparable period in 2005 in terms of earnings and EBITDA. The fourth quarter, along with the first quarter, is historically the industry's weakest in terms of revenues, earnings and EBITDA and the results for the fourth quarter of 2006 follows this pattern. In calculating EBITDA for the fourth quarter 2006 the Fund incurred stock based compensation of \$163 which is included in SG&A expenses. Under the terms of the AutoCanada Incentive Unit Option Plan these options may be exercised by an optionee only if, at the time of exercise, the total amount of the cash available for the 12 month period ended immediately proceeding the time of exercise is at least \$1.20 per Unit on a fully-diluted basis. Management estimates that if certain employees and shareholders were paid under the same contractual terms that currently exist within the Fund EBITDA for the fourth quarter of 2005 would be reduced by \$486 to \$4,548.

During the fourth quarter of 2006 we incurred significant start-up operating losses of approximately \$160 at our Sherwood Park Hyundai dealership which opened on November 15, 2006. We initially planned to open this dealership during the summer of 2006 but the opening was delayed as a result of construction delays. We expect this dealership to be profitable during the second quarter of 2007. We also incurred approximately \$200 of non-reoccurring expenses related to the acquisition of Victoria Hyundai which was acquired on October 31, 2006. To date management is pleased with the performance of this acquired dealership.

Revenues

Revenues for the three-month period ended December 31, 2006 increased to \$176.1 million, from \$127.1 million for the same period in the prior year. The 38.5% year-over-year increases in revenue for the period results largely from acquired dealerships. For the three-month period ended December 31, 2006 the four new dealerships that were acquired or opened during 2005 and the three dealerships that were opened or acquired in 2006 accounted for approximately 81% of the increase in revenues for the same period in the prior year.

The following table summarizes the results for the three-month period ended December 31, 2006 on a same store basis by revenue source for the nine dealerships that were owned and operated for all of 2006 and 2005.

Same Store Revenue and Vehicles Sold			
(In thousands of dollars except % change and vehicle data)	For the Three-Month Period Ended		
	December 31, 2006	December 31, 2005	% Change
Revenue Source			
New vehicles	66,083	55,933	18.1%
Used vehicles	27,641	30,008	(7.9)%
Parts, service and collision repair	15,067	13,748	9.6%
Finance, insurance and other	<u>6,474</u>	<u>4,706</u>	<u>37.6%</u>
Total	<u>115,265</u>	<u>104,395</u>	<u>10.4%</u>
New vehicles sold	1,714	1,648	4.0%
Used vehicles sold	<u>1,174</u>	<u>1,243</u>	<u>(5.6)%</u>
Total	<u>2,888</u>	<u>2,891</u>	<u>(0.1)%</u>

Same Store Analysis

Same store revenue increased by \$10.9 million or 10.4% in the three-month period ended December 31, 2006. New vehicle revenues increased by \$10.1 million or 18.1% for the quarter ended December 31, 2006 over the same period in the prior year due in part to an increase in new vehicle sales of 66 units consisting of an increase of 10 retail units and 56 low margin fleet unit sales. Contributing to the majority of the increase in new vehicle revenues for the three-month period ended December 31, 2006 was an increase in the average selling price per new vehicle retailed (“PNVR”) of \$4,614 over the same period in the prior year largely as a result of a change in vehicle sales mix between vehicle types in both retail and fleet sales.

Used vehicle revenues decreased by \$2.4 million or 7.9% in the three-month period ended December 31, 2006 over the comparable period in the prior year. The decrease was due to both a decrease in the number of used vehicles sold of 69 and the average selling price per used vehicle retailed of \$597 for the three-month period ended December 31, 2006.

The increase in parts, service and collision repair revenue of \$1.3 million or 9.6% in the three-month period ended December 31, 2006 compared to the same period in the prior year was primarily a result of the increase in both the average gross profit per service and collision repair order completed and the number of service and collision repair orders completed for the three-month period ended December 31, 2006.

Finance and insurance and other revenue increased by \$1.8 million or 37.6% in the three-month period ended December 31, 2006 over the same period in the prior year. Approximately 42% of this increase was a result of increase in the commission rate received on life, dismemberment and disability insurance contracts sold by our dealerships to customers who purchase new and used vehicles. Prior to January 1, 2006, CAG also participated in the underwriting profits or losses from these insurance contracts. Effective January 1, 2006, the insurer of these contracts pays a higher commission rate at the time of sale and there is no participation in the underwriting profits or losses. The remaining increase was as a result of increased finance and insurance revenues per vehicle and increased interest income associated with the higher average cash balances during the three-month ended December 31, 2006 compared to the same period in 2005.

