AutoCanada Inc.

Consolidated Financial Statements

December 31, 2010

(expressed in Canadian dollar thousands except share and per share amounts)

PRICEWATERHOUSECOOPERS

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March 17, 2011

Independent Auditor's Report

To the Shareholders of
AutoCanada Inc.

We have audited the accompanying consolidated financial statements of AutoCanada Inc., and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009 and the consolidated statements of operations, comprehensive income and deficit and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AutoCanada Inc. and its subsidiaries as at December 31, 2010 and December 31, 2009 and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Edmonton, Alberta

AutoCanada Inc.

Consolidated Balance Sheet

As at December 31, 2010

(expressed in Canadian dollar thousands)

	2010	2009
	$	$
ASSETS		
Current assets		
Cash and cash equivalents	37,541	22,465
Accounts receivable	32,853	35,388
Inventories (note 6)	118,365	108,324
Prepaid expenses	1,148	1,649
	189,907	167,826
Property & equipment (note 7)	25,935	17,794
Intangible assets (note 8)	45,059	43,700
Goodwill	309	-
Future income taxes (note 18)	930	1,647
Prepaid rent (note 17)	5,850	2,142
Other assets	59	56
	268,049	233,165
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	26,920	25,556
Revolving floorplan facilities (note 9)	124,609	102,650
Current portion of lease obligations (note 11)	907	175
Current portion of long-term debt (note 10)	277	96
Future income taxes (note 18)	3,855	1,512
	156,568	129,989
Lease obligations (note 11)	120	289
Long-term debt (note 10)	24,974	22,785
	181,662	153,063
Economic dependence (note 2)		
Contingencies (note 13)		
SHAREHOLDERS' EQUITY		
Share capital (note 14)	190,435	190,435
Contributed surplus (note 15)	3,918	3,918
Deficit	(107,966)	(114,251)
	86,387	80,102
	268,049	233,165

Approved on behalf of the Company:

(Signed) "Gordon R. Barefoot" Director (Signed) "Robin Salmon" Director

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

AutoCanada Inc.

Consolidated Statement of Operations, Comprehensive Income and Deficit
For the years ended December 31, 2010 and December 31, 2009

(expressed in Canadian dollar thousands except share and per share amounts)

	Year ended December 31, 2010	*Year ended December 31, 2009*
	$	**$**
Revenue		
Vehicles	762,920	666,718
Parts, service and collision repair	111,742	108,164
Other	1,446	954
	876,108	775,836
Cost of sales (note 6)	725,171	633,860
Gross profit	150,937	141,976
Expenses		
Selling, general and administrative	126,056	118,141
Interest (note 19)	9,217	7,136
Amortization	4,021	3,672
	139,294	128,949
Earnings before income taxes	11,643	13,027
Income taxes (note 18)	2,972	449
Net earnings & comprehensive Income for the year	8,671	12,578
Deficit, beginning of year	(114,251)	(124,344)
Dividends declared (note 16)	(2,386)	(2,485)
Deficit, end of year	(107,966)	(114,251)
Earnings per share/unit		
Basic	0.436	0.633
Diluted	0.436	0.633
Weighted average shares/units		
Basic	19,880,930	19,880,930
Diluted	19,880,930	19,880,930

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

AutoCanada Inc.

Consolidated Statement of Cash Flows

For the years ended December 31, 2010 and December 31, 2009

(expressed in Canadian dollar thousands)

	Year ended December 31, 2010	*Year ended December 31, 2009*
Cash provided by (used in)	**$**	**$**
Operating activities		
Net earnings for the period	8,671	12,578
Items not affecting cash		
Future income taxes (note 18)	2,972	449
Unit-based compensation (note 15)	-	96
Amortization of property and equipment	4,021	3,672
Amortization of prepaid rent (note 17)	452	38
(Gain) loss on disposal of property & equipment	(6)	308
	16,110	17,141
Net change in non-cash working capital balances	17,298	(5,767)
	33,408	11,374
Investing activities		
Business acquisitions (note 5)	(3,550)	-
Purchase of property & equipment	(10,487)	(4,312)
Proceeds on sale of property & equipment	60	88
Prepayment of rent (note 17)	(4,160)	(2,180)
Restricted cash	-	3,238
	(18,137)	(3,166)
Financing activities		
Proceeds from long-term debt	6,510	20,286
Repayment of long-term debt	(4,141)	(22,901)
Repayment of lease obligations	(178)	(235)
Dividends paid	(2,386)	(2,485)
	(195)	(5,335)
Increase in cash	15,076	2,873
Cash and cash equivalents, beginning of period	22,465	19,592
Cash and cash equivalents, end of period	37,541	22,465
Supplementary information		
Cash interest paid	9,348	7,047
Transfer of inventory to property & equipment	2,385	1,362
Transfer of property & equipment to inventory	1,052	1,140

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

(expressed in Canadian dollar thousands except share and per share amounts)

1 Nature of operations and basis of presentation

AutoCanada Inc. ("AutoCanada" or "The Company") was incorporated on October 29, 2009 under the laws of the Province of Alberta. The business of AutoCanada, held in its subsidiaries and limited partnerships, is the operation of franchised automobile dealerships in British Columbia, Alberta, Manitoba, Ontario, Nova Scotia and New Brunswick. The Company offers a diversified range of automotive products and services, including new vehicles, used vehicles, vehicle parts, vehicle maintenance and collision repair services, extended service contracts, vehicle protection products and other after-market products. The Company also arranges financing and insurance for vehicle purchases by its customers through third-party finance and insurance sources.

