AUTOCANADA INC.

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

For the three months ended March 31, 2010

As of May 12, 2010

READER ADVISORIES

The Management's Discussion & Analysis ("MD&A") was prepared as of May 12, 2010 to assist readers in understanding AutoCanada Inc.'s (the "Company" or "AutoCanada") consolidated financial performance for the three months ended March 31, 2010 and significant trends that may affect AutoCanada's future performance. The following discussion and analysis should be read in conjunction with the unaudited consolidated financial statements and accompanying notes (the "Interim Consolidated Financial Statements") of AutoCanada for the three months ended March 31, 2010, the consolidated financial statements and accompanying notes of the Company for the year ended December 31, 2009 and management's discussion and analysis for the year ended December 31, 2009. Results are reported in Canadian dollars. Certain dollar amounts have been rounded to the nearest thousand dollars. References to notes are to the Notes of the Interim Consolidated Financial Statements of the Company unless otherwise stated.

To provide more meaningful information, this MD&A typically refers to the operating results for the three-month period ended March 31, 2010 of the Company, and compares these to the operating results of the Company for the three-month period ended March 31, 2009. We have also included in the MD&A certain historical information with respect to Canada One Auto Group ("CAG" or the "Vendors") from other periods.

This MD&A contains forward-looking statements. Please see the section "FORWARD-LOOKING STATEMENTS" for a discussion of the risks, uncertainties and assumptions used to develop our forward-looking information. This MD&A also makes reference to certain non-GAAP measures to assist users in assessing AutoCanada's performance. Non-GAAP measures do not have any standard meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. These measures are identified and described under the section "NON-GAAP MEASURES".

OVERVIEW OF THE COMPANY

Corporate Structure

AutoCanada Inc. ("ACI") was incorporated under the CBCA on October 29, 2009 in connection with participating in an arrangement with AutoCanada Income Fund and the conversion to a corporate structure on December 31, 2009. The principal and head office of ACI is located at 200 - 15505 Yellowhead Trail, Edmonton, Alberta, T5V 1E5. AutoCanada Inc. holds interests in a number of limited partnerships that each carry on the business of a franchised automobile dealership. AutoCanada is a reporting issuer in each of the provinces of Canada. AutoCanada's shares trade on the Toronto Stock Exchange under the symbol "**ACQ**".

Additional information relating to AutoCanada, including our 2009 Annual Information Form dated March 22, 2010, is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com.

The Business of the Company

AutoCanada is one of Canada's largest multi-location automobile dealership groups, currently operating 23 franchised dealerships in British Columbia, Alberta, Manitoba, Ontario, New Brunswick and Nova Scotia. In 2009, our dealerships sold approximately 23,000 vehicles and processed approximately 300,000 service and collision repair orders in our 331 service bays. We have grown, and intend to continue to grow, our business through the acquisition of franchised automobile dealerships in key markets, the organic growth of our existing dealerships, the opening of new franchised automobile dealerships, or "Open Points", and the management of franchised automobile dealerships.

Our dealerships derive their revenue from the following four inter-related business operations: new vehicle sales; used vehicle sales; parts, service and collision repair; and finance and insurance. While new vehicle sales are the 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. Overall gross profit margins increase as revenues from higher margin operations increase relative to revenues from lower margin operations. We earn fees for arranging financing on new and used vehicle purchases on behalf of third parties and therefore we do not have an in-house lease program and as a result we do not have exposure to residual value risk of returned lease vehicles.

The Company's geographical profile is illustrated below by number of dealerships and revenues by province for the year ended March 31, 2010 and March 31, 2009.

(In thousands of dollars except % of total and number of dealerships)	March 31, 2010 Number of Dealerships	Revenue	% of Total	March 31, 2009 Number of Dealerships	Revenue	% of Total
British Columbia	7	70,125	35%	7	54,175	31%
Alberta	9	88,488	44%	9	77,714	45%
Ontario	3	21,279	11%	3	19,205	11%
All other	3	21,648	10%	3	21,705	13%
Total	22	201,540	100%	22	172,799	100%

The following table sets forth the dealerships that we currently own and operate and the date opened or acquired by the Company or previously by Canada One Auto Group Limited ("CAG"), organized by location.

Location of Dealerships	Operating Name	Franchise	Year Opened or Acquired
Dealerships as of March 31, 2010:			
Victoria, British Columbia	Victoria Hyundai	Hyundai	2006
Maple Ridge, British Columbia	Maple Ridge Chrysler Jeep Dodge	Chrysler	2005
Maple Ridge, British Columbia	Maple Ridge Volkswagen	Volkswagen	2008
Prince George, British Columbia	Northland Chrysler Jeep Dodge	Chrysler	2002
Prince George, British Columbia	Northland Hyundai	Hyundai	2005
Prince George, British Columbia	Northland Nissan	Nissan	2007
Kelowna, British Columbia	Okanagan Chrysler Jeep Dodge	Chrysler	2003
Grande Prairie, Alberta	Grande Prairie Chrysler Jeep Dodge	Chrysler	1998
Grande Prairie, Alberta	Grande Prairie Hyundai	Hyundai	2005
Grande Prairie, Alberta	Grande Prairie Subaru	Subaru	1998
Grande Prairie, Alberta	Grande Prairie Mitsubishi	Mitsubishi	2007
Grande Prairie, Alberta	Grande Prairie Nissan	Nissan	2007
Edmonton, Alberta	Crosstown Chrysler Jeep Dodge	Chrysler	1994
Edmonton, Alberta	Capital Chrysler Jeep Dodge	Chrysler	2003
Sherwood Park, Alberta	Sherwood Park Hyundai	Hyundai	2006
Ponoka, Alberta	Ponoka Chrysler Jeep Dodge	Chrysler	1998
Thompson, Manitoba	Thompson Chrysler Jeep Dodge	Chrysler	2003
Woodbridge, Ontario	Colombo Chrysler Jeep Dodge	Chrysler	2005
Newmarket, Ontario	Doner Infiniti Nissan (1)	Nissan / Infiniti	2008
Cambridge, Ontario	Cambridge Hyundai	Hyundai	2008
Moncton, New Brunswick	Moncton Chrysler Jeep Dodge	Chrysler	2001
Dartmouth, Nova Scotia	Dartmouth Chrysler Jeep Dodge	Chrysler	2006
Dealerships subsequently acquired:			
Mississauga, Ontario	401/Dixie Hyundai(2)	Hyundai	2010

1 Both the Infiniti and Nissan brands are sold out of the Doner Infiniti Nissan dealership facility, therefore we consider these two brands to be one dealership for MD&A reporting purposes.
2 401/Dixie Hyundai was acquired by the Company on April 12, 2010.

Seasonality

AutoCanada's revenues are subject to seasonal fluctuations. The following table illustrates the quarterly variation per year in the sales of new and used vehicles, based on the results of the Company for 2009, 2008, and 2007, as well as the combined results of the Company and CAG for 2006 and the results of CAG for 2005.

	New Vehicle Sales					Used Vehicle Sales					Total Vehicles Sold				
	2005	2006	2007	2008	2009	2005	2006	2007	2008	2009	2005	2006	2007	2008	2009
Q1	19%	20%	23%	24%	21%	23%	24%	23%	25%	24%	22%	22%	23%	24%	22%
Q2	27%	26%	25%	28%	26%	26%	26%	28%	28%	26%	27%	26%	26%	28%	26%
Q3	32%	29%	29%	26%	28%	25%	27%	26%	26%	27%	28%	28%	28%	26%	28%
Q4	22%	25%	23%	22%	25%	26%	23%	23%	21%	23%	23%	24%	23%	22%	24%

The results from operations historically 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 operating results are generally not as strong during the first and fourth quarters than during the other quarters of each fiscal year. The timing of acquisitions may have also caused substantial fluctuations in operating results from quarter to quarter.

OUR PERFORMANCE

New light vehicle sales in Canada in the three month period ended March 31, 2010 were up 15.0% when compared to the same period in 2009. Sales of new light vehicles for the first quarter of 2010 in Alberta and British Columbia, our primary markets, were up by 11.2% and 9.1% respectively. The Company's same store sales of new vehicles have increased by 27.0% in the first quarter of 2010 primarily as a result of higher sales volumes in Western Canada, where sixteen of our nineteen dealerships included in our same store analysis operate. AutoCanada has continued to operate from many new facilities which adhere to strict image standards set by manufacturers since its inception and management attributes much of its excellent performance versus the market to these new facilities which truly enhances the customers' experience.