Gross profit

During the three-month period ended December 31, 2006 the gross profit increased by 32.9% to \$28.9 million. Approximately 95% of this increase in the three-month period ended December 31, 2006 was the result of the four new dealerships that were opened or acquired during 2005 and the three dealerships that were acquired in 2006.

The following table summarizes the results for the three-month and nine-month periods ended December 31, 2006 on a same store basis by revenue source for the nine dealerships that were owned and operated for all of 2006 and 2005.

Same Store Gross Profit and Gross Profit Percentage

(In thousands of dollars except % change and gross profit %)	For the Three-Month Period Ended					
	Gross Profit			Gross Profit %		
	Dec. 31, 2006	Dec. 31, 2005	% Change	Dec. 31, 2006	Dec. 31, 2005	% Change
Revenue Source						
New vehicles	4,519	4,793	(5.7)%	6.8%	8.6%	(1.8)%
Used vehicles	1,984	2,976	(33.4)%	7.2%	9.9%	(2.7)%
Parts, service and collision repair	6,706	6,171	8.7%	44.5%	44.9%	(0.4)%
Finance, insurance and other	<u>6,272</u>	<u>4,385</u>	<u>43.0%</u>	<u>96.9%</u>	<u>93.2%</u>	<u>3.7%</u>
Total	<u>19,481</u>	<u>18,325</u>	<u>6.3%</u>	<u>16.9%</u>	<u>17.6%</u>	<u>(0.7)%</u>

Same Store Analysis

Same store gross profit increased by \$1.2 million or 6.3% in the three-month period ended December 31, 2006. New vehicle gross profit decreased by \$0.3 million or 5.7% in the three-month period ended December 31, 2006 compared to the same period in the prior year as a result of the decrease in the average gross margin PNVR of \$272 largely as a result of a change in vehicle sales mix between vehicle types, change in manufacturer volume incentive programs, and an increase in fleet sales.

Used vehicle gross profit decreased by \$1.0 million or 33.4% in the three-month period ended December 31, 2006 over the same period in the prior year. The used vehicle departments at the various dealerships that we operated performed exceptional well during the fourth quarter of 2005 when compared to the fourth quarter of 2006 or the same quarter in years prior to 2005. When compared to 2005 the decrease in used vehicle gross was due to the average gross profit per used vehicle retailed decreasing by \$705 and a decrease of 69 used vehicles sold for the three-month period ended December 31, 2006. The decline in the average gross profit per used vehicle retailed was partially offset by increases in the average amount of finance and insurance income earned per used vehicle retailed at seven of the nine stores included in same store sales.

The increase in parts, service and collision repair gross profit of \$0.5 million or 8.7% in the three-month period ended December 31, 2006 was primarily a result of the increase in both the average gross profit per service and collision repair order completed and the number of service and collision repair orders completed for the three-month period ended December 31, 2006.

Finance and insurance and other gross profit increased by \$1.9 million or 43.0% in three-month period ended December 31, 2006. Approximately 39% of this increase was as a result of an increase in the commission rate received on life, dismemberment and disability insurance contracts sold by our dealerships to customers who purchase new and used vehicles. Prior to January 1, 2006, CAG also participated in the underwriting profits or losses from these insurance contracts. Effective January 1, 2006, the insurer of these contracts pays a higher commission rate at the time of sale and there is no participation in the underwriting profits or losses. The remaining increase was as a result of increased finance and insurance revenues per vehicle and increased interest income associated with the higher average cash balances during the three-month period ended December 31, 2006 compared to the prior period in 2005.

Selling, general and administrative expenses

During the three-month period ended December 31, 2006, SG&A expenses increased by 37.8% to \$21.7 million due to the four new dealerships that were acquired during 2005 and the three dealerships that were opened or acquired in 2006. During the three-month period ended December 31, 2006, SG&A as a percentage of gross profit increased from 73.0% to 74.9%. SG&A as a percentage of gross profit increased primarily due to increased rental costs associated with new facilities at two dealerships, unit-based compensation, a planned increase in administrative costs associated with head office, increased administrative costs associated with the new Open Point and the inclusion of the variable component of dealership management's compensation in SG&A in 2006 that was included in "Shareholder bonuses" in the December 31, 2005 audited combined financial statements of CAG in the Fund's final prospectus dated May 3, 2006. The difference in disclosure of dealership management's compensation is a result of the difference in ownership structure and contracts that were put in place between the Vendors in 2005 and the Fund subsequent to our IPO on May 10, 2006. The increase in SG&A was partially offset by the increase in the gross profit as a result of the increase in the commission rate received on life, dismemberment and disability insurance contracts discussed above.

