

August 14, 2006

## **Attention Business/Financial Editors:**

### **AutoCanada Income Fund releases financial results for the first reporting period ended June 30, 2006:**

EDMONTON, Alberta, August 14/CNW - AutoCanada Income Fund (the "Fund") (TSX: ACQ.UN) announced financial results for the 51 days from the closing of its initial public offering of trust units on May 11, 2006 to June 30, 2006. For information purposes, the Fund has also provided a compilation of second quarter results, combining financial results for the 51 day period ended June 30, 2006 with selected unaudited results of the operations of Canada One Auto Group, the Fund's predecessors for the period from April 1, 2006 to May 10, 2006.

For the 51 day period ended June 30, 2006, the Fund reported revenues of \$106 million, net earnings of \$3.6 million or \$0.1792 per (weighted average) unit outstanding. Distributable cash was \$0.2104 per unit and distributions were \$0.1397 per unit.

On a combined basis, for the three-month period ended June 30, 2006, revenues were \$184.7 million compared to \$124.0 million for the corresponding period in 2005, an increase of 49%. Gross profits for the three-month period was up 59% when compared to the corresponding period in 2005. Gross profit percentages were up 1.0% for the three-months ended June 30, 2006 when compared to the corresponding quarter in 2005. Gross profits from same stores showed a \$3.5 million improvement for the second quarter and a \$4.5 million improvement on a year-to-date basis when compared to the same quarter and year-to-date in the previous year.

"We are very pleased with the financial results for our initial operating period, especially the continued organic growth of our existing dealerships" said Patrick Priestner, AutoCanada's founder and CEO. "While the initial operating period is a short time frame to provide a definitive comparison of performance relative to the estimates at the time of our IPO, we have significantly improved the cash flow from the dealerships that we owned at the time of our IPO." Looking forward Mr. Priestner stated that "the Fund continues to aggressively grow our core automotive retail operations, especially the highly profitable parts and service business. As part of this strategy, through-out 2007 we will expand physical service bay capacity at our Grande Prairie and Prince George dealership operations by adding 23 service bays as well as increasing the number of technicians and operating hours at other locations. We anticipate that Fund will continue to grow as we execute our growth strategy through accretive acquisitions of other franchised automotive dealers, continued organic growth and the commencement of operations at new franchised automotive dealerships that have been awarded to us by manufacturers."

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 \$102,095,000. Concurrent with the closing of the IPO, the Fund used the proceeds from the IPO to acquire an indirect 50.4% interest in AutoCanada Limited Partnership ("AutoCanada LP") and AutoCanada LP used such net proceeds to acquire the net assets (the "Purchased Assets") of Canada One Auto Group. On May 31, 2006, as a result of the exercise of the over allotment option granted to underwriters, the Fund acquired a further 3.65% interest in the Purchased Assets and thus increased its total interest in the Purchased Assets to 54.05%.

Distributable Cash of the Fund is a non-GAAP measure generally used by Canadian open-ended income funds as an indicator of financial performance. We define Distributable Cash as cash flows from operating activities for the period, proceeds on disposal of property and equipment less non-cash operating working capital balances and purchases of non-growth property and equipment.

## **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" in the Fund's prospectus which can be found at [www.sedar.com](http://www.sedar.com). Although the forward looking statements are based upon what management believes are reasonable assumptions, we 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, we assume no obligation to update or revise them to reflect new events or circumstances.

### **About AutoCanada**

AutoCanada is Canada's only publicly traded entity with interests exclusively in the operation of franchised automobile dealerships. Through its 54.05% interest in AutoCanada LP, it operates 14 franchised automobile dealerships in six provinces and has over 800 employees. It currently sells various new vehicle brands, including Chrysler, Dodge, Jeep, and Hyundai. In 2005, its franchised automobile dealerships sold approximately 19,000 vehicles and processed approximately 204,000 service and collision repair orders in 223 service bays, generating revenue of approximately \$628 million.

