



**AutoCanada Inc.**

**Annual Information Form  
For the year ended December 31, 2011**

**March 22, 2012**

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## GENERAL DISCLOSURE MATTERS

### Certain References and Glossary

In this Annual Information Form (“AIF”), unless the context otherwise requires, references to “AutoCanada”, “ACI”, the “Company”, “we”, “us”, “our” or similar terms refer to AutoCanada Inc. together with its subsidiaries, the Dealer GPs and the Dealer LPs and any other franchised automobile dealership owned by the foregoing parties. The disclosure contained in this AIF is presented on the basis that we owned and operated the business that was formerly known as AutoCanada Income Fund (the “Fund”) and was previously owned by Canada One Auto Group (“CAG”) for all periods referred to in this AIF.

The “Glossary of Terms” attached as Schedule A to this AIF contains definitions of terms used in this AIF.

### Date of Information

The information in this AIF is presented as of March 22, 2012, unless otherwise indicated.

### Forward Looking Information

Certain statements contained in this AIF 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 this annual information form include:

- our intentions for future growth and its effect on financial operations;
- our expectations regarding the future of the Canadian automotive retail industry;
- management’s expected usage GAAP and non-GAAP financial measures;
- our expectation of reduced supply of off-lease vehicles in the future;
- our belief that an extended manufacturer’s warranty will increase our potential to retain pre-owned vehicle purchasers as future parts and service customers;
- our intention to improve our used vehicle trade-in valuation process;
- our expectation to improve used inventory turnover;
- management’s expectations of the impact on earnings of the FIAT dealerships;
- our belief that relocating certain dealerships may provide growth;
- our intentions of our incentive and compensation plans;
- our intentions for future focus of marketing efforts;
- our expectation of the effect of current credit conditions on our future operations;
- our belief that a higher percentage of all repair work will be performed at dealerships;
- our goals of retaining long-term customers;
- anticipation that lease options will be exercised;
- our assumptions regarding the acquisition of franchises in which we currently do not have a relationship;
- assumptions regarding the amount of time it takes for acquisitions and open points to achieve normalized performance;
- assumptions regarding our competitive strengths and their effect on operations in the future;
- expectation that our supply of vehicles will meet the demand in our markets;
- targets for inventory turnover and inventory management;

- assumptions regarding other automobile manufacturer agreements;
- potential future impact of provisions in our credit agreements;
- our beliefs of the future impact of internet and e-commerce on the Company;
- assumptions regarding provincial government regulations in jurisdictions we do not operate in;
- our anticipated compliance with governmental regulations and assumptions with respect to changes in regulations;
- assumptions made in our discussion of risk factors; and
- assumptions we have made regarding future dividends of the Company.

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. We caution the reader that the following list of assumptions is not exhaustive. The material factors and assumptions used to develop the forward-looking statements include but are not limited to:

- no significant adverse changes to the automotive market, competitive conditions, the supply and demand of vehicles, parts and service, and finance and insurance products or the political, economic and social stability of the jurisdictions in which we operate;
- no significant construction delays that may adversely affect the timing of dealership relocations and renovations;
- no significant disruption of our operations such as may result from harsh weather, natural disaster, accident, civil unrest, or other calamitous event;
- no significant unexpected technological event or commercial difficulties that adversely affect our operations;
- continuing availability of economical capital resources; demand for our products and our cost of operations;
- no significant adverse legislative and regulatory changes; and
- stability of general domestic economic, market, and business conditions.

Because actual results or outcomes could differ materially from those expressed in any forward-looking statements, investors should not place undue reliance on any such forward-looking statements. By their nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, which contribute to the possibility that the predicted outcomes will not occur. The risks, uncertainties and other factors, many of which are beyond our control, that could influence actual results include, but are not limited to:

- rapid appreciation or depreciation of the Canadian dollar relative to the U.S. dollar;
- a sustained downturn in consumer demand and economic conditions in key geographic markets;
- adverse conditions affecting one or more of our automobile manufacturers;
- the ability of consumers to access automotive loans and leases;
- competitive actions of other companies and generally within the automotive industry;
- our dependence on sales of new vehicles to achieve sustained profitability;
- levels of unemployment in our markets and other macroeconomic factors;
- our suppliers ability to provide a desirable mix of popular new vehicles;
- the ability to continue financing inventory under similar interest rates;
- our suppliers ability to continue to provide manufacturer incentive programs;
- the loss of key personnel and limited management and personnel resources;
- the ability to refinance credit agreements in the future;
- changes in applicable environmental, taxation and other laws and regulations as well as how such laws and regulations are interpreted and enforced;
- risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; and
- the ability to obtain automotive manufacturers' approval for acquisitions.

Please refer to the section entitled "Risk Factors" for a complete listing. 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**

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. Management believes that, in addition to earnings or loss, EBITDA is a useful supplemental measure of both performance and cash available for distribution before debt service, changes in working capital, capital expenditures and income taxes.

We have used Adjusted EBITDA as the basis for the analysis of our past financial performance. References to “Adjusted EBITDA” are to EBITDA after adjusting for various items including the elimination of certain shareholder remuneration paid by CAG as a private company, the deduction of compensation that would have been paid to certain of our dealer principals had their compensation arrangements been in effect for the applicable periods and the addition of incremental insurance commissions that would have been paid to us had the new insurance contract with our supplier been in effect for the applicable periods. Adjusted EBITDA is a measure that we believe facilitates the comparability of the results of historical periods and the analysis of our financial performance.

References to “EBIT” are to EBITDA (as defined above) less depreciation and amortization. EBIT is a useful supplemental measure used by management in the calculation of Return on Capital Employed (defined below).

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). Free cash flow is a measure used by management to evaluate its performance. While the closest 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 ACI, potential acquisitions, or other purposes. Investors should be cautioned that Free cash flow may not actually be available for growth or distributions of ACI.

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. Adjusted free cash flow is a measure used by management to evaluate its performance. Adjusted 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 dividends or growth of the Company.

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 and do not include expenses pertaining to head office. Absorption Rate is an operating measure commonly used in the retail automotive industry as an indicator of the performance of the parts, service and collision repair operations of a franchised automobile dealership. Absorption Rate is not a measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, Absorption Rate may not be comparable to similar measures presented by other issuers that operate in the retail automotive industry.

References to “Average Capital Employed” are to 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. Average Capital Employed is used to determine the amount of capital invested

in ACI and is used in the measure of Return on Capital Employed (described below). 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 ACI.

References to “Return on Capital Employed” are to EBIT (as defined above) divided by the Average Capital Employed (defined above). 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 ACI as a whole in order to ensure shareholder value is being achieved by these capital investments.

#### **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 ACI's performance, of its cash flows from operating, investing and financing activities or as a measure of its liquidity and cash flows. ACI's methods of calculating EBITDA, EBIT, Free Cash Flow, Adjusted Free Cash Flow, Absorption Rate, Average Capital Employed and Return on Capital Employed may differ from the methods used by other issuers. Therefore, ACI's EBITDA, EBIT, Free Cash Flow, Adjusted Free Cash Flow, Absorption Rate, Average Capital Employed and Return on Capital Employed may not be comparable to similar measures presented by other issuers.

### **CORPORATE STRUCTURE**

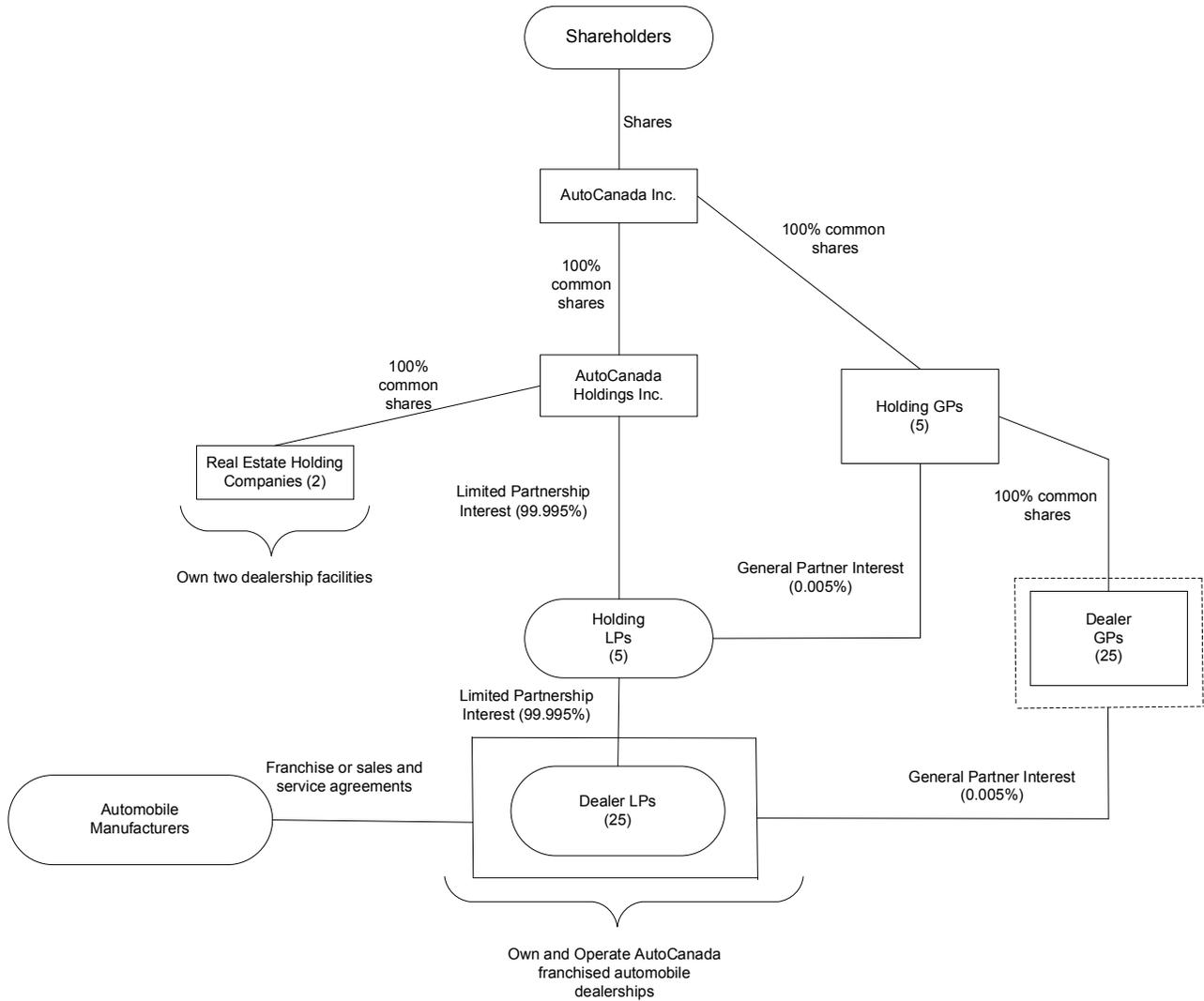
ACI was incorporated under the CBCA on October 29, 2009, as “AutoCanada Inc.” in connection with the Arrangement.

Holdings was incorporated under the CBCA on October 29, 2009, as “AutoCanada Holdings Inc.” in connection with the Arrangement.

Each of the Holding LP's and Dealer LPs are a limited partnership formed under the laws of the Province of Manitoba. Each Dealer LP had been formed to acquire the assets and undertaking relating to one of the franchised automobile dealerships owned by CAG. Each of the Holdings GPs and the Dealer GPs were incorporated under the CBCA.

The principal and head office of ACI is located at 200-15505 Yellowhead Trail, Edmonton, Alberta, T5V 1E5. The principal and head offices of each of the Dealer LPs are located at the franchised automobile dealership owned by such entity. The registered office of ACI and each of the Holding LP's and Dealer LPs is located at 1900, 520 – 3rd Avenue S.W., Calgary, Alberta, T2P 0R3.

The following chart illustrates our corporate structure at December 31, 2011:



On January 1, 2011, AutoCanada GP Inc. amalgamated with ACI. As a result of this transaction, ACI is now the direct holder of 100% of the common shares of each of the Holding GP's. In 2011, ACI sold its Colombo Chrysler Jeep Dodge dealership. Since a wind-up of the Dealer LP has yet to occur, ACI currently has 25 Dealer LPs of which 24 are active in dealership operations.