Amortization expense

During the three-month period ended December 31, 2006, amortization was \$1,136 while it was \$487 for the prior period in 2005 for CAG. This is a significant increase in amortization expensed by the Fund over the amounts previously reported by CAG. The increase is due primarily to the four new dealerships acquired in the fourth quarter of 2005 and the three dealerships that were opened or acquired in 2006 and the increase in the carrying amount of property and equipment as a result of the Fund acquiring certain property and equipment at fair values that exceeded the carrying amount of CAG's property and equipment by approximately \$3.9 million at May 10, 2006. The majority of the \$649 increase in the amortization is in leasehold improvements, which are amortized over the remaining lease term, which in some cases is a period of less than two years from May 11, 2006. The amortization expense in 2007 will be impacted to a lesser degree from the amortization of leasehold improvements.

Floorplan interest expense

During the three-month periods ended December 31, 2006, floorplan interest expense increased by 114.1% to \$2,085 over the same period in 2005. Of this increase in interest expense, approximately 36% was as a result of the four new dealerships acquired in

2005 and the three dealerships that were opened or acquired in 2006 and the remainder was caused by an increase in interest rates and higher inventory levels.

The manufacturer provides non-refundable credits on the floorplan interest to offset the dealership's cost of inventory that, on average, effectively provide the dealerships with interest-free floorplan financing for the first 45 to 60 days of ownership. During the three-month period ended December 31, 2006, the net floorplan credits were \$1,177. GAAP requires the floor-plan credits to be accounted for as a reduction in the cost of new vehicle inventory and subsequently a reduction in the cost of sales as vehicles are sold.

Sensitivity

Our financial performance is dependent in part upon new vehicle sales. Based on our historical financial data, management estimates that an increase or decrease of one new retail vehicle sold (and the associated finance and insurance income on the sale) would result in a corresponding increase or decrease in our estimated cash available for distribution of approximately \$1,500 per vehicle. This analysis does not take into account any operating strategies which we may employ in response to changing trends in vehicle sales.

Acquisitions

On October 31, 2006, the Fund expanded its presence in western Canada by acquiring the net operating assets of Victoria Hyundai located in Victoria, British Columbia. The dealership's sales facility and real estate will be leased from a related party. The acquisition of Victoria Hyundai brings the total number of new vehicle franchises owned and operated by AutoCanada to 16, with 5 franchises in British Columbia. Victoria Hyundai sold 464 new vehicles and 410 used vehicles in its last fiscal year ended June 30, 2006 and currently operates ten service bays.

We continue to actively pursue the acquisition of additional franchised automotive dealerships in Canada that meet our investment criteria. We are currently engaged in discussions with select manufacturers' regarding obtaining approval for public ownership of franchises that they operate.

Open Points

The Fund has entered into letters of intent to open one new franchised automobile dealerships in Western Canada with each of Hyundai Auto Canada ("Hyundai") and Canada Inc. ("DaimlerChrysler") In the case of the Hyundai Open Point, the closing of the purchase and sale of the agreement to purchase the land has been delayed pending vendor's site preparation and clean up, the completion of which is a condition to close. Regarding the DaimlerChrysler Open Point, we have not yet secured land acceptable to ourselves and the manufacturer, the search for which is continuing. Once the location has been approved, in the case of DaimlerChrysler, and the appropriate development permit has been obtained in both cases, it will take approximately nine months to complete construction of each facility. We have advised and are working with both Hyundai and DaimlerChrysler, respectively, and intend to open each open point as soon as the land has been secured and premises built, the date of which is not certain in the case of the DaimlerChrysler Open Point, and, in our best estimate, second quarter 2008 in the case of the Hyundai Open Point. The achievement of the opening of these Open Points is subject to various risks as described in the "Risk Factors" below. Some of these risks are beyond management's control.

Dealerships Managed by the Fund

On February 7, 2007, the Fund entered into a credit agreement with CAG to finance the acquisition of a Nissan dealership by CAG and entered into a management agreement to provide it with management services. The Nissan dealership is owned and operated by a subsidiary of CAG which owns 46% of the Fund on a fully diluted basis. The Fund obtained the funds to finance the acquisition of the Nissan dealership through its existing Revolving Term Facility. In connection with this arrangement, the Fund has granted consents to CAG and its subsidiary under the terms of the non-competition agreements entered into at the time of the Fund's IPO.

The dealership to be named "Grande Prairie Nissan", in Grande Prairie, Alberta, was established in 1969, and sold 388 new and 196 used vehicles in 2006. The dealership will be relocated to a new location in Grande Prairie that has been approved by Nissan Canada and construction is planned to commence during the summer of 2007. The Fund's arrangement with CAG marks an expansion of the Fund's business structure. In addition to owning franchised automobile dealerships, the Fund will earn fees from managing and financing the acquisition of franchised automobile dealerships offered by select manufacturers where there is not an

arrangement in place with the manufacturer that would allow the franchised dealership to be owned directly by the Fund.