The following table summarizes Canadian new light vehicle sales for the three-month period ended March 31, 2010 by Province:

March Year to Date Canadian New Vehicle Sales by Province[1]

	March Year to Date		Percentage Change	Units Change
	2010	2009		
Province				
British Columbia	32,816	30,073	9.1%	2,743
Alberta	42,860	38,544	11.2%	4,316
Saskatchewan	9,787	8,632	13.4%	1,155
Manitoba	8,737	8,061	8.4%	676
Ontario	119,184	103,301	15.4%	15,883
Quebec	88,897	75,873	17.2%	13,024
New Brunswick	7,892	6,220	26.9%	1,672
PEI	1,123	901	24.6%	222
Nova Scotia	9,892	8,457	17.0%	1,435
Newfoundland	6,064	4,507	34.5%	1,557
Total	**327,252**	**284,569**	**15.0%**	**42,683**

[1] *DesRosiers Automotive Consultants Inc.*

We have continued to see improvements in the automotive retail market in the first three months of 2010. As a result of the increase in new vehicle sales, our finance and insurance revenues have improved and our parts and service revenues have also benefitted from increased sales. We are excited for the upcoming launch of 16 all-new or refreshed products from Chrysler this year, including the 2011 Jeep Grand Cherokee expected to arrive in the second quarter of 2010 as well as Motor Trend's 2010 truck of the year, the all-new Ram Heavy Duty. We are also pleased to have acquired an additional Hyundai dealership in April and to have the opportunity to expand our operations after a challenging 2009.

SELECTED QUARTERLY FINANCIAL INFORMATION

The following table shows the unaudited results of the AutoCanada for each of the eight most recently completed quarters. The results of operations for these periods are not necessarily indicative of the results of operations to be expected in any given comparable period.

(In thousands of dollars except Operating Data and gross profit %)

	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010
Income Statement Data								
New vehicles	128,371	118,807	96,634	87,176	108,181	117,513	102,880	115,395
Used vehicles	61,223	57,790	47,605	49,550	55,098	56,386	48,135	48,216
Parts, service & collision repair	26,610	26,492	27,105	26,390	27,322	26,941	27,730	27,011
Finance, insurance & other	13,121	13,597	11,023	9,683	11,669	12,027	10,252	10,918
Revenue	229,325	216,686	182,367	172,799	202,270	212,867	188,997	201,540
New vehicles	9,699	9,266	6,729	5,828	7,951	9,003	7,157	7,809
Used vehicles	5,180	5,156	3,671	3,810	5,677	5,744	4,309	3,977
Parts, service & collision repair	12,896	13,290	13,090	12,811	13,708	13,374	13,447	13,106
Finance, insurance & other	12,244	12,629	10,137	8,732	10,489	10,717	9,218	9,825
Gross profit	40,019	40,341	33,627	31,181	37,825	38,838	34,131	34,717
Gross profit %	17.5%	18.6%	18.4%	18.0%	18.7%	18.3%	18.1%	17.2%
Sales, general & admin expenses	29,916	30,491	28,157	27,813	30,450	30,565	29,313	29,834
SG&A exp. as % of gross profit	74.8%	75.5%	83.7%	89.2%	80.5%	78.7%	85.9%	85.9%
Floorplan interest expense	1,895	1,693	1,443	970	1,104	1,399	1,382	1,661
Other interest & bank charges	396	458	441	375	552	802	552	362
Income taxes	148	(1,869)	(8,579)	97	67	37	248	522
Net earnings [4]	6,906	(38,318)	(67,121)	1,054	4,750	5,099	1,675	1,433
EBITDA [1] [4]	8,022	7,975	3,868	2,230	6,135	6,716	3,271	3,079
Operating Data								
Vehicles (new and used) sold	6,576	6,462	5,124	5,149	6,067	6,415	5,451	5,676
New retail vehicles sold	3,471	3,245	2,376	2,291	3,030	3,236	2,559	2,787
New fleet vehicles sold	470	532	526	473	446	619	695	661
Used retail vehicles sold	2,635	2,685	2,222	2,385	2,591	2,560	2,197	2,228
Number of service & collision repair orders completed	72,227	74,300	69,560	70,021	75,062	79,346	76,853	75,311
Absorption rate [2]	100%	99%	94%	84%	90%	92%	91%	85%
# of dealerships	20	21	22	22	22	22	22	22
# of same store dealerships [3]	14	14	14	16	17	18	19	19
# of service bays at period end	279	284	288	323	323	321	331	331
Same store revenue growth [3]	(3.8)%	(17.1)%	(16.7)%	(19.8)%	(15.3)%	(3.9)%	1.3%	16.9%
Same store gross profit growth [3]	0.2%	(3.3)%	(8.0)%	(12.8)%	(8.7)%	(6.3)%	(1.1)%	11.1%
Balance Sheet Data								
Cash and cash equivalents	18,459	19,194	19,592	12,522	14,842	23,224	22,465	23,615
Accounts receivable	35,374	39,390	31,195	33,821	27,034	38,134	35,388	40,752
Inventories	135,447	134,565	139,948	116,478	90,141	107,431	108,324	153,847
Revolving floorplan facilities	131,505	135,562	137,453	114,625	73,161	105,254	102,650	160,590

1 EBITDA has been calculated as described under "NON-GAAP MEASURES".

2 Absorption has been calculated as described under "NON-GAAP MEASURES".

3 Same store revenue growth & same store gross profit growth is calculated using franchised automobile dealerships that we have owned for at least 2 full years.

4 The results from operations 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 have also caused substantial fluctuations in operating results from quarter to quarter.

RESULTS FROM OPERATIONS

First Quarter Operating Results

EBITDA for the three month period ended March 31, 2010 increased by 38.1% to $3.1 million, from $2.2 million when compared to the results of the Company for the same period in the prior year. The Canadian economy in general improved during the first three months of 2010 which had a positive effect on the Canadian automotive retail industry. Our new vehicle sales increased by 32.4% as a result of the improvement in the economy and complemented by our strong individual dealership management teams. As noted in the past, new vehicle sales are one of the main drivers of our industry and generally tend to provide additional sales opportunities to our finance and insurance and parts and service business lines. The increase in EBITDA can be largely attributed to the increase in new vehicle sales.

The following table illustrates EBITDA for the three months ended March 31, for the last three years of operations.

Period from January 1 to March 31st	EBITDA (In thousands of dollars)
2008	4,621
2009	2,230
2010	3,079

Pre-tax earnings increased by $0.8 million or 66.7% to $2.0 million for the three month period ended March 31, 2010 from $1.2 million in the same period of the prior year. Net earnings increased by $0.3 million or 27.2% to a profit of $1.4 million in the first quarter of 2010 from a $1.1 million profit when compared to the prior year. As a result of AutoCanada's conversion from an income trust structure to a corporation, we are now subject to corporate income tax which resulted in income tax expense of $0.5 million in the first quarter of 2010 as compared to $0.1 million in the same period of the prior year which related to future income tax implications.

Consumers returned to dealership showrooms in the first quarter of 2010 amid signs of economic recovery which allowed us to post an increase in our new vehicle and finance and insurance sales. The sale of new vehicles is a key driver of overall dealership profitability since it creates additional revenue in our parts and service and finance and insurance operations. Credit conditions continued to cause challenges in the first quarter of 2010. As chartered banks continue to be our main source of credit financing for our customers, the lack of financing available from captive financing companies has reduced our customer's ability to finance vehicles, accessories, and finance and insurance products, which has negatively affected our revenue and gross profits. Although our finance and insurance revenues increased by 12.7% in the first quarter of 2010 as compared to the prior year, our new vehicle sales increased 32.4% and we would have expected a similar increase in finance and insurance had credit conditions returned to pre-recession levels. The poor credit conditions continue to weigh on our earnings, however the anticipated economic recovery should help to improve our various revenue streams and provide relatively stable earnings as credit conditions begin to normalize. At this time we do not see an end to the poor credit conditions and cannot provide guidance as to whether credit conditions and finance commissions will ever return to historical levels, however we are optimistic that it will improve from its historic lows we have witnessed since late 2008.

The tables in the sections below summarize the results for the three months ended March 31, 2010 on a same store basis by revenue source and compare these results to the same period in 2009. An acquired or open point dealership may take as long as two years in order to reach normalized operating results. As a result, in order for an acquired or open point dealership to be included in our same store analysis, the dealership must be owned and operated by us for eight complete quarters. For example, if a dealership was acquired on December 1, 2007, the results of the acquired entity would be included in quarterly same store comparisons beginning with the quarter ended March 31, 2010 and in annual same store comparisons beginning with the year ended December 31, 2010. As a result, only dealerships opened or acquired prior to January 1, 2008 are included in this same store analysis.

Revenues

Revenues for the three months ended March 31, 2010 increased to $201.5 million from $172.8 million in the prior year. This 16.6% year-over-year increase in revenue for the period was as a result of an increase in new vehicle sales. Revenue from new vehicle sales increased by $28.2 million or 32.4% from $87.2 million to $115.4 million as a result of an increase in new vehicle unit sales of 684 units or 24.7%. In addition to the increase in new unit sales, the average transaction value per new vehicle sold increased by $1,928 or 6.1% during the three months ended March 31, 2010. Used vehicle revenue declined by $1.3 million or 2.7% due to a decrease in used vehicles retailed of 157 units during the quarter, partially offset by an increase in the average transaction price per used vehicle retailed of $865. During the three months ended March 31, 2010 finance and insurance revenue increased by $1.2 million or 12.7% from $9.7 million to $10.9 million as a result of an increase in new vehicle sales. Finance and insurance revenues are still affected by poor credit conditions as a result of the economic downturn; however we expect credit conditions to gradually improve over the remainder of 2010 and expect to see an improvement in our finance and insurance revenues as long as new vehicle sales continue to improve from 2009. AutoCanada's parts and service revenue increased by $0.6 million or 2.4% from $26.4 million to $27.0 million in the first quarter of 2010 mainly due to increased service capacity which increased the number of repair orders completed in the first quarter of 2010 by 5,290 or 7.6%, partially offset by a decrease in the average revenue per repair order completed of $18 or 4.8%.