Following changes in tax rules for specified investment flow-through entities, AutoCanada Income Fund (the "Fund") undertook steps to convert the Fund's income trust structure into a corporate structure. On December 17, 2009, Unitholders of the Fund voted in favour of converting the Fund into a corporation, AutoCanada, pursuant to a plan of arrangement (the "Conversion"). The Conversion was completed on December 31, 2009. As a result of the Conversion, Unitholders of the Fund received one common share ("share") of AutoCanada for each one Unit of the Fund.

AutoCanada holds all the assets and liabilities, previously held, directly or indirectly, by the Fund. The Conversion had been accounted for as a continuity of interests of the Fund since there had been no change of control and since AutoCanada continued to operate the business of the Fund. Accordingly, these consolidated financial statements reflect AutoCanada as a corporation on and subsequent to December 31, 2009 and as AutoCanada Income Fund prior thereto. All references to "shares" refer collectively to AutoCanada's common shares on and subsequent to December 31, 2009 and to the Fund Units prior to the Conversion. All references to "shareholders" refer collectively to holders of AutoCanada's shares on and subsequent to December 31, 2009 and to Fund Unitholders prior to the Conversion.

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and are presented in Canadian dollars rounded to the nearest thousand ($000), except share and per share amounts or where otherwise indicated.

Included in these consolidated financial statements are the accounts of AutoCanada and its predecessor, the Fund, (collectively hereinafter referred to as "AutoCanada" or the "Company") and all of its subsidiary limited partnerships and incorporated companies. The results of acquired business operations are included in these consolidated financial statements from their effective dates of acquisition. All significant inter-entity balances and transactions have been eliminated.

2 Economic dependence, use of estimates and measurement uncertainty

The Company has significant commercial and economic dependence on Chrysler Canada and Ally Credit Canada Limited ("Ally Credit"), formerly known as GMAC Canada. As a result, the Company is subject to significant risk in the event of the financial distress of Chrysler Canada, one of the Company's major vehicle manufacturers and parts suppliers, and Ally Credit, which provides the Company with revolving floorplan facilities for all of its dealerships.

The Company's consolidated financial statements include the operations of twenty-three franchised automobile dealerships, representing the product lines of eight global automobile manufacturers. The Company's Chrysler, Dodge, Jeep, Ram ("CDJR") dealerships, which generated 73% of the Company's revenue in the year-ended December 31, 2010 (2009 – 72%), purchase all new vehicles and a significant portion of parts and accessories

(expressed in Canadian dollar thousands except share and per share amounts)

from Chrysler Canada. In addition to these inventory purchases, the Company is eligible to receive monetary incentives from Chrysler Canada if certain sales volume targets are met and is also eligible to receive payment for warranty service work that is performed for eligible vehicles.

At December 31, 2010 and 2009, the Company had recorded the following assets that relate to transactions it has entered into with Chrysler Canada:

	December 31, 2010 $	**December 31, 2009 $**
Accounts receivable	4,040	3,196
New vehicle inventory	61,790	51,743
Demonstrator vehicle inventory	4,847	3,574
Parts and accessories inventory	4,929	4,484

The Company maintains revolving floorplan facilities for all of its dealerships with Ally Credit. The Company also maintains cash balances with Ally Credit which it uses to offset interest charges on its various revolving floorplan facilities.

At December 31, 2010 and 2009, the Company had recorded the following assets and liabilities that relate to transactions it has entered into with Ally Credit:

	December 31, 2010 $	**December 31, 2009 $**
Cash and cash equivalents	24,575	9,580
Revolving floorplan facilities	124,609	102,650

Chrysler Canada is a subsidiary of Chrysler Group LLC (“Chrysler Group”) in the United States. Ally Credit is a subsidiary of Ally Financial Inc. (formerly GMAC Financial Services Inc.) in the United States. The viability of Chrysler Canada is directly dependent on the viability of Chrysler Group.

Use of estimates and measurement uncertainty

These consolidated financial statements have been prepared by management in accordance with Canadian GAAP. The preparation of consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that 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 revenues and expenses during the reporting period. In preparing these consolidated financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. We base our estimates and judgments on historical experience and other assumptions that we believe are reasonable. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ materially from these estimates. We periodically evaluate estimates and assumptions used in the preparation of the financial statements and make changes on a prospective basis when adjustments are necessary.

(expressed in Canadian dollar thousands except share and per share amounts)

The following significant estimates have been made by the Company in the accompanying consolidated financial statements, which given the economically dependent relationships described above or other factors, could require a material change in future periods.