## OVERVIEW AND DEVELOPMENT OF OUR BUSINESS

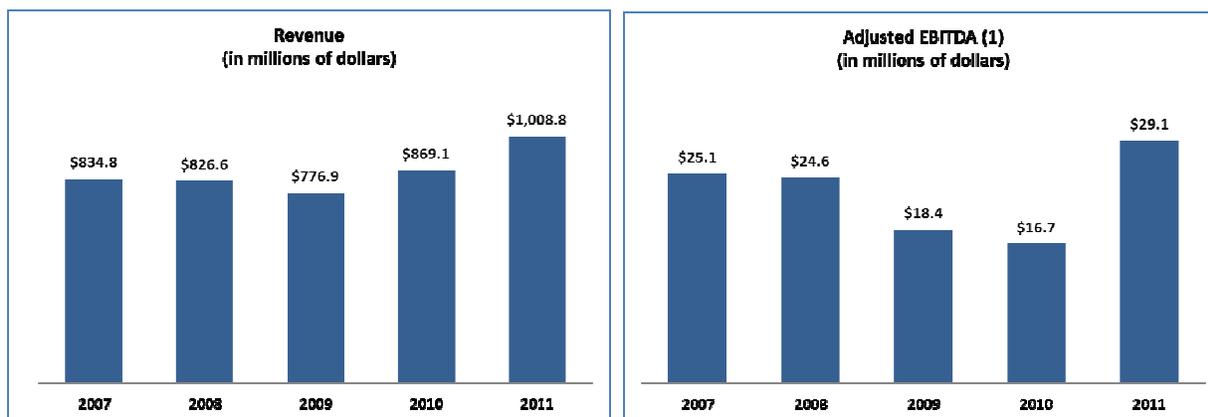
### Overview

AutoCanada is one of Canada's largest multi-location automobile dealership groups, currently operating 24 franchised dealerships in British Columbia, Alberta, Manitoba, Ontario, New Brunswick and Nova Scotia. In 2011, our dealerships sold approximately 28,000 vehicles and processed approximately 300,000 service and collision repair orders in our 333 service bays.

See the table in "Description of the AutoCanada Business – Locations" for a list of the franchised automobile dealerships owned by us as at March 22, 2012 and the year such dealership was opened or acquired by us or CAG.

We currently are authorized to sell through our dealerships the following new vehicle brands: Chrysler, Dodge, Jeep, Ram, Fiat, Hyundai, Nissan, Infiniti, Volkswagen, Mitsubishi and Subaru. Vehicles distributed by Chrysler Canada represented approximately 75% of our total new vehicle sales in 2011. In addition, we sell a broad range of used vehicles. We also offer a full range of parts, service and collision repair services and facilitate the sale of third party finance and insurance products, extended warranties and replacement and after-market automotive products.

The following charts illustrate the revenue and Adjusted EBITDA growth since the 2007 fiscal year.



#### Notes:

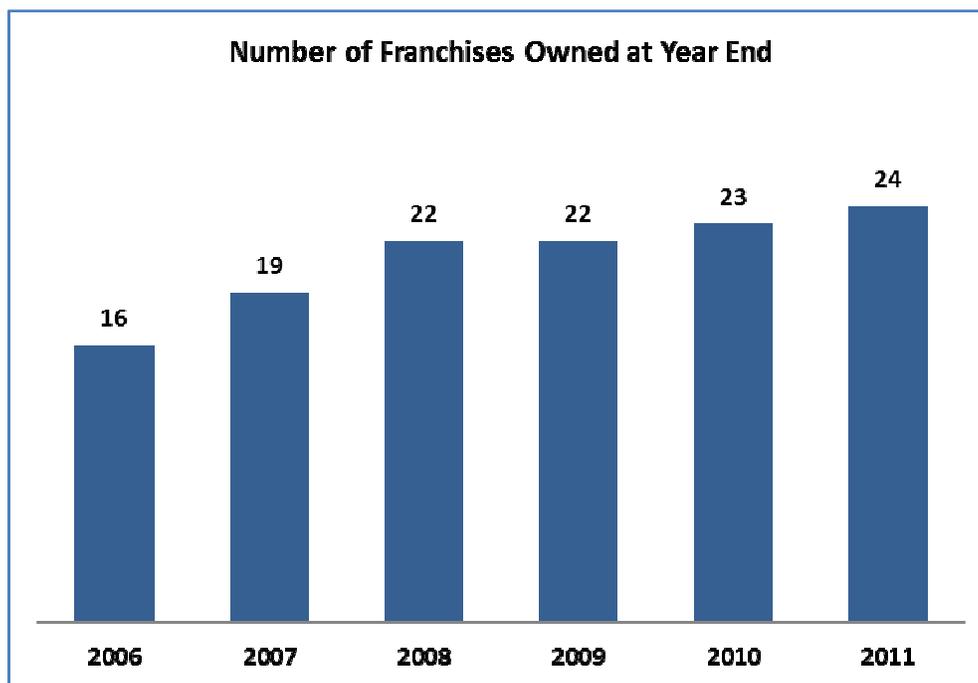
- (1) Adjusted EBITDA is not a recognized measure under GAAP and does not have a standardized meaning prescribed by GAAP. Our Adjusted EBITDA may not be comparable to similar measures presented by other issuers. See "Non-GAAP Measures".

The Canadian retail automotive industry is highly fragmented with approximately 3,464 franchised automobile dealerships. Although we expect the Canadian automotive retail industry to continue to consolidate as the average age of automobile dealership owners continues to rise, and that consolidation shall continue, the company's ability to act as a consolidator is limited to those brands which have accepted public ownership or which are related to same (see *History and Recent Developments*).

## History and Recent Developments

Our founder and Chief Executive Officer, Patrick Priestner, has been directly involved in the retail automotive industry since 1974. He was one of the founders of a predecessor to CAG when, in 1993, it purchased a franchised automobile dealership in Edmonton, Alberta that had been in business since 1952. In 2001, after growing the business to five franchised automobile dealerships, we began to implement our strategy of becoming a national multi-location automobile dealership group in Canada, a strategy that had been successfully executed by that time by owners of several franchised automobile dealers in the United States.

Between 2001 and 2004, we grew by acquiring and successfully integrating the operations of nine existing franchised automobile dealerships. In addition, on April 20, 2005, we opened our Grande Prairie Hyundai dealership and on November 15, 2006, we opened our Sherwood Park Hyundai dealership. Both of these dealerships were “open points” awarded to us by Hyundai. On May 3, 2007, we announced that we were awarded a Mitsubishi open point dealership in Grande Prairie, Alberta which commenced operations during the summer of 2007, and which was relocated to new premises in the spring of 2008. In February 2007, and July 2007, respectively, ACI provided financing to affiliates of CAG for the acquisition of Grande Prairie Nissan and Northland Nissan (the “managed dealerships”), respectively, and in each case entered into a management agreement to provide management services to such dealerships. In addition, in 2008 we purchased the assets and commenced operations in respect to our Newmarket Nissan Infiniti (Newmarket, Ontario) dealership (April 2008), Cambridge Hyundai (Ontario) dealership (July 2008), and Maple Ridge (British Columbia) Volkswagen dealership (December 2008). In 2009, we completed the transfer of ownership of the managed dealerships from affiliates of CAG to full ownership by AutoCanada. In 2010, we purchased the assets and commenced operations with respect to our 401/Dixie Hyundai (Mississauga, Ontario) dealership. In 2011, we purchased the assets and commenced operations with respect to our Abbotsford and Chilliwack Volkswagen dealerships (Abbotsford and Chilliwack, British Columbia).



On January 18, 2011, the Company granted consent to Patrick Priestner (majority ownership) and Tom Orysiuk (2% equity ownership) to own and operate a second Toyota dealership in the Greater Edmonton area in accord with the Company's policy to permit the purchase by management privately of those dealerships of brands which have not accepted public ownership.

#### *History of our capital structure and recent developments*

In May, 2006, we completed an initial public offering of 10,949,500 Units at a price of \$10 per Unit, to raise aggregate gross proceeds of \$109,495,000 (including the over-allotment option). The gross proceeds of the Offering were used by the Fund to indirectly acquire the assets and undertaking of COAG.

In August of 2008, the Fund received regulatory approval from the Toronto Stock Exchange to purchase for cancellation, a maximum number of issued and outstanding Units. During the year ended December 31, 2008, the Fund purchased for cancellation 376,070 Units. As at December 31, 2008, the Trust had cancelled all repurchased Units. As a result of the normal course issuer bid, there were 10,573,430 Units issued and outstanding at December 31, 2008. At that time, the Fund owned an indirect 53.2% interest in AutoCanada LP and CAG owned the remaining 46.8%.

On December 17, 2009, Unitholders approved the conversion of the Fund into a corporation to be further known as "AutoCanada Inc.", pursuant to the Arrangement involving, among others, the Fund, AutoCanada and securityholders of the Fund. The Arrangement was completed on December 31, 2009.

The Arrangement has been accounted for as a continuity of interests of the Fund since there has been no change of control and since AutoCanada will continue to operate the business of the Fund. Accordingly, this AIF reflects AutoCanada as a corporation at December 31, 2009 and as AutoCanada Income Fund prior thereto. All references to "shares" refer collectively to AutoCanada's common shares on and subsequent to December 31, 2009 and to the Units prior to the Arrangement. All references to "shareholders" refer collectively to holders of AutoCanada's shares on and subsequent to December 31, 2009 and to Unitholders prior to the Arrangement.

As a result of the Arrangement, Unitholders received one ACI Share for each one Unit. The trust structure of AutoCanada was reorganized into a publicly listed corporation, which owns all of the Units. AutoCanada also now holds all the assets and liabilities, previously held, directly or indirectly, by the Fund. Subsequent to the Arrangement and to present date, there are currently 19,880,830 ACI Shares outstanding.

Pursuant to the Arrangement, additional transactions were performed with respect to our corporate structure in 2010 and on January 1, 2011. The new capital structure is explained in detail in "Capital Structure" below.

#### **Significant Acquisitions**

There were no significant acquisitions, for which disclosure is required under NI 51-102, in the year ended December 31, 2011.