Revenues - Same Store Analysis

Company management considers same store gross profit and sales information to be an important operating metric when comparing the results of the Company to other industry participants.

Same Store Revenue and Vehicles Sold

	For the Three Month Period Ended		
(In thousands of dollars except % change and vehicle data)	**March 31, 2010**	**March 31, 2009**	**% Change**
Revenue Source			
New vehicles	104,729	77,816	34.6%
Used vehicles	45,087	46,806	(3.7)%
Finance, insurance and other	9,884	8,853	11.7%
Subtotal	159,700	133,475	19.6%
Parts, service and collision repair	24,633	24,251	1.6%
Total	184,333	157,726	16.9%
New vehicles - retail sold	2,512	2,003	25.4%
New vehicles – fleet sold	624	467	33.6%
Used vehicles sold	2,055	2,208	(6.9)%
Total	5,191	4,678	11.0%
Total vehicles retailed	4,567	4,211	8.5%

Same store revenue increased by $26.6 million or 16.9% in the three months ended March 31, 2010 when compared to 2009. New vehicle revenues increased by $26.9 million or 34.6% for the three months ended March 31, 2010 over the prior year due in part to a net increase in new vehicle sales of 666 units consisting of an increase of 509 retail units and 157 low margin fleet unit sales. This increase was supplemented by an increase in the average selling price per new vehicle retailed ("PNVR") of $1,891 over the prior period largely as a result of increased sales of sport utility vehicles ("SUV's") and light trucks. The retail sales price of SUV's and light trucks are generally higher than other vehicles offered at our dealerships which provides for a higher PNVR during times of increased sales for these types of vehicles.

Same store used vehicle revenues decreased by $1.7 million or 3.7% for the three months ended March 31, 2010 over the prior year. This decrease was due to a decrease in the number of used vehicles sold of 153 units, partially offset by an increase in the average selling price per used vehicle retailed of $742.

Same store parts, service and collision repair revenue remained relatively flat with an increase of $0.4 million in the year ended March 31, 2010 compared to the prior year and was primarily a result of an increase of 8.5% in the number of service and collision repair orders completed, offset by a 5.2% decrease in the average revenue per service and collision repair order completed.

Same store finance, insurance and other revenue increased by $1.0 million or 11.7% for the three months ended March 31, 2010 over the same period in the prior year. This was due to an increase in the number of new and used vehicles retailed of 356 and an increase in the average revenue per unit retailed of $62. Although we are not achieving the level of finance and insurance revenue that we would desire due to continuing poor credit conditions, the increase in new vehicle unit sales have helped our finance and insurance revenues and we hope that as credit conditions improve, our finance and insurance revenues will improve as well.

Gross profit

During the three months ended March 31, 2010, gross profit from all dealerships increased by 11.3% to $34.7 million when compared to $31.2 million in 2009. The increase in gross profit for the three months ended March 31, 2010 was mainly the result of increases in new vehicle sales and finance and insurance products.

The following table summarizes the results for the three months ended March 31, 2010 on a same store basis by revenue source and compares these results to the same period in 2009.

Same Store Gross Profit and Gross Profit Percentage

	For the Three Month Period Ended					
	Gross Profit			Gross Profit %		
(In thousands of dollars except % change and gross profit %)	**March 31, 2010**	**March 31, 2009**	**% Change**	**March 31, 2010**	**March 31, 2009**	**% Change**
Revenue Source						
New vehicles	7,088	4,922	44.4%	6.8%	6.3%	7.9%
Used vehicles	3,731	3,839	(2.8)%	8.3%	8.2%	1.2%
Finance, insurance and other	9,092	8,143	11.7%	92.0%	92.0%	0.0%
Subtotal	19,911	16,904	17.8%			
Parts, service and collision repair	12,003	11,832	1.4%	48.7%	48.8%	0.0%
Total	31,914	28,736	11.1%	17.3%	18.2%	(4.9)%

Gross Profit - Same Store Analysis

Same store gross profit increased by $3.2 million or 11.1% for the three month period ended March 31, 2010 when compared to the same period in the prior year. New vehicle gross profit increased by $2.2 million or 44.0% in the three month period ended March 31, 2010 when compared to 2009 as a result of the previously discussed increase in new vehicle sales of 666 units largely as a result of increases in our primary markets of Alberta and British Columbia. The average gross profit per new vehicle retailed increased by $268 from 2009 which can be mainly attributed to increased sales of SUV's and light trucks during the period which tend to achieve a higher gross per vehicle sold than other vehicles sold at our dealerships.

Used vehicle gross profit remained relatively flat with a modest decrease of $0.1 million or 2.8% in the three month period ended March 31, 2010 over the prior year. This was primarily due to a decrease in the number of used vehicles sold of 153 units, partially offset by a $77 increase in the average gross profit earned per vehicle retailed. The increase in gross profit earned per used vehicle retailed may be attributed to increases in used vehicle values in Canada during the quarter. The Company benefited from increases in used vehicle values during the quarter, which directly increases the amount of gross profit earned per vehicle sold.

Parts, service and collision repair gross profit increased by $0.2 million or 1.4% in the three month period ended March 31, 2010 when compared to the same period in the prior year as a result of a combination of an increase of 4,526 service and collision repair orders completed during the year, offset in part by a decrease of $10 in the average gross profit earned per service and collision repair order completed.

Finance, insurance & other gross profit increased by 11.7% or $0.9 million in the three month period ended March 31, 2010 when compared to the prior year as a result of a combination of an increase of 356 retail units and an increase in the average gross profit per unit sold of $57.

Selling, general and administrative expenses

During the three months ended March 31, 2010, SG&A expenses increased by 7.3% to $29.8 million from $27.8 million in 2009 primarily as a result of increases in commissioned wages as a result of increased sales. During the three months ended March 31, 2010, SG&A as a percentage of gross profit decreased to 85.9% from 89.2% in the same period of the prior year. The decrease in selling, general and administrative expenses as a percentage of gross profit was mainly a result of the increase in new vehicle sales. As noted in the past, management believes that this percentage will likely continue to decrease as economic conditions begin to recover and vehicle sales improve. This percentage had risen quite substantially in late 2008 and 2009 as we executed a number of large dealership relocations during times of depressed automotive retail sales volumes in Canada. Management believes that its commitments to new facilities, which have resulted in greater fixed costs, will give our dealerships a competitive advantage and should result in higher gross profits in the future, which will continue to lower the SG&A as a percentage of gross profit over time.

Amortization expense

During the three month period ended March 31, 2010, amortization was $905 million as compared to $872 in the same period of the prior year. The increase was due to significant capital expenditures incurred from dealership relocations in 2009.

Interest expense

The Company incurs interest expense on its revolving floorplan facility, its revolving term loan, the mortgage on the Cambridge Hyundai property and its capital lease obligations.

During the three month period ended March 31, 2010, floor plan interest expense increased by 71.2% to $1,661 from $970 in 2009. Our floorplan facility for the first quarter of 2009 was with Chrysler Financial Canada, which as part of a larger credit agreement contained favourable floorplan interest rates (2.25% at March 31, 2009). As previously noted by management, this credit agreement was terminated in 2009 due to CFC's exit of the automotive lending business and the revolving floorplan facilities were taken over by General Motors Acceptance Corporation of Canada ("GMAC Canada"). As noted below, the GMAC interest rate was 5.0% during the first quarter of 2010 which has resulted in higher floor plan interest expense to the Company.

At March 31, 2010, a 1% change in the annual interest rate on the Company's floating rate debt would result in a change in the annual interest rate expense of approximately $160. Although the Company' revolving floorplan facility is considered floating rate debt, under its present terms, the facility will continue to bear interest at 5.00% until the RBC Prime Rate increases by more than 1.75%, at which time the facility will then be affected by fluctuations in prime rates. The effect of a 1% change in annual interest rates on the revolving floorplan facility was not included in the above analysis as a 1% change in the RBC Prime Rate would currently have no effect on the interest rate. The following table summarizes the interest rates at the end of the last eight quarters on our revolving floorplan facilities.

	Q2 2008	**Q3 2008**	**Q4 2008**	**Q1 2009**	**Q2 2009**	**Q3 2009**	**Q4 2009**	**Q1 2010**
Revolving Floorplan Facility Interest Rate	4.50%	4.50%	3.25%	2.25%	5.00%	5.00%	5.00%	5.00%

As of the date of this MD&A our floorplan interest rate is 5.00%.

Some of our manufacturers provide non-refundable credits on the floorplan interest to offset the dealership's cost of inventory that, on average, effectively provide the dealerships with interest-free floorplan financing for the first 45 to 60 days of ownership of each financed vehicle. During the three month period ended March 31, 2010, the net floorplan credits were $753 (2009 - $731). GAAP requires the floorplan credits to be accounted for as a reduction in the cost of new vehicle inventory and subsequently a reduction in the cost of sales as vehicles are sold.