Inventories

Inventories are recorded at the lower of cost and net realizable value with cost determined on a specific item basis. In determining net realizable value for new vehicles, the Company primarily considers the age of the vehicles along with the timing of annual and model changeovers. For used vehicles, the Company considers recent market data and trends such as loss histories along with the current age of the inventory.

Intangible assets

The Company's identifiable intangible assets are rights under franchise agreements with automobile manufacturers. The Company assesses the carrying value of these indefinite life intangible assets for impairment annually, or more frequently, if events or changes in circumstances indicate that their carrying value may not be recoverable.

Allowance for doubtful accounts

The Company evaluates receivables for collectability based on the age of the receivable, the credit history of the customer and past collection experience.

3 Summary of significant accounting policies

These financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

(a) 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 basis revenue is equal to gross margin on the transfer associated with dealer trade and is generally a nominal amount.

Finance and Insurance

The Company 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 Company 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

(expressed in Canadian dollar thousands except share and per share amounts)

commissions are recorded as revenue at the time the customer enters into the contract and the Company is entitled to the commission. The Company 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 Company receives may be charged back to the Company based on the terms of the contracts. The revenue the Company records relating to commissions is net of an estimate of the amount of chargebacks the Company 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.

(b) Cash and cash equivalents

Cash and cash equivalents include amounts on deposit with financial institutions and amounts with Ally Credit that are readily available to the Company (see *Note 20(ii) – Financial Instruments – Credit Risk* for an explanation of credit risk associated with amounts held with Ally Credit).

(c) Accounts receivable

Accounts receivable includes amounts due from contracts in transit, commercial service and parts, fleet vehicle, warranty and rebate receivables and other receivables. Contracts in transit are amounts due from financing institutions, usually within ten days, on retail finance contracts from vehicle sales. Commercial service and parts receivables are due from customers that maintain fleets of vehicles. Fleet vehicle receivables are due on sales of vehicles to commercial customers. Warranty and rebate amounts are due from the manufacturer or the warranty company. The Company evaluates receivables for collectability based on the age of the receivable, the credit history of the customer and past collection experience.

(d) Inventories

New, used and demonstrator vehicle inventories are recorded at the lower of cost and net realizable value with cost determined on a specific item basis. Parts and accessories inventories are valued at the lower of cost and net realizable value. Inventories of parts and accessories are accounted for using the “first-in, first-out” method.

In determining net realizable value for new vehicles, the Company primarily considers the age of the vehicles along with the timing of annual and model changeovers. For used vehicles, the Company considers recent market data and trends such as loss histories along with the current age of the inventory. Parts inventories are primarily assessed considering excess quantity and continued usefulness of the part. The risk of loss in value related to parts inventories is minimized since excess or obsolete parts can generally be returned to the manufacturer.

(expressed in Canadian dollar thousands except share and per share amounts)

(e) Property and equipment

Property and equipment are initially recorded at cost. Other than as noted below, amortization on the property and equipment is provided for over the estimated useful life of the assets on the declining balance basis at the following annual rates:

Buildings	4%
Machinery and equipment	20%
Furniture and fixtures	20%
Company vehicles	30%
Computer equipment	30%

The useful life of leasehold improvements is determined to be the lesser of the lease term or the estimated useful life of the improvement. Leasehold improvements are amortized using the straight-line method if useful life is determined to be the lease term and declining balance method if other than the lease term is used. The cost of lease vehicles less their estimated net realizable value at the end of the lease term is amortized on a straight-line basis over the term of the individual lease contracts.

Leases that transfer substantially all of the benefits and risks of ownership of the property to the Company are accounted for as capital leases. At the time a capital lease is entered into an asset is recorded together with its related long-term obligation. Equipment under capital lease is recorded at cost and is amortized using the same rates as purchased equipment.

(f) Accounting for the impairment of depreciable long-lived assets

Depreciable long-lived assets, including property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is assessed by a comparison of the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed by sale are reported at the lower of carrying amount or fair value less costs to sell.

(g) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the identifiable assets acquired, less the liabilities assumed, based on their fair values at the date of acquisition. Goodwill is allocated as of the date of the business combination to the Company's reporting units that are expected to benefit from the business combination.

Goodwill is not amortized but is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination, using the fair value of the reporting unit as if it was the purchase price.

(expressed in Canadian dollar thousands except share and per share amounts)

(h) Intangible assets

The identifiable intangible assets are rights under franchise agreements with automobile manufacturers. Franchise agreements are expected to continue for an indefinite period. Where these agreements do not have indefinite terms, the Company anticipates and has generally experienced routine renewals without substantial cost and material modifications. As the franchise agreements will contribute to cash flows for an indefinite period, the carrying amount of franchise rights is not amortized. The Company assesses the carrying value of these unlimited life intangible assets for impairment annually, or more frequently, if events or changes in circumstances indicate the asset might be impaired. An impairment loss is recorded when it is determined that the carrying amount exceeds its fair value and is not reversed for subsequent increases in fair value.

(i) Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, AutoCanada recognizes both the current and future income tax consequences of all transactions that have been recognized in the financial statements. Future income tax assets and liabilities are determined based on differences between the financial reporting and the tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that are expected to be in effect when these differences are expected to reverse.