## DESCRIPTION OF THE AUTOCANADA BUSINESS

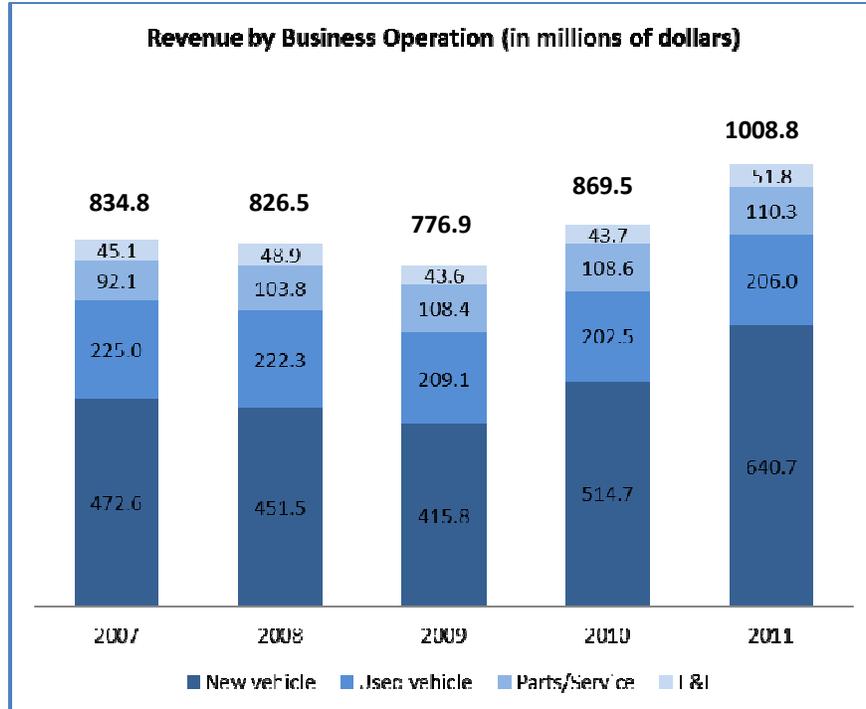
### Our Operations

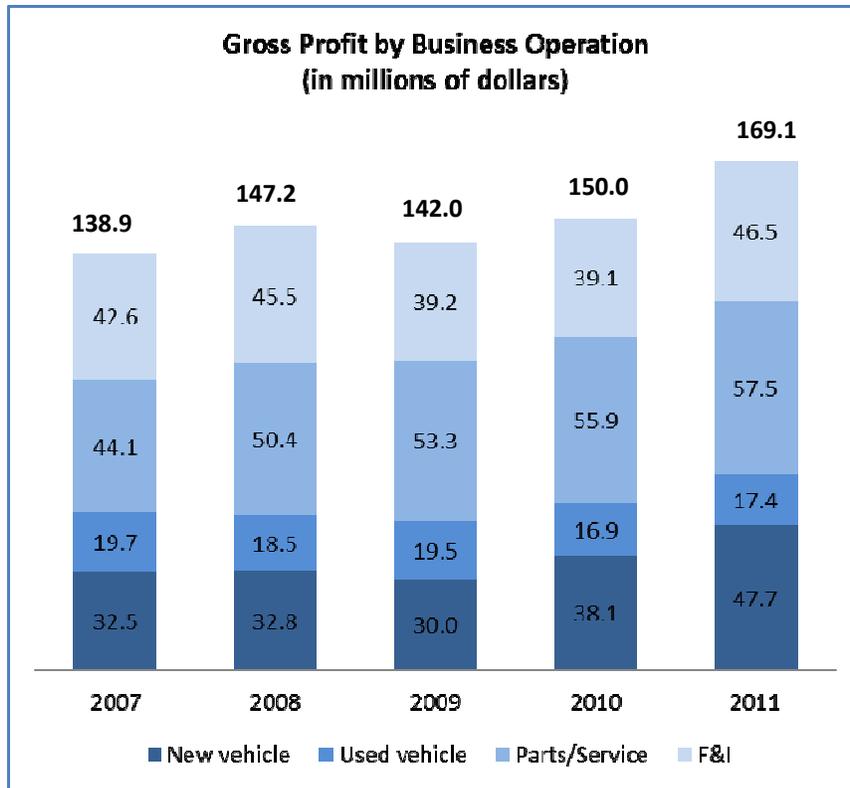
Our current multi-location automobile dealership model of 24 franchised automobile dealerships located in six provinces enables us to serve a diversified geographic customer base and enjoy benefits not available to single location dealerships. In addition, by operating three dealerships in Edmonton, Alberta, five dealerships in Grande Prairie, Alberta, three dealerships in Prince George, British Columbia, three dealerships in the Greater Toronto Area, as well as four dealerships in Fraser Valley area of British Columbia, we are able to gain the advantages associated with a “platform” of dealerships in a single geographic area.

Our franchised automobile dealerships are operated as distinct profit centres in which the dealer principals are given significant autonomy within overall operating guidelines. This autonomy, combined with the dealer principals’ understanding of their local markets, enables the dealer principals to effectively run day-to-day operations, market to customers, recruit new employees and gauge acquisition opportunities in their local markets. Our dealer principals are required to take an active, hands-on approach to operating their respective dealerships. Each dealer principal is supported by a complete management team that provides oversight and management over every facet of the business. While each member of a dealership’s management team, other than the dealer controllers, reports directly to the dealer principal, they also report to one or more members of our head office senior management team. The dealer controllers report directly to the head office finance group. Our reporting structure is designed to facilitate the sharing of ideas and market intelligence in an efficient and effective manner.

### Sources of Revenue and Gross Profit

We generate revenues and gross profit from four inter-related business operations: new vehicle sales; used vehicle sales; parts, service and collision repair; and finance and insurance. The following two charts show our revenues and gross profit from the four business operations over the past 5 years.



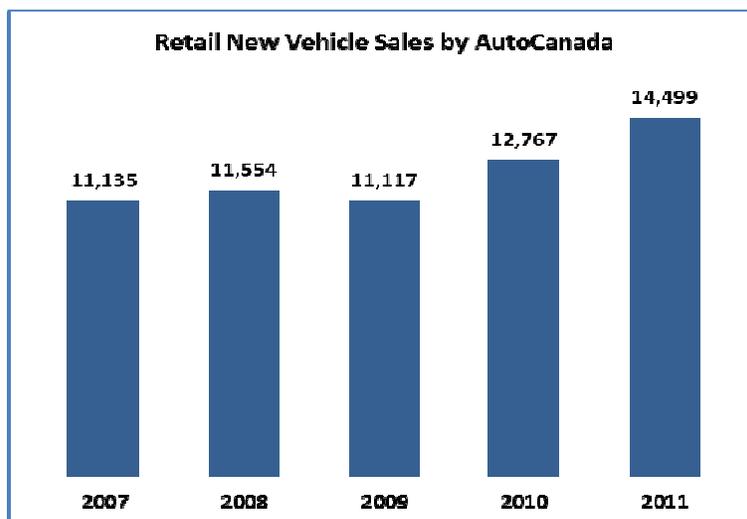


### *New Vehicle Sales*

Our retail new vehicle sales include new vehicle sales, lease transactions and other similar agreements, which are made by our franchised automobile dealerships. In addition to the profit from the sale itself, a typical new vehicle sale or lease transaction creates key profit opportunities for our dealerships from the resale of any trade-in vehicle purchased by the dealer, sale of third party finance or lease transactions and vehicle service and insurance contracts in connection with the retail sale, and service and repair of the vehicle during and after the warranty period.

New vehicle leases, which are provided by third parties, generally have shorter terms, resulting in customers returning to a dealership more frequently than in the case of financed purchases. In addition, leases provide us with a steady source of late-model, off-lease vehicles for our used vehicle inventory. Generally, leased vehicles remain under factory warranty for the term of the lease, allowing franchised automobile dealers to provide repairs and service to the customer throughout the lease term. Over the past three years ACI has witnessed a significant drop in new vehicle lease transactions. This has been a contributing factor to a decrease in supply of quality nearly new used vehicles. We believe that our used vehicle volumes have been negatively affected by the decrease in supply, although used vehicle volumes have improved over the last two quarters. At this time, we can provide no assurance that new vehicle lease transactions will return to historical levels. Since we cannot assume that new vehicle lease transactions will return, Management has focused on sourcing quality used vehicles through customer trade-ins and manufacturer auctions.

The chart below shows our historical retail new vehicle sales over the past five years:



We acquire our new vehicle inventory from automobile manufacturers. Automobile manufacturers allocate products among their dealerships based primarily on historical sales volume and planned sales.

We finance our inventory purchases through floorplan financing provided by Ally Credit and VW Credit Canada Inc. Subject to floorplan limitations imposed by our lenders; and our internally imposed days of supply guidelines, inventory selection and management occurs at the franchised automobile dealer level.

#### *Used Vehicle Sales*

Used vehicle sales typically generate higher gross margins than new vehicle sales because of their limited comparability and the subjective nature of their evaluation, which is dependent, among other things, upon a vehicle's age, warranty, mileage and condition. Valuations also vary based upon supply and demand factors, the level of new vehicle incentives, the availability of retail financing, and general economic conditions.

Used vehicle sales give us an opportunity to further increase our revenues by aggressively pursuing customer trade-in vehicles, increase service contract sales, provide parts and services required in the maintenance of the vehicle, and provide financing to used vehicle purchasers.

Profits from used vehicle sales depend primarily on the ability of our franchised automobile dealers to obtain a high quality supply of used vehicles at reasonable prices and to effectively manage that inventory. Our new vehicle operations provide our used vehicle operations with a large supply of high quality trade-ins and some off-lease vehicles, which we believe are the best sources of attractive used vehicle inventory. Our dealers supplement their used vehicle inventory with purchases at auctions, including manufacturer-sponsored auctions available only to franchised dealers, and from wholesalers. The decline in off-lease vehicles over the past two years has resulted in a decrease in supply of high quality used inventory. The lower supply of off-lease vehicles is likely to continue in the future due to the decrease in lease transactions over the past three years.

We actively manage the quality and age of our used vehicle inventory and seek to increase the profitability of our used vehicle operations by participating in automobile manufacturer certification programs where available. Various manufacturers provide franchised automobile dealers the opportunity to sell certified pre-owned vehicles, which are often eligible for new vehicle benefits such as preferred vehicle finance rates, better automobile warranties and an extension of the manufacturer's warranty. Manufacturer certified pre-owned vehicles typically sell at a premium compared to other used vehicles and are available only at franchised automobile dealerships. Management believes that an extended manufacturer's warranty increases our potential to retain the pre-owned vehicle purchaser as a future parts and service customer since certified pre-owned warranty work can only be performed at franchised automobile dealerships.

The chart below shows our historical retail used vehicle sales over the past five years.



Used vehicles are generally offered at our dealerships for an average of approximately 45 days. At the end of 90 days, vehicles which have not been sold to a retail buyer are generally either sold to an outside wholesaler or offered at auction. Certain used vehicles acquired by us as “trade-ins” may not be suitable for sale in our used vehicle business because of their age, mileage or physical condition. Rather than reconditioning these vehicles for resale by us, we sell these vehicles immediately in the wholesale market. We do not regularly transfer used vehicles among our dealerships, except to provide balanced inventories of used vehicles at each of our dealerships. We have developed an integrated inventory system allowing us to closely monitor our sales of used vehicles and have implemented a new system in our dealerships that is intended to improve our used vehicle trade-in valuation process. Our used inventory system also allows for our dealerships to actively monitor vehicle pricing to ensure our product is priced competitively in the market. The monitoring of used vehicle pricing is expected to improve used inventory turnover at our dealerships.

### ***Parts, Service and Collision Repair***

Historically, the automotive repair industry has been highly fragmented, consisting of numerous small, independently owned service and repair garages, including service and repair facilities as a part of most gasoline service stations. However, management believes that the advanced technology used in vehicles has made it difficult for independent repair shops to have the expertise required to perform higher margin repairs. Most of the service and repair facilities at gasoline service stations have closed as the retail gasoline operators have abandoned this business. We have made investments in recruiting and training qualified technicians to work in our service and repair facilities. Additionally, automobile manufacturers generally require warranty work to be performed at their franchised automobile dealerships. We believe that an increasing percentage of all repair work will be performed at dealerships that have the sophisticated equipment and skilled personnel necessary to perform repairs and warranty work on today’s complex vehicles.

Our profitability in parts, service and collision repair can be attributed to our comprehensive management system, including the use of variable rate pricing structures, cultivation of strong customer relationships through an emphasis on preventive maintenance and the efficient management of parts inventory.

We use variable rate structures in both the compensation paid to our service employees and the rates charged to our customers that are designed to reflect the difficulty and sophistication of different types of repairs. The percentage mark-ups on parts are also variably priced based on market conditions for different parts.

Our franchised automobile dealers’ parts departments support their sales and service departments, selling factory-approved parts for the vehicle makes and models sold by a particular franchised automobile dealer. Parts are either used in repairs made in the service department, sold at retail to customers, or sold at wholesale to independent repair shops and other dealerships. Certain of our dealerships have agreements with the automobile manufacturers that

provide pricing to support wholesale operations. Our dealers employ parts managers who oversee parts inventories and sales. Our dealers also frequently share parts with each other. We continually monitor our parts inventories and make necessary adjustments frequently.

One of our major goals is to retain each vehicle purchaser as a long-term customer of our parts, service and collision repair department. A substantial number of our customers return to our dealerships for other services after the vehicle warranty expires. Each dealership has systems in place to track customer maintenance records and notify owners of vehicles purchased at the dealerships when their vehicles are due for periodic services. Parts, service and collision repair activities are an integral part of our overall approach to customer service.

### ***Finance and Insurance***

Each sale of a vehicle provides us with the opportunity to sell third party purchase and lease financing, extended warranty and insurance products, service contracts and other products.

In return for arranging third party purchase and lease financing for our customers we receive a fee from the third party lender upon completion of the financing. These third party lenders include the automobile manufacturers' captive finance companies and warranty divisions, selected commercial banks and a variety of other third party lenders, including credit unions and regional auto finance lenders. We have negotiated incentive programs with certain lenders whereby we receive additional fees upon reaching a specified volume of business. We do not own a finance company and do not retain substantial credit risk after a customer has received financing. Under certain circumstances we can become responsible for the credit obligations of our customers. For example, this would occur where the loan documentation that we have submitted does not meet the lender's requirements as stipulated in their contract with us. If the customer defaults on their loan payments in these cases the related vehicle is assigned to us as security for the loan and we are responsible to ensure collection of the loan or, in the alternative, we can seize the vehicle which is security for the loan. Based on our historical results, this type of default happens infrequently.

We arranged customer financing on a significant portion of the retail vehicles we sold in 2011. In addition to finance commissions, each vehicle sale creates opportunities to sell other profitable products, such as optional life, dismemberment and disability insurance and extended warranties and various other products for the consumer. Our size and volume capabilities enable us to acquire these products at reduced fees compared to the industry average, which results in competitive advantages as well as acquisition related revenue synergies.