Sensitivity

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 have resulted in a corresponding increase or decrease in our estimated free cash flow of approximately $1,500 - $2,000 per vehicle. The net earnings achieved per new vehicle retailed can fluctuate between individual dealerships due to differences between the manufacturers, geographical locations of our dealerships and the demographic of which our various dealerships' marketing efforts are directed. The above sensitivity analysis represents an average of our dealerships as a group and may vary depending on increases or decreases in new vehicles retailed at our various locations.

NEW DEALERSHIPS

The Company currently owns 23 franchised automotive dealerships. At the time of AutoCanada's initial public offering ("IPO") in May of 2006, AutoCanada owned 14 franchised automotive dealerships. Since this time the Company has acquired or opened 9 additional dealerships. The Company did not complete any acquisitions during the three month period ended March 31, 2010.

On April 12, 2010 the Company completed the purchase of the assets of a dealership formerly known as Future Hyundai, located in Mississauga, Ontario, to be continued under the name 401/Dixie Hyundai. The approximate 9,500 square foot leased facility out of which the dealership operates provides for eight service bays and a five car showroom. The dealership has been in operation since 1996 and retailed approximately 600 new and 250 used vehicles in 2009. Management is pleased to continue to expand its operations again, after a challenging 2009 fiscal year.

Management believes that there may be additional acquisition opportunities in the Canadian automotive retail market at attractive purchase multiples for the remainder of 2010. The Company will consider pursuing acquisition opportunities if a favourable opportunity presents itself and if the acquisition could potentially provide incremental value to Shareholders. The Company is concerned that the recent going concern and restructuring issues relating to some of the domestic auto manufacturers, including Chrysler LLC, may have caused those auto manufacturers with whom the Company does not have a relationship, or who are related to same, to be increasingly reluctant to entertain a relationship with a public multi-brand dealer group which has cross obligations among its dealer entities. As a result, the Company has no assurance that any manufacturer with whom it does not presently have a relationship, or who are related to same, will approve the Company as a franchisee. Having said the same, subject to the credit markets, the economy, and securing an attractive opportunity, Management is looking to make one further acquisition or secure one open point in respect to current or related brands during the 2010 fiscal year.

LIQUIDITY AND CAPITAL RESOURCES

Our principal uses of funds are for capital expenditures, repayment of debt and funding the future growth of the Company and dividends to Shareholders. We have historically met these requirements by using cash generated from operating activities and through short-term and long-term debt. A significant decline in sales as a result of the inability to procure adequate supply of vehicles and/or lower consumer demand may reduce our cash flows from operations and limit our ability to fund capital expenditures, repay our debt obligations, fund future growth internally and/or fund future dividends.

Cash Flow from Operating Activities

Cash flow from operating activities (including changes in non-cash working capital) of the Company for the three month period ended March 31, 2010 was a positive $6.1 million (cash provided by operating activities of $2.9 million plus net change in non-cash working capital of $3.2 million) compared to a negative $3.2 million in the same period of the prior year. Prior to 2009, the Company was able to generated sufficient cash flow from operations to fund capital expenditures, distributions, working capital requirements and to service its debt obligations. The economic conditions deteriorated significantly in 2009 in the Canadian automotive retail industry, which provided for increased need for management of capital resources and liquidity. Throughout 2009 and 2010, the Company has continued to manage its working capital to maintain optimal levels of liquidity during the economic downturn.

Economic Dependence

As stated in Note 2 of the interim consolidated financial statements, the Company has significant commercial and economic dependence on Chrysler Canada and GMAC Canada. As a result, the Company is subject to significant risk in the event of the financial distress of Chrysler Canada, one of our major vehicle manufacturers and parts suppliers, and GMAC Canada, which provides the Company with revolving floorplan facilities for all of its dealerships. Details of these relationships and balances of assets with Chrysler Canada and GMAC Canada are described in Note 2 of the interim consolidated financial statements for the three month period ended March 31, 2010.

Credit Facilities and Floor Plan Financing

There have been no changes to credit facilities or our floorplan financing facilities since described in the annual management discussion and analysis for the year ended December 31, 2009 which is available on SEDAR (www.sedar.com).

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.

(a) 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 GMAC facility is 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 GMAC facility bears interest at Prime Rate plus 1.00%. The GMAC facility defines 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 2.25%, the Company is not exposed to interest rate fluctuations until the RBC Prime Rate is equal to 4.00% (increase of 1.75% from the present rate). Based on the outstanding balance at March 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 $1,606.

The HSBC facility is 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 facility bears interest at the HSBC Prime Rate plus 1.65%. Based on the outstanding balance at March 31, 2010, an additional increase in the HSBC Prime Rate of one percent would result in an increase in annual interest expense of approximately $160.

The Bank of Montreal Fixed Rate Term Loan is not subject to interest rate risk due to the fixed rate nature of the loan. The Loan will be subject to interest rate risk upon maturity on September 30, 2012. The Company does not currently hold any financial instruments that mitigate this risk.

(b) 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 - *Economic dependence, use of estimates and measurement uncertainty* of the interim consolidated financial statements for the three month period ended March 31, 2010 for further discussion of the Company's economic dependence on Chrysler Canada and associated credit risk). Credit risk arising from receivables from 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 March 31, 2010 by the following approximate percentages:

Current	90.1%
31 to 60 days	6.7%
61 to 90 days	2.0%
91 to 120 days	0.5%
Over 120 days	0.7%

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 $304 as of March 31, 2010 ($439 as of March 31, 2009). 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 GMAC Canada.

(c) 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 amount 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.

The Company is exposed to liquidity risk as a result of its economic dependence on suppliers and lenders. Refer to Note 2 - *Economic dependence, use of estimates and measurement uncertainty* of the interim consolidated financial statements for the three month period ended March 31, 2010 for further information regarding the Company's economic dependence on Chrysler Canada and GMAC Canada and the 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	22,158	-
Revolving floorplan facility	160,590	-
Long-term debt	1,061	19,596
	183,809	19,596

(d) 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 signing of the debt agreement and balance sheet date for the current reporting period.

Growth vs. Non-growth Capital Expenditures

Non-growth capital expenditures are capital expenditures incurred during the period to maintain existing levels of service. These include capital expenditures to replace property and equipment and any costs incurred to enhance the operational life of existing property and equipment. Non-growth capital expenditures can fluctuate from period to period depending on our needs to upgrade or replace existing property and equipment. Over time, we expect to incur annual non-growth capital expenditures in an amount approximating our amortization of property and equipment reported in each period.

Additional details on the components of non-growth property and equipment purchases are as follows:

(In thousands of dollars)	January 1, 2010 to March 31, 2010 $
Leasehold improvements	83
Machinery and equipment	172
Furniture and fixtures	42
Computer equipment	52
Company & lease vehicles	60
	409

Amounts relating to the expansion of sales and service capacity are considered growth expenditures. Growth expenditures are discretionary, represent cash outlays intended to provide additional future cash flows and are expected to provide benefit in future periods. During the three month period ended March 31, 2010 growth capital expenditures of $0.13 million were incurred. These expenditures related primarily to capital assets for a recently relocated dealership.

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 free cash flow section below.

(In thousands of dollars)	January 1, 2010 to March 31, 2010 $
Purchase of property and equipment from the Statement of Cash Flows	541
Less: Amounts related to the expansion of sales and service capacity	(132)
Purchase of non-growth property and equipment	409

Repairs and maintenance expenditures are expensed as incurred and have been deducted from earnings for the period. Repairs and maintenance expense incurred during the three-month period ended March 31, 2010, were $0.431 million.

Planned Capital Expenditures

The Company is planning to relocate its body shop located in Edmonton, Alberta. We have identified a number of possible locations for the relocation and are currently evaluating the suitability of each location. We anticipate that the capital cost associated with the relocation of the body shop will be approximately $1 million. The Company also has plans to relocate one of our smaller dealerships during the 2010 year and estimate a capital cost of approximately $1 million. We also have one renovation currently underway at a dealership located in Prince George, Alberta with an estimated cost of $400 thousand. Management believes that relocation and renovation work to our current facilities improves our customers' purchasing experience and strengthens our relationships with our various manufacturer partners.

Financial Position

The following table shows selected audited balances of the Company for December 31, 2009 and December 31, 2008 as well as unaudited balances of the Company at March 31, 2010, September 30, 2009, June 30, 2009, March 31, 2009, September 30, 2008 and June 30, 2008.

	The Company							
Balance Sheet Data	**March 31, 2010**	**December 31, 2009**	**September 30, 2009**	**June 30, 2009**	**March 31, 2009**	**December 31, 2008**	**September 30, 2008**	**June 30, 2008**
Cash and cash equivalents	23,615	22,465	23,224	14,842	12,522	19,592	19,194	18,459
Accounts receivable	40,752	35,388	38,134	27,034	33,821	31,195	39,390	35,374
Inventories	153,847	108,324	107,431	90,141	116,478	139,948	134,565	135,447
Total assets	285,508	233,665	233,283	198,946	229,839	257,104	338,296	374,912
Revolving floorplan facilities	160,590	102,650	105,254	73,161	114,625	137,453	135,562	131,505
Total long term liabilities	19,406	23,074	19,064	20,576	25,438	25,522	31,836	35,837

Net Working Capital

The automobile manufacturers represented by the Company require the Company to maintain net working capital for each individual dealership. At March 31, 2010, the aggregate of net working capital requirements was approximately $33.3 million. At March 31, 2010, all working capital requirements had been met by each dealership.