The Fund's strategic intent is to continue to seek to expand the range of automobile brands it sells as automobile manufacturers become more familiar with the Fund's management, business model and unique publicly traded status. The structure may vary among dealerships and manufacturers in order to accommodate the needs of the manufacturer, the dealerships, and the Fund. These relationships are intended to provide the Fund with the financial benefits associated with an expanded network of dealerships while accommodating the requirements of the various automobile manufacturers. The Fund and CAG intend to work together to obtain the approvals of the various automobile manufacturers to permit these dealerships to be owned by the Fund under arrangements approved by the automobile manufacturer. There can be no assurance that the Fund will be granted such permission.

This new arrangement gives rise to additional risks inherent in its structure which include: (i) the contractual nature of the relationships compared with the direct ownership of the dealerships; (ii) the dependency upon CAG and its principal shareholder, Patrick Priestner, as the owner and principal operator of these dealerships; and (iii) conflicts of interest that may arise between the objectives of the Fund and CAG and their respective owners and management.

As a result of the Fund's financing of the purchase and the related agreements, the Fund has determined that the Nissan Dealership is a variable interest entity and it is the primary beneficiary as defined by CICA Accounting Guideline 15. Accordingly, the Fund will account for the entry into these agreements as a business combination and consolidate the results of the Nissan Dealership subsequent to February 7, 2007. The Fund is in the process of finalizing its measurement and valuation of the net assets of the Nissan Dealership, including the identification of goodwill and intangible assets. Thus determination of the final purchase price and its allocation is subject to the completion of this process.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow from Operating Activities

Cash flow from operating activities of the Fund for the period from May 11, 2006 to December 31, 2006 was \$29.3 million. Comparative cash flow from operating activities for CAG cannot be determined for the same period in 2005 as the information is not available. Cash flow from operating activities of CAG for the fiscal year ended December 31, 2005 was \$4.4 million. The Fund generates sufficient cash flow from operations to fund capital expenditures, distributions, working capital requirements and to service its debt obligations.

Distributable Cash and Cash Distributions

The Fund's policy is to make stable monthly distributions to its Unitholders based on its estimate of distributable cash for the year. The Fund has a policy to pay cash distributions on or about the 15th of each month to Unitholders of record on the last business day of the previous month. As we calculate the Fund's Distributable Cash, we take into consideration our debt management strategy and productive maintenance and growth capital strategy.

Credit Facilities

Our Credit Facilities with Chrysler Financial Corporation ("CFC") provide for a Revolving Floorplan Facility of up to \$183.1 million to finance our inventories and a Revolving Term Facility of up to \$50 million to assist in the financing of our working capital and the acquisition of franchised automobile dealerships.

Amounts drawn on the Revolving Term Facility to assist in the financing of our working capital will be primarily for used vehicles, parts inventory and general corporate purposes, including financing the costs incurred in equipping our Open Points, or in purchasing new equipment for our existing dealerships. Amounts drawn on the Revolving Term Facility to assist in acquisitions will be available to finance acquisitions of franchised automobile dealerships. We expect to repay the amounts drawn on the Revolving Term Facility to finance acquisitions through the issuance of Units, subject to market conditions. These facilities are available on a revolving basis. \$5.3 million of the \$50 million Revolving Term Facility has been drawn on as at December 31, 2006 in connection with the acquisition of Victoria Hyundai and working capital requirements.

The Revolving Term Facility has a term of three years from May 11, 2006 with annual one year extensions at the discretion of CFC. Advances under this portion of the Credit Facility are repayable without any pre-payment penalties or bonus (subject to normal breakage costs) and will bear interest at a floating rate plus an applicable spread.

Both the Revolving Floorplan Facility and the Revolving Term Facility require maintenance of certain financial covenants and are collateralized by a general security agreement consisting of a first security interest on all present and future property. The credit facilities may in certain circumstances restrict the ability of the Fund to pay distributions if the payment would result in a default under the credit facilities. At December 31, 2006, the Fund was in compliance with these covenants.

Interest Rate Sensitivity

The Fund's revolving floor plan facility bears interest at floating rates, thus exposing the Fund to interest rate fluctuations. At December 31, 2006 the increase or decrease in net earnings for each one percent change in interest rates on floating rate debt amounted to approximately \$1,187.

Credit Risk

Concentration of cash and cash equivalents exists due to the significant amount of cash held with CFC. Concentration of credit risk with respect to contracts-in-transit and accounts receivable is limited primarily to automobile manufacturers and financial institutions. Credit risk arising from receivables from commercial customers is not significant due to the large number of customers comprising our customer base.