In late 2008, the automotive leasing business significantly declined as the ability for captive finance companies to securitize asset back loans was eliminated. The absence of leasing has impacted our business as consumer lease returns provided significant sales opportunities to dealerships as well as a significant source of nearly new vehicles that could be offered for sale on our used vehicle lots. Although the one to five year old used vehicle supply is a concern to our used vehicle business, new vehicle sales have continued to be strong as most customers have been able to finance the purchase of their vehicles as opposed to leasing a vehicle. The credit markets in 2009 and 2010 were very stringent and resulted in a reduced financing availability for our customers, which negatively affected our finance and insurance revenues. In 2011, the credit markets improved and the ability of our customers to finance vehicles, accessories and other products improved, which inherently improved our revenues and gross margins in our finance and insurance business.

We offer our customers a variety of insurance, vehicle warranty and extended protection products in connection with purchases of new and used vehicles, including: service contracts, auto protection insurance, life disability and dismemberment insurance as well as lease "wear and tear insurance" and theft protection.

The finance and insurance products our dealerships currently offer are generally underwritten and administered by independent third parties, including the automobile manufacturers' captive finance companies. Under our arrangements with the providers of these products, we either sell these products on a straight commission basis or participate in future profits, if any, pursuant to a retrospective commission arrangement. We may be charged back for unearned financing fees, insurance or service contract fees in the event of early termination of these contracts by the customers. ACI calculates and accrues a reserve for future potential chargebacks based on past experience with the level of chargebacks incurred.

Our historical revenues include revenues from the sale of life, dismemberment and disability insurance contracts to customers when they purchased a vehicle. These insurance policies generally provide for repayment of the vehicle loan or lease if the customer dies or is seriously injured before the loan is fully repaid, or provide for the payment of the monthly loan obligations if the customer is disabled. We receive a fee on each policy sold. In addition, we also participated in the underwriting profits or losses from these insurance contracts.

## Locations

ACI reviews in the case of each location whether it wishes to own or lease the land and building. ACI presently leases all of its properties from third parties, except for the Cambridge Hyundai and Newmarket Infiniti Nissan buildings which it currently owns.

Thirteen of our twenty-four locations are leased from affiliates of CAG (a related party). The total rent expense in respect of our facilities in our fiscal year ended December 31, 2011 was approximately \$11.6 million, of which approximately \$7.9 million was paid to wholly owned subsidiaries of CAG.

The following table shows the location of our dealerships as at December 31, 2011.

Franchised Automobile Dealership Name and Location	Automobile Manufacturer Represented	Year Established	Year Acquired by Us
<b>Alberta</b>			
Crosstown Chrysler Jeep Dodge, Edmonton <sup>(1)</sup> .	Chrysler	1951	1994
Ponoka Chrysler Jeep Dodge, Ponoka <sup>(1)</sup> .....	Chrysler	1975	1998
Capital Chrysler Jeep Dodge, Edmonton <sup>(1)</sup> .....	Chrysler	1978	2003
Grande Prairie Chrysler Jeep Dodge, Grande Prairie <sup>(1)</sup> .....	Chrysler	1986	1998
Grande Prairie Subaru, Grande Prairie <sup>(1)</sup> .....	Subaru	1995	1998
Grande Prairie Hyundai, Grande Prairie <sup>(1)</sup> .....	Hyundai	2005	n/a
Sherwood Park Hyundai, Sherwood Park <sup>(1)</sup> .....	Hyundai	2006	n/a
Grande Prairie Mitsubishi, Grande Prairie <sup>(1)</sup> .....	Mitsubishi	2007	n/a
Grande Prairie Nissan, Grande Prairie <sup>(1)</sup> .....	Nissan	1969	2007
<b>British Columbia</b>			
Maple Ridge Chrysler Jeep Dodge, Maple Ridge	Chrysler	1975	2005
Maple Ridge Volkswagen, Maple Ridge	Volkswagen	1999	2008
Okanagan Chrysler Jeep Dodge, Kelowna.....	Chrysler	1985	2003
Northland Chrysler Jeep Dodge, Prince George <sup>(1)</sup> .....	Chrysler	1990	2002
Northland Hyundai, Prince George <sup>(1)</sup> .....	Hyundai	1990	2005
Victoria Hyundai, Victoria <sup>(1)</sup> .....	Hyundai	1999	2006
Northland Nissan, Prince George .....	Nissan	2007	2007
Abbotsford Volkswagen, Abbotsford .....	Volkswagen	1986	2011
Chilliwack Volkswagen, Chilliwack .....	Volkswagen	2002	2011
<b>Manitoba</b>			
Thompson Chrysler Jeep Dodge, Thompson ....	Chrysler	1974	2003
<b>Ontario</b>			
Newmarket Nissan Infiniti, Newmarket	Nissan and Infiniti	1977	2008
Cambridge Hyundai, Cambridge	Hyundai	1996	2008
401/Dixie Hyundai, Mississauga	Hyundai	1996	2010
<b>New Brunswick</b>			
Moncton Chrysler Jeep Dodge, Moncton <sup>(1)</sup> .....	Chrysler	1986	2001
<b>Nova Scotia</b>			
Dartmouth Chrysler Jeep Dodge, Dartmouth ...	Chrysler	1970	2006

### Notes:

(1) Property leased from affiliates of COAG.

Each of our leases from affiliates of CAG has been independently reviewed and provide for market rent. For this purpose, "market rent" is defined as the rental income that a property would most probably command in the open market as indicated by current rents being paid for comparable space. The leases provide for a term, including options, of not less than 10 years. The initial terms for these leases expire between July of 2012 and November of 2029 and generally have renewal options of 5 year periods. It is anticipated that all shall be extended by exercising the options. In 2011, net rental expense has decreased due to the purchase of our Newmarket Infiniti Nissan facility in 2010 and the sale of Colombo Chrysler Jeep Dodge in 2011.

We lease nine of our facilities from arm's length third parties. The leases for these locations expire between December of 2013 and February of 2020. We hold options to renew four of these leases for terms ending between December of 2018 and December of 2038. Management believes it has a good relationship with its landlords.

### **Acquisitions and Relocations**

The Company currently owns 24 franchised automotive dealerships. At the time of AutoCanada's initial public offering in May of 2006, AutoCanada owned 14 franchised automotive dealerships. Since this time the Company has acquired or opened eleven additional dealerships and has sold one of its dealerships.

On June 20, 2011, the Company sold its Colombo Chrysler Jeep Dodge dealership. Although the Company is pleased with the performance of its Chrysler Jeep Dodge Ram dealerships generally, profitability at Colombo had been a challenge for the Company. As the current facility lease was due to expire, a relocation with its attendant costs would have been required, and as it was expected that the incremental impact of this sale on the Company's net income would be positive for 2011, it was determined that shareholder value would be best served by the sale of the dealership, allowing Management to better focus its efforts and resources on its other dealerships.

On November 4, 2011, the Company purchased substantially all of the net operating and fixed assets of Valley Autohouse (1984) Ltd. operating two dealerships as Valley Autohouse ("Abbotsford and Chilliwack Volkswagen") for total cash consideration of \$1,753. The acquisition was financed with cash from operations. The Abbotsford facility is an approximately 9,300 sq. ft. leased facility which includes eight service bays and a six car showroom. The dealership has been in operation since 1986 and in 2010 retailed approximately 210 new and 190 used vehicles. The Chilliwack facility is an approximately 4,500 sq. ft. leased facility which includes 3 service bays and a single car showroom. The dealership has been in operation since 2002 and in 2010 retailed approximately 30 new and 40 used vehicles.

With respect to FIAT franchises, the Company has completed the facility improvements at the three locations that were awarded FIAT franchises. For the year ended December 31, 2011, the Company incurred \$0.6 million in renovations to its showrooms to accommodate FIAT franchises. Management does not expect a significant incremental increase in earnings as a result of the three new franchises (Crosstown FIAT, Capital FIAT and Maple Ridge FIAT) during the first two years due to limited product availability and costs associated with operating the additional franchises.

Management is currently developing a capital plan which includes the possible relocation of four of its dealerships. Management estimates the potential capital requirement of the relocations to be in the range of \$20 – 25 million over a two to three year period. Management expects to finance the relocations with a combination of mortgage debt, revolver debt and cash from operations. Management expects the non-mortgage debt financing requirement related to these relocations to be in the range of \$6 – 8 million over the same period. Management will provide further guidance as to the timing and costs associated with relocations as the plans develop. Relocation of dealerships provides long-term earnings sustainability and is necessary to meet Manufacturer facility requirements.

On June 22, 2011, the Company had announced that in view of the continued resistance of some manufacturers to the public ownership model, shareholder value could be best achieved by aligning its business model with a strategy that contemplated modest growth, with an emphasis on returning to shareholders a fair share of earnings by way of dividends. Since that time, Management has continued to seek opportunities to work with both new and current Manufacturers, and is currently pursuing a number of growth opportunities, some of which are open points. Management will consider only those open points which it determines provide long term shareholder value. If Management is successful in respect to one or more of these opportunities, the likelihood of which cannot at this juncture be determined, the growth opportunities of the Company will have improved beyond what the Company had previously determined.

### ***Organic Growth***

We continue to focus on those areas of our business that enable us to increase the profitability of our operations. Key areas include increasing same store gross profits by controlling expenses and expanding margins at our existing franchised automobile dealerships and those that are integrated into our operations on acquisition.

### ***Targeted Acquisitions***

Automobile manufacturers have adopted policies that limit the number of their franchised automobile dealerships we are permitted to own at the metropolitan, regional or national level. We are near the limit imposed by Chrysler Canada on the number of their franchised automobile dealerships that we may own in some provinces and metropolitan areas. See “Automobile Dealership Franchise Agreements — Automobile Manufacturers’ Limitations on Acquisitions”.

We regularly review acquisition opportunities for both domestic and import brand dealerships in various regions in Canada.

### ***New Locations for Franchised Automobile Dealerships (Open Points)***

The retail automotive industry is a mature industry and rights to open new franchised automobile dealerships are rarely awarded by the automobile manufacturers. However, from time to time automobile manufacturers may seek to establish new dealerships in attractive markets. The right to open a new franchised automobile dealership in a specific location granted by an automobile manufacturer to a dealer is referred to in the industry as an Open Point. Generally a new franchised automobile dealership is fully performing within one to three years depending on the manufacturer and location.

ACI will review on a case by case basis whether to own or lease a particular dealership facility. In either case, ACI would incur the costs of equipping and furnishing these facilities, including the costs relating to the integration of our management information systems into the new dealerships. These costs vary by dealership depending upon size and location.

### **Competition**

We operate in a highly competitive industry. In each of our markets, consumers have a number of choices in deciding where to purchase a new or used vehicle or where to have a vehicle serviced. According to various industry sources, there are approximately 3,464 franchised automobile dealerships in the retail automotive industry in Canada. In addition, there are numerous independent used vehicle dealers.

*New Vehicles* — In the new vehicle market, our dealerships compete with other franchised automobile dealerships in their markets. We believe the principal competitive factors in the retail new vehicle business are consumer brand and model preferences, location, quality of facility and service, and price. We are subject to competition from franchised automobile dealers that sell the same brands of new vehicles and other new vehicle brands. We do not have any cost advantage in purchasing new vehicles from the automobile manufacturers.

*Used Vehicles* — In the used vehicle market, our dealerships compete for the supply and resale of used vehicles with other franchised automobile dealerships, local independent used vehicle dealers, vehicle rental agencies and private sellers. We believe the principal competitive factors in the retail used vehicle business are location, quality of facility and service, the suitability of a franchise to the market in which it is located, price and selection. Improvements in online private sale technologies have inherently increased the competition in the used vehicle market as private sellers now have a more cost-effective medium to sell their vehicles. We believe that auto dealerships have a distinct competitive advantage over private sellers due to our ability to provide multiple sources of financing, the ability to offer extended warranty and our direct access to dealer auctions which offer competitive pricing and we intend to focus our marketing efforts on these advantages.

*Parts, Service and Collision Repair* — In the parts, service and collision repair market, our dealerships compete with other franchised automobile dealerships to perform warranty repairs and with franchised and independent service centre chains, and independent repair shops for non-warranty repair and maintenance business.

We believe the principal competitive factors in the parts, service and collision repair business are location, quality of facility and service, the use of factory-approved replacement parts, familiarity with an automobile manufacturer's brands and models, convenience, competence of technicians and price.