(j) Financial instruments

AutoCanada's cash and cash equivalents are classified as financial assets held for trading and are measured at fair value. Gains and losses related to subsequent revaluations are recorded in net earnings. Accounts receivable are classified as loans and receivables and are initially measured at fair value with subsequent measurement at amortized cost. All accounts receivable bad debts are charged to selling, general and administrative expenses.

Accounts payable and accrued liabilities, revolving floorplan facilities and long-term debt are classified as other liabilities and are initially measured at fair value with subsequent measurement at amortized cost. Transaction costs are expensed as incurred for financial instruments and interest expense is recorded in net earnings.

The Company reviews all assets, including financial instruments, for impairment when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

(k) Pre-opening costs

Costs incurred to develop and start up new dealership locations are expensed as incurred.

(expressed in Canadian dollar thousands except share and per share amounts)

4 New accounting policies

In January 2009, the CICA issued three new accounting standards: Section 1582 – *Business combinations,* Section 1601 *Consolidated Financial Statements,* and Section 1602 – *Non-controlling interest.*

In 2010, the Company early adopted *Section 1582 - Business Combinations* that was issued by the Canadian Institute of Chartered Accountants ("CICA"). This section replaces the former *Section 1581 - Business combinations* and provides the Canadian equivalent to International Financial Reporting Standard *IFRS 3R - Business Combinations* (January 2008). The new standard requires the acquiring entity in a business combination to recognize most of the assets acquired and liabilities assumed in the transaction at fair value including contingent assets and liabilities; and recognize and measure the goodwill acquired in the business combination or a gain from a bargain purchase. Acquisition related costs are also to be expensed. The Company applied the new standard to the acquisition of Future Hyundai as described in Note 5 of these consolidated financial statements. The new standard is to be applied prospectively; therefore acquisitions prior to January 1, 2010 are not affected by the change in accounting policy. The adoption of this Section did not have a material impact on the financial position or results of operations.

In 2010, the Company also early adopted Sections 1601 and 1602 which together replace the former Section 1600 – *Consolidated financial statements.* Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602, which converges with the requirements of International Accounting Standards 27 (IAS 27), *Consolidated and Separate Financial Statements,* establishes standards for accounting of a non-controlling interest resulting from a business acquisition, recognized as a distinct component of shareholders' equity. Net income will present the allocation between the controlling and non-controlling interest. The adoption of this Section did not have any impact on the financial position or results of operations.

5 Business acquisitions

On April 12, 2010, the Company purchased substantially all of the net operating and fixed assets of 1192038 Ontario Inc. operating as Future Hyundai ("401 Dixie Hyundai") for total cash consideration of $3,550. The acquisition was funded by drawing on the Company's revolving floorplan facilities (note 9) in the amount of $1,312 and the remaining $2,238 was financed with cash from operations. The acquisition has been accounted for using the acquisition method and the consolidated financial statements include operating results of 401 Dixie Hyundai subsequent to April 12, 2010.

The purchase of this business complements the Company's other Hyundai dealerships across Canada and is expected to contribute to the Company's reputation as providing excellent service in the communities within which it operates.

The revenue of 401 Dixie Hyundai since the date of acquisition that is included in the consolidated statement of comprehensive income for the reporting period is $15,934.

(expressed in Canadian dollar thousands except share and per share amounts)

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

	$
Current assets	1,648
Property and equipment	400
Intangible assets	1,359
Current liabilities	(166)
Net identifiable assets acquired	3,241
Goodwill	309
Total consideration	3,550

All tangible and intangible assets were recognized at their respective fair values. The residual excess of the total cost over the fair value of the net assets acquired is recognized as goodwill in the financial statements. Goodwill represents the premium paid in anticipation of future economic benefits from assets that are not capable of being separately identified and separately recognized. The total amount of goodwill that is expected to be deductible for tax purposes is $221.

6 Inventories

	December 31, 2010 $	December 31, 2009 $
New vehicles	84,954	73,264
Demonstrator vehicles	7,261	5,816
Used vehicles	17,991	22,197
Parts and accessories	8,159	7,047
	118,365	108,324

During the year ended December 31, 2010, $725,171 of inventory (2009 - $633,860) was expensed as cost of goods sold which included inventory write downs on used vehicles of $151 (2009 - $469). During the year ended December 31, 2010, $1,414 of demonstrator expense (2009 - $1,377) was included in selling, general, and administration expense. As at December 31, 2010 and December 31, 2009, the Company had recorded reserves for inventory write downs of $1,545 and $1,512 respectively.