Capital Expenditures

Our capital expenditures consist primarily of leasehold improvements, the purchase of furniture and fixtures, service vehicles, computer hardware and computer software. Management expects that our annual capital expenditures will increase in the future, as a function of increases in the number of locations requiring maintenance capital expenditures, the cost of opening new locations and increased spending on information systems. Our future growth is dependent on our ability to acquire and integrate additional dealerships and to successfully operate existing dealerships. Management expects that our cash flow generated from operations, together with working capital availability under our Revolving Term Facility, is sufficient to fund our debt service, working capital requirements and capital spending.

In 2007 the Fund is continuing its upgrade of existing dealership management software supplied by ADP and converting our locations supplied by Reynolds and Reynolds to ADP. This will be another key enabler in supporting efforts to standardize processes and share best practices across all dealerships. Also, the Fund plans to open two Open Points and these new stores will require capital expenditures of approximately \$1,000 on a combined basis. Costs related to the Open Points will be treated as growth capital when incurred (see Open Points above). As discussed above, the Fund has credit facilities available to finance these and other growth related capital expenditures.

Contractual Obligations

The table below sets forth, as at December 31, 2006, the material contractual obligations of the Fund, due in the years indicated, which relate to various premises and equipment operating leases.

(In thousands of dollars)	<u>Operating Leases</u>	<u>Long-term Debt</u>	<u>Total</u>
	\$	\$	\$
Less than one year	4,501	96	4,597
One to three years	7,683	5,535	13,218
Four to five years	5,432	-	5,432
Thereafter	1,200	-	1,200
	<u>18,816</u>	<u>5,631</u>	<u>24,447</u>

Financial Position

The following table shows selected audited balances of the Fund at December 31, 2006, unaudited balances of the Fund at September 30, 2006 and June 30, 2006, combined unaudited balances of CAG at March 31, 2006 and the combined audited balances of CAG at December 31, 2005.

	The Fund			CAG (Vendors)	
	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006	December 31, 2005
Balance Sheet Data					
Cash and cash equivalents	20,880	20,265	20,271	6,019	9,707
Accounts receivable	27,742	30,562	25,875	28,417	27,578
Inventories	112,680	101,252	145,888	124,607	96,206
Total assets	338,532	325,017	364,939	200,995	169,855
Revolving floorplan facility	113,357	103,297	146,283	122,454	98,023
Total long term liabilities	5,535	294	105	559	14,520

Net Working Capital

The automobile manufacturers represented by the Fund require the Fund to maintain an aggregate minimum net working capital of approximately \$25.5 million. At December 31, 2006, net working capital was approximately \$30.1 million.

Off Balance Sheet Arrangements

The Fund has not entered into any off balance sheet arrangements.

Related Party Transactions

Note 15 to the audited consolidated financial statements of the Fund summarizes the transactions between the Fund and its related parties. These transactions are management fees received and rents paid to companies with common ownership, management and directors. We lease nine of our existing 16 locations from related parties to the Fund. The total rent paid by us to the related parties for the period from May 11, 2006 to December 31, 2006 was \$1,344. We have received advice from a national real estate appraisal company that the market rents at January 1, 2006 of each of our facilities leased from related parties of the Fund are at fair market value rates.

On February 7, 2007 the Fund granted consents to permit Patrick Priestner to open a new Toyota automobile dealership in exchange for an annual fee. Mr. Priestner is the majority shareholder of CAG and is the Chief Executive Officer of the Fund. The Fund's action follows its previously announced strategic intent to enhance its relationships with a wider range of manufacturers in order to develop its long-term growth prospects. The new dealership, "Sherwood Park Toyota", consists of a 55,000-square foot showroom, sales and repair facility building containing 22 service bays located on six acres of land in a suburb of Edmonton. Although discussions between Toyota Canada and Mr. Priestner began prior to the Fund's Initial Public Offering in May 2006, consents are required under the terms of the non-competition agreements entered into between the Fund and CAG and its shareholders at the time of the Fund's IPO. The Fund intends to work towards obtaining the approval of Toyota Canada Inc. to permit Sherwood Park Toyota to be owned by the Fund under arrangements approved by the automobile manufacturer. There can be no assurance that the Fund will be granted such permission.

Financial Instruments

The Fund's financial instruments include cash and cash equivalents, accounts receivable, due from vendors, accounts payable and accrued liabilities, revolving floorplan facility, distributions payable, long-term debt and obligation under capital lease. The fair value of these instruments are considered to approximate their carrying value due to their short-term maturities, variable rates of interest or ability of prompt liquidation, except as noted in the audited consolidated financial statements of the Fund. These financial instruments are subject to credit risk and interest rate risk, as described in those audited consolidated financial statements. For a detailed description of financial instruments, see Note 18 ("Financial instruments") in the audited consolidated financial statements of the Fund.