Related Party Transactions

Note 7 to the unaudited interim consolidated financial statements of the Company summarize the transactions between the Company and its related parties. These transactions are management and non-competition fees received, leasehold inducements and rents paid to companies with common ownership, management and directors.

The total management and non-competition fees received from companies with common directors for the three months ended March 31, 2010 was $60. We lease thirteen of our twenty-two locations as of March 31, 2010 from related parties of the Company. The total rent paid by us to the related parties for the three months ended March 31, 2010 was $2,033. The total leasehold inducements paid during the three months ended March 31, 2010 to a company with common directors was $0.4 million. We have received advice from a national real estate appraisal company that the market rents at each of our facilities leased from related parties of the Company were at fair market value rates when the leases were entered into. 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.

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 and have been reviewed and approved by the independent members of our Board of Directors and where considered necessary are supported by independent appraisals.

DIVIDENDS

Dividends to Shareholders

Management reviews the Company's financial results on a monthly basis. The Board of Directors reviews the financial results on a quarterly basis, or as requested by Management, and determine whether a dividend shall be paid based on a number of factors.

AutoCanada has announced that it is resuming payment of dividends at an annual rate of $0.16 cents per common share. Accordingly, the board declared an initial quarterly eligible dividend of $0.04 per common share on AutoCanada's outstanding Class A common shares, payable on June 15, 2010 to shareholders of record at the close of business on May 31, 2010.

Cautionary Note Regarding our Dividends

Future dividends of AutoCanada will be reviewed by our Board of Directors and adjusted from time to time to reflect current business conditions. Our ability to pay dividends and the actual amount of such dividends will be dependent upon, among other things, our financial performance, our debt covenants and obligations, our ability to refinance our debt obligations on similar terms and at similar interest rates, our working capital requirements, our future tax obligations, and our future capital requirements.

As per the terms of the HSBC facility, we are restricted from declaring dividends and distributing cash if we are in breach of our financial covenants or our available margin and facility limits or if such dividend would result in a breach of our covenants or our available margin and facility limits.

Free Cash Flow

The Company has defined free cash flow to be cash flows provided by operating activities (including changes in non-cash operating working capital) less capital expenditures.

(In thousands of $ except unit and per unit amounts)	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010
Cash provided by operating activities	13,806	10,456	7,313	(3,213)	2,611	9,657	2,282	6,118
Deduct:								
Purchase of property and equipment	(1,308)	(973)	(1,243)	(1,065)	(2,175)	(458)	(614)	(541)
Free Cash Flow	12,498	9,483	6,070	(4,278)	436	9,199	1,668	5,577
Weighted average shares outstanding at end of period[1]	20,257,000	20,249,732	20,047,787	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930
Free cash flow per share	0.617	0.468	0.303	(0.215)	0.022	0.463	0.084	0.281
Free cash flow – 12 month trailing	23,943	27,465	30,376	23,773	11,711	11,427	7,025	16,880
Free cash flow –Year-to-date								5,577

[1] Includes Fund Units and Exchangeable Units prior to conversion to a corporation on December 31, 2009.
[2]These financial measures are identified and defined under the section "NON-GAAP MEASURES".

Management believes that the free cash flow (see "NON-GAAP MEASURES") can fluctuate significantly as a result of historical fluctuations in our business operations that occur on a quarterly basis as well as the resulting fluctuations in our accounts receivable and inventory levels and the timing of the payments of accounts payable and revolving floorplan facilities.

Changes in non-cash working capital consist of fluctuations in the balances of accounts receivable, inventories, prepaid expenses, accounts payable and accrued liabilities, and revolving floorplan facilities. Factors that can affect these items include seasonal sales trends, strategic decisions regarding inventory levels, the addition of new dealerships, and the day of the week on which period end cutoffs occur. As seen above, when comparing the three month period ended March 31, 2010 with the same period of the prior year, free cash flow was greatly affected by the changes in non-cash working capital which was mainly due to differences in market conditions.

The following table summarizes the cash impact of changes in non-cash working capital for the three months ended March 31, 2009 and March 31, 2010.

(In thousands of dollars)	**January 1, 2009 to March 31, 2009** $	**January 1, 2010 to March 31, 2010** $
Accounts receivable	(2,626)	(5,364)
Inventories	23,546	(45,553)
Prepaid expenses	(426)	(364)
Accounts payable and accrued liabilities	(2,950)	(3,399)
Revolving floorplan facility	(22,828)	57,940
	(5,284)	3,260

Adjusted Free Cash Flow

The Company has defined adjusted free cash flow to be cash flows provided by operating activities (before changes in non-cash operating working capital) less growth capital expenditures.

(In thousands of $ except unit and per unit amounts)	**Q2 2008**	**Q3 2008**	**Q4 2008**	**Q1 2009**	**Q2 2009**	**Q3 2009**	**Q4 2009**	**Q1 2010**
Cash provided by operating activities before changes in non-cash working capital	7,875	7,696	3,641	2,071	5,723	6,101	3,208	2,858
Deduct:								
Purchase of non-growth property and equipment	(250)	(80)	(197)	(187)	(132)	(187)	(240)	(409)
Free Cash Flow	7,625	7,616	3,444	1,884	5,591	5,914	2,968	2,449
Weighted average shares outstanding at end of period[1]	20,257,000	20,249,732	20,047,787	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930
Free cash flow per share	0.376	0.376	0.172	0.095	0.281	0.297	0.149	0.123
Free cash flow – 12 month trailing	24,244	24,474	23,020	20,569	18,535	16,833	16,357	16,922
Free cash flow –Year-to-date								2,449

[1] Includes Fund Units and Exchangeable Units prior to conversion to a corporation on December 31, 2009.
[2]These financial measures are identified and defined under the section "NON-GAAP MEASURES".

Management believes that non-growth property and equipment is necessary to maintain and sustain the current productive capacity of the Company's operations and cash available for growth. Management believes that maintenance capital expenditures should be funded by cash flow provided by operating activities. Capital spending for the expansion of sales and service capacity is expected to improve future free cash and as such is not deducted from cash flow provided by operating activities before changes in non-cash working capital in arriving at adjusted free cash flow.

Return on Capital Employed

The Company has defined Return on Capital Employed to be EBIT (EBITDA, as defined in "NON-GAAP MEASURES", less depreciation and amortization) divided by Average Capital Employed in the Company (average of shareholders' equity and interest bearing debt, excluding floorplan financing, for the period).

(In thousands of $ except share and per share amounts)	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010
EBITDA[1]	8,022	7,975	3,868	2,230	6,135	6,716	3,271	3,079
Add (deduct):								
Amortization	(758)	(885)	(905)	(872)	(902)	(937)	(961)	(905)
EBIT[1]	7,264	7,090	2,963	1,358	5,233	5,779	2,310	2,174
Average long-term debt	14,621	21,200	25,237	26,045	25,663	24,432	23,441	21,314
Average shareholders' equity	176,992	160,241	106,261	69,217	70,907	75,848	79,253	80,819
Average capital employed[1]	191,613	181,441	131,498	95,262	96,570	100,280	102,693	102,133
Return on capital employed[1]	3.8%	3.9%	2.3%	1.4%	5.4%	5.8%	2.2%	2.1%
Return on capital employed – YTD				1.4%				2.1%

[1]These financial measures are identified and defined under the section "NON-GAAP MEASURES

Management believes that Return on Capital Employed (see "NON-GAAP MEASURES") is a good measure to evaluate the profitability of our invested capital. As a corporation, management of AutoCanada may use this measure to compare potential acquisitions and other capital investments against our internally computed cost of capital to determine whether the investment shall create value for our shareholders. Management may also use this measure to look at past acquisitions, capital investments and the Company as a whole in order to ensure shareholder value is being achieved by these capital investments.

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICY DEVELOPMENTS

Critical Accounting Policies and Estimates

Except as noted in the *New Accounting Policies* section of this MD&A, there are no significant changes in our critical accounting policies since December 31, 2009 as described in the Management Discussion and Analysis for the year ended December 31, 2009 available at www.sedar.com.

New Accounting Policies

In 2010, the Company adopted a new accounting standard that was issued by the Canadian Institute of Chartered Accountants ("CICA"). The new standard and accounting policy change is as follows:

a) Business Combinations, Section 1582

This section replaces the former Section 1581 "Business combinations" and provides the Canadian equivalent to International Financial Reporting Standard IFRS 3 "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 has applied the new standard to the acquisition of Future Hyundai (as described above) and did not note any significant change in accounting for the acquisition from using the previous standard. 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 any impact on our financial position or results in operations.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Canadian Accounting Standards Board ("AcSB") confirmed in February 2008 that publicly accountable entities will be required to adopt International Financial Reporting Standards (IFRS) for interim and annual financial statements beginning on or after January 1, 2011. Accordingly, the Company will issue its last financial statements prepared in accordance with Canadian GAAP in 2010. Beginning in the three month period ended March 31, 2010, the Company's financial statements will be prepared in accordance with IFRS, with 2010 comparative figures and a January 1, 2010 (the "date of transition") opening balance sheet restated to conform to IFRS.