*Finance and Insurance* — In the finance and insurance market, we face competition in arranging financing for our customers' vehicle purchases from a broad range of financial institutions. We believe the principal competitive factors in the finance and insurance business are convenience, interest rates and flexibility in contract length.

*Acquisitions* — We compete with owners of other franchised automobile dealerships and, in some cases, individual investors for acquisitions. An acquisition of an existing franchised automobile dealership requires the approval of the automobile manufacturer and the manufacturer may approve our competitors as a purchaser of the dealership rather than us. As noted above, ACI is concerned that brands with which the Company does not currently have a relationship, or who are related to same, continue to be reluctant to entertain a relationship with a public multi-brand dealer group. As a result, management offers 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.

## **Our Competitive Strengths**

We believe our principal competitive strengths include the following:

### ***Our Multi-Location Automobile Dealership Model***

*Economies of Scale* — Our size and consolidated purchasing power provide both cost and revenue synergies. Cost synergies include achieving lower prices for items such as insurance, advertising, benefit plans and information systems. Revenue synergies include being a preferred provider for retail service and warranty contracts and earning higher commissions on finance and insurance activities.

*Decentralized Operations and Centralized Administrative and Strategic Functions* — Our organizational structure allows us to provide market specific responses to sales, service, marketing and inventory requirements while benefiting from the resources provided by an experienced and knowledgeable head office executive team.

*Best Practices* — Our model enables us to benchmark the success of our dealership operations against each other and rapidly implement new and innovative ideas across our dealership group.

*Geographic Diversification* — Our diversified locations throughout Canada help to mitigate the potential effect of adverse economic conditions in any one region of Canada.

*Inventory Management* — Operating a number of franchised automobile dealerships allows us to share market information amongst our dealerships selling the same brands and quickly identify any changes in consumer buying patterns.

*Ability to Attract and Retain Key Employees* — Our size, performance and policy permitting senior management private investment of dealerships the Company cannot purchase or which the independent Board chooses not to purchase allow the Company to attract and retain key employees both at the dealership level and at our head office.

### ***Portfolio of Brands Suited to the Markets in which We Operate***

We seek to supply new vehicles of the type and at the price points that we believe are or will be in demand in our markets. We are limited to brands offered by manufacturers who have accepted a public multi-brand dealer group model as a franchisee.

### ***Higher Margin Sales***

While new vehicle sales are our most significant source of revenue, we placed additional focus on our higher margin sources of revenue, which are the sale of used vehicles, parts, service and collision repair and finance and insurance sales.

We also derive substantial revenues and gross profits from fees and commissions earned on the sale of finance and insurance products, which produce higher margins than sales of new and used vehicles. See “Our Operations — Sources of Revenue and Gross Profit — Finance and Insurance”.

### ***Experienced and Incentivized Senior Management with a Significant Retained Interest***

Our management team has extensive experience and expertise in the retail automotive industry. Patrick Priestner, our Chief Executive Officer, has over 39 years of industry experience, including over 25 years as an owner of franchised automobile dealerships. Tom Orysiuk joined us as Executive Vice-President and Chief Financial Officer in November of 2005 and was appointed President in January of 2011. Prior to joining AutoCanada, Mr. Orysiuk served as Chief Financial Officer of Liquor Stores Income Fund and its predecessor entities. Prior thereto, Mr. Orysiuk held several senior executive and financial positions with over 20 years of experience. Steve Rose joined us in January, 2007 as Vice-President of Corporate Development, General Counsel and Secretary and was appointed Executive Vice-President, Corporate Services in January 2011. Prior to joining AutoCanada, Mr. Rose was with Chrysler Canada for 14 years, most recently serving as Vice President, General Counsel and Secretary, where he was responsible for all legal affairs of the Canadian company. Mr. Rose brings over 25 years’ experience serving in corporate counsel positions and advising on corporate finance and mergers and acquisitions. See “Directors and Officers — Management Profiles”.

At the corporate level, Mr. Priestner, certain members of senior management and a number of our dealers have a significant stake in our performance through their indirect ownership, through CAG, of an approximate 42.3% interest in our business as at March 22, 2012. As at March 22, 2012, Mr. Priestner had a controlling interest in CAG of 80%; and our other senior management team had minority interests for the remaining 20% of CAG. These and other members of our senior management may also be paid bonuses based on incentive plans in place.

In conjunction with the review of its business plan by the Board of Directors in June of 2011, the Company announced that, in view of the continued resistance of some manufacturers to the public ownership model, the Company could not presume that it would be able to grow with any brands that it currently does not own. As same store future earnings are very much dependent upon the performance of the Company’s key employees, including its dealer principals and senior management, the independent Board, as previously disclosed, agreed to amend its previously announced policy regarding the private purchase of dealerships by Mr. Priestner, CEO of AutoCanada, such that in the future, Mr. Priestner and senior management would be permitted to privately purchase dealerships which the Company either cannot purchase, or which it chose not to purchase, as a means to better ensure the retention of such employees and to allow for cost saving synergies where the same are available. Although the Company permits private purchases, Management continues to seek approval with Manufacturers that have not accepted public ownership.

In conjunction to the conversion to a corporation, AutoCanada discontinued the AutoCanada Option Plan. At the time of its discontinuance, no options granted were “in-the-money”. Effective November 6, 2009, in anticipation of the conversion to a corporation, we established the ACI Stock Option Plan under which options may be granted to our directors, officers, employees and consultants, in order to provide an opportunity for these individuals to increase their proprietary interest in our long-term success. Options issued under the Plan vest at a rate of one third on the three subsequent award date anniversaries. All the options must be exercised over specified periods not to exceed ten years from the dates granted. No stock options have yet to be issued under the Plan.

To ensure the Company’s compensation programs are competitive to the market and its peer group, the Company engaged an external consulting firm, Towers Watson, to provide information in support of the annual executive compensation review. Towers Watson provides data on the total compensation offered for similar positions in companies of similar size and scope to the Company. On March 22, 2010 the Board approved a new executive compensation program which was effective April 1, 2010. The components of the Company’s new compensation package for executives are outlined below:

<i>Base Salary</i>	Compensates executives for the leadership and specific skills needed to fulfill their responsibilities.
<i>Hybrid Incentive Plan</i>	Rewards executives for their contribution to the achievement of annual financial and non-financial goals by providing performance-based cash bonuses and links the long term interests of executives and shareholders by rewarding executives for

achieving the goals of the Company by awarding long-term equity-based incentives.

The annual incentive plan aims to enhance the link between pay and performance by aligning the financial and operational interest and motivations of the Company's management team with the annual financial returns of the Company. It is designed to motivate management to work toward common annual performance objectives while acknowledging and rewarding individual goal achievement. The plan provides total cash compensation to the senior leadership team that is greater than the median of the companies of similar size and scope where exceptional performance in excess of target objectives is attained. The plan also provides total cash compensation to the senior leadership team that is below the market median in cases where performance objectives are not attained.

The equity-based incentive compensation plan is designed to recognize and reward the impact of longer-term strategic actions undertaken by management and align the interests of the Company's senior leadership team and its shareholders. The program is designed to focus management on successfully implementing the continuing strategic plan of the Company, improve retention of key members of the management team and attract talented individuals to the Company.

In 2011, the Company formalized an appropriate equity-based incentive compensation plan referred to as Share Unit Plan for Employees of AutoCanada Inc. or the "Share Unit Plan". The Share Unit Plan allows for the Compensation Committee of AutoCanada to grant performance-based share units ("PSUs") or restricted share units ("RSUs") to employees of AutoCanada. As such, for the equity-based incentive portion of the executive compensation plan, participating executives receive RSUs equal to the total award for the fiscal year divided by the market price of ACI Shares on the date of grant. The RSUs vest evenly on each anniversary date from the date of grant over three years of continuous employment by the executive. Upon vesting of RSUs, the executives are awarded shares of ACI equal to the number of vested RSUs. Executives may elect to receive up to 40% of the award in cash at the vesting date, but will receive a minimum of 60% of the award in the form of ACI shares. It is the Company's intent to enter into a trust agreement with a third party for purposes of purchasing ACI shares from the market prior to vesting of RSUs in order to reduce the risk of share price appreciation or depreciation between the time of grant and the time of settlement. Upon vesting, the Company will direct the trust to settle the RSU awards in shares with the executives. At this time, the Company has yet to enter into a trust agreement for these purposes. RSUs are entitled to accumulate dividends until they vest. Additional RSUs are earned by executives as dividends and are paid based on the amount of dividend per ACI share multiplied by the number of unvested RSUs earned by executives at the date dividends are paid. On March 17, 2011, executives were granted 11,752 RSUs and earned 493 RSUs based on dividends paid until March 17, 2012 (the first vesting period). On March 17, 2012, the number of RSUs that vested was 4,081. As a result, at March 22, 2012, 8,164 RSUs remain unvested.

Dealer principals are compensated, to a significant extent, on the basis of the financial performance of the franchised automobile dealership for which they are responsible. Our dealer principals participate in an incentive plan that provides for the payment to them of 15% of the EBITDA of the dealer principal's franchised automobile dealership. The compensation of department managers and salespeople is similarly based upon departmental profitability and individual performance, respectively.

### **Inventories**

Effective management of our inventory levels is critical to our business. Careful monitoring of inventories of new and used vehicles and parts by days of supply, both in units and dollar amount leads to increased profitability by minimizing interest expense incurred from financing our inventory, while maximizing our free cash flow through prudent management of our working capital requirements.

### ***New Vehicles***

Automobile manufacturers allocate their budgeted production among franchised automobile dealerships largely based on historical selling patterns of the given dealership. Automobile manufacturers also take into account the dynamics of each marketplace and look to the number of new vehicle registrations by type to assess the automobile manufacturers' expected market share for each of their product offerings. Through their own analysis, automobile manufacturers determine a "minimum sales responsibility" for each of their dealers which is effectively a minimum selling volume.

Although automobile manufacturers determine a targeted volume of product that each dealer is expected to sell, the decision to purchase inventory is the dealer's, subject to meeting the minimum inventory levels required by the franchise or sales and service agreements with the automobile manufacturers. Our dealers prepare an annual plan at the start of each year, which is then revised and updated throughout the year with the filing of monthly plans.

In general, lead times for delivery of new vehicles are expected to be six to eight weeks from the time of placing our order. We generally expect to manage our new vehicle inventory to approximately 75 days' supply (which generally includes approximately 30 days of "in transit" time) although variations are common due to in-transit times to ship vehicles from factories in North America and Asia to our various locations across Canada. During certain times of the year certain plants operated by our OEM's are shut down for maintenance due to declines in market demand or scheduled maintenance. As we become aware of plant closures we occasionally increase inventory of the effected product lines.

We finance our inventory purchases (known in the industry as floor plan financing) through revolving floorplan facility which we have arranged through Ally Credit and VW Credit Canada, Inc. See "Financing - Floor Plan Financing". Ally Credit establishes credit limits for each of our dealerships based on levels of inventory turnover. VW Credit Canada, Inc. establishes firm credit limits for the two Volkswagen dealerships which management believes are adequate to address the dealerships' credit needs.

We are able to mitigate interest expense from floor plan financing by effectively managing new vehicle inventories and turning our inventory regularly through continuing sales and smaller but more frequent orders, while complying with the minimum inventory requirements in our agreements with the automobile manufacturers.

### ***Used Vehicles***

Used vehicle inventory is typically acquired either through trade-ins on new or used vehicle sales, lease returns or auctions. In order to facilitate a new vehicle sale, we often take a customer's previously owned vehicle as partial consideration. If the used vehicle fits our criteria for used vehicle inventory, we recondition the vehicle in our service department before returning the vehicle to our sales lot in less than one week. In evaluating used vehicles for our inventory we consider age, brand, mileage and general fit within our respective marketplace. If a trade-in vehicle does not meet our criteria, we typically sell the vehicle to a wholesaler, a used vehicle dealership or through auction.

We acquire a significant amount of our used vehicle inventory through trade-ins and use auctions to supplement this inventory. Most automobile manufacturers regularly conduct closed auctions exclusively for its franchised automobile dealers to purchase off-lease and fleet vehicles. These vehicles typically meet our inventory criteria.

We also acquire vehicles through several other auto auctions. Some of these auctions are limited to franchised automobile dealers, while others are open to all interested parties. The used vehicle inventory at each of our dealerships is monitored at both the dealership and at head office. Our target is to turn our used vehicle inventory every six weeks.

If vehicles are not receiving interest from potential customers our dealers either reduce the suggested price or sell the vehicle to a wholesaler.