The Accounting Standards Board has issued three new standards dealing with financial instruments that the Fund will be required to adopt in future years: (i) Financial Instruments — Recognition and Measurement (ii) Hedges and (iii) Comprehensive Income. The key principles under these standards are that all financial instruments, including derivatives, are to be included on an entity's balance sheet and measured, either at their fair values or, in limited circumstances when fair value may not be considered most relevant, at cost or amortized cost. Financial instruments intended to be held-to-maturity should be measured at amortized cost. Existing requirements for hedge accounting are extended to specify how hedge accounting should be performed. Also, a new location for recognizing certain unrealized gains and losses — other comprehensive income — has been introduced. This provides the ability for certain unrealized gains and losses arising from changes in fair value to be temporarily recorded outside the income statement but in a transparent manner. The new standards are effective for the Fund beginning January 1, 2007. The standards do not permit restatement of prior years' financial statements however the standards have detailed transition provisions. Management is in the process of evaluating the effect of the adoption of the new standards on the Fund's financial statements. Based on a preliminary analysis, it is not expected to have a material effect on the financial position and results of operations.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in conformity with GAAP, which requires management to make estimates, judgments and assumptions that management believes are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Management bases its estimates on historical experience and other assumptions which it believes to be reasonable under the circumstances. Management also evaluates its estimates on an ongoing basis.

Our significant accounting policies are described in Note 2 (“Significant Accounting Policies”) of the audited consolidated financial statements of the Fund. The policies which management believes are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

Revenue Recognition

Vehicles, parts, service and collision repair

Revenue from the sale of new and used vehicles is recognized upon delivery, passage of title, signing of the sales contract and approval of financing or receipt of payment. Revenue from the sale of parts, service and collision repair is recognized upon delivery of parts to the customer or at the time vehicle service or repair work is completed. Manufacturer vehicle incentives and rebates are recognized as a component of new vehicle cost of sales when earned, generally at the time the related vehicles are sold. Dealer trades are recognized on a net basis upon delivery. Net revenue associated with dealer trades is nominal.

Finance and insurance

The Fund arranges financing for customers through various financial institutions and receives a commission from the lender based on the difference between the interest rate charged to the customer and the interest rate set by the financing institution, or a flat fee. This revenue is included in vehicles revenue on the statement of operations. The Fund also receives commissions for facilitating the sale of third party insurance products to customers, including credit and life insurance policies and extended service contracts. These commissions are recorded as revenue at the time the customer enters into the contract and the Fund is entitled to the commission. The Fund is not the obligor under any of these contracts. In the case of finance contracts, a customer may prepay or fail to pay their contract, thereby terminating the contract. Customers may also terminate extended service contracts, which are fully paid at purchase, and become eligible for refunds of unused premiums. In these circumstances, a portion of the commissions the Fund receives may be charged back to the Fund based on the terms of the contracts. The revenue the Fund records relating to commissions is net of an estimate of the amount of chargeback's the Fund will be required to pay. This estimate is based upon historical chargeback experience arising from similar contracts, including the impact of refinance and default rates on retail finance contracts and cancellation rates on extended service contracts and other insurance products.

Lease revenue

Lease revenue is recognized on a straight-line basis over the term of the related lease agreement as amounts become due.

Inventory Valuation

Inventory is valued at the lower of cost and net realizable value. The value of our inventory is dependent upon our ability to plan and manage our inventory so as to avoid miscalculation in brand or model popularity. Any such miscalculation could adversely affect the value of our inventory. Our planning procedures and our supply chain structure are designed to minimize inventory write downs.

Finance and Insurance Commission Reserve

We may be required to pay back a portion of the commissions earned from the sale of third party finance and insurance products in the event of early contract termination by customers. The revenue from financing fees and commissions are recorded at the time of sale of the vehicles and are recorded as part of the new or used vehicle sales price. A reserve for future repayments is established at the time the sale is made. Our process for establishing the reserve carefully considers our historical repayment percentages and the timing of such repayments.

Changes in Accounting Policies and Initial Adoption

Financial instruments

The Accounting Standards Board has issued three new standards dealing with financial instruments that the Fund will be required to adopt in future years: (i) Financial Instruments — Recognition and Measurement (ii) Hedges and (iii) Comprehensive Income. The key principles under these standards are that all financial instruments, including derivatives, are to be included on an entity's balance sheet and measured, either at their fair values or, in limited circumstances when fair value may not be considered most relevant, at cost or amortized cost. Financial instruments intended to be held-to-maturity should be measured at amortized cost. Existing requirements for hedge accounting are extended to specify how hedge accounting should be performed. Also, a new location for recognizing certain unrealized gains and losses — other comprehensive income — has been introduced. This provides the ability for certain unrealized gains and losses arising from changes in fair value to be temporarily recorded outside the income statement but in a transparent manner. The new standards are effective for the Fund beginning January 1, 2007. The standards do not permit restatement of prior years' financial statements however the standards have detailed transition provisions. Management is in the process of evaluating the effect of the adoption of the new standards on the Fund's financial statements. Based on a preliminary analysis, it is not expected to have a material effect on the financial position and results of operations.