Financial reporting under IFRS differs from Canadian GAAP in a number of respects, some of which are significant. IFRS on the date of adoption also is expected to differ from current IFRS due to new IFRS standards and pronouncements that are expected to be issued before the changeover date such as financial instruments standards.

Current Status of our IFRS Changeover Plan

The Company has developed a multiyear transition plan which includes three phases:

Phase 1 – Diagnostic and project planning - Completed
In this phase we engaged a consultant to perform an IFRS diagnostic comparing Canadian GAAP to IFRS and identifying key areas that may be impacted by the transition to IFRS. Accounting policies were ranked by potential significance of impact on the financial statements as well as potential level of implementation effort. We also prepared a project plan which outlined the project budget, training requirements, key milestones and implementation plans. The plan is updated on a continual basis as the project progresses. This phase was completed in 2009.

Phase 2 – Impact assessment and policy design – In progress
In this phase, each area identified in the diagnostic and project planning phase is addressed by determining the changes required to existing accounting policies and making accounting choices with respect to the accounting issues identified in the diagnostic and project planning phase, including choices with respect to IFRS 1 – *First time adoption of IFRS* and the related exemptions available under this standard. As discussed in more detail below, the Company has evaluated all accounting issues identified in the diagnostic and project planning stage as potentially having a moderate to high impact on the financial statements. We are currently undergoing impact assessments for accounting issues identified as having a potentially low impact and expect to be completed these assessments by the end of Q2 of 2010.

This phase also incorporates the determination of changes to business activities, information technology and data systems, developing financial reporting expertise, internal controls over financial reporting and disclosure controls. As impact assessments are completed by our internal finance team, the impact of the accounting policy choices are incorporated into the analysis and any major operational or technological issues identified will be addressed in the implementation phase. We expect these analyses to be completed concurrently with the impact assessments described above and to be complete by the end of Q2 of 2010.

This phase also involves the development of draft IFRS financial statements. We have engaged an external consultant to work with management to prepare a skeleton financial statement using our suggested disclosures for each financial statement item as a result of analysis performed during impact assessments. We plan to have a draft skeleton financial statement prepared by the end of Q3 of 2010. The new IFRS compliant financial statement will be developed to generate financial statements directly from our reporting system which we expect will improve our internal controls over financial reporting and disclosure controls.

Phase 3 – Implementation – Not started
The implementation phase will consist of providing accounting policy recommendations to the audit committee; obtain approval of all IFRS accounting policies and implement changes in accounting policies and practices to the different business processes, information systems and internal controls. These changes will be adequately tested before the changeover date to ensure all significant differences have been successfully resolved by the first quarter of 2011. We also expect to complete the opening balance sheet and necessary reconciliations to be included in our interim consolidated financial statements for the first quarter of 2011. We have tentatively scheduled a special meeting of the audit committee in Q4 of 2010 to approve all accounting policy recommendations and expect to implement these policies in Q4 of 2010 and Q1 of 2011. We also expect to complete the opening balance sheet and necessary reconciliations by the end of Q4 of 2010.

Update on Key Elements of our IFRS Changeover Plan

Accounting Policies:

The standard setting body of IFRS has significant ongoing projects that could affect the ultimate differences between GAAP and IFRS and these changes may have a material impact on the Company's financial statements. As a result, the final effect on the Company's consolidated financial statements will only be measurable once all of the applicable IFRS standards at the final changeover are known.

We have identified a number of differences between GAAP and IFRS. Many of the differences are not expected to have a material effect on the reported results of operations or financial position of AutoCanada. However there may be significant changes resulting from the initial adoption of IFRS and accounting policy choices.

AutoCanada's significant areas of impact continue to be business combinations, impairment of assets, property, plant and equipment and available exemptions under IFRS 1 – *First-time adoption of international financial reporting standards.* In general, IFRS 1 requires first time adopters to retrospectively apply IFRS, although it does provide optional and mandatory exemptions to these requirements as discussed below. AutoCanada has identified the standards that have an impact on its financial statements, business processes and IT systems. The key areas identified to date that will impact AutoCanada are as follows:

Accounting Policy: IFRS 3 – Business Combinations	**Impact:** High
Preliminary Conclusions Reached: Business combinations will be accounted for in accordance with IFRS 3 – *Business Combinations* which requires that acquisition related costs, such as legal and consulting fees be expensed, which under Canadian GAAP, these costs are eligible to be included as part of the purchase price allocation. The IFRS 3 standard also requires that the acquisition date be the date on which the acquirer obtains control over the entity. Under IFRS 3, any gain on the purchase of an entity (negative goodwill) must be immediately recognized in net income. As discussed below, we plan to use an exemption available under IFRS 1 that gives us the ability not to restate business combinations entered into prior to the date of transition to IFRS (January 1, 2010). In addition, the Company had previously elected to early adopt Section 1582 – *Business Combinations* under Canadian GAAP which was designed to align the accounting for future business combinations under Canadian GAAP to IFRS. As a result, we do not expect any adjustments to how we have accounted for past acquisitions or future acquisitions.	**Status Update:** We have completed the impact assessment for this standard. We expect to obtain approval from the audit committee of our draft IFRS policy recommendation in Q4 of 2010. We have early adopted CICA 1582 – *Business Combinations* to align accounting for future acquisitions with IFRS, therefore implementation of this policy has begun and will be completed by Q4 of 2010.
Effect on Other Key Elements of the Changeover Plan: We do not expect the adoption of this policy to have a significant effect on other key elements of our changeover plan.	

Accounting Policy: IAS 36 - Impairment of Assets	**Impact:** High
Preliminary Conclusions Reached: This standard uses a one-step approach for testing and measuring asset impairments, with asset carrying values being compared to the higher of "value in use" and "fair value less costs to sell". The use of discounted cash flows under IFRS to test and measure asset impairment differs from Canadian GAAP where undiscounted cash flows are used to compare against the asset's carrying value to determine if impairment exists. This difference will likely result in more frequent write-downs in the carrying value of assets under IFRS. Under IAS 36, previous impairment losses may be reversed where circumstances change such that the impairment has reduced. This may result in certain reversals of impairment for financial statement items such as property and equipment and intangible assets. This differs from Canadian GAAP which prohibits the reversal of previously recognized impairment losses. We expect the carrying value of intangible assets to change as at the date of transition (January 1, 2010) under IFRS due to the differences in the calculation of impairments between Canadian GAAP and IFRS. We have yet to quantify the impact on the financial statements and expect the change to have no impact on our debt covenants since intangible assets are removed from our	**Status Update:** We have completed the impact assessment for this standard. We expect to obtain approval of our draft IFRS policy recommendation in Q4 of 2010. We intend to quantify the impact of adopting IAS 36 – Impairment of Assets on our opening balance sheet as at the date of transition. We expect to complete this by the end of Q3 of 2010.

calculation of tangible net worth.	
Effect on Other Key Elements of the Changeover Plan: We expect the adoption of this policy to have an effect on our internal controls over financial reporting, disclosure controls and procedures as well as our information technology systems.	

Accounting Policy: IAS 16 - Property, Plant and Equipment	**Impact:** Moderate
Preliminary Conclusions Reached: Consistent with Canadian GAAP, under IFRS, separable components of property, plant and equipment are recognized initially at cost. Under IAS 16 – *Property, plant and equipment* an entity is required to choose, for each class, to use either the cost model (consistent with Canadian GAAP) or the revaluation model. Under the revaluation model, an item of property, plant and equipment is carried at its revalued amount, which is its fair value at the date of revaluation less any accumulated amortization and impairment losses. Increases in fair value are recorded in a revaluation surplus account in equity. Decreases in fair value will reduce the revaluation surplus account with any excess recognized in income. Subject to the approval of the audit committee, the Company plans to recommend the cost model for its property, plant and equipment. However further investigation will be performed in Q2 of 2010 to determine whether the revaluation model should be applied for the Company's land and building. We expect the adoption of the cost model to have no effect on our opening balances upon transition to IFRS. If the revaluation model is used for the land and building, this may result in differences in the carrying amount of our land and building.	**Status Update:** We will complete our impact assessment as it pertains to this policy in Q2 of 2010 as we are continuing to investigate the use of the revaluation model for real estate. We expect to recommend a policy to the audit committee and obtain approval in Q4 of 2010.
Effect on Other Key Elements of the Changeover Plan: We expect the adoption of this policy to have an effect on our business activities since if we choose to elect for real estate to be revalued, this will likely result in more appraisal work to be performed in order to support our values.	