Our used vehicle inventory is financed by a combination of working capital and our revolving floor plan facilities.

### ***Parts Inventory***

Each of our franchised automobile dealerships has a parts manager who is responsible for the procurement and management of our parts inventories. We manage our parts inventories to a target of 1.7 months' supply on hand in order to be responsive to our customers' needs while managing our working capital. Each of our dealerships' parts managers monitors inventories for stale parts. Certain automobile manufacturers allow us to return up to six percent of our purchases each year for full refund. The effective identification of stale parts inventory allows us to reduce our working capital requirements. In addition, our parts managers monitor lost sales resulting from not having a customer's requested part in our inventory. Measuring these lost sales enables us to change our stocking patterns and minimize future lost sales while at the same time improving customer service. Our parts inventory is financed by our working capital.

## **Automobile Dealership Franchise Agreements**

Each of our franchised automobile dealerships is operated by a Dealer LP pursuant to automobile dealership franchise or sales and service agreements between the applicable automobile manufacturer and the Dealer LP. The typical dealership franchise or sales and service agreement specifies the location at which the Dealer LP has both the right and obligation to sell the automobile manufacturer's vehicles and related parts and products and to perform certain approved services. The agreement grants the Dealer LP the non-exclusive right to use and display the automobile manufacturer's trademarks, service marks and designs in the form and manner approved by the automobile manufacturer. The Dealer Principal must be an active participant in the business of the Dealer LP and its dealership, and must be approved by the automobile manufacturer under the franchise or sales and service agreement for that dealership. The Hyundai Framework Agreement requires us to obtain its approval of the individuals appointed as directors of the general partners of the Dealer LPs operating under dealership agreements with it.

The allocation of new vehicles among franchised automobile dealers is subject to the discretion of the automobile manufacturer, which generally does not guarantee dealers exclusivity within a given territory. A franchise agreement (see *Material Contracts*) may impose requirements on the franchised automobile dealer concerning such matters as the showrooms, the facilities and equipment for servicing vehicles, the maintenance of minimum levels of vehicles and parts inventories, the maintenance of minimum net working capital, the achievement of certain sales targets, minimum customer service and satisfaction standards and the training of personnel. Compliance with these requirements is closely monitored by the automobile manufacturer. In addition, most automobile manufacturers require each franchised automobile dealer to submit monthly and annual financial statements.

We are subject to additional provisions contained in supplemental agreements, framework agreements or franchise addenda. These agreements impose requirements similar to those discussed above, as well as limitations on changes in our ownership or management and limitations on our market share of total vehicles sold by a particular automobile manufacturer.

### ***Termination or Non-renewal of Franchise Agreements***

Our dealership franchise or sales and service agreements are for indefinite terms or specified terms (which may be one year) with automatic renewals for successive terms unless either party elects not to renew the term of the agreement. Generally, our dealership franchise or sales and service agreements provide for termination by the automobile manufacturer under certain circumstances, including insolvency or bankruptcy of the franchised automobile dealer, failure to adequately operate the franchised automobile dealership, failure to maintain any license, permit or authorization required for the conduct of business, or material breach of other provisions of the agreement.

### ***Provisions Affecting a Change of Control or Ownership***

The Chrysler Approval Agreement was restated, effective December 31, 2009, and prohibits a change of control of ACI without the prior approval of Chrysler Canada unless ACI thereafter disposes of the Chrysler Dealer LPs within certain timelines. It also prohibits: (i) a change in control of the Chrysler Holding LP; (ii) the acquisition of more than 10% of ACI Shares by an OEM, or (iii) the sale of all or substantially all of the assets of Chrysler Holding LP or of the shares of any of the general partners of the Chrysler Dealer LPs, except to an affiliate. In addition, CAG has agreed with Chrysler Canada that, until January 1, 2015, without the prior written consent of Chrysler Canada, CAG will not transfer or give control over any ACI Shares that results in CAG holding less than either: (i) 75% of the equity or voting interest in ACI that CAG held on January 1, 2010, or (ii) a 25% equity or voting interest in ACI, on a fully diluted basis, and CAG will not permit a change of control of CAG. Acquisition of ACI Shares by ACI shareholders in violation of these ownership restrictions or actions by CAG under this agreement with Chrysler Canada are generally outside of AutoCanada's control and may result in the termination of one or more franchises, which may have a material and adverse effect on ACI.

Under a supplemental agreement with Nissan Canada (the Nissan Framework Agreement), if any person or entity acquires more than 20% of ACI, or a group of persons or entities acquire more than 50% of ACI, and, in either case, Nissan Canada, acting reasonably, determines that such persons or entities do not have interests compatible with those of Nissan Canada, or are otherwise not qualified to have an ownership interest in a Nissan or Infiniti

dealership, then Nissan Canada shall be entitled to require ACI to divest its ownership interest in those Nissan and Infiniti dealerships owned by ACI.

We may be required to enter into similar agreements with the other automobile manufacturers, or those related to same, with whom we deal or wish to deal.

Our dealership franchise or sales and service agreements require the approval of the applicable automobile manufacturer to any change in the ownership of the franchised automobile dealership.

Actions by our Shareholders or prospective Shareholders that would violate certain of the above restrictions are generally outside of our control. For example, we cannot control a change of control of ACI or the acquisition by another automobile manufacturer of more than 10% of our outstanding ACI Shares. In addition, these restrictions may also limit our ability to finance future acquisitions through the issue of additional ACI Shares or other equity securities. If we are unable to renegotiate these restrictions, we may be inhibited in our ability to acquire additional franchised automobile dealerships. These restrictions also may impede our ability to raise required capital or to issue ACI Shares, or securities exchangeable into ACI Shares, as consideration for future acquisitions.

Although our franchise or sales and service agreements may not be renewed and may be terminated by the automobile manufacturer in certain circumstances, automobile manufacturers have rarely chosen to take such action in the case of well managed and well capitalized dealerships - See "Risk Factors". If any of our franchise or sales and service agreements is terminated, or if certain automobile manufacturers' rights under their agreements with us are triggered, our operations could be significantly compromised.

#### ***Indemnities and other Agreements***

The Chrysler Approval Agreement and Hyundai Framework Agreement also contain provisions which require us to indemnify the respective automobile manufacturer for breaches of the applicable agreement, for claims made against the automobile manufacturer arising out of the creation of ACI or in respect of the Offering and, in the case of Hyundai, from any acts or omissions under any applicable securities laws, including any claim arising from any misrepresentation or public oral statement made by us.

In addition, the Hyundai Framework Agreement requires us to obtain its approval of the individuals appointed as directors of each general partner of the Dealer LPs operating under dealer agreements with it, and to issue a 15% interest in the Dealer LP directly or indirectly to the dealer principal of that Dealer LP on terms determined by its general partner. We are also required to maintain directors' and officers' and certain other types of insurance.

#### ***Automobile Manufacturers' Limitations on Acquisitions***

We are required to obtain the consent of the applicable automobile manufacturer before we can acquire any additional franchised automobile dealerships that can sell the vehicles produced by that automobile manufacturer. Our automobile manufacturers impose limits on the number of franchised automobile dealerships we are permitted to own at the national, regional and metropolitan levels. These limits vary according to the agreements we have with each of the automobile manufacturers but are generally based on fixed numerical limits or on a fixed percentage of the aggregate sales of the automobile manufacturer.

The Chrysler Approval Agreement currently limits our ability to acquire or open additional Chrysler Canada franchised automobile dealerships if this would result in the 36 month average sales of new Chrysler Canada vehicles from our Chrysler Canada dealerships exceeding the following percentages of 36 month average sales of new Chrysler Canada vehicles: 8% of sales in Canada (increased by Chrysler Canada from the original mandate of 5%); 15% of sales in any province; and 30% of sales in a major metropolitan market (as defined in the agreement). At December 31, 2011, our annual average sales of new Chrysler Canada vehicles over the preceding 36 months comprised 5.09% of national sales, 12.61% of sales in Alberta, 21.21% of sales in British Columbia and 42.45% of sales in the major metropolitan market of Edmonton, Alberta (the provinces and major metropolitan area in which we have the highest concentration of Chrysler Canada franchised automobile dealerships).

Subject to Nissan's consent otherwise, the Nissan Framework Agreement limits ACI's ownership, to that number of Nissan or Infiniti dealerships, which aggregated, do not have sales greater than:

- (i) 5% of Nissan's national sales and Infiniti's national sales, respectively;

- (ii) 5% of Nissan's total sales within a Region; and
- (iii) 5% of all Nissan dealerships or 10% of all Infiniti dealerships.

In addition, ACI shall not own or manage more than 1 Nissan or Infiniti dealership in a metropolitan market comprised of 2-3 dealerships of the same brand; more than 2 Nissan or Infiniti dealerships in a metropolitan market comprised of between 4-10 dealerships of the same brand; or more than 3 Nissan or Infiniti dealerships in a metropolitan market comprised of 11 or more dealerships of the same brand.

Management believes that all other automobile manufacturers have similar requirements. Unless we renegotiate these agreements or receive the consent of the automobile manufacturers, we may be prevented from making further acquisitions upon reaching the limits provided for in these agreements. We are near the limit imposed by Chrysler Canada with respect to the number of additional Chrysler Canada franchised automobile dealerships that we may acquire or open in certain provinces and metropolitan areas.

## **Financing**

### ***Floor Plan Financing***

Franchised automobile dealerships finance their new vehicle inventory (and in some instances a portion of their used vehicle inventory) by way of floor plan financing, which is offered by the automobile manufacturers' captive finance companies, banks and specialty lenders. Although the structures used in floor plan financing vary, a floor plan lender typically finances 100% of the purchase price of a new vehicle from the time of purchase by the dealership (which occurs when production of the new vehicle is completed).

Ally Credit provides AutoCanada with revolving floorplan facilities ("Ally Facilities") for twenty-two of its twenty-four dealerships. The Ally Facilities provide these dealerships with financing for new, used and demonstrator inventory, subject to a maximum of new, used and demonstrator units to be financed based on the financing needs of these individual dealerships. The Ally Facilities are due on demand and bear interest at the Prime Rate plus 0.2% (4.20% at December 31, 2011) and is payable monthly in arrears. Prime rate is defined as the greater of the Royal Bank of Canada Prime Rate (3.00% at December 31, 2011) or 4.00%.

The Ally Facilities are collateralized by all of the dealerships' new, used and demonstrator inventory financed by the Ally Facilities and a general security agreement and cross guarantee from each of the Company's dealerships that are financed by Ally Credit. The individual notes payables of the Ally Facilities are due when the related vehicle is sold or according to an aging based repayment policy as mandated by Ally Credit.

In conjunction with the purchase of Abbotsford and Chilliwack Volkswagen in the fourth quarter of 2011, the Company arranged revolving floorplan facilities with VW Credit Canada Inc. ("VCCI Facilities") for the two dealerships. The VCCI Facilities consist of a \$5.25 million revolving floorplan facility to finance new and demonstrator vehicles from Volkswagen Canada ("VW Canada"). The new and demonstrator vehicle facilities are due on demand and bear interest at Royal Bank of Canada prime rate plus 0.75% per annum (3.75% at December 31, 2011) and is payable monthly in arrears. The VCCI Facilities also provide the two dealerships with used vehicle floorplan financing to a maximum of \$2.05 million during peak selling season. The used vehicle facilities are due on demand and bear interest between Royal Bank of Canada prime plus 1.00% - 1.25% depending on the type of used vehicles financed (4.00% - 4.25% at December 31, 2011).

The VCCI Facilities are collateralized by the all new, used and demonstrator inventory financed by VCCI and a general security agreement with each of the two dealerships. The individual notes payable of the VCCI Facilities are due when the related vehicle is sold or according to an aging based repayment policy as mandated by VCCI.

The VCCI Facilities require maintenance of financial covenants which require both dealerships to maintain minimum cash and equity balances. At December 31, 2011 the financial covenants had been met.

### ***Credit Facilities***

HSBC Bank Canada ("HSBC") provides AutoCanada with a \$30 million revolving term loan (the "HSBC Revolver"). The HSBC Revolver is a 365 day fully committed, extendible revolving term loan. The HSBC Revolver's maturity date is June 30, 2012, however the facility may be extended for an additional 365 days prior to

the maturity of the facility at the request of AutoCanada and upon approval by HSBC. The HSBC Revolver contains an annual renewal fee of \$15,000. If the HSBC Revolver is not extended by HSBC, repayment of the outstanding amount is not due until June 30, 2013. The HSBC Revolver bears interest at HSBC's Prime Rate plus 0.75% (currently 3.75% at the date of this AIF).