Disclosure Controls and Procedures

As at December 31, 2006, an evaluation was carried out for the effectiveness of our disclosure controls and procedures as defined in Multilateral Instrument 52-109. Based on that evaluation, we concluded that the design and operation of these disclosure controls and procedures are effective.

Internal Controls Over Financial Reporting

Management is responsible for designing such internal controls over financial reporting, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. No changes were made in the Fund's internal control over financial reporting during the period ended December 31, 2006, that have materially affected, or are reasonably likely to materially affect, the Fund's internal control over financial reporting. The Fund's financial reporting procedures and practices have enabled the certification of the Fund's annual filings in compliance with Multilateral Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings". Management has designed such internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements and other annual filings in accordance with Canadian Generally Accepted Accounting Principles.

CEO and CFO Certifications

The Fund files certifications, signed by the CEO and CFO, with the Canadian Securities Administrators upon filing of the Fund's annual financial statements and MD&A. In those filings, the CEO and CFO certify, as required by Multilateral Instrument 52-109, the appropriateness of the financial disclosures, the effectiveness of the Fund's disclosure controls and procedures, and the design of internal controls over financial reporting to provide reasonable assurance as to its reliability and the preparation of financial statements for external purposes in accordance with GAAP. The Fund's CEO and CFO also certify the appropriateness of the financial disclosures in its interim filings with Securities Regulators, and that they have caused disclosure controls and procedures to be designed. The Audit Committee reviewed this MD&A, and the audited consolidated financial statements, and the Board of Directors and Trustees approved these documents prior to their release.

Outlook

We intend to continue to grow our cash flow through continued growth in same store gross profit and operating results, acquisitions, the planned opening of two Open Points and the addition of franchised automobile dealerships managed by the Fund. Management intends to increase same store sales growth and realize further operating efficiencies and synergies by continuing to implement standardized operating policies at our most recent acquisitions including Maple Ridge Chrysler, Colombo Chrysler Dodge, Northland Hyundai and Victoria Hyundai. Management believes that new vehicle launches by our automobile manufacturers in 2006 and 2007 will provide us with opportunities to increase sales in 2007. We have identified potential acquisitions that would be accretive to our existing operations and complement our growth model and strategies in 2007. We will also continue to seek opportunities to add additional franchised automobile dealerships under management similar to Grande Prairie Nissan in order to grow the Fund's cash flow and follow its previously announced strategic intent to enhance its relationships with a wider range of manufacturers in order to develop its long-term growth prospects. We plan to open two Open Points in Western Canada and management expects these Open Points to benefit from strong brand acceptance, continued economic expansion and our recent expertise gained from the successful opening of Grande Prairie Hyundai in 2005 and Sherwood Park Hyundai in 2006. The achievement of this outlook is subject to various risks as described in the "Risk Factors" below. Some of these risks are beyond management's control.

On October 31, 2006, the Department of Finance Canada announced proposed legislation in connection with the taxation of income trusts and other flow-through entities (the "Plan"). Included in the Plan are proposed changes to the taxation of income trusts. Specifically, certain distributions of an income trust's income will be subject to tax at corporate income tax rates. Those distributions will, like the dividends that corporations pay, not be deductible by an income trust. The unitholders in an income trust will be taxed as though the distributions were dividends and taxable unitholders will be eligible for the dividend tax credit. Unitholders that hold their units in tax deferred accounts such as pension plans or registered pension plans or non-residents unitholders will not be eligible for the dividend tax credit. The entities that will be subject to these proposed new rules will be fully defined in the legislation to implement these measures. As a practical matter, however, it can be assumed that the rules will apply to any publicly-traded "income trust" (or publicly-traded partnership), other than one that only holds passive real estate investments. These changes will generally take effect beginning with the 2007 taxation year for income trusts that begin to be publicly-traded after October 2006, but will only apply beginning with the taxation year ended December 31, 2011 for those income trusts that are already publicly-traded.