Accounting Policy: IFRS 1 – First-time Adoption of IFRS	**Impact:** High
Preliminary Conclusions Reached: As a first-time adopter of IFRS, the Company is required to apply IFRS 1 *First-time adoption of International Financial Reporting Standards.* IFRS 1 provides a number of optional exemptions to first-time adopters. The exemptions which are significant to AutoCanada are discussed below: *Business Combinations* – For business combinations that occurred before the date of transition, the Company has the choice to either restate all of these business combinations under IFRS, restate all business combinations after an internally elected date, or not to restate any business combinations. Assets and liabilities acquired in a business combination that are not restated may still be derecognized if they do not qualify for recognition under IFRS. The Company has participated in several business combinations prior to the date of transition and has decided, pending approval of the audit committee, to take this exemption so that business combinations entered into prior to January 1, 2010 will remain unchanged. *Fair-value or Revaluation as Deemed Cost* – IFRS requires property, plant and equipment to be measured at a cost in accordance with IFRS. An exemption exists, at the date of transition, which permits an asset to be recorded at deemed cost which is the fair value at the date of transition, or an event-driven valuation. This exemption may be applied to individual classes of property, plant and equipment. Any write-up of the asset to a fair value above cost will be recorded in retained earnings as a revaluation	**Status Update:** We have completed impact assessments for IFRS 1 elections and exemptions relating to impact assessments that we have completed. As further impact assessments are performed relating to accounting policies, we will investigate the IFRS 1 requirements or choices we may have with respect to the accounting policy. We expect our impact assessments of IFRS 1 to be completed by the end of Q2 of 2010 and approved by the audit committee in Q4 of 2010.

reserve. We have decided, pending approval of the audit committee, to apply the cost model for equipment and will not restate to fair value under IFRS. However, AutoCanada does own the land and building at our Cambridge Hyundai location and intends to purchase the land and building at our Doner Nissan Infiniti location later this year. We realize that changes in the local real estate markets of these assets have the potential to cause material changes in value of these assets. We have yet to decide whether to elect to apply fair value as deemed cost for these assets and plan to further investigate this issue during 2010. *Other Issues* – As additional impact assessments are performed, we may become aware of additional elections or exemptions that we may be required to apply or choose to apply. We shall disclose these items throughout the year if considered to have a significant impact on the financial statements or other key elements of our changeover plan.	
Effect on Other Key Elements of the Changeover Plan: We do not expect these elections/exemptions to have a significant effect on other key elements of our IFRS changeover plan.	

Accounting Policy: Other Policies	**Impact:** Low
Preliminary Conclusions Reached: We have identified a number of additional accounting policies that we expect to have a low impact on our financial statements; however some may require a significant amount of implementation effort. These policies include income taxes, segment reporting, revenue recognition, leases, financial instruments, financial statement presentation and disclosure. We have reached conclusions on income taxes, segment reporting and leases. We are aware that changes are currently in place with respect to financial instruments standards under IFRS and have delayed the impact assessment until standards have been approved. We have not identified any issues as a result of our conclusions that would have significant impact on the financial statements.	**Status Update:** We have completed impact assessments for income taxes, segment reporting and leases. We have drafted preliminary policy recommendations and expect to obtain approval of these recommendations from the audit committee in Q4 of 2010. We will be performing impact assessments for the remaining accounting issues identified and expect to complete the impact assessments by the end of Q2 of 2010 and have our policy recommendations approved by the audit committee in Q4 of 2010.
Effect on Other Key Elements of the Changeover Plan: As a result of the adoption of the above policies, we do expect some impact on our internal controls over financial reporting and disclosure controls and procedures. In particular, the implementation of the new financial statement presentation and disclosure standards under IFRS will result in changes to our reporting system and related controls. We also expect a significant impact on our financial reporting expertise and information technology systems.	

Internal Control over Financial Reporting and Disclosure Controls and Procedures:

As the review of accounting policies are completed, the Company includes an analysis of the effect on internal control over financial reporting and disclosure controls. The majority of the Company's internal controls over financial reporting are at the dealership reporting level. At this time, we have not identified any significant changes to procedures or reporting at the dealership level. However, a number of internal controls over financial reporting are executed at the head office level in which information from dealerships is compiled. For instance, our head office finance team is responsible for the accounting and reporting of business acquisitions. As a result, our internal controls as they relate to business combinations will be modified slightly as we move to IFRS. Intangible assets and capital assets are also evaluated for impairment at the head office level. As a result, our internal controls will also be modified in order to address differences in standards between Canadian GAAP and IFRS. At this point however, we have not identified any significant changes in internal controls over financial reporting. We expect to complete our impact assessments by the end of Q2 of 2010 and be able to identify any potential changes to our internal controls at that time.

The Company's disclosure controls and procedures are designed to provide reasonable assurance that the information required by securities legislation is adequately disclosed, including the interim and annual financial statements and MD&A is recorded, processed, summarized and reported within required deadlines. We have engaged an external consultant to work with the Company to prepare a set of IFRS compliant financial statements and work with our other public reporting documents. The intention of the project is to more fully automate the data flow between our dealership reporting systems and or financial reporting system in which our public reporting documents are generated. We expect to achieve significant efficiencies as part of this process as well as improve our disclosure controls and procedures in order to address the anticipated increase in disclosure requirements with respect to IFRS without significantly increasing our costs relating to information technology systems and human resources. During the implementation phase, if new internal controls or disclosure controls are to be implemented, the Company will test the new controls for design and implementation as well as the effectiveness of the controls and update our MD&A for any changes made. The Company does not have an external communication plan with respect to IFRS, however if significant differences are identified that are expected to have a profound effect on our various stakeholders, a plan will be prepared.

Financial Reporting Expertise:

The adoption of IFRS is expected to have a significant effect on the Company's management, employees and the Board of Directors since additional technical knowledge associated with IFRS standards is critical in order to appropriately implement the accounting policy changes throughout the organization. The Company has identified resource requirements to establish appropriate IFRS financial reporting expertise throughout the organization. Training of key members of our finance team began in 2009 and will continue into 2010 and beyond. The Company decided that having key members of its finance team receive technical training and prepare impact assessments on the various accounting differences between Canadian GAAP and IFRS will best prepare our Company for transition by having a knowledgeable and capable finance team.

The Company plans to hold an informational session with members of the Board of Directors (including the audit committee members) in which management will provide the Board with information pertaining to the implications of IFRS standards. Accounting policies, as they relate to the Company under Canadian GAAP and IFRS, will be discussed along with our choice in accounting policy in order to allow for questions and feedback from the Directors prior to the formal approval of our accounting policies in Q4 of 2010.

Business Activities:

The adoption of IFRS is also expected to have an effect on our business activities. The Company's debt covenants have been reviewed and based on the impact assessments performed to date; the adoption of IFRS standards is not expected to have an effect on the debt covenants of our HSBC facility. We realize that as additional impact assessments are performed and as IFRS standards change, we may be required to adopt IFRS policies that have potential to affect our debt covenants. Further assessments are to be performed to evaluate the effect of IFRS adoption on our other credit facilities. The adoption of IFRS standards is also expected to have an effect on the executive compensation plan that was approved on March 22, 2010. Major identified differences between Canadian GAAP and IFRS such as intangible asset impairments and reversals have been recognized and its effect on executive compensation has been considered in the development of the plan. We have not identified any other significant impacts of IFRS on our business activities at this time.

Information Technology Systems:

Our information technology systems are not expected to be significantly affected by the adoption of IFRS. No issues have been identified that will require us to make significant changes to our dealership accounting software. As mentioned earlier, an external consultant has been engaged to improve our financial reporting software in which we plan to achieve efficiencies in our financial reporting process and make any necessary changes required in order to successfully implement IFRS. We expect to complete all required changes to our information technology systems by the end of Q3 of 2010.

CONTROLS OVER DISCLOSURE AND FINANCIAL REPORTING

Internal Controls over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal controls over financial reporting. These controls include policies and procedures that (l) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

All control systems contain inherent limitations, no matter how well designed. As a result, the Company's management acknowledges that its internal controls over financial reporting will not prevent or detect all misstatements due to error or fraud. In addition, management's evaluation of controls can provide only reasonable, not absolute, assurance that all control issues that may result in material misstatements, if any, have been detected.

Management assessed the effectiveness of the Company’s internal control over financial reporting as of March 31, 2010, based on the framework established in *Internal Control – Integrated Framework* issued by the Committee Of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concluded that the company maintained effective internal control over financial reporting as of March 31, 2010.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting during the three month period ended March 31, 2010.

GENERAL OUTLOOK

The outlook regarding vehicle sales in Canada is difficult to predict.

New light vehicle unit sales in Canada are expected to increase by 5.2 percent in 2010 as compared to the prior year.

New Vehicle Sales Outlook by Province*

(thousands of units, annual rates)

	1994-2005 Average	2006-07	2008	2009	2010f
Canada	**1,446**	**1,635**	**1,642**	**1,450**	**1,525**
Atlantic	**102**	**114**	**127**	**112**	**119**
Central	**936**	**999**	**1,010**	**924**	**959**
Quebec	366	402	430	388	402
Ontario	570	597	580	536	557
West	**408**	**522**	**505**	**414**	**447**
Manitoba	42	44	46	43	45
Saskatchewan	36	41	48	46	46
Alberta	166	243	232	180	198
British Columbia	164	194	179	145	158

* Includes cars and light trucks

Source: Scotia Economics - Global Auto Report, April 30, 2010

General economic conditions in Canada improved in the three month period ended March 31, 2010 and this improvement was evident by the increase in new vehicle sales which we experienced during this period. Although signs of improvement give us hope of a full recovery, unemployment rates remain high and the economic activity of the markets in which we operate, although improving, remains significantly lower than previous levels we had witnessed in the years leading up to the credit crisis and the resulting economic recession. In the last few months of 2008 and throughout 2009, we witnessed an unprecedented decrease in our customers' ability to obtain financing for new and used vehicles. The past few months, however, have seen improvement and we are hopeful that this trend continues throughout 2010 and beyond as the credit markets begin to ease and retail can continue to improve due to improvements in our customers' ability to finance new and used vehicles.