Additional information about AutoCanada Income Fund is available at [www.sedar.com](http://www.sedar.com) and the Fund's website at [www.autocan.ca](http://www.autocan.ca). For further information contact:

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

The following discussion and analysis should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes (the "Interim Financial Statements") of AutoCanada Income Fund (the "Fund") for the period ended June 30, 2006 which includes operations from May 11, 2006 to June 30, 2006. These 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. Certain dollar amounts have been rounded to the nearest hundred thousand dollar, while other amounts have been rounded to the nearest thousand dollars. References to notes are to the notes to the Interim Financial Statements of the Fund unless otherwise stated.

This Management Discussion and Analysis is dated August 14, 2006.

### **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 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 \$102,095,000. The costs of issuance of the units were \$8,523,000. 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 \$100,475,000. On May 31, 2006, the underwriters exercised their over-allotment option for 740,000 additional units for \$7,400,000 thereby increasing the interest of the Fund to 54.05%.

The Fund is in the process of finalizing its estimate of the fair value of assets acquired and liabilities assumed. Working capital amounts as at May 11, 2006 and June 30, 2006 have been estimated and the process 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 when the Fund releases its audited annual 2006 financial statements 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:

<b>(In thousands of dollars)</b>	<b>\$</b>
Consideration	
Cash from the Offering	102,095
Issuance of Exchangeable LP Units	100,475
Estimated cost of offering	(8,523)
	<hr/>
Total purchase price	194,047
	<hr/>
	<b>\$</b>
Allocated as follows:	
Net working capital	27,419
Long-term assets	12,906
Long-term liabilities	(142)
Intangible assets	77,800
Goodwill	76,064
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	194,047
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Additional information concerning the Fund is contained in the final prospectus of the Fund dated May 3, 2006, at SEDAR ([www.sedar.com](http://www.sedar.com)) and at the Fund's website, ([www.autocan.ca](http://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), income taxes, depreciation and amortization and references to "distributable cash" are to cash 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. We calculate Distributable Cash as cash flows from operations for the period, proceeds on disposal of property and equipment less non-cash operating working capital balances and 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, the following MD&A refers to the three-month period ended June 30, 2006 and 2006 year-to-date combined operating results of the Fund and CAG and compares it to the results for CAG for similar operating accounts combined for the three-month period ended June 30, 2005 and 2005 year-to-date operating results (See “Non-GAAP Measures” above).

### **The Business of the Fund**

The Fund is one of Canada’s largest multi-location automobile dealership groups, operating 14 franchised dealerships in British Columbia, Alberta, Manitoba, Ontario, New Brunswick and Nova Scotia. In 2005, the franchised automobile dealerships we now own sold approximately 19,000 vehicles and processed approximately 204,000 service and collision repair orders in our 223 service bays. We have grown, and intend to continue to grow, our business through the acquisition of underperforming franchised automobile dealerships, the acquisition of profitable franchised automobile dealerships in key markets, the organic growth of our existing dealerships and the opening of new franchised automobile dealerships, or Open Points.

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. We evaluate the results of our new and used vehicle sales based on unit volumes and gross profit per vehicle retailed (“PVR”), our parts, service and collision repair based on aggregate gross profit, and finance and insurance based on gross profit PVR. 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.

### **Seasonality**

We have leveled the Fund’s monthly distributions to provide a steady stream of income to Unitholders although, revenues are subject to seasonal fluctuations. As the following table illustrates, based on an average of the 2005, 2004 and 2003 results of CAG, the sales of new and used vehicles vary quarterly.