On December 15, 2006, the Department of Finance Canada released guidance for income trusts and other flow-through entities that qualify for the four-year transitional relief. The guidance establishes objective tests with respect to how much an income trust is permitted to grow without jeopardizing its transitional relief. In general, the Fund will be permitted to issue new equity over the next four years equal to its market capitalization as of the end of trading on October 31, 2006 (subject to certain annual limits). Market capitalization, for these purposes, is to be measured in terms of the value of the Fund's issued and outstanding publicly traded units. Those safe harbour limits are 40% for the period from November 1, 2006 to December 31, 2007, and 20% each for calendar 2008, 2009 and 2010. Moreover, these limits are cumulative, so that any unused limit for a period carries over into the subsequent period. If required to fund its growth strategy the Fund could issue new Units for proceeds of approximately \$50 million in 2007 and approximately \$123 million for the period 2007 to 2010 and remain within the safe harbour guidelines. If these limits are exceeded, the Fund may lose its transitional relief and thereby become immediately subject to the proposed rules. Management currently believes that the provisions of the Plan are not a material constraint on the Fund's growth prospects.

The aspects of the Plan discussed above are proposed at this date and still have to pass through the legislative process and thus the final impact to the Unitholders of the Fund on the taxation of the Fund's distributions is uncertain at this time. The Fund is closely monitoring legislative developments and will continue to assess the impact of the proposed legislation on the business and financial outlook of the Fund.

On November 12, 2006, DaimlerChrysler amended their Multi Dealer Group policy specific to the Fund allowing the Fund to acquire additional DCCI dealerships to a maximum 8% (previously 5%) of DaimlerChrysler Canadian annual sales. This gives the Fund the potential to acquire an estimated seven additional dealerships that could sell an additional 6,000 new vehicles per year at an average of approximately 800 new vehicles per dealership.

The Federal Government in its recent budget announced separate vehicle levy and rebate programs determined on the basis of fuel consumption. The combined impact of such programs is not certain, as the actual amount of the levy on all vehicles is not yet known and, as the levy is paid by the manufacturer, the degree to which it shall be passed on to the ultimate consumer not clear. Subject to the aforesaid, management's best estimate is that the combined impact will be neutral to the Fund's operations as most of the vehicles it sells, including full size trucks, are not impacted one way or the other, and although certain of its large vehicles (mostly larger SUVs) shall be subject to the levy, these are not large volume vehicles, and a larger number of the vehicles it sells will or may benefit from the rebate, including some of its newer small SUVs.

Additional information

Additional information relating to the Fund, including all public filings, is available on SEDAR (www.sedar.com).

RISK FACTORS

As at December 31, 2006, there are no material changes in the Fund's risks or risk management activities since the time of the initial public offering other than those discussed in "Dealerships Managed by the Fund" which are reiterated below. The Fund's results of operations, business prospects, financial condition, cash distributions to Unitholders and the trading price of the Fund's units are subject to a number of risks. These risk factors include: the retail automotive industry, which includes risks relating to: overall consumer demand; substantial competition in vehicle sales and services; dependence upon vehicle sales; mix of new vehicles; interest rates; automobile manufacturer incentive programs; seasonality; and import product restrictions and foreign trade; our business, which includes risks relating to: the loss of key personnel and limited management and personnel resources; unfavorable conditions in key geographic markets; governmental regulations and environmental regulation compliance costs; and insurance coverage; our acquisition strategy, which includes risks relating to: automobile manufacturers' restrictions on acquisitions; integration of acquisitions; financing constraints; and competition with other franchised automobile dealerships; our dependence on automobile manufacturers, which includes risks relating to: our automobile dealership franchise agreements; restrictions on ownership thresholds and the sale of our business; requirements to maintain minimum working capital; approval of Open Points; dealerships managed by the Fund which includes risk relating to: the contractual nature of the relationships compared with the direct ownership of the dealerships; the dependency upon CAG and its principal shareholder, Patrick Priestner, as the owner and principal operator of these dealerships; and conflicts of interest that may arise between the objectives of the Fund and CAG and their respective owners and management; and adverse conditions affecting one or more automobile manufacturers. Risks relating to our structure include: dependence upon the Partnership to fund cash distributions; the fact that cash distributions are not guaranteed and will fluctuate with business performance; the fact that our distributions are discretionary; the nature of the Units; limited liability of Unitholders; absence of a prior public market; unpredictability and volatility of Unit prices; attributes of securities distributed on redemption of Units or termination of the Fund; dilution; new requirements as a public issuer; leverage and restrictive covenants; future sales of Units by the Fund; income tax matters including proposed changes to income tax law; limitations on future growth and cash flow; restrictions on the ownership of Units by non-residents of Canada; indemnities provided by CAG and the Principal Shareholders; and the fact that Unitholders are not afforded certain statutory rights.

For a discussion of these risks and other risks associated with an investment in Fund Units, see "Risk Factors" detailed in the Fund's final prospectus dated May 3, 2006 available at www.sedar.com.