



AUTOCANADA INC.

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

For the nine months ended September 30, 2010

As of November 4, 2010

READER ADVISORIES

The Management's Discussion & Analysis ("MD&A") was prepared as of November 4, 2010 to assist readers in understanding AutoCanada Inc.'s (the "Company" or "AutoCanada") consolidated financial performance for the three and nine month periods ended September 30, 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 and nine month periods ended September 30, 2010, the audited 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 Unaudited 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 and nine month periods ended September 30, 2010 of the Company, and compares these to the operating results of the Company for the three and nine month periods ended September 30, 2009.

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.

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. Under our agreements with our retail financing sources we are required to collect and provide accurate financial information, which if not accurate, may require us to be responsible for the underlying loan provided to the consumer.

The Company's geographical profile is illustrated below by number of dealerships and revenues by province for the three month periods ended September 30, 2010 and September 30, 2009.

(In thousands of dollars except % of total and number of dealerships)	<u>September 30, 2010</u>			<u>September 30, 2009</u>		
	<u>Number of Dealerships</u>	<u>Revenue</u>	<u>% of Total</u>	<u>Number of Dealerships</u>	<u>Revenue</u>	<u>% of Total</u>
British Columbia	7	81,078	35%	7	74,432	35%
Alberta	9	90,250	39%	9	85,934	40%
Ontario	4	33,806	14%	3	28,016	13%
All other	<u>3</u>	<u>27,985</u>	<u>12%</u>	<u>3</u>	<u>24,485</u>	<u>12%</u>
Total	<u>23</u>	<u>233,119</u>	<u>100%</u>	<u>22</u>	<u>212,867</u>	<u>100%</u>

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.

<u>Location of Dealerships</u>	<u>Operating Name</u>	<u>Franchise</u>	<u>Year Opened or Acquired</u>
<i>Dealerships as of September 30, 2010:</i>			
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
Mississauga, Ontario	401/Dixie Hyundai ⁽²⁾	Hyundai	2010
Moncton, New Brunswick	Moncton Chrysler Jeep Dodge	Chrysler	2001
Dartmouth, Nova Scotia	Dartmouth Chrysler Jeep Dodge	Chrysler	2006

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

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 (including fleet sales) in Canada in the nine month period ended September 30, 2010 were up 7.2% when compared to the same period in 2009. Year to date sales of new light vehicles in Alberta and British Columbia, our primary markets, were up by 10.3% and 4.3% respectively. The Company's same store sales of new vehicles have increased by 20.5% in the nine month period ended September 30, 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. Retail sales of new vehicles have accounted for 49% of this increase while fleet sales have accounted for the other 51%. Fleet customers (rental companies, commercial, and government) appear to be updating their fleet vehicles in greater volumes than we had experienced in 2009. Fleet sales typically generate marginal gross profit, thus we did not achieve the profitability levels that a 20.5% increase in same store new vehicle sales would have normally generated.

New light vehicle sales (including fleet sales) in Canada for the three month period ended September 30, 2010 were up 3.7% when compared to the same period in 2009. Year to date sales of new light vehicles in Alberta and British Columbia were up by 12.5% and 1.6% respectively. The Company's same store sales of new vehicles have increased by 5.9% during this period and the increase can be fully attributed to additional fleet sales.

Management cannot confirm, but believes that the majority of the increase in the overall Canadian new vehicle market can be attributed to increases in fleet sales from 2009. Management is pleased that the Company has been able to realize a 12.0% increase in same store new vehicle retail sales during the first nine-months of 2010, a period of time in which we believe the market to be very competitive in comparison to historical markets in general.

The following table summarizes Canadian new light vehicle sales for the nine month period ended September 30, 2010 by Province:

Province	September Year to Date		Percentage Change	Units Change
	2010	2009		
British Columbia	118,064	113,184	4.3%	4,880
Alberta	153,055	138,707	10.3%	14,348
Saskatchewan	35,413	33,411	6.0%	2,002
Manitoba	34,080	32,722	4.2%	1,358
Ontario	443,357	408,409	8.6%	34,948
Quebec	325,006	308,160	5.5%	16,846
New Brunswick	29,877	26,970	10.8%	2,907
PEI	4,863	4,171	16.6%	692
Nova Scotia	37,400	37,142	0.7%	258
Newfoundland	25,210	22,897	10.1%	2,313
Total	<u>1,206,325</u>	<u>1,125,773</u>	<u>7.2%</u>	<u>80,552</u>

¹ *DesRosiers Automotive Consultants Inc.*

Although the overall used vehicle market in Canada has continued to grow, with used vehicle sales increasing by 5.9% in 2009 from 2008 levels, and a forecast increase of 3.1% in 2010 from 2009, new vehicle dealers as a group continue to lose market share to other channels such as independent used car dealers and, with improvements in online private sale technologies, private sales. New vehicle dealers sold 3.0% less used vehicles in 2009 than in 2008, and a forecasted decrease of 4.6% in used vehicle sales for 2010. In addition, some of our markets have experienced increased used car competition by the transformation of former GM dealerships to used vehicle dealers, further increasing the competition, all of which have resulted in lower sales volumes and gross margins in many of our dealerships. Two of our dealerships in particular have significantly contributed to the decrease in used

vehicle gross margin due to reorganization of their management teams during the quarter. Of the total \$1.7 million decrease in used vehicle gross during the third quarter, management can attribute approximately \$0.6 million to two of our relatively lower volume dealerships. In response to these developments Management is implementing a new system that will assist the Company's dealerships in monitoring used inventory levels and appraisal process, as well as introducing changes to the dealership websites specifically directed to better informing the customer of their used vehicle options and pricing.

Overall, our finance and insurance revenues have improved and our parts and service revenues have also benefitted from increased new vehicle sales. We continue to focus on growing our market share in key markets and improving the sales experience for our customers in order to build and maintain long-term relationships. During the second quarter, we signed an exclusivity agreement which enables us to provide AIR MILES Reward Miles to our customers. This customer reward program provides us with a competitive edge and should have a positive impact on customer loyalty.

We are also pleased with our recent acquisition of 401 Dixie Hyundai located in Mississauga, Ontario. This acquisition allows us to build upon our dealership platform in the greater Toronto area, the largest customer base in Canada. We believe this dealership to be the right franchise for this marketplace, and will continue to build on our strong partnership with Hyundai Canada.