	<u><b>New Vehicle Sales</b></u>	<u><b>Used Vehicle Sales</b></u>
First Quarter	20%	24%
Second Quarter	28%	27%
Third Quarter	30%	26%
Fourth Quarter	22%	23%

The results from operations of the 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 from 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 by the Fund for the period from April 1, 2006 to June 30, 2006, which includes the results of operations from May 11, 2006 to June 30, 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 15, 2006	912	-	775	-	1,687	-
		1,530	618	1,300	525	2,830	1,143

Distributions are paid on Fund Units and Exchangeable Units. As of June 30, 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 ended June 30, 2006, the Fund declared distributions of \$0.1397 per Fund Unit and Exchangeable Unit to Unitholders. The distributions in the period ended June 30, 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. Management estimates that the portion of distributions that will be tax-deferred to Unitholders in calendar 2006 is to be approximately 20% to 30%.

## Distributable Cash per Unit (Fund Units and Exchangeable Units)

The following table summarizes the distributable cash of the Fund from the inception of the Fund on January 4, 2006, which includes the results of operations from May 11, 2006 to June 30, 2006.

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

**January 4, 2006  
to June 30, 2006  
(including  
operations from  
May 11, 2006 to  
June 30, 2006)**  
\$

Cash flows from operating activities for the period	16,954
Less: Net change in non-cash operating working capital balances	<u>(12,606)</u>
EBITDA (1) plus unit-based compensation less gain on disposal of property and equipment	4,348
Add: Proceeds on disposal of property and equipment	12
Less: Purchase of non-growth property and equipment (See table below)	<u>(97)</u>
Distributable cash	<u>4,263</u>
Weighted average units outstanding at the end of period (2)	20,257,000
Distributable cash per unit	0.2104
Distributions declared to unitholders	2,830
Distributions declared per unit	0.1397
Distributable cash less distributions declared at June 30, 2006	1,433
Distributable cash less distributions per unit	0.0707
Basic and diluted earnings per unit	0.179

(1) EBITDA includes floorplan interest expense as described under "Non-GAAP Measures" above

(2) Includes Fund and Exchangeable Units

Distributions declared to unitholders for the period are less than distributable cash 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.

### ***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 calculation above:

(In thousands of dollars)

**May 11, 2006  
to June 30, 2006**  
\$

Purchase of property and equipment from the Statement of Cash Flows	123
Less: Amounts related to developed and acquired dealerships	<u>(26)</u>
Purchase of non-growth property and equipment	<u>97</u>

Amounts relating to developed and acquired dealerships 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 is as follows:

<b>(In thousands of dollars)</b>	<b>May 11, 2006 to June 30, 2006</b>
	<b>\$</b>
Leasehold improvements	5
Machinery and equipment	54
Furniture and fixtures	27
Computer equipment	11
Company vehicles	-
	<hr/>
	97
	<hr/>

During the period growth capital expenditures of \$26,000 were incurred primarily relating to the expansion of our parts and service department at Grande Prairie Hyundai. Repairs and maintenance expenditures are expensed as incurred and have been deducted from earnings for the period. Repairs and maintenance expense incurred from May 11, 2006 to June 30, 2006 was \$219,000.