(expressed in Canadian dollar thousands except share and per share amounts)

7 Property and equipment

	December 31, 2010		
	Cost	Accumulated Amortization	Net
	$	$	$
Land	2,666	-	2,666
Buildings	7,560	333	7,227
Leasehold improvements	6,894	3,413	3,020
Machinery and equipment	10,537	4,561	5,976
Furniture and fixtures	4,408	1,773	2,635
Company vehicles	1,924	771	1,153
Lease vehicles	1,827	307	1,520
Computer equipment	3,074	1,833	1,241
Other property and equipment	36	-	36
	38,926	12,991	25,935

	December 31, 2009		
	Cost	Accumulated Amortization	Net
	$	$	$
Land	1,262	-	1,262
Buildings	2,875	170	2,705
Leasehold improvements	4,180	2,731	1,449
Machinery and equipment	9,866	3,167	6,699
Furniture and fixtures	3,836	1,254	2,582
Company vehicles	1,941	741	1,200
Lease vehicles	907	242	665
Computer equipment	2,639	1,443	1,196
Other property and equipment	36	-	36
	27,542	9,748	17,794

During the year, property and equipment was acquired at an aggregate cost of $10,487 (2009 - $4,414). Of this total, $6,088 related to the purchase of the Newmarket Infiniti Nissan facility, $1,251 related to leasehold improvements at a relocated body shop and the remaining $3,148 related to purchases of capital assets for the remaining dealerships.

Included in lease vehicles above are vehicles earning rental income. Rental income for the period ended December 31, 2010 totaled $475 (2009 - $446).

(expressed in Canadian dollar thousands except share and per share amounts)

8 Intangible assets

	December 31, 2010 $	December 31, 2009 $
Opening balance	43,700	43,700
Acquired in business acquisitions (note 5)	1,359	-
Closing balance	45,059	43,700

Intangible assets are individual store rights under franchise agreements with vehicle manufacturers ("dealer agreements"), which have indefinite lives and are tested at least annually for impairment.

9 Revolving floorplan facilities

	December 31, 2010 $	December 31, 2009 $
New and demonstrator vehicles	110,356	92,253
Used vehicles	14,253	10,397
	124,609	102,650

The revolving floorplan facilities ("Ally Facilities") available to the Company from Ally Credit to finance new, demonstrator and used vehicles bears interest at the Prime Rate plus 0.20% (4.20% at December 31, 2010) and is payable monthly in arrears. Prime Rate is defined as the greater of the Royal Bank of Canada ("RBC") prime rate (3.00% at December 31, 2010) or 4.00%. The maximum amounts of financing provided by the Ally Facilities are based on a maximum number of new, used and demonstrator vehicles to be financed on an individual dealership basis. The Ally Facilities are collateralized by all of the dealerships' new, used and demonstrator inventory financed by the Ally Facilities and a general security agreement and cross guarantee from each of the Company's dealerships. The individual notes payable of the Ally Facilities are due when the related vehicle is sold or according to an aging based repayment policy as mandated by Ally Credit.

(expressed in Canadian dollar thousands except share and per share amounts)

10 Long-term debt

	December 31, 2010	December 31, 2009
	$	$
Revolving Term Loan, due June 30, 2013 bearing interest at HSBC Prime Rate plus 1.25% (i)	19,000	20,000
Non-Revolving Term Loan, due June 30, 2012 bearing interest at HSBC Prime Rate plus 1.75% (ii)	3,466	-
Fixed Rate Term Loan, due September 30, 2012 bearing interest at 5.11% per annum (iii)	2,785	2,881
	25,251	22,881
Less: Current portion	(277)	(96)
	24,974	22,785

(i) HSBC Bank Canada ("HSBC") provides the Company with a fully committed, extendible Revolving Term Loan (the "HSBC Revolver") in the amount of $30,000. The HSBC Revolver's maturity date is June 30, 2012, however the facility may be extended for an additional 365 days prior to the maturity of the HSBC Revolver at the request of the Company and upon approval by HSBC. If the HSBC Revolver is not extended by HSBC, repayment of the outstanding amount is not due until June 30, 2013. The HSBC Revolver bears interest at HSBC's Prime Rate plus 1.25% (4.25% at December 31, 2010). The HSBC Facility is collateralized by all of the present and future assets of the subsidiaries of AutoCanada Inc, the various Limited Partnerships and the General Partners of each dealership within the Company. As part of a priority agreement signed by HSBC, Ally Credit and the Company, the collateral for the HSBC Facility excludes all new, used and demonstrator inventory financed with the Revolving floorplan facilities provided by Ally Credit.

(ii) HSBC provides the Company with a committed, extendible Non-Revolving Term Loan (the "HSBC Term Loan"). The HSBC Term Loan's maturity date is June 30, 2011, however the facility may be extended at the request of the Company and upon approval by HSBC. If the HSBC Term Loan is not extended by HSBC, repayment of the outstanding amount is not due until June 30, 2012. The HSBC Term Loan bears interest at HSBC's Prime Rate plus 1.75% (4.75% at December 31, 2010). Repayments are based on a 20 year amortization of the original loan amount; consisting of fixed monthly principal repayments of $15 plus applicable interest. The HSBC Term Loan requires maintenance of certain financial covenants and is collateralized by a first fixed charge in the amount of $3,510 registered over the Newmarket Infiniti Nissan property. At December 31, 2010, the carrying amount of the Newmarket Infiniti Nissan property was $6,081.