The HSBC Revolver is secured by all of the present and future assets of the Company, the various Limited Partnerships and the General Partners of each dealership within AutoCanada. As part of priority agreements signed by HSBC, Ally Credit, VW Credit Canada Inc. and the Company, the collateral for the HSBC Revolver excludes all new, used, and demonstrator inventory financed with the Revolving Floorplan Facilities (discussed further above in *Floor Plan Financing*).

The HSBC Revolver requires maintenance of certain financial covenants as indicated below:

- (i) The Debt to Tangible Net Worth ratio, including floorplan, must not exceed 7.50:1. Intangible assets to be deducted from Tangible Net Worth, and shareholder loans to be added to tangible net worth and deducted from debt, if postponed to HSBC; tested quarterly
- (ii) The Debt to Tangible Net Worth ratio, excluding floorplan, must not exceed 2.50:1. Intangible assets to be deducted from Tangible Net Worth, and shareholder loans to be added to tangible net worth and deducted from debt, if postponed to HSBC; tested quarterly
- (iii) The Current Ratio, net of flooring, shall not be less than 1.20:1 at any time; tested quarterly
- (iv) The Company must maintain a minimum cash deposit balance with HSBC Bank Canada of \$10,000,000.

Additional information relating to the HSBC Revolver can be found on SEDAR ([www.sedar.com](http://www.sedar.com)).

HSBC provided AutoCanada with a \$3.5 million non-revolving term loan (the "HSBC Term Loan") which was used to purchase the Newmarket Infiniti Nissan facility located in Newmarket, Ontario in 2010. The facility was purchased in the third quarter of 2010. The HSBC Term Loan is a committed, extendible non-revolving term loan. The HSBC Term Loan's maturity date is June 30, 2012, however the facility may be extended at the request of the Company and upon approval by HSBC. If the HSBC Term Loan is not extended by HSBC, repayment of the outstanding amount is not due until June 30, 2013. The HSBC Term Loan bears interest at HSBC's Prime Rate plus 1.75% (4.75% at December 31, 2011).

The HSBC Term Loan is secured by a first fixed charge in the amount of \$3.5 million registered over the Newmarket Infiniti Nissan property and is guaranteed by Holdings. The HSBC Term Loan requires maintenance of certain financial covenants as indicated below:

- (i) AutoCanada Inc. must not permit its debt service coverage ratio at any time to be below 1.25. The debt service coverage ratio shall utilize a payment based on a 3 year cost of funds rate.

The Bank of Montreal ("BMO") provided the Company with a \$3.5 million fixed rate term loan (the "BMO Term Loan") which was used to purchase the Cambridge Hyundai facility located in Cambridge, Ontario in 2008. The BMO Term Loan matures on September 30, 2012 and bears interest at a fixed rate of 5.11%. The BMO Term Loan requires maintenance of certain financial covenants and is collateralized by a general security agreement consisting of a first fixed charge in the amount of \$3.5 million registered over the Cambridge Hyundai property.

## **Marketing**

### ***Print and Media Advertising***

Our advertising and marketing efforts are focused at the local market level, with the aim of building our business with a broad base of repeat, referral and new customers. Our primary advertising medium is local newspapers, followed by radio, direct mail, and the internet. The retail automotive industry has traditionally used locally produced, largely non-professional materials, often developed under the direction of each franchised automobile dealership's dealer principal. We have created common marketing materials for our brand names at some of our dealerships using our own expertise and professional advertising agencies.

### ***Internet and e-Commerce***

We believe that the Internet and e-commerce represents a substantial opportunity to build our franchised automobile dealerships' brands and expand the geographic borders of their markets. We use the scope and size of our operations to expand the use of the Internet in our sales of new and used vehicles, as we believe our customers are increasingly using the Internet as a key part of their product research.

Each of our franchised automobile dealerships has established a website that incorporates a professional design to reinforce the dealership's unique brand and advanced functionalities to ensure that the website can hold the attention of customers and perform the informational and interactive functions for which the internet is uniquely suited. Automobile manufacturer website links provide our dealerships with key sources of referrals. Many of our dealerships use the internet to communicate with customers both prior to vehicle purchase and after purchase to coordinate and market maintenance and repair services.

ACI has made significant investments in new technology and improving our websites to better accommodate our customers and improve our marketing and communication with potential customers. Our centralized marketing department has a number of initiatives underway to increase traffic to these sites and improve the functionality of the websites and user friendliness. Our centralized marketing department will continue to be a driving force in lead generation activities and search engine optimization, among other things, for our dealerships.

ACI has also been working with our dealership teams to improve our internet sales processes and ensuring that phone, email and internet leads are being appropriately handled. Our executive team and dealers recognize the importance of our online presence and believe the virtual showroom will be a major contributor to sales in the future. Internet marketing represents a significant opportunity for our dealerships to improve customer relationships and increase sales in all areas of the business and we hope to realize returns on these investments in the future.

### **Management Information Systems**

We consolidate financial, accounting and operational data received from our franchised automobile dealerships nationwide through an exclusive private communications network.

Our financial information, operational and accounting data and other related statistical information are consolidated, processed and maintained at our headquarters in Edmonton, Alberta and Maple Ridge, British Columbia on a network of server computers and work stations. There is also an off-site storage maintained by ADP. The flexible nature of our installed network allows for accumulation, processing and distribution of information using ADP and Reynolds and Reynolds computing programs. These two companies provide software for many companies in Canada, including franchised automobile dealerships. All sales and expense information, and other data related to the operations of each of our dealerships are entered at each location. This system allows our senior management to access detailed information on a "real time" basis from all of our dealerships regarding, for example, the makes and models of vehicles in our inventory, the mix of new and used vehicle sales, the number of vehicles being sold or leased, the percentage of vehicles for which we arranged financing or sold ancillary products and services, the profit margins achieved on sales and the relative performances of our dealerships to each other. This information is also available to each of our dealer principals. Reports can be generated that set forth and compare revenue and expense data by department and by dealership, allowing our management to quickly analyze the results of operations, identify trends in the business and focus on areas that require attention or improvement.

We believe that our management information system is a key factor in successfully incorporating newly acquired businesses. Following each acquisition, we install our management information system at the dealership location as soon as possible for the dealership utilizing ADP, thereby quickly making financial, accounting and other operational data for that dealership easily accessible to our senior management. With access to this data, we can more efficiently incorporate our operating strategy at the newly acquired dealership. Because our management information system is scalable, we can integrate new acquisitions without significantly increasing the cost of operating the system.

We continue to upgrade our dealer management system with newer versions of ADP. Under our current arrangement, we lease dealer management systems from both ADP and Reynolds and Reynolds.

## **Employees**

As of December 31, 2011 we employed approximately 1,170 individuals. Management believes that our employee relations are excellent and a strong contributing factor to our success.

Our employees in parts, service and collision repair and sales activities at Moncton Chrysler Jeep Dodge and Maple Ridge Chrysler Jeep Dodge are represented by labour unions. The collective bargaining agreement with the union at Moncton Chrysler Jeep Dodge was successfully renegotiated in 2010 and will expire on December 31, 2012. The collective bargaining agreement with the union at Maple Ridge Chrysler Jeep Dodge was successfully renegotiated in 2010 and will expire on May 31, 2013. We have never experienced a strike, lock-out or other labour disturbance.

## **Our Intellectual Property and Proprietary Rights**

Registration of the trademark "AutoCanada" and the corresponding logo have been applied for in Canada by ACI. We also own other trademarks, trade names and various domain names, including autocan.ca, autocanada.net and autocanada.biz.

## **Regulatory Matters and Policies**

### ***National Automobile Dealer Arbitration Program ("NADAP")***

In addition to our dealership franchise or sales and service agreements, our relationships with automobile manufacturers are governed by NADAP. NADAP is a program organized by the Canadian Vehicle Manufacturers' Association, the Association of International Automobile Manufacturers of Canada and CADA that provides rules for dispute resolution between the automobile manufacturers and the franchised automobile dealers in the Canadian automobile industry.

The NADAP Rules provide for the mediation and arbitration of disputes between an automobile manufacturer and its franchised automobile dealers involving: the interpretation or application of the dealership agreement; the renewal or termination of the dealership agreement; the length of a cure period provided by the automobile manufacturer in light of any franchised automobile dealer deficiencies to be cured; the sale or transfer of the franchised automobile dealership; whether a dealer owes money to an automobile manufacturer (or vice versa); and the decision of an automobile manufacturer to appoint or relocate a dealership into the market of an existing dealer. The NADAP Rules provide that an existing franchised automobile dealer can challenge an automobile manufacturer's proposal to create a new dealership or relocate a dealership, with identical brands, in a location that is within eight kilometres (in metropolitan areas) of the existing dealership's location (20 kilometres if relocated more than two kilometres closer to the existing dealership in non-metropolitan areas). Some of our agreements with the automobile manufacturers contain waivers by us of certain NADAP Rules.

NADAP was established in 1997 for an initial five year term and was extended in 2007 for a further five year term. Negotiations for a further five year term are in process and the Company awaits CADA's confirmation of the results of such negotiations which are anticipated to result in a further five year extension.

### ***Dealership Code of Conduct***

We have developed and implemented a code of conduct that reflects our commitment to conducting our business in accordance with the highest ethical standards. Our code of conduct is intended to provide guidance on recognizing and dealing with ethical issues, provide mechanisms to report unethical conduct, and help foster a culture of honesty, integrity and accountability. The code deals with, among other things, advertising standards, clarity of pricing, sales techniques and standards, customer relationships and other matters. The code of conduct applies to all of our directors, officers and employees and sets policies and standards that go beyond mere compliance with the minimum legal standards. A copy of the code of conduct may be obtained from our website at [www.autocan.ca](http://www.autocan.ca) or from SEDAR at [www.sedar.com](http://www.sedar.com).

### ***Governmental Regulations***

A number of federal, provincial and local regulations affect our marketing, selling, financing and servicing of vehicles.

Each of the jurisdictions in which we operate regulates the licensing of franchised automobile dealers. Our dealers and salespeople must be licensed, and must comply with ongoing provincial regulations in order to maintain their licensed status. Dealerships are also generally prohibited under provincial laws from employing individuals in certain automobile repair positions unless the individuals are appropriately certified. In addition, our dealerships are subject to various consumer protection laws which regulate sales transactions and advertising. Dealerships that offer financing products must also comply with regulations concerning matters such as credit agreement provisions, cost of borrowing disclosure and advertising regarding the terms of credit. Other provinces into which we may expand our operations in the future are likely to have similar requirements.

The Provinces of Alberta, British Columbia and Ontario have established self-regulatory bodies which are responsible for licensing automobile dealers and their sales and management personnel, as well as overseeing consumer protection legislation applicable to motor dealers, including standard setting and enforcement, compliance with advertising restrictions, complaint resolution and public industry education. Operating under delegated authority from their respective provincial governments, these bodies administer and enforce compliance with many of the provincial laws which affect the day-to-day operations of automobile dealers.

The sale of third party financing products to our customers is subject to federal and provincial truth-in-lending, consumer leasing, financing regulations, instalment finance laws and insurance laws.

We believe that we comply substantially with all laws and regulations affecting our business and do not have any material liabilities under such laws and regulations and that compliance with all such laws and regulations do not, individually or in the aggregate, have a material adverse effect on our capital expenditures, earnings or competitive position and we do not anticipate that such compliance will have a material effect on us in the future.

### ***Environmental Matters***

We are subject to a wide range of environmental laws and regulations, including those governing discharges into the air and water, the storage of petroleum substances and chemicals, the handling and disposal of wastes and the remediation of contamination. As with dealerships generally, and service and parts and collision repair centre operations in particular, our business involves the generation, use, handling and disposal of hazardous or toxic substances and wastes. Pursuant to these laws, provincial environmental agencies have established approved methods for the handling, storage, treatment, transportation and disposal of regulated substances and wastes with which we must comply.

Our business also involves the use of above ground and underground storage tanks. Under applicable laws and regulations, we are responsible for the proper use, maintenance and abandonment of our regulated storage tanks and for remediation of subsurface soils and groundwater impacted by releases from existing or abandoned storage tanks. In addition to these regulated tanks, we own, operate, or have otherwise closed in-place other underground and above ground devices or containers (such as automotive lifts and service pits) that may not be classified as regulated which could or may have released stored materials into the environment, thereby potentially obligating us to clean up any contaminated soils or groundwater resulting from such releases.