## SELECTED FINANCIAL INFORMATION AND RESULTS FROM OPERATIONS

The following table shows the unaudited results of the Fund from May 11, 2006 to June 30, 2006, the combined unaudited results of CAG for the period from April 1, 2006 to May 10, 2006, combined results from operations of the Fund and the Vendors from April 1, 2006 to June 30, 2006 and 2006 year-to-date. Combined revenues, gross profit and selling, general and administrative expenses of CAG from April 1, 2005 to June 30, 2005 as well as 2005 year-to-date results, have been derived from the 2005 audited combined consolidated financial statements of CAG. 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 %)	CAG	The Fund	The Fund	CAG	The Fund	CAG
	(Vendors)	The Fund	and CAG Combined	(Vendors)	and CAG Combined	(Vendors)
	April 1 to May 10, 2006	May 11 to June 30, 2006	April 1 to June 30, 2006	April 1 to June 30, 2005	January 1 to June 30, 2006	January 1 to June 30, 2005
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Income Statement Data</b>						
Revenue	78,688	105,992	184,680	123,977	327,772	224,892
New vehicles	43,387	59,044	102,431	73,835	172,730	130,376
Used vehicles	23,059	30,487	53,546	31,992	101,318	59,797
Parts, service & collision repair	8,004	10,734	18,738	12,984	36,819	25,204
Finance & insurance and other	4,238	5,727	9,965	5,166	16,905	9,515
Gross profit	11,490	17,775	29,265	18,351	53,365	33,187
New vehicles	2,592	4,190	6,782	4,602	12,174	7,798
Used vehicle	1,472	3,294	4,766	3,052	8,924	5,358
Parts, service & collision repair	3,698	5,014	8,712	5,749	16,641	10,909
Finance & insurance and other	3,728	5,277	9,005	4,948	15,626	9,122
Gross profit%	14.6%	16.8%	15.8%	14.8%	16.3%	14.8%
Sales, general & administrative expenses	9,327	12,142	21,469	13,248	39,858	24,363
Floorplan interest expense	897	1,256	2,153	986	3,847	1,972
Other interest expense	69	24	93	115	386	202
Net earnings (1)	1,130	3,631	4,761	4,268	7,858	6,603
EBITDA(2)	1,298	4,249	5,547	4,790	9,372	7,587
<b>Operating Data</b>						
Vehicles (new and used) sold	2,045	3,023	5,068	3,630	9,291	6,426
New retail vehicles sold	950	1,515	2,465	1,804	4,201	3,093
New fleet vehicles sold	161	211	372	378	812	694
Used retail vehicles sold	934	1,297	2,231	1,448	4,278	2,639
Number of service & collision repair orders completed	24,807	32,565	57,372	38,516	105,494	72,659
Absorption rate (3)	n/a	n/a	95%	94%	92%	97%
Number of franchised automobile dealerships at period end	14	14	14	12	14	12
Number of service bays at period end	223	223	223	174	223	174
Same store sales growth(4)	n/a	n/a	5%	n/a	2%	n/a
Same store gross profit growth(4)	n/a	n/a	21%	n/a	14%	n/a
<b>Balance Sheet Data</b>						
Cash and cash equivalents	9,625	20,271	20,271	10,045	20,271	10,045
Accounts receivable	27,827	25,875	25,875	20,868	25,875	20,868
Inventories	128,298	145,888	145,888	105,459	145,888	105,459
Revolving floorplan facility	126,048	146,283	146,283	110,997	146,283	110,997

- (1) Net earnings for the Vendors from January 1, 2006 to May 10, 2006 and from January 1, 2005 to June 30, 2005 are net earnings as defined by GAAP with income taxes, stock-based compensation and shareholder remuneration added back to make it consistent with the results of the Fund from May 11, 2006 to June 30, 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 back stock-based compensation and shareholder remuneration expensed by the Vendors as the Fund will not be incurring these expenses.

- (3) Absorption has been calculated as described under “Non-GAAP Measures” above.
- (4) Same store sales growth and same store gross profit growth is calculated using franchised automobile dealerships that we have owned for at least two full years.

## Second Quarter Operating Results

Overall the three-month period ended June 30, 2006 showed an improvement over the previous quarter. The first quarter is historically the industry’s weakest in terms of sales, earnings and EBITDA and the results to date follows this pattern. Historically sales, earnings and EBITDA vary each quarter throughout a year with the third quarter producing the strongest results and the first and fourth quarters being the weakest quarters. References to “we” during the three-month period ended June 30, 2006 are to the results of the Fund and the Vendors on a combined basis. The Vendors and the Fund’s results have been combined in order to facilitate comparison to prior periods.

### Revenues

Revenues for the three-month and six-month periods ended June 30, 2006 increased to \$184.7 million and \$327.8 million, respectively from \$124.0 million and \$223.9 million for the same periods in the prior year. The 49% and 46% year-over-year increases in revenue for the respective periods results largely from acquired dealerships. For the three-month and six-month periods ended June 30, 2006 the four new dealerships that were opened or acquired during 2005 and the one dealership that was acquired in 2006 accounted for 89% and 95% of the increase in revenues for the same periods in the prior year.