(iii) Bank of Montreal provides the Company a Fixed Rate Term Loan (the "BMO Term Loan"). The BMO Term Loan matures September 30, 2012 and bears interest at a fixed rate of 5.11%. Repayments consist of fixed monthly payments totaling $20 per month. The BMO Term Loan requires maintenance of certain financial covenants and is collateralized by a general security agreement consisting of a first fixed charge in the amount of $3,450 registered over the Cambridge Hyundai property. At December 31, 2010, the carrying amount of the Cambridge Hyundai property was $3,967.

(expressed in Canadian dollar thousands except share and per share amounts)

Principal payments as at December 31, 2010 for the next three years are as follows:

	$
2011	277
2012	5,974
2013	19,000
	25,251

11 Lease obligations

	December 31, 2010	December 31, 2009
	$	$
Outstanding vehicle repurchase obligations (i)	742	-
Capital lease obligations	285	464
	1,027	464
Less: Current portion	(907)	(175)
	120	289

(i) During the year, the Company committed to provide a corporate fleet customer with vehicles for individual terms not to exceed six months, at which time the Company has an obligation to repurchase each vehicle at a predetermined amount. The Company has determined that the transactions shall be treated as operating leases, whereby the Company acts as lessor. As a result, the Company has recorded the contractual repurchase amounts as outstanding vehicle repurchase obligations and have classified the liability as current due to the short term nature of the instruments.

Principal payments as at December 31, 2010 for the next three years are as follows:

	$
2011	907
2012	93
2013	27
	1,027

(expressed in Canadian dollar thousands except share and per share amounts)

12 Commitments

(a) AIR MILES Promotional Partnership Program

On May 20, 2010, the Company signed an agreement for exclusive partnership rights in the AIR MILES Promotional Partnership Program ("the Program"). The Program grants AutoCanada's dealerships with exclusive rights to issue AIR MILES reward miles to customers in conjunction with the sale of new or used vehicles and accessories to our customers. As part of the program, AutoCanada has committed to purchase a minimum of $2 million in AIR MILES reward miles over the first 12 months of the program in exchange for certain sole-exclusivities for the term of the program. At December 31, 2010 the Company had a remaining commitment of $0.93 million associated with this program which will mature in 2011.

(b) Obligations under leases

The Company has operating lease commitments, with varying terms through 2029, to lease premises and equipment used for business purposes. The Company leases the majority of the lands and buildings used in its franchised automobile dealership operations from related parties (note 17) and other third parties.

The minimum lease payments over the upcoming fiscal years will be as follows:

	$
2011	11,447
2012	8,066
2013	5,551
2014	5,212
2015	4,917
Thereafter	50,489
Total	85,682

13 Contingencies

(a) The Company is party to a number of disputes and lawsuits in the normal course of business. Management believes that the ultimate liability arising from these matters will not have a material impact on the financial statements.

(b) The Company's operations are subject to federal, provincial and local environmental laws and regulations in Canada. While the Company has not identified any costs likely to be incurred in the next several years, based on known information for environmental matters, the Company's ongoing efforts to identify potential environmental concerns in connection with the properties it leases may result in the identification of additional environmental costs and liabilities. The magnitude of such additional liabilities and the costs of complying with environmental laws or remediating contamination cannot be reasonably estimated at the balance sheet date due to lack of technical information, absence of third party claims, the potential for new or revised laws and regulations and the ability to recover costs from any third parties. Thus the likelihood of any such costs or whether such costs would be material cannot be determined at this time.

(expressed in Canadian dollar thousands except share and per share amounts)

14 Share capital

(a) Shareholders' capital

Authorized

The Company has authorized an unlimited number of voting common shares without nominal or par value and an unlimited number of preferred shares without nominal or par value.

Issued

	Shares \#	Amount $
Shares outstanding as at October 29, 2009	-	-
Shares issued pursuant to the Conversion (note 1)		
Exchange of Fund Units	10,573,430	101,588
Exchange of Exchangeable Units	9,307,500	88,847
Shares outstanding as at December 31, 2009 and December 31, 2010	19,880,930	190,435

(b) Unitholders' capital

	Units \#	Amount $
Units outstanding as at January 1, 2009	19,880,930	190,435
Units exchanged for AutoCanada shares (note 1)	(19,880,930)	(190,435)
Units outstanding as at December 31, 2009 and December 31, 2010	-	-

(expressed in Canadian dollar thousands except share and per share amounts)

15 Contributed surplus

Stock Option Plan

On December 17, 2009, Unitholders of AutoCanada Income Fund approved the AutoCanada Inc. Stock Option Plan (the "Stock Option Plan") for certain employees, officers, directors and trustees. Options issued under the Stock Option Plan vest at a rate of one third on the three subsequent award date anniversaries. All the options must be exercised over specified periods not to exceed ten years from the date granted. The options may be exercised by purchasing the shares for the exercise price or the Stock Option Plan also provides that an optionee may, at their discretion, elect, in lieu of exercising any options, to surrender the options to the Company, which will pay the optionee the difference between the current market price of the shares on the date of surrender and the exercise price for the shares under the options being surrendered.

At December 31, 2010, 1,988,093 shares remained reserved for issuance under the Stock Option Plan. Since the inception of the Stock Option Plan, no options have yet to be granted.