Management believes that as a result of both the number of variables and the volatility of these variables that it is difficult to predict the direction of new and used vehicle sales with any certainty. Management believes that the best approach is to continue its emphasis on existing operations for continued earnings and cash flow growth and, in particular, those aspects of its operations which are most impacted by same. In addition, Management is monitoring carefully the credit markets generally and the impact it may have on the affordability of future acquisitions. Management remains opportunistic with respect to future acquisitions; however the timing of such acquisitions is unknown at this time.

RISK FACTORS

We face a number of business risks that could cause our actual results to differ materially from those disclosed in this MD&A (See "FORWARD LOOKING STATEMENTS") Investors and the public should carefully consider our business risks, other uncertainties and potential events as well as the inherent uncertainty of forward looking statements when making investment decisions with respect to AutoCanada. If any of the business risks identified by AutoCanada were to occur, our business, financial condition, results of operations, cash flows or prospects could be materially adversely affected. In such case, the trading price of our shares could decline. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also adversely affect our business and operations. A comprehensive discussion of the known risk factors of AutoCanada and additional business risks is available in our 2009 Annual Information Form dated March 22, 2010 available on the SEDAR website at www.sedar.com.

Additional information

Additional information relating to the Company, including all public filings, is available on SEDAR (www.sedar.com). The Company's shares trade on the Toronto Stock Exchange under the symbol ACQ.

FORWARD LOOKING STATEMENTS

Certain statements contained in management's discussion and analysis are forward-looking statements and information (collectively "forward-looking statements"), within the meaning of the applicable Canadian securities legislation. We hereby provide cautionary statements identifying important factors that could cause our actual results to differ materially from those projected in these forward-looking statements. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "will likely result", "are expected to", "will continue", "is anticipated", "projection", "vision", "goals", "objective", "target", "schedules", "outlook", "anticipate", "expect", "estimate", "could", "should", "expect", "plan", "seek", "may", "intend", "likely", "will", "believe" and similar expressions are not historical facts and are forward-looking and may involve estimates and assumptions and are subject to risks, uncertainties and other factors some of which are beyond our control and difficult to predict. Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. Therefore, any such forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this document.

In particular, material forward-looking statements in management's discussion and analysis include:

- our plans for future growth and effects of future growth on financial performance;
- expectations for the arrival of the 2011 Jeep Grand Cherokee and the Ram Heavy Duty;
- expectations for the launch of 16 all-new or refreshed products from Chrysler;
- the effect of an anticipated economic recovery on our revenues and profits;
- the impact of general credit conditions on the Company;
- our expectation of improved credit conditions in the future;
- our assumption that our SG&A as a percentage of gross will decrease over time;
- expectations of the amount of future capital spending and its effect on future financial performance and growth;
- our assumption on the amount of time it make take for an acquisition or open point to achieve normal operating results;
- expectations and assumptions regarding the Company's ability to pay future dividends and growth;
- assumptions over the level of non-growth capital expenditures required in the future;
- assumptions over non-GAAP measures and their impact on the Company;
- expectation that there may be future acquisition opportunities at attractive purchase multiples;
- management's expectation to acquire or open one additional dealership in 2010;
- the effect of future cash flows from operations on the operations of the Company;
- plans for convergence with IFRS and its impact on the Company;
- our planned capital expenditures and estimated costs;
- management's assumptions over the future economic and general outlook; and
- predictions for future economic data such as vehicle unit sales, vehicle prices, and margins on vehicle sales.

Although we believe that the expectations reflected by the forward-looking statements presented in this release are reasonable, our forward-looking statements have been based on assumptions and factors concerning future events that may prove to be inaccurate. Those assumptions and factors are based on information currently available to us about ourselves and the businesses in which we operate. Information used in developing forward-looking statements has been acquired from various sources including third-party consultants, suppliers, regulators, and other sources. In some instances, material assumptions are disclosed elsewhere in this release in respect of forward-looking statements.

The Company's Annual Information Form and other documents filed with securities regulatory authorities (accessible through the SEDAR website www.sedar.com describe the risks, material assumptions and other factors that could influence actual results and which are incorporated herein by reference.

Further, any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by applicable law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all of such factors and to assess in advance the impact of each such factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

NON-GAAP MEASURES

Our MD&A contains certain financial measures that do not have any standardized meaning prescribed by Canadian GAAP. Therefore, these financial measures may not be comparable to similar measures presented by other issuers. Investors are cautioned these measures should not be construed as an alternative to net earnings (loss) or to cash provided by (used in) operating, investing, and financing activities determined in accordance with Canadian GAAP, as indicators of our performance. We provide these measures to assist investors in determining our ability to generate earnings and cash provided by (used in) operating activities and to provide additional information on how these cash resources are used. We list and define these "NON-GAAP MEASURES" below:

EBITDA

EBITDA is a measure commonly reported and widely used by investors as an indicator of a company's operating performance and ability to incur and service debt, and as a valuation metric. The Company believes EBITDA assists investors in comparing a company's performance on a consistent basis without regard to depreciation and amortization and asset impairment charges which are non-cash in nature and can vary significantly depending upon accounting methods or non-operating factors such as historical cost. References to "EBITDA" are to earnings before interest expense (other than interest expense on floorplan financing and other interest), income taxes, depreciation, amortization and asset impairment charges.

EBIT

EBIT is a measure used by management in the calculation of Return on capital employed (defined below). Management's calculation of EBIT is EBITDA (calculated above) less depreciation and amortization.

Free Cash Flow

Free cash flow is a measure used by management to evaluate its performance. While the closest Canadian GAAP measure is cash provided by operating activities, free cash flow is considered relevant because it provides an indication of how much cash generated by operations is available after capital expenditures. It shall be noted that although we consider this measure to be free cash flow, financial and non-financial covenants in our credit facilities and dealer agreements may restrict cash from being available for distributions, re-investment in the Company, potential acquisitions, or other purposes. Investors should be cautioned that free cash flow may not actually be available for growth or distribution of the Company. References to "Free cash flow" are to cash provided by (used in) operating activities (including the net change in non-cash working capital balances) less capital expenditure.

Adjusted Free Cash Flow

Adjusted free cash flow is a measure used by management to evaluate its performance. Free cash flow is considered relevant because it provides an indication of how much cash generated by operations before changes in non-cash working capital is available after deducting expenditures for non-growth capital assets. It shall be noted that although we consider this measure to be adjusted free cash flow, financial and non-financial covenants in our credit facilities and dealer agreements may restrict cash from being available for distributions, re-investment in the Company, potential acquisitions, or other purposes. Investors should be cautioned that adjusted free cash flow may not actually be available for growth or distribution of the Company. References to "Adjusted free cash flow" are to cash provided by (used in) operating activities (before changes in non-cash working capital balances) less non-growth capital expenditures.

Absorption Rate

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. References to ''absorption rate'' are to the extent to which the gross profits of a franchised automobile dealership from parts, service and collision repair cover the costs of these departments plus the fixed costs of operating the dealership, but does not include expenses pertaining to our head office. 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.

Average Capital Employed

Average capital employed is a measure used by management to determine the amount of capital invested in AutoCanada and is used in the measure of Return on Capital Employed (described below). Average capital employed is calculated as the average balance of interest bearing debt for the period (including current portion of long term debt, excluding revolving floorplan facilities) and the average balance of shareholders equity for the period. Management does not include future income tax, non-interest bearing debt, or revolving floorplan facilities in the calculation of average capital employed as it does not consider these items to be capital, but rather debt incurred to finance the operating activities of the Company.

Return on Capital Employed

Return on capital employed is a measure used by management to evaluate the profitability of our invested capital. As a corporation, management of AutoCanada may use this measure to compare potential acquisitions and other capital investments against our internally computed cost of capital to determine whether the investment shall create value for our shareholders. Management may also use this measure to look at past acquisitions, capital investments and the Company as a whole in order to ensure shareholder value is being achieved by these capital investments. Return on capital employed is calculated as EBIT (defined above) divided by Average Capital Employed (defined above).

Cautionary Note Regarding Non-GAAP Measures

EBITDA, EBIT, Free Cash Flow, Absorption Rate, Average Capital Employed and Return on Capital Employed are not earnings measures recognized by GAAP and do not have standardized meanings prescribed by GAAP. Investors are cautioned that these non-GAAP measures should not replace net earnings or loss (as determined in accordance with GAAP) as an indicator of the Company's performance, of its cash flows from operating, investing and financing activities or as a measure of its liquidity and cash flows. The Company's methods of calculating EBITDA, EBIT, Free Cash Flow, Absorption Rate, Average Capital Employed and Return on Capital Employed may differ from the methods used by other issuers. Therefore, the Company's EBITDA, EBIT, Free Cash Flow, Absorption Rate, Average Capital Employed and Return on Capital Employed may not be comparable to similar measures presented by other issuers.