The following table summarizes the results for the six-month period ended June 30, 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 Months Ended			For the Six Months Ended		
	June 30, 2006	June 30, 2005	% Change	June 30, 2006	June 30, 2005	% Change
	(Unaudited)			(Unaudited)		
<b>Revenue Source</b>						
New vehicles	69,938	70,189	(0.4)%	120,743	126,730	(4.7)%
Used vehicles	35,136	31,057	13.1%	64,683	58,862	9.9%
Parts, service & collision repair	13,253	12,830	3.3%	26,528	25,051	5.9%
Finance & insurance and other	<u>7,050</u>	<u>4,846</u>	<u>45.5%</u>	<u>12,039</u>	<u>9,140</u>	<u>31.7%</u>
<b>Total</b>	<u>125,377</u>	<u>118,922</u>	<u>5.4%</u>	<u>223,993</u>	<u>219,783</u>	<u>1.9%</u>
New vehicles sold	1,865	2,047	(8.9)%	3,335	3,652	(8.7)%
Used vehicles sold	<u>1,438</u>	<u>1,436</u>	<u>0.1%</u>	<u>2,683</u>	<u>2,627</u>	<u>2.1%</u>
<b>Total</b>	<u>3,303</u>	<u>3,483</u>	<u>(5.2)%</u>	<u>6,018</u>	<u>6,279</u>	<u>(4.2)%</u>

### Same Store Analysis

Same store revenue increased by 5.4% and 1.9% respectively in the three-month and six-month periods ended June 30, 2006. New vehicle sales decreased by 182 units for the quarter ended June 30, 2006 as a result of a decrease of a 184 low margin fleet unit sales in the quarter. New vehicles sold declined by 317 units during the six-months ended June 30, 2006 largely as a result of a decline of 92 units retailed 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 and a decline in low margin fleet sales. For the three-month and six-month periods ended June 30, 2006 the average selling price per new vehicle retailed (“PNVR”) increased by \$3,211 and \$1,503 respectively for the same periods in the prior year largely as a result of a change in vehicle sales mix between vehicle types and the decline in fleet sales.

The average selling price per used vehicle retailed for the three-month and six-month periods ended June 30, 2006 increased by 13% and 8% respectively, largely as a result of a continued focus on our strategy of purchasing low mileage late model vehicles from manufacturers’ closed auctions.

Finance and insurance and other revenue increased by 45.5% in three-month period ended June 30, 2006, primarily as 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.

### Gross profit

During the three-month and six-month periods ended June 30, 2006 our gross profit increased by 59% to \$29.3 million and 61% to \$53.4 million respectively. Approximately 65% and 71% of this increase in the three-month and six-month periods ended June 30, 2006 respectively was the result of the four new dealerships that were opened or acquired during 2005 and the one dealership that was acquired in 2006.

The following table summarizes the results for the three-month and six-month periods ended June 30, 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

	For the Three Months Ended						For the Six Months Ended					
	Gross Profit			Gross Profit %			Gross Profit			Gross Profit %		
	June 30, 2006	June 30, 2005	% Change	June 30, 2006	June 30, 2005	Change	June 30, 2006	June 30, 2005	% Change	June 30, 2006	June 30, 2005	Change
(In thousands of dollars except % change and gross profit %)												
	(Unaudited)			(Unaudited)			(Unaudited)			(Unaudited)		
<b>Revenue Source</b>												
New vehicles	4,483	3,664	22.3%	6.4%	5.2%	1.2%	7,993	7,530	6.2%	6.6%	5.9%	0.7%
Used vehicles	2,859	2,922	(2.2)%	8.1%	9.4%	(1.3)%	5,216	5,228	(0.2)%	8.1%	8.9%	(0.8)%
Parts, service & collision repair	6,231	5,618	10.9%	47.0%	43.8%	3.2%	12,148	10,777	12.7%	45.8%	43.0%	2.8%
Finance & insurance and other	6,728	4,616	45.8%	95.5%	95.3%	0.2%	11,515	8,791	31.0%	95.7%	96.2%	(0.5)%
<b>Total</b>	<u>20,301</u>	<u>16,820</u>	<u>20.7%</u>	<u>16.2%</u>	<u>14.1%</u>	<u>2.1%</u>	<u>36,872</u>	<u>32,326</u>	<u>14.1%</u>	<u>16.5%</u>	<u>14.7%</u>	<u>1.8%</u>