Contributed surplus

	Year Ended December 31, 2010 $	**Year Ended December 31, 2009 $**
Opening balance	3,918	3,822
Cancellation of Unit Options – accelerated expense	-	23
Unit-based compensation expense	-	73
Closing balance	3,918	3,918

16 Dividends

Dividends are discretionary and are determined based on a number of factors. Dividends are subject to approval of the Board of Directors. During the year ended December 31, 2010, eligible dividends totaling $0.12 per common share were declared and paid. The total amount of dividends paid to shareholders during the year was $2,386 (2009 - $2,485).

(expressed in Canadian dollar thousands except share and per share amounts)

17 Related party transactions and balances

The following summarizes the Company's related party transactions not disclosed elsewhere:

	Year ended December 31, 2010 $	Year ended December 31, 2009 $
Management fees received from companies with common directors	276	305
Rent paid to companies with common directors	8,171	7,484
Consulting fees paid to company controlled by a trustee	-	25

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

During the year, the Company prepaid rent amounts to a company with common directors as part of an agreement for a long term rent reduction which was entered into in 2009. Total prepayments of rent for the year ended December 31, 2010 was $4,160 (2009 - $2,180) of which $452 (2009 - $38) has been amortized as a reduction in rent. The prepayment of rent is measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

18 Income taxes

(a) Income tax expense reconciliation

Income tax expense differs from the amount computed by applying the statutory provincial and federal income tax rates to the respective years' earnings before income taxes. These differences result from the following items:

	Year ended December 31, 2010	Year ended December 31, 2009
Net income before income taxes	11,643	13,027
Statutory income tax rates	29%	29%
Income taxes at statutory rates	3,376	3,778
Increase (decrease) resulting from:		
Impact of corporate conversion (note 1)	-	(2,696)
Difference between future and current rate	(260)	(199)
Non-deductible expenses	95	48
Change in valuation allowance	(239)	239
Income distributed to unitholders prior to corporate conversion	-	(721)
Income tax expense	2,972	449

(expressed in Canadian dollar thousands except share and per share amounts)

Provision for income taxes:		
Current	-	-
Future	2,972	449

(b) Future income tax assets/liabilities

The tax effects of the temporary differences that give rise to significant portions of the future income tax assets and future income tax liabilities are presented below:

	Year ended December 31, 2010	**Year ended December 31, 2009**
Future income tax assets		
Cumulative eligible capital	364	1,386
Property and equipment	566	261
Restricted partnership losses	-	239
Valuation allowance	-	(239)
Unused tax loss carry-forwards	394	-
Other	24	500
	1,348	2,147
Future income tax liabilities		
Deferred income from partnership	4,273	2,012
Net future income tax asset (liability)	(2,925)	135
Presented on the balance sheet as follows:		
Non-current assets	930	1,647
Current liabilities	3,855	1,512

19 Interest

	December 31, 2010 $	**December 31, 2009 $**
Revolving floorplan facilities	7,437	4,855
Long-term debt	1,079	1,653
Other	701	628
	9,217	7,136

(expressed in Canadian dollar thousands except share and per share amounts)

20 Financial instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, revolving floorplan facilities and long-term debt.

Financial risk management

The Company's activities are exposed to a variety of financial risks of varying degrees of significance which could affect the Company's ability to achieve its strategic objectives. AutoCanada's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to reduce potential adverse effects on the Company's financial performance. Risk management is carried out by financial management in conjunction with overall Corporate Governance. The principal financial risks to which the Company is exposed are described below.

(i) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency and interest rates.

(i) Foreign currency risk

Foreign currency risk arises from fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. The Company is not significantly exposed to foreign currency risk.

(ii) Interest rate risk

The Ally Facilities (note 9) are subject to interest rate fluctuations and the degree of volatility in these rates. The Company does not currently hold any financial instruments that mitigate this risk. The Ally Facilities bear interest at Prime Rate plus 0.20%. The Ally Facilities define Prime Rate as the greater of the Royal Bank of Canada Prime Rate ("RBC Prime") or 4.00%. Since the RBC Prime Rate is currently 3.00%, the Company is not exposed to interest rate fluctuations until the RBC Prime Rate is equal to 4.00% (increase of 1.00% from the present rate). Based on the outstanding balance at December 31, 2010 if the RBC Prime Rate was equal to 4.00%, an additional increase in the RBC Prime Rate of one percent would result in an increase in annual interest expense of approximately $1,246.

The HSBC Revolver and the HSBC Term Loan (the "HSBC Facilities") are also subject to interest rate fluctuations and the degree of volatility in these rates. The Company does not currently hold any financial instruments that mitigate this risk. The HSBC Revolver bears interest at the HSBC Prime Rate plus 1.25% and the HSBC Term Loan bears interest at the HSBC Prime Rate plus 1.75%. Based on the outstanding balances at December 31, 2010, an additional increase in the HSBC Prime Rate of one percent would result in an increase in annual interest expense of approximately $225.

The BMO Term Loan is a fixed rate term loan and is not subject to interest rate fluctuations until its maturity date at September 30, 2012, at which time, will be subject to market rates of interest when the amount is refinanced.