We are also subject to laws and regulations governing remediation of contamination at or from our facilities or to which we send hazardous or toxic substances or wastes for treatment, recycling or disposal.

All dealership locations are subject to the obtaining of Phase I environmental assessments from independent environmental consultants prior to purchase.

Environmental laws and regulations are very complex and it has become difficult for businesses that routinely handle hazardous and non-hazardous wastes to achieve and maintain full compliance with all applicable environmental laws. Like any business involved in the repair and servicing of vehicles, from time to time we experience incidents and encounter conditions that are not in compliance with environmental laws and regulations. However, none of our dealerships have been subject to any material environmental liabilities in the past and we do not anticipate that any material environmental liabilities will be incurred in the future.

Environmental laws and regulations and their interpretation and enforcement are changed frequently and we believe that the trend of more expansive and stricter environmental legislation and regulations is likely to continue. Hence, there can be no assurance that compliance with environmental laws or regulations or the future discovery of unknown environmental conditions will not require additional expenditures by us, or that such expenditures would not be material. See "Risk Factors — Risks Related to Our Business — Governmental Regulations and Environmental Regulation Compliance Costs".

## **CAPITAL STRUCTURE**

### **AutoCanada Inc.**

The authorized capital of ACI consists of an unlimited number of ACI Shares and an unlimited number of preferred shares.

### ***ACI Shares***

Holders of ACI Shares are entitled to one vote per share at meetings of shareholders of ACI, to receive dividends if, as and when declared by the board of directors of ACI and to receive *pro rata* the remaining property and assets of ACI upon its dissolution or winding-up, subject to the rights of shares having priority over the ACI Shares. Holders of ACI Shares may make use of the various shareholder remedies available pursuant to the CBCA.

### ***Preferred Shares***

Each series of preferred shares consist of such number of shares and having such rights, privileges, restrictions and conditions as may be determined by the board of directors of ACI prior to the issuance thereof. Holders of preferred shares, except as required by law, will not be entitled to vote at meetings of shareholders of ACI. With respect to the payment of dividends and distribution of assets in the event of liquidation, dissolution or winding-up of ACI, whether voluntary or involuntary, the preferred shares are entitled to preference over the ACI Shares and any other shares ranking junior to the preferred shares from time to time and may also be given such other preferences over the ACI Shares and any other shares ranking junior to the preferred shares as may be determined at the time of creation of such series.

### **Holding LPs and Dealer LPs**

All of the limited partnership interests in each Dealer LP are held indirectly, by ACI. The limited partnership interests in each Holding LP are held indirectly by ACI.

### *Distributions*

The general partners of the Dealer LPs cause the Dealer LPs to distribute to the Holding LPs a substantial portion of their respective available cash as set out below. Distributions to the Holding LPs are received by the Holding LPs in time for the Holding LPs to make its related distributions to Holdings. The general partners of the Dealer LPs may, in addition, cause any of the Dealer LPs to make a distribution at any other time.

Available cash of a Dealer LP consists, in general, of all of the Dealer LP's cash, after satisfaction of:

- general and administrative expenses and other expense obligations;
- debt service obligations on indebtedness of the Dealer LP;
- incentive bonuses under the applicable Dealer Principal Employment Agreement and incentive bonuses under the AutoCanada Executive Compensation Plan;
- working capital requirements of the Dealer LP, including the working capital required under the franchise or sales and service agreement with the automobile manufacturer; and
- any other amounts that the Dealer GP, as general partner of the Dealer LP, may consider reasonably necessary for the payment of any liability or expense that has been or is reasonably expected to be incurred in the activities or operations of the Dealer LP, for reasonable reserves (including amounts on account of working capital and capital expenditures and to stabilize distributions).

The amount distributed from time to time by any Dealer LP on interests in the Dealer LPs is determined by the board of directors of its general partner.

The income and loss of the Dealer LPs for each fiscal year, including income or loss for tax purposes is allocated, as to 0.005% thereof, to the general partner thereof and, as to 99.995% thereof, to the Holding LPs.

The fiscal year end of the Dealer LPs is December 31.

## **RISK FACTORS**

*The risks and uncertainties described below are not the only risks and uncertainties we face. Additional risks and uncertainties not currently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks actually occur, our business, results of operations and financial condition, and the amount of cash available for distribution to our Shareholders, could suffer.*

### **Risks Related to Our Business and the Industry in Which We Operate**

#### ***Risks Related to the Retail Automotive Industry***

##### *Capital Markets*

Uncertainty in the capital markets risks greater difficulty to access capital, as well as possible higher interest rates and less favourable terms.

##### *Economic Conditions*

Unfavourable economic conditions may negatively impact ACI's financial viability. A decline in economic conditions could also increase ACI's financing costs, decrease net earnings, limit access to capital markets and negatively impact the availability of credit facilities to ACI.

##### *Currency Fluctuations*

Rapid appreciation or depreciation of the Canadian dollar relative to the U.S. dollar impacts the relative price of used and new vehicles, as well as vehicle parts in Canada relative to the U.S., making the same either more attractive, in the case of a depreciation, or less attractive, in the case of appreciation, thus posing risks to some of ACI's operations. In response to the rapid change in the value of the Canadian dollar when compared U.S. dollar manufacturers may or may not adjust prices or incentives to accommodate such changes, and, if adjusted, could amend or discontinue same at any time. In addition, such currency appreciation could have a negative impact on businesses that operate in the communities in which ACI's dealerships are located which could in turn, negatively impact the dealerships' performance.

##### *Macroeconomic Factors including Fuel Prices*

The current economic environment in Canada, especially with regards to unemployment and level of consumer debt, continues to be of concern to the Company, particularly in regard to sales of new and used automobiles. As well, fuel prices have been volatile in the past few months. Increases in gasoline prices could cause a reduction in automobile purchases and/or a shift in buying patterns from light trucks and sport utility vehicles (which typically provide higher margins) to smaller, more economical vehicles (which typically have lower profit margins). In addition, many of our dealerships depend on sales of light trucks and sport utility vehicles for their level of profitability. A continued shift in preferences by consumers for smaller, more economic vehicles may have an adverse effect on our revenues and results of operations.

##### *Overall Consumer Demand*

ACI's business is heavily dependent on consumer demand and preferences. ACI's revenues will be materially and adversely affected if there is a severe or sustained downturn in overall levels of consumer spending. Retail vehicle sales are cyclical and historically have experienced periodic downturns characterized by oversupply and weak demand. These cycles are often dependent on general economic conditions and consumer confidence, as well as the level of discretionary personal income and credit availability.

##### *Availability of Consumer Credit*

In the consumer finance market, lenders have generally tightened their credit standards. In the event lenders maintain or further tighten their credit standards or there is a further decline in the availability of credit in the

lending market, the ability of these consumers to purchase vehicles could be limited, which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

#### *Substantial Competition in Vehicle Sales and Services*

The retail automotive industry is highly competitive. Depending on the geographic market, ACI is in competition with: franchised automobile dealerships in markets that sell the same or similar makes of new and used vehicles offered, in some cases at lower prices than ACI, private market buyers and sellers of used vehicles' service centre chain stores, independent service and repair shops, and other providers of financing and insurance contracts.

ACI is also in competition with regional and national vehicle rental companies that sell their used rental vehicles. As ACI seeks to acquire franchised automobile dealerships in new markets, ACI may face significant competition while striving to gain market share. Some of ACI's competitors may have greater financial, marketing and personnel resources and lower overhead and sales costs. ACI does not have any cost advantage in purchasing new vehicles from OEMs and may typically rely on advertising, merchandising, sales expertise, service reputation and dealership location in order to sell new vehicles. AutoCanada's OEM Agreements do not grant AutoCanada the exclusive right to sell a manufacturer's product within a given geographic area. ACI's revenues and profitability may be materially and adversely affected if competing dealerships expand their market share or are awarded additional franchises by manufacturers that supply ACI's dealerships.

In addition to competition for vehicle sales, ACI's franchised automobile dealerships compete with other franchised automobile dealerships to perform warranty repairs and with other franchised automobile dealerships, franchised and independent service centre chains and independent garages for non-warranty repair and routine maintenance business. ACI's franchised automobile dealerships compete with other franchised automobile dealerships, service stores and automobile parts retailers in their parts operations. ACI believes that the principal competitive factors in service and parts sales are the quality of customer service, the use of factory-approved replacement parts, familiarity with an OEM's brands and models, convenience, the competence of technicians, location, and price. A number of regional or national chains offer selected parts and services at prices that may be lower than ACI's franchised automobile dealerships' prices. ACI is also in competition with a broad range of financial institutions in arranging financing for customers' vehicle purchases.

#### *Expanded use of the Internet in Sales*

The internet has become a significant part of the sales process in our industry. Customers are using the Internet for vehicle price comparisons and related finance and insurance services, which may further reduce margins for new and used vehicles and profits related to the finance and insurance services and products that we provide. If Internet new vehicle sales are allowed to be conducted without the involvement of franchised dealers, our business could be materially adversely impacted. In addition, other franchise groups have aligned themselves with services offered on the Internet or are heavily invested in the development of their own Internet capabilities, which could materially adversely affect our business, results of operations, financial position and cash flows.

#### *Dependence upon Vehicle Sales*

The success of ACI's franchised automobile dealerships will depend in large part on the level of vehicle sales generally, and the level of demand for and sales of the brands of vehicles ACI sells. New vehicle sales will generate the majority of ACI's total revenue and lead to sales of higher-margin products, including the sales of used vehicles, parts, service and collision repair operations and finance products. A majority of ACI's new vehicle sales operations will be vehicles manufactured by Chrysler Canada under the brand names "Chrysler", "Jeep", "Dodge" and "Ram". If one or more of the brands that separately or collectively account for a significant percentage of ACI's new vehicle sales suffer from decreasing consumer demand, or are no longer offered for sale by the manufacturers, ACI's new vehicle sales and related revenues may be materially reduced.

Management recognizes that in the long term, much will depend upon Fiat's success in developing its relationship with Chrysler Group LLC. If the Fiat/Chrysler alliance fails to produce new or updated products that are competitive in the marketplace, ACI's new vehicle sales will be negatively affected. A failure of the Fiat/Chrysler alliance would be likely to have a material adverse affect on our operations.

### *Mix of New Vehicles*

ACI depends on OEMs to provide a desirable mix of popular new vehicles. OEMs generally allocate their vehicles among their franchised automobile dealerships based on the sales history of each franchised automobile dealership. If ACI's franchised automobile dealerships experience prolonged sales slumps, OEMs may cut back their allotments of popular vehicles to ACI's franchised automobile dealerships and new vehicle sales and profits may decline.

### *Interest Rates*

ACI currently finances purchases of new and, to a lesser extent, used vehicle inventory under a floor plan borrowing arrangement under which ACI is charged interest at floating rates. ACI may obtain capital for acquisitions and for some working capital purposes under a similar arrangement. As a result, ACI's debt service expenses may rise with increases in interest rates. Rising interest rates may also have the effect of depressing demand in the interest rate sensitive aspects of ACI's business, particularly new and used vehicle sales, because many customers finance their vehicle purchases. As a result, rising interest rates may have the effect of simultaneously increasing costs and reducing revenues.

### *OEM Incentive Programs*

ACI's franchised automobile dealerships depend on OEMs for certain sales incentives, warranties and other programs that are intended to promote and support new vehicle sales. Some key incentive programs will include customer rebates on new vehicles, franchised automobile dealership incentives on new vehicles, special financing or leasing terms, warranties on new and used vehicles and sponsorship of used vehicle sales by authorized new vehicle franchised automobile dealerships.

A reduction or discontinuation of key OEMs' incentive programs may reduce ACI's new vehicle sales volume resulting in decreased vehicle sales and related revenues.

Our OEM partners regularly audit our dealerships to ensure we are in compliance with incentive programs. If our dealerships are found not to be compliant with specific requirements such as documentation and other requirements, our dealerships can be charged back for the amounts claimed under incentive programs. Future chargebacks relating to incentive program claims may have an adverse affect on our future earnings.

### *Seasonality*

The retail automotive industry is subject to seasonal variations in revenues. Demand for vehicles is generally lower during the first and fourth quarters of each year. Accordingly, ACI's revenues and operating results will generally be lower in the first and fourth quarters than in the second and third quarters. Therefore, if conditions surface during the second or third quarters that adversely affect vehicle sales, such as depressed economic conditions or similar adverse conditions, revenues for the year will be disproportionately adversely affected.

### *Import Product Restrictions and Foreign Trade Risks*

A significant portion of ACI