### *Same Store Analysis*

Management believes that the key factors contributing to the increase in our same store gross profits were an increase in the gross margins PNVR. For the three-month and the six-month periods ended June 30, 2006 the average gross margin PNVR increased by \$613 and \$335 respectively compared to the same periods in the prior year.

Finance and insurance and other gross profit increased by 45.8% in the three-month period ended June 30, 2006, primarily 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.

### *Selling, general & administrative expenses*

During the three-month and six-month period ended June 30, 2006, SG&A expenses increased by 62% to \$21.5 million and 64% to \$39.9 million respectively due to the four new dealerships that were opened or acquired during 2005 and the one dealership that was acquired in 2006. During the three-month and six-month period ended June 30, 2006, SG&A as a percentage of gross profit increased from 72% to 73% and 73% to 75% respectively. SG&A as a percentage of gross profit has increased primarily due to increased rental costs associated with new facilities at two dealerships and increased administrative costs associated with head office.

### *Amortization expense*

During the 51-day period from May 11, 2006 to June 30, 2006, amortization was \$618,000 while it was \$728,000 for the three-month period ended March 31, 2006 of CAG. This is a significant increase in amortization by the Fund over the amounts previously reported by CAG. The increase is due primarily to 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 \$3.9 million increase 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.

### *Floorplan interest expense*

During the three-month and six-month periods ended June 30, 2006, floorplan interest expense increased by 118% to \$2,153 and 95% to \$3,847 respectively over the same periods in 2005. The increase in interest expense was caused by an increase in interest rates and higher inventory levels as a result of the four new dealerships opened or acquired in 2005 and the one dealership that was acquired in 2006.

### **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. This analysis does not take into account any operating strategies which we may employ in response to changing trends in vehicle sales.

### **Acquisitions**

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 with Hyundai Auto Canada ("Hyundai") and two other automobile manufacturers to open four new franchised automobile dealerships in Western Canada. Based on our experience, we expect the sustainable new vehicle sales from these four Open Points to total approximately 4,200 vehicles per year once they have become fully performing.

Our future landlord has commenced construction of two of the four Open Points and these franchised dealerships are anticipated to be operational prior to year end, although current construction manpower shortages specific to Western Canada may impact planned timelines. Upon completion of construction of these dealership facilities, the Fund anticipates leasing these dealerships from a related party at fair market value as determined by an independent national appraisal company. A third Open Point was originally anticipated to begin operations in 2006. The Fund had made arrangements to lease land and building for this third Open Point however, the landlord was unable to obtain the necessary development permit for the property that was selected. An alternative location has been secured, approved by the manufacturer and a development permit has been submitted. We anticipate that this new Open Point will be operational in 2007.

We are currently working with a manufacturer to determine an acceptable location for our fourth Open Point. We anticipate that a location that we propose to this manufacturer will be approved during the fourth quarter of 2006. Once the location has been approved and the appropriate development permit has been obtained it will take approximately nine months to complete construction. 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.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Cash Flow from Operating Activities**

Cash flow from operating activities for the period ended June 30, 2006 was \$17 million. Comparative cash flow from operating activities for CAG cannot be determined on a quarterly basis 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.

### **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.

### **Credit Facilities**

Our Credit Facilities with Chrysler Financial Corporation ("CFC") provide for a Revolving Floorplan Facility of up to \$183.125 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 Credit Facility to finance acquisitions through the issuance of Units, subject to market conditions. These facilities are available on a revolving basis. No amount relating to the \$50 million Revolving Term Facility has been drawn on at June 30, 2006.