(expressed in Canadian dollar thousands except share and per share amounts)

(ii) Credit risk

The Company's exposure to credit risk associated with its accounts receivable is the risk that a customer will be unable to pay amounts due to the Company or its subsidiaries. Concentration of credit risk with respect to contracts-in-transit and accounts receivable is limited primarily to automobile manufacturers and financial institutions (see Note 2 for further discussion of the Company's economic dependence on Chrysler Canada and associated credit risk). Credit risk arising from receivables with commercial customers is not significant due to the large number of customers dispersed across various geographic locations comprising our customer base.

Accounts receivable are aged at December 31, 2010 by the following approximate percentages:

Current	83.5%
31 to 60 days	10.3%
61 to 90 days	2.3%
91 to 120 days	1.9%
Over 120 days	2.0%

The Company evaluates receivables for collectability based on the age of the receivable, the credit history of the customer and past collection experience. The allowance for doubtful accounts amounted to $364 as of December 31, 2010 (2009 - $332). Allowances are provided for potential losses that have been incurred at the balance sheet date. The amounts disclosed on the balance sheet for accounts receivable are net of the allowance for bad debts.

Concentration of cash and cash equivalents exist due to the significant amount of cash held with Ally Credit (see Note 2 for further discussion of the Company's concentration of cash held on deposit with Ally Credit). The Ally Facilities allow our dealerships to hold excess cash (used to satisfy working capital requirements of our various OEM partners) in an account with Ally Credit which bears interest equal to the interest rates of the Ally Facilities (4.20% at December 31, 2010). These cash balances are fully accessible by our dealerships at any time, however in the event of a default by a dealership in its floorplan obligation; the cash may be used to offset unpaid balances under the Ally Facilities. As a result, there is a concentration of cash balances risk to the Company in the event of a default under the Ally Facilities.

(iii) Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they become due or can do so only at excessive cost. The Company's activity is financed through a combination of the cash flows from operations, borrowing under existing credit facilities and the issuance of equity. Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through adequate amounts of committed credit facilities. One of management's primary goals is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as cash flows.

(expressed in Canadian dollar thousands except share and per share amounts)

The Company is exposed to liquidity risk as a result of its economic dependence on suppliers and lenders. (See Note 2 for further information regarding the Company's economic dependence on Chrysler Canada and Ally Credit and the potential effect on the Company's liquidity). The Company's financial liabilities have contractual maturities which are summarized below:

	Current within 12 months	**Non-current 1-5 years**
	$	**$**
Accounts payable and accrued liabilities	26,920	-
Revolving floorplan facilities	124,609	-
Long-term debt and lease obligations	2,304	26,495
	153,833	26,495

(iv) Fair value

The estimated fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and revolving floorplan facilities approximate carrying value due to the relatively short-term nature of the instruments. The estimated fair value of long-term debt approximates the carrying value due to the relatively short time period between the original signing or subsequent amendments of the debt agreements and balance sheet date for the current reporting period. Management has determined that any difference between fair value and carrying value of long-term debt would be insignificant. Outstanding vehicle repurchase obligations included in lease obligations have individual terms not to exceed six months. Management has determined that the fair value approximates the carrying value of these instruments due to the short term nature of the contracts and that the historical resale values of the vehicles to be repurchased approximate the repurchase obligations.

21 Capital disclosures

The Company's objective when managing its capital is to safeguard the Company's assets and its ability to continue as a going concern while at the same time maximize the growth of the business, returns to shareholders, and benefits for other stakeholders. The Company views its capital as the combination of long-term debt and shareholders' equity.

The calculation of the Company's capital is summarized below:

	December 31, 2010	**December 31, 2009**
	$	**$**
Long-term debt and lease obligations	25,094	23,074
Shareholders' equity	86,387	80,102
Total Capital	111,481	103,176

The Company manages its capital structure in accordance with changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may assume additional debt, refinance existing debt with different characteristics, sell assets to reduce debt, issue new shares or adjust the amount of dividends paid to its shareholders.

(expressed in Canadian dollar thousands except share and per share amounts)

The Company has externally imposed capital requirements as governed through its credit facilities and dealership agreements with manufacturers. These requirements are to ensure the Company continues to operate in the normal course of business and to ensure that the Company manages its working capital. The Company is also subject to certain covenants on its credit facilities which include a current ratio, debt to tangible net worth (including floorplan), debt to tangible net worth (excluding floorplan) and a minimum cash balance requirement. The Company met all externally imposed capital requirements for the year ended December 31, 2010.

22 Segment information

The Company's management evaluates performance and allocates resources based on the operating results of the individual dealerships. All of the individual dealerships sell new and used vehicles, arrange financing, vehicle service, and insurance contracts, provide maintenance and repair services and sell replacement parts. The dealerships are similar in that they deliver the same products and services to a common customer group, their customers are generally individuals, they follow the same procedures and methods in managing their operations, and they operate in similar regulatory environments. Each dealership has sufficiently similar economic characteristics to allow the Company to aggregate dealerships into one reportable segment.

23 Comparative Figures

Certain 2009 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2010.