On September 11, 2010, we announced the departure of Mr. Kelly O'Connell, Chief Operating Officer, from employment with AutoCanada. On October 20, 2010 we also announced the departure of Mr. Bob Clark, President, from employment with AutoCanada. Management had been reviewing its head office structure, and with the departure of Msrs. O'Connell and Clark, shall complete its review and head office restructuring functions in a timely manner. Mr. Pat Priestner, Chief Executive Officer, who has traditionally maintained a strategic focus with respect to the Company, will undertake the responsibilities of the former President pending completion of the restructuring.

Management is also reviewing in-sourcing and out-sourcing opportunities; with particular attention to advertising and other semi-variable costs to improve its SG&A costs. The Company expects to reduce costs associated with third-party vendors and achieve a reduction in salary costs per dealership over the long term as a result of these opportunities. For the third quarter of 2010, total severance and other costs associated with cost management initiatives were approximately \$1.1 million. These costs, recorded in SG&A, have contributed to the decrease in net earnings for the quarter.

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 %)								
	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010
Income Statement Data								
New vehicles	96,634	87,176	108,181	117,513	102,880	115,395	146,664	143,872
Used vehicles	47,605	49,550	55,098	56,386	48,135	48,216	56,124	49,655
Parts, service & collision repair	27,105	26,390	27,322	26,941	27,730	27,011	28,555	27,454
Finance, insurance & other	11,023	9,683	11,669	12,027	10,252	10,918	12,958	12,138
Revenue	182,367	172,799	202,270	212,867	188,997	201,540	244,301	233,119
New vehicles	6,729	5,828	7,951	9,003	7,157	7,809	11,017	9,622
Used vehicles	3,671	3,810	5,677	5,744	4,309	3,977	4,720	4,021
Parts, service & collision repair	13,090	12,811	13,708	13,374	13,447	13,106	14,443	13,833
Finance, insurance & other	10,137	8,732	10,489	10,717	9,218	9,825	11,666	10,857
Gross profit	33,627	31,181	37,825	38,838	34,131	34,717	41,846	38,333
Gross profit %	18.4%	18.0%	18.7%	18.3%	18.1%	17.2%	17.1%	16.4%
Sales, general & admin expenses	28,157	27,813	30,450	30,565	29,313	29,834	33,273	32,136
SG&A exp. as % of gross profit	83.7%	89.2%	80.5%	78.7%	85.9%	85.9%	79.5%	83.8%
Floorplan interest expense	1,443	970	1,104	1,399	1,382	1,661	2,198	2,022
Other interest & bank charges	441	375	552	802	552	362	442	442
Income taxes	(8,579)	97	67	37	248	522	1,337	699
Net earnings ⁴	(67,121)	1,054	4,750	5,099	1,675	1,433	3,647	2,002
EBITDA ^{1,3}	3,868	2,230	6,135	6,716	3,271	3,079	6,180	4,014
Operating Data								
Vehicles (new and used) sold	5,124	5,149	6,067	6,415	5,451	5,676	7,017	6,363
New retail vehicles sold	2,376	2,219	3,030	3,236	2,559	2,787	3,613	3,358
New fleet vehicles sold	526	473	446	619	695	661	943	844
Used retail vehicles sold	2,222	2,385	2,591	2,560	2,197	2,228	2,461	2,161
Number of service & collision repair orders completed	69,560	70,021	75,062	79,346	76,853	75,311	80,072	77,285
Absorption rate ²	94%	84%	90%	92%	91%	85%	87%	85%
# of dealerships	22	22	22	22	22	22	23	23
# of same store dealerships ³	14	16	17	18	19	19	19	19
# of service bays at period end	284	319	319	321	331	331	339	339
Same store revenue growth ³	(16.7)%	(19.8)%	(15.3)%	(3.9)%	1.3%	16.9%	19.4%	6.7%
Same store gross profit growth ³	(8.0)%	(12.8)%	(8.7)%	(6.3)%	(1.1)%	11.1%	7.5%	(4.0)%
Balance Sheet Data								
Cash and cash equivalents	19,592	12,522	14,842	23,224	22,465	23,615	31,880	34,329
Accounts receivable	31,195	33,821	27,034	38,134	35,388	40,752	46,826	37,149
Inventories	139,948	116,478	90,141	107,431	108,324	153,847	177,524	137,507
Revolving floorplan facilities	137,453	114,625	73,161	105,254	102,650	160,590	194,388	145,652

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

Third Quarter Operating Results

EBITDA for the three month period ended September 30, 2010 decreased by 40.2% to \$4.0 million, from \$6.7 million when compared to the same period in the prior year. The decrease in EBITDA for the third quarter can generally be attributed to a decrease in used vehicle sales and gross profits and costs incurred during the quarter associated with severance and other cost management initiatives. Gains realized as a result of new vehicle sales were mostly offset by a weak used vehicle market, increased floorplan interest costs and higher fixed costs as a result of the relocation of dealerships. We expect the dealership relocations to improve EBITDA in the future as the overall automotive retail market continues to recover, however the market has yet to recover to historical volume levels in which these dealerships were designed and built to service.

The following table illustrates EBITDA for the nine months ended September 30th, for the last four years of operations.

Period from January 1 to September 30th	EBITDA (In thousands of dollars)
2007	19,767
2008	20,618
2009	15,081
2010	13,273

Pre-tax earnings decreased by \$2.4 million or 47.4% to \$2.7 million for the three month period ended September 30, 2010 from \$5.1 million in the same period of the prior year. Net earnings decreased by \$3.1 million or 60.7% to a profit of \$2.0 million in the third quarter of 2010 from a \$5.1 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 \$0.7 million in the third quarter of 2010 as compared to \$0.04 million in the same period of the prior year which related to future income tax implications.

For the nine month period ended September 30, 2010, pre-tax earnings decreased by \$1.5 million or 13.2% to \$9.6 million from \$11.1 million in the same period of the prior year. Net earnings decreased by \$3.8 million or 35.0% to a profit of \$7.1 million in the nine months ended September 30, 2010 from a \$10.9 million profit when compared to the prior year. The Company incurred income tax expense of \$2.6 million in the first nine months of 2010 as compared to \$0.2 million in the same period of 2010 due to AutoCanada's conversion to a corporation.