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 Floor plan 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 facility may in certain circumstances restrict the ability of AutoCanada LP to pay distributions if the payment would result in a default under the Credit Facility. At June 30, 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 June 30, 2006 the increase or decrease in net earnings before income taxes for each one percent change in interest rates on floating rate debt amounted to approximately \$1.5 million.

## 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 expenditures. 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 believes that our cash flow generated from operations, together with working capital availability under our Credit Facility, is sufficient to fund our debt service, working capital requirements and capital spending.

## Contractual Obligations

The table below sets forth, as at June 30, 2006, the material contractual obligations of the Fund, due in the years indicated, which relate to various premises operating leases.

(In thousands of dollars)	Operating Leases
	\$
2007	4,374
2008	3,514
2009	3,098
2010	2,839
2011	2,246
Thereafter	<u>1,872</u>
	<u>17,943</u>

## Financial Position

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

The Fund	CAG (Vendors)	CAG (Vendors)	
	June 30, 2006	March 31, 2006	December 31, 2005
	(unaudited)	(unaudited)	
<b>Balance Sheet Data</b>			
Cash and cash equivalents	20,271	6,019	9,707
Accounts receivable	25,875	28,417	27,578
Inventories	145,888	124,607	96,206
Total assets	364,939	200,995	169,855
Revolving floorplan facility	146,283	122,454	98,023
Total long term liabilities	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 \$24.2 million and one automobile manufacturer represented by us required us to maintain minimum inventories of vehicles and parts manufactured by it of approximately \$4.5 million. At June 30, 2006, net working capital was approximately \$28.7 million and the inventories retained by one automobile manufacturer totaled approximately \$6.3 million.

### **Off Balance Sheet Arrangements**

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

### **Related Party Transactions**

Note 14 to the Interim 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 seven of our existing 14 locations from related parties to the Fund. The total rent paid by us to the related parties for the period ended June 30, 2006 was \$314,000. 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.

### **Financial Instruments**

The Fund's financial instruments include cash and cash equivalents, accounts receivable, due to vendors, accounts payable and accrued liabilities, revolving floorplan facility, distributions payable, 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 unaudited interim consolidated financial statements of the Fund. These financial instruments are subject to credit risk and interest rate risk, as described in those financial statements. For a detailed description of financial instruments, see Note 17 ("Financial instruments") in the unaudited interim consolidated financial statements of the Fund.

### **Critical Accounting Policies and Estimates**

We prepare our 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 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 unaudited interim consolidated interim 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***

On January 27, 2006, the CICA issued a number of new Handbook Sections that expand on Handbook Section 3860 ("Financial Instruments — Disclosure and Presentation") by prescribing when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies accounting and presentation for hedges and financial instrument gains and losses. At present, the Fund's most significant financial instruments are cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, distributions payable and the revolving floorplan facility. This new standard is not expected to have a significant impact on the Fund's financial statements.

### **Outlook**

We intend to continue to grow our cash flow through continued growth in same store gross profit and operating results, acquisitions and the planned opening of two Open Points by the fall of 2006. 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 and Northland Hyundai. Management believes that new vehicle launches by our automobile manufacturers in 2006 and 2007 will provide us with opportunities to increase sales. We have identified potential acquisitions that would be accretive to our existing operations and complement our growth model and strategies. We plan to open two Open Points in Western Canada in 2006 and two further Open Points in 2007. 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. 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.

### **Additional information**

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

### **RISK FACTORS**

As at June 30, 2006, there are no material changes in the Fund’s risks or risk management activities since the time of the initial public offering. 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; and adverse conditions affecting one or more automobile manufacturers. Risks relating to our structure and the Offering 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; 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 the Fund’s final prospectus dated May 3, 2006 available at [www.sedar.com](http://www.sedar.com).

### **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, we 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, we assume no obligation to update or revise them to reflect new events or circumstances.