As discussed above in "Our Performance", our used vehicle revenues and gross margins have declined significantly from 2009 and this had a negative effect on earnings for the three and nine month periods ended September 30, 2010. The Company's overall gross margin from used vehicle operations has decreased by \$1.7 million for the third quarter 2010, as compared to the same period in the prior year. The lower margins achieved in the used vehicle segment have contributed to the overall decrease in net earnings for the quarter.

The Company incurred expenses of approximately \$1.1 million in conjunction with severance and other costs associated with cost management initiatives during the three month period ended September 30, 2010.

The lack of sub-prime financing availability has reduced a number of our customers' ability to finance vehicles, accessories, and finance and insurance products, which continues to have a negative effect on our revenue and gross profits. Chartered banks continue to be our new main source of credit financing for our customers. It is difficult to predict future credit conditions; however we believe that they will improve over time. At this time, management cannot provide guidance as to when credit conditions and finance commissions will return to the levels we had experienced prior to the deterioration of credit markets which began in late 2008.

Revenues

For the three and nine month periods ended September 30, 2009, revenues from all dealerships owned and operated by the Company increased to \$233.1 million and \$679.0 million respectively from \$212.9 million and \$587.9 million when compared to the same periods in the prior year. The increase in revenue during the third quarter was a result of increases in new vehicle sales and the average new vehicle transaction price. The increase in sales was slightly offset by a decrease in used vehicle sales during the quarter due to a decrease in unit sales quarter over quarter. Finance and insurance revenues increased in the third quarter of

2010 over the same period in the prior year and our parts, service and collision repair revenues also increased from the prior year.

The average new vehicle transaction price for the three month period ended September 30, 2010 increased by \$3,764 or 12.3% when compared to the same period in the prior year due to consumer preference toward light trucks and sport utility vehicles. The average used vehicle transaction price increased by \$952 or 4.3% during the three month period ended September 30, 2010 largely due to the increased demand for light trucks and sport utility vehicles. The number of new vehicles retailed increased by 346 units or 9.0%, mainly due to increased new vehicle sales in Western Canada during the three-month period ended September 30, 2010. Finance and insurance revenue was relatively flat quarter over quarter with an increase of \$0.1 million or 0.9% to \$12.1 million from \$12.0 million in 2009. 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 into 2011. During the three-month period ended September 30, 2010, our parts and service revenue increased by \$0.5 million or 1.9% from \$26.9 million to \$27.4 million in 2010.

Revenues - Same Store Analysis

The table below summarizes the results for the three and nine month periods ended September 30, 2010 on a same store basis by revenue source and compare these results to the same periods 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 April 1, 2008 are included in this 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

(In thousands of dollars except % change and vehicle data)	For the Three Months Ended			For the Nine Months Ended		
	September 30, 2010	September 30, 2009	% Change	September 30, 2010	September 30, 2009	% Change
Revenue Source						
New vehicles	124,018	103,397	19.9%	356,862	275,649	29.5%
Used vehicles	45,373	52,530	(13.6)%	142,419	150,723	(5.5)%
Finance & insurance and other	10,110	10,764	(6.1)%	31,127	30,273	2.8%
Subtotal	179,501	166,691		530,408	456,645	
Parts, service & collision repair	24,389	24,424	(0.1)%	74,249	73,537	1.0%
Total	203,890	191,115	6.7%	604,657	530,182	14.0%
New vehicles – retail sold	2,753	2,773	(0.7)%	8,281	7,391	12.0%
New vehicles – fleet sold	835	614	36.0%	2,423	1,490	62.6%
Used vehicles sold	1,936	2,371	(18.3)%	6,258	6,977	(10.3)%
Total	5,524	5,758	(4.1)%	16,962	15,858	7.0%
Total vehicles retailed	4,689	5,144	(8.8)%	14,539	14,368	1.2%

Same store revenue increased by \$12.8 million or 6.7% in the three months ended September 30, 2010 when compared to 2009. Same store new vehicle revenues increased by \$20.6 million or 19.9% for the three months ended September 30, 2010 over the prior year due in part to a net increase in new vehicle sales of 201 units consisting of a decrease of 20 retail units and an increase of 221 low margin fleet unit sales. This overall increase was supplemented by a rise in the average selling price per new vehicle retailed ("PNVR") of \$4,037 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 new vehicle revenues also increased by \$81.2 million or 29.5% for the nine month period ended September 30, 2010 over the same period in the prior year due to a net increase in new vehicle sales of 1,823 units consisting of an increase of 890 retail units and 933 low margin fleet unit sales. The PNVR also increased by \$2,301 over the prior period for the same reasons as those discussed above.

Same store used vehicle revenues decreased by \$7.2 million or 13.6% in the three month period ended September 30, 2010 and decreased by \$8.3 million or 5.5% in the nine month periods ended September 30, 2010 over the comparable periods in the prior year. For the three-month period ended September 30, 2010, the decrease was due to decline in the number of used vehicles sold of 435 units; partially offset by a rise in the average selling price per used vehicle retailed of \$1,281 per unit. For the nine-month period ended September 30, 2010, the decrease was due to lower used vehicle volumes of 719 units; partially offset by an increase in the average selling price per used vehicle of \$1,155. Management attributes the decrease in same store used vehicle volumes to increased competition in the used vehicle market as discussed above in "Our Performance".

Same store parts, service and collision repair revenue remained relatively flat during the three-month period ended September 30, 2010 compared to the same period in the prior year was primarily a result of a 4.6% increase in the average revenue per repair order completed; offset by a 4.5% decrease in the number of service and collision repair orders completed. The increase in parts, service and collision repair revenue of \$0.7 million or 1.0% in the nine-month period ended September 30, 2010 compared to the same period in the prior year was primarily a result of a 2.5% increase in the number of service and collision repair orders completed.

Finance and insurance and other revenue decreased by \$0.7 million or 6.1% in the three month period ended September 30, 2010 when compared to the same period in the prior year. The decrease for the quarter was due to a decrease in the number of units retailed of 455 units or 8.8% partially offset by an increase in the revenue per vehicle retailed of \$63. Finance and insurance and other revenue increased by \$0.9 million or 2.8% in the nine month period ended September 30, 2010 when compared to the same period in the prior year. The increase for the nine month period was due to an increase in the number of units retailed of 171 units or 1.2% and an increase in the revenue per vehicle retailed of \$34. As noted in the above chart, total same store vehicles retailed in the three month period ended September 30, 2010 decreased by 8.8% which weighed on our finance and insurance and other revenues during the quarter.

Gross profit

Gross profit from all dealerships for the three month period ended September 30, 2010 decreased by \$0.5 million or 1.3% to \$38.3 million when compared to the same period in 2009. The overall decrease in gross profit during the quarter was mainly the result of a decrease in used vehicle gross profit of \$1.7 million; which was partially offset by increases in gross profit from our other revenue streams. As discussed previously, the used vehicle market has become very competitive in most of our respective markets and our dealerships have been achieving a lower gross profit per used vehicle retailed as a result of the increased competition and over supply of used vehicles.

Gross profit from all dealerships for the nine month period ended September 30, 2010 increased by \$7.1 million or 6.5% to \$114.9 million when compared to the same period in 2009. This increase in gross profit can be attributed to a \$5.7 million increase in new vehicle gross profit, a \$2.4 million increase in finance and insurance and other gross profit and a \$1.5 million increase in parts, service and collision repair gross profit. Overall used vehicle gross profits declined by \$2.5 million for the nine month period ended September 30, 2010 for the reasons discussed above.

Gross Profit - Same Store Analysis

The following table summarizes the results for the three months ended September 30, 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

(In thousands of dollars except % change and gross profit %)	For the Three Months Ended						For the Nine Months Ended					
	Gross Profit			Gross Profit %			Gross Profit			Gross Profit %		
	Sept 30, 2010	Sept 30, 2009	% Change	Sept 30, 2010	Sept 30, 2009	% Change	Sept 30, 2010	Sept 30, 2009	% Change	Sept 30, 2010	Sept 30, 2009	% Change
Revenue Source												
New vehicles	8,425	7,945	6.0%	6.8%	7.7%	(0.9)%	25,216	20,070	25.6%	7.1%	7.3%	(0.2)%
Used vehicles	3,756	5,351	(29.8)%	8.3%	10.2%	(1.9)%	12,009	14,335	(16.2)%	8.4%	9.5%	(1.1)%
F&I and other	9,343	9,871	(5.3)%	92.4%	91.7%	0.7%	28,787	27,802	3.5%	92.5%	91.8%	0.7%
Subtotal	21,524	23,167	(7.1)%				66,012	62,207	6.3%			
Parts, service & collision repair	12,462	12,236	1.9%	51.1%	50.1%	1.0%	37,193	36,630	1.5%	50.1%	49.8%	0.3%
Total	33,986	35,403	(4.0)%	16.7%	18.5%	(1.8)%	103,205	98,837	4.4%	17.1%	18.6%	(1.5)%

Same store gross profit decreased by 4.0% during the three month period ended September 30, 2010 when compared to the same period in the prior year. New vehicle gross profit increased by \$0.5 million or 6.0% in the three month period ended September 30, 2010 when compared to 2009 as a result of the previously discussed increase in new vehicle sales of 201 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 \$31 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. Same store gross profit increased by \$4.4 million or 4.4% during the nine month period ended September 30, 2010 when compared to the same period in the prior year. New vehicle gross profit increased by \$5.1 million or 25.6% in the nine month period ended September 30, 2010 when compared to the same period in the prior year as a result of an increase in the average gross margin per new vehicle sold of \$96 and the previously discussed net increase in new vehicle sales of 1,823 units consisting of 890 retail units and 933 low margin fleet unit sales.

Used vehicle gross profit decreased by \$1.6 million or 29.8% in the three month period ended September 30, 2010 over the same period in the prior year. This was due to a decrease in the average gross per used vehicle retailed of \$317 and a decrease in the number of units sold of 435. As discussed above in "Our Performance", new vehicle dealers have been losing market share in the used vehicle market over the past few years. The used market has become much more competitive and this has had a direct effect on used vehicle sales and gross margins. In response to these developments, Management is implementing a new system that will assist the Company's dealerships in monitoring used inventory levels and the appraisal process, as well as introducing changes to

the dealership websites specifically directed to better informing the customer of their used vehicle options and pricing.

Used vehicle gross profit decreased by \$2.3 million or 16.2% in the nine month period ended September 30, 2010 over the same period in the prior year. The decrease was due to a decrease in the number of units sold of 719 units and a decrease in the average gross per used vehicle retailed of \$136. The decrease in gross profit earned per used vehicle is attributed to the same reasons discussed above.

The increase in parts, service and collision repair gross profit of \$0.2 million or 1.9% in the three month period ended September 30, 2010 was mainly the result of a 6.7% increase in the average gross profit earned per service and collision repair order completed. The increase in parts, service and collision repair gross profit of \$0.6 million or 1.5% in the nine month period ended September 30, 2010 was the result of a 2.5% increase in the number of service and collision repair orders completed.

Finance, insurance & other gross profit decreased by 5.3% or \$0.5 million in the three month period ended September 30, 2010 when compared to the prior year as a result of a decrease of 455 units retailed; partially offset by an increase in the average gross profit earned per used vehicle of \$74. Finance and insurance and other gross profit has increased by \$1.0 million or 3.5% in the nine month period ended September 30, 2010 and we can attribute the increase to new vehicle sales volumes and increases in gross profit per vehicle retailed due to improvements in lending conditions from 2009.

Selling, general and administrative expenses

During the three months ended September 30, 2010, SG&A expenses increased by \$1.6 million or 5.1% to \$32.1 million from \$30.5 million in 2009 primarily as a result of severance and other costs associated with cost management initiatives which occurred in the third quarter of 2010. Both rent expense and property taxes also increased during the quarter as a result of dealership relocations that occurred in 2009. As noted earlier, our absorption rate (the rate at which our fixed expenses are covered by parts, service and collision repair operations) decreased by approximately 7% from the third quarter of 2009. The decrease in absorption can be attributed to increased fixed operations costs from dealership relocations and we intend to improve on our absorption rate in the future as the market continues to improve and customers become more accustomed to the geographical change of some of our largest dealerships. During the three months ended September 30, 2010, SG&A as a percentage of gross profit increased to 83.8% from 78.7% in the same period of the prior year. As noted above, our absorption rate at newly relocated dealerships has decreased which has resulted in higher fixed costs as a percentage of gross. The costs associated with severance and other cost management initiatives of approximately \$1.1 million during the quarter have also contributed to this increase. We expect that as the economy continues to improve, our absorption rates will continue to improve and we expect to realize reductions in the SG&A as a percentage of gross profit in the future as sales volumes improve as a result of expected improvements in the Canadian economy in general.

During the nine month period ended September 30, 2010, SG&A expenses increased by \$6.4 million or 7.2% to \$95.2 million from \$88.8 million in the same period of the prior year. During the same period, SG&A as a percentage of gross profit increased slightly to 82.9% from 82.4% in 2009. The increase in SG&A as a percentage of gross profit for the nine month period ended September 30, 2010 can be attributed to those same reasons as noted above.

Amortization expense

During the three month period ended September 30, 2010, amortization was \$1.0 million as compared to \$0.9 million 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 facilities, its revolving term loan, its term loans with respect to dealership properties that it owns and its capital lease obligations. During the three month period ended September 30, 2010, floor plan interest expense increased by 44.5% to \$2.0 million from \$1.4 million in 2009. In the third quarter of 2009, our Chrysler dealerships continued to experience shortages of inventory due to a temporary shutdown of production facilities for the period of April 30, 2009 to June 29, 2009. Although Chrysler's production resumed on June 29, 2009 our dealerships were not fully restocked for a number of months following the return to production. As a result, the interest expense incurred for the third quarter of 2010 is higher due to the increase in inventory levels at our dealerships in 2010.

At September 30, 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 \$215. Although the Company's revolving floorplan facility is considered floating rate

debt, under its present terms, the facility will continue to bear interest at 4.20% until the RBC Prime Rate increases by more than 1.00%, at which time the facility will then be affected by fluctuations in prime rates. The following table summarizes the interest rates at the end of the last eight quarters on our revolving floorplan facilities.

	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010
Revolving Floorplan Facility Interest Rate	3.25%	2.25%	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%

As of the date of this MD&A our floorplan interest rate is 4.20%.

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 September 30, 2010, the net floorplan credits were \$1,295 (2009 - \$931). 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 or adjusted 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.

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.

With respect to FIAT franchise opportunities, management is currently investigating the suitability of opening a FIAT dealership at various locations with particular attention to four of the current markets in which it operates. Management is continuing to look at the cost effectiveness of various FIAT franchise opportunities and plans to provide investors with a more detailed assessment of these opportunities at a later date.

The Company will consider pursuing opportunities if a favourable opportunity presents itself and if the acquisition could potentially provide incremental value to the Company. Brands with which the Company does not currently have a relationship, or who are related to same, appear reluctant to entertain a relationship with a public multi-brand dealer group. As a result, management can offer no assurance that any manufacturer with whom it does not have a relationship, or who are related to same, will approve the Company as a franchisee. At present, management can provide no guidance with respect to future acquisition opportunities.

LIQUIDITY AND CAPITAL RESOURCES

Our principal uses of funds are for capital expenditures, repayment of debt, 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 September 30, 2010 was a positive \$4.9 million (cash provided by operating activities of \$4.0 million plus net change in non-cash working capital of \$0.9 million) compared to \$9.7 million in the same period of the prior year. The current economic conditions provide for an increased need for management of capital resources and liquidity. The Company continues to manage its working capital to maintain optimal levels of liquidity.

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 Ally Credit 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 Ally Credit 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 Ally Credit Canada are described in Note 2 of the unaudited interim consolidated financial statements for the three month period ended September 30, 2010.

Credit Facilities and Floor Plan Financing

On July 26, 2010, the Company signed an agreement with HSBC Bank Canada ("HSBC") to increase the availability of the Revolving Term Loan (note 7 of the interim consolidated financial statements) from \$20 million to \$30 million. The repayment terms and security of the Revolving Term Loan remain consistent with the exception of the interest rate which was reduced to HSBC Prime Rate plus 1.25% (4.25% at September 30, 2010). Management decided to pursue the increase in the Revolving Term Loan in order to improve the Company's financial flexibility. The amendment to this facility has also resulted in a decrease to the interest rate which will have a positive effect on net earnings in the future with respect to this facility. On September 22, 2010, the Revolving Term Loan was extended until June 30, 2012. Management is pleased with the relationship it has developed with HSBC Canada.

On July 26, 2010, the Company also signed an agreement with HSBC whereby the Company will be provided with a Non-Revolving Term Loan in the amount of \$3.5 million. The financing has been obtained to purchase the dealership facilities at our Doner Infiniti Nissan location in Newmarket, Ontario. The Non-Revolving Term Loan is a 365 day fully committed, extendible loan. The maturity date for the Non-Revolving Term Loan is June 30, 2011, however it may be extended for an additional 365 days prior to maturity at the request of AutoCanada and upon approval of HSBC. If the Non-Revolving Term Loan is not extended by HSBC, repayment of the outstanding amount is not due until June 30, 2012. The Non-Revolving Term Loan will bear interest at HSBC's Prime Rate plus 1.75% (4.75% at September 30, 2010) and requires monthly principal repayments of \$15. The Non-Revolving Term Loan principal balance is amortized over 20 years and requires maintenance of certain financial covenants and is collateralized by a first fixed charge in the amount of \$3.5 million registered over the Doner Infiniti Nissan property.

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 Ally Credit Canada revolving floorplan facilities are subject to interest rate fluctuations and the degree of volatility in these rates. The Company does not currently hold any financial instruments that mitigate this risk. The Ally Credit Canada facilities bear interest at Prime Rate plus 0.20%. The Ally Credit Canada facilities define Prime Rate as the greater of the Royal Bank of Canada Prime Rate (“RBC Prime”) or 4.00%. Since the RBC Prime Rate at the date of this MD&A is currently 3.00%, the Company is not exposed to interest rate fluctuations until the RBC Prime Rate is equal to 4.00% (increase of 1.00% from the present rate). Based on the outstanding balance at September 30, 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 \$1,457.

The HSBC facilities are also subject to interest rate fluctuations and the degree of volatility in these rates. The Company does not currently hold any financial instruments that mitigate this risk. The HSBC Revolving Term Loan bears interest at the HSBC Prime Rate plus 1.25% and the Non-Revolving Term Loan bears interest at the HSBC Prime Rate plus 1.75%. Based on the outstanding balances at September 30, 2010, an additional increase in the HSBC Prime Rate of one percent would result in an increase in annual interest expense of approximately \$215.

(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 unaudited interim consolidated financial statements for the period ended September 30, 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 September 30, 2010 by the following approximate percentages:

Current	90.7%
31 to 60 days	3.9%
61 to 90 days	2.5%
91 to 120 days	1.3%
Over 120 days	1.7%

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 \$419 as of September 30, 2010 (\$453 as of September 30, 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 Ally Credit Canada. The Ally Credit Canada Facility allows our dealerships to hold excess cash (used to satisfy working capital requirements of our various OEM partners) in an account with Ally Credit Canada which bears interest equal to our floorplan interest rate of the revolving floorplan facilities (4.20% at September 30, 2010). These cash balances are fully accessible by our dealerships at any time, however in the event of a default by a dealership in its floorplan obligation; the cash may be used to offset unpaid balances under the revolving floorplan facilities. As a result, there is a concentration of cash balances risk to the Company in the event of a default under the Ally Credit Canada Facility.

(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 September 30, 2010 for further information regarding the Company's economic dependence on Chrysler Canada and Ally Credit 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	25,366	-
Revolving floorplan facility	145,652	-
Long-term debt	<u>1,527</u>	<u>25,747</u>
	<u>172,545</u>	<u>25,747</u>

(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 original signing or subsequent amendments of the debt agreements 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)	July 1, 2010 to September 30, 2010	January 1, 2010 to September 30, 2010
	\$	
Leasehold improvements	84	652
Machinery and equipment	89	392
Furniture and fixtures	130	212
Computer equipment	18	118
Company & lease vehicles	<u>44</u>	<u>223</u>
	<u>365</u>	<u>1,597</u>

Amounts relating to the expansion of sales and service capacity are considered growth expenditures. Growth expenditures are discretionary, represent cash outlays intended to provide additional future cash flows and are expected to provide benefit in future periods. During the three month and nine month periods ended September 30, 2010 growth capital expenditures of \$0.2 million and \$0.7 million respectively were incurred. These expenditures related primarily to capital assets for our recently relocated dealerships and additional assets purchased since the acquisition of the 401 Dixie Hyundai franchise. The Company does not include capital assets acquired as part of a business combination or dealership facility purchase as growth expenditures. These types of capital asset purchases are typically financed with debt and are therefore not included in our growth-related expenditure analysis as they do not relate to expansion of sales and service capacity within our dealerships.

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)	<u>July 1, 2010 to September 30, 2010</u>	<u>January 1, 2010 to September 30, 2010</u>
	\$	\$
Purchase of property and equipment from the Statement of Cash Flows	6,660	8,358
Less: Amounts related to the expansion of sales and service capacity	(207)	(673)
Less: Purchase of dealership facilities	<u>(6,088)</u>	<u>(6,088)</u>
Purchase of non-growth property and equipment	<u>365</u>	<u>1,597</u>

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 and nine month periods ended September 30, 2010, were \$0.428 million and \$1.336 million respectively.

On September 16, 2010 the Company purchased the land and building used to operate our Doner Infiniti Nissan dealership in Newmarket, Ontario for approximately \$6.1 million. The Company expects a reduction in annual rent costs of approximately \$0.54 million as a result of this purchase. The purchase of the land and building was financed by a combination of a Non-Revolver Term Loan from HSBC in the amount of \$3.51 million, a draw on the Revolver Term Loan from HSBC in the amount of \$2 million and the remaining amount through the original deposit made on the land and building and cash from operations.

Planned Capital Expenditures

The Company is planning to relocate its body shop located in Edmonton, Alberta. We have identified the future location for the body shop and are currently in the planning stage of the relocation. We anticipate that the capital cost associated with the relocation of the body shop will be approximately \$1.4 million. The Company also has plans to relocate one of our smaller dealerships with an estimated capital cost of \$1 million. The timing of this relocation has not been finalized. Management believes that relocation of older facilities improves our customers' purchasing experience and strengthens our relationships with our various manufacturer partners.

Commitments

On May 20, 2010, the Company signed an agreement for exclusive partnership rights in the AIR MILES Promotional Partnership Program ("the Program"). The Program grants AutoCanada's dealerships with exclusive rights to issue AIR MILES reward miles to customers in conjunction with the sale of new or used vehicles and accessories to our customers. As part of the program, AutoCanada has committed to purchase a minimum of \$2 million in AIR MILES reward miles over the first 12 months of the program in exchange for certain sole-exclusivities for the term of the program. At September 30, 2010 the Company had a remaining commitment of \$1.48 million associated with this program.

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 September 30, 2010, June 30, 2010, March 31, 2010, September 30, 2009, June 30, 2009 and March 31, 2009.

Balance Sheet Data	The Company							
	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009	December 31, 2008
Cash and cash equivalents	34,329	31,880	23,615	22,465	23,224	14,842	12,522	19,592
Accounts receivable	37,149	46,826	40,752	35,388	38,134	27,034	33,821	31,195
Inventories	137,507	177,524	153,847	108,324	107,431	90,141	116,478	139,948
Total assets	283,678	325,669	285,508	233,665	233,283	198,946	229,839	257,104
Revolving floorplan facilities	145,652	194,388	160,590	102,650	105,254	73,161	114,625	137,453
Total long term liabilities	25,396	19,133	19,406	23,074	19,064	20,576	25,438	25,522

Net Working Capital

The automobile manufacturers represented by the Company require the Company to maintain net working capital for each individual dealership. At September 30, 2010, the aggregate of net working capital requirements of all of our dealerships was approximately \$32.3 million. At September 30, 2010, all working capital requirements had been met by each dealership.

Related Party Transactions

Note 8 to the unaudited interim consolidated financial statements of the Company summarize the transactions between the Company and its related parties. These transactions are management fees received, prepaid rent and rents paid to companies with common ownership, management and directors.

The total management fees received from companies with common directors for the three months ended September 30, 2010 was \$64. We lease thirteen of our twenty-four locations as of September 30, 2010 from related parties of the Company. The total rent paid by us to the related parties for the three months ended September 30, 2010 was \$2,049. The total rent prepayments during the three months ended September 30, 2010 to a company with common directors was \$427. 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.

On May 12, 2010, AutoCanada announced the reinstatement of a quarterly dividend of \$0.04 per common share (annual rate of \$0.16 per common share).

The following table summarizes the dividends declared by the Company as at the date of this MD&A:

(In thousands of dollars)

Record date	Payment date	Total	
		Declared	Paid
		\$	\$
May 31, 2010	June 15, 2010	795	795
August 31, 2010	September 15, 2010	795	795
November 30, 2010	December 15, 2010	795	-
		<u>2,385</u>	<u>1,590</u>

On November 4, 2010 an eligible quarterly dividend of \$0.04 per common share (annual rate of \$0.16 per common share) was declared for shareholders of record at the close of business on November 30, 2010 and to be paid on December 15, 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)	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010
Cash provided by operating activities	7,313	(3,213)	2,611	9,657	2,282	6,118	14,269	4,870
Deduct:								
Purchase of property and equipment	(1,243)	(1,065)	(2,175)	(458)	(614)	(541)	(1,156)	(572)
Free Cash Flow¹	6,070	(4,278)	436	9,199	1,668	5,577	13,113	4,298
Weighted average shares outstanding at end of period	20,047,787	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930
Free cash flow per share	0.303	(0.215)	0.022	0.463	0.084	0.281	0.660	0.216
Free cash flow – 12 month trailing	30,376	23,773	11,711	11,427	7,025	16,880	29,557	24,656
Free cash flow –Year-to-date								22,988

¹These 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 below, when comparing the three month period ended September 30, 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 September 30, 2010 and September 30, 2009.

(In thousands of dollars)	<u>July 1, 2010 to September 30, 2010</u>	<u>July 1, 2009 to September 30, 2009</u>
	\$	\$
Accounts receivable	9,677	(11,100)
Inventories	39,728	(17,644)
Prepaid expenses	1,077	1,280
Accounts payable and accrued liabilities	(599)	(1,073)
Income tax payable	(306)	-
Revolving floorplan facility	(48,736)	32,093
	<u>841</u>	<u>3,556</u>

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 non-growth capital expenditures.

(In thousands of \$ except unit and per unit amounts)	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010
Cash provided by operating activities before changes in non-cash working capital	3,641	2,071	5,723	6,101	3,208	1,311	5,948	4,029
Deduct:								
Purchase of non-growth property and equipment	(197)	(187)	(132)	(187)	(240)	(409)	(819)	(365)
Adjusted Free Cash Flow¹	3,444	1,884	5,591	5,914	2,968	902	5,129	3,664
Weighted average shares outstanding at end of period	20,047,787	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930
Adjusted Free cash flow per share	0.172	0.095	0.281	0.297	0.149	0.045	0.258	0.184
Adjusted Free cash flow – 12 month trailing	23,020	20,569	18,535	16,833	16,357	15,375	14,913	12,663
Adjusted Free cash flow – Year-to-date								9,695

¹ 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)	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010
EBITDA¹	3,868	2,230	6,135	6,716	3,271	3,079	6,180	4,014
Deduct:								
Amortization	(905)	(872)	(902)	(937)	(961)	(905)	(950)	(1,032)
EBIT¹	2,963	1,358	5,233	5,779	2,310	2,174	5,230	2,982
Average long-term debt	25,237	26,045	25,663	24,432	23,441	21,314	19,244	21,924
Average shareholders’ equity	106,261	69,217	70,907	75,848	79,253	80,819	82,961	84,991
Average capital employed¹	131,498	95,262	96,570	100,280	102,693	102,133	102,205	106,915
Return on capital employed¹	2.3%	1.4%	5.4%	5.8%	2.2%	2.1%	5.1%	2.8%
Return on capital employed – YTD				12.5%				9.7%

¹These 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

In 2010, the Company adopted *Section 1582 - Business Combinations* that was issued by the Canadian Institute of Chartered Accountants (“CICA”). This section replaces the former *Section 1581 - Business combinations* and provides the Canadian equivalent to International Financial Reporting Standard *IFRS 3R - Business Combinations* (January 2008). The new standard requires the acquiring entity in a business combination to recognize most of the assets acquired and liabilities assumed in the transaction at fair value including contingent assets and liabilities; and recognize and measure the goodwill acquired in the business combination or a gain from a bargain purchase. Acquisition related costs are also to be expensed. The Company applied the new standard to the acquisition of 401 Dixie Hyundai as described in Note 4 of the unaudited interim consolidated financial statements for the period ended September 30, 2010. The new standard is to be applied prospectively; therefore acquisitions prior to January 1, 2010 are not affected by the change in accounting policy. The adoption of this Section did not have a material impact on our financial position or results of 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, 2011, 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 – Completed

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. 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 were completed by our internal finance team, the impact of the accounting policy choices were incorporated into the analysis and any major operational or technological issues identified will be addressed in the implementation phase. These analyses have been completed concurrently with the impact assessments described above.

On October 12, 2010, the finance team provided the audit committee with an overview of the impact assessments and recommended accounting policies based on the analyses prepared. The finance team obtained preliminary approval to apply the proposed accounting policies in order to quantify the impact of IFRS at the opening balance sheet date. The finance team will be preparing a preliminary opening balance sheet under IFRS at the date of transition (January 1, 2010) and will look to the audit committee for formal approval of accounting policy choices made under IFRS in the fourth quarter of 2010. The Company plans to provide readers with the quantification impact of IFRS on its opening balance under IFRS in Management's Discussion and Analysis for the year ended December 31, 2010.

Phase 3 – Implementation – In progress

The implementation phase will consist of providing accounting formal 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 by the end of Q4 of 2010. We have engaged our auditors to perform audit procedures on the opening balance sheet under IFRS standards during Q4 of 2010 and hope to have the procedures completed during the quarter. The finance team plans to quantify the impact of its accounting policy choices under IFRS for the 2010 fiscal year in order to provide full comparative information under IFRS upon release of its first financial statements prepared under IFRS for the period ended March 31, 2011. The quantification of the impact will take place during the first quarter of 2011.

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 the fourth quarter 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.

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
<p>Preliminary Conclusions Reached: Business combinations will be accounted for in accordance with IFRS 3 – <i>Business Combinations</i> 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 has elected to early adopt Section 1582 – <i>Business Combinations</i> 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.</p>	<p>Status Update: We have completed the impact assessment for this standard.</p> <p>We have early adopted CICA 1582 – <i>Business Combinations</i> to align accounting for future acquisitions with IFRS, therefore implementation of this policy has been completed.</p>
<p>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.</p>	

Accounting Policy: IAS 36 - Impairment of Assets	Impact: High
<p>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 calculation of tangible net worth.</p>	<p>Status Update: We have completed the impact assessment for this standard.</p> <p>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 Q4 of 2010.</p>
<p>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.</p>	

Accounting Policy: IAS 16 - Property, Plant and Equipment	Impact: Moderate
<p>Preliminary Conclusions Reached: Consistent with Canadian GAAP, under IFRS, separable components of property, plant and equipment are recognized initially at cost. Under IAS 16 – <i>Property, plant and equipment</i> 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. The Company plans to use the cost model for its property, plant and equipment. Further investigation was performed in Q2 of 2010 to determine whether the revaluation model should be applied for the Company’s land and building, however this analysis concluded that the revaluation model was not appropriate for our range of assets. We expect the adoption of the cost model to have no effect on our opening balances upon transition to IFRS, however we expect the “componentization” rules associated with IAS 16 to produce a difference in our opening balance sheet. We do not expect the difference to be material.</p>	<p>Status Update: We completed our impact assessment for this policy in Q2 of 2010.</p> <p>We intend to quantify the impact of adopting IAS 16 on our opening balance sheet as at the date of transition. We expect to complete this by the end of Q4 of 2010.</p>
<p>Effect on Other Key Elements of the Changeover Plan: We expect this section to have low impact on other key elements of the changeover plan.</p>	

Accounting Policy: IFRS 1 – First-time Adoption of IFRS	Impact: High
<p>Preliminary Conclusions Reached: As a first-time adopter of IFRS, the Company is required to apply IFRS 1 <i>First-time adoption of International Financial Reporting Standards</i>. IFRS 1 provides a number of optional exemptions to first-time adopters. The exemptions which are significant to AutoCanada are discussed below:</p> <p><i>Business Combinations</i> – 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 to use this exemption so that business combinations entered into prior to January 1, 2010 will remain unchanged.</p> <p><i>Fair-value or Revaluation as Deemed Cost</i> – 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 reserve. We have decided to apply the cost model for equipment and will not restate to fair value under IFRS.</p> <p><i>Other Issues</i> – We have performed a full scope review of other IFRS 1 exemptions to ensure that we have analyzed all options available to our company upon changeover to IFRS. No other exemptions or elections were considered to have a significant impact on the financial statements.</p>	<p>Status Update: We have completed impact assessments for IFRS 1 elections and exemptions.</p>
<p>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.</p>	

Accounting Policy: Other Policies	Impact: Low
<p>Preliminary Conclusions Reached: We have analyzed 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, provisions and contingencies, related party disclosures, financial statement presentation and disclosure. We have reached conclusions on accounting policy choices for these topics and we do not expect these policy choices to have a significant impact on the financial statements. We are continuing to perform work over financial statement presentation and disclosure as we prepare the set of IFRS compliant financial statements during the implementation stage.</p>	<p>Status Update: We have completed impact assessments for other policies that were expected to impact the financial statements as a result of the diagnostic review performed.</p>
<p>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 expect a significant impact on our financial reporting expertise; however a minimal impact on our information technology systems.</p>	<p>We will continue to assess financial statement presentation and disclosure issues as we continue to prepare the set of IFRS compliant financial statements during the implementation stage.</p>

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.

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 better prepare our Company for transition by having a knowledgeable and capable finance team, rather than engaging an external consultant to perform the IFRS conversion.

On October 12, 2010, the Company held an informational session with members of the audit committee in which management provided information pertaining to the implications of IFRS standards. Accounting policies, as they relate to the Company under

Canadian GAAP and IFRS, were discussed along with our choice in accounting policy in order to allow for questions and feedback from the audit committee prior to the formal approval of our accounting policies in Q4 of 2010. The Chair of the Audit Committee and several employees who comprise our IFRS implementation team has attended various courses and seminars with respect to IFRS concepts and implementation.

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 Company's debt covenants. We realize that as IFRS standards continue to change, we may be required to adopt IFRS policies that have potential to affect our debt covenants. 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 Q4 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 (1) 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 September 30, 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 September 30, 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 September 30, 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 7.1 percent in 2010 as compared to the prior year.

New Vehicle Sales Outlook by Province*

(thousands of units, annual rates)

	<u>1994-2005</u> Average	<u>2006-07</u>	<u>2008</u>	<u>2009</u>	<u>2010f</u>
Canada	1,446	1,635	1,642	1,461	1,565
Atlantic	102	114	127	115	122
Central	936	999	1,010	927	997
Quebec	366	402	430	392	413
Ontario	570	597	580	535	584
West	408	522	505	419	446
Manitoba	42	44	46	43	45
Saskatchewan	36	41	48	44	46
Alberta	166	243	232	182	200
British Columbia	164	194	179	150	155

* Includes cars and light trucks

Source: Scotia Economics - Global Auto Report, September 29, 2010

General economic conditions in Canada improved in the nine month period ended September 30, 2010 and this improvement was evident by the increase in new vehicle sales which we experienced during this period. Although signs of improvement give hope for a sustainable 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. Throughout 2009, we witnessed an unprecedented decrease in our customers' ability to obtain financing for new and used vehicles. The past nine 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. Although Management is pleased with its purchase of the former Future Hyundai (now 401 Dixie Hyundai), in view of the number of brands which to date have accepted public ownership, the continuing credit market challenges generally, and the need to ensure that acquisitions are priced to be accretive, make profitable acquisitions challenging, and their timing uncertain.

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:

- the impact of AIR MILES Reward Miles program on customer loyalty;
- our expectation of maintaining strong relationships with our OEM partners;
- our expectation to reduce variable SG&A costs such as third-party vendors and salary costs per dealership;
- our expectation of the effect of dealership relocations on our financial results;
- our intentions to improve our absorption rate in the future;
- 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 plans to reduce interest expense;
- 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 may take for an acquisition or open point to achieve normal operating results;
- our plans for future dealership relocations and renovations;
- expectations and assumptions regarding the Company’s ability to pay future dividends and growth;
- assumptions over non-GAAP measures and their impact on the Company;
- management’s expectation to acquire or open one additional dealership in 2010;
- plans for convergence with IFRS and its impact on the Company;
- management’s assumptions over the future economic and general outlook.

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 expenditures (not including acquisitions of dealerships and dealership facilities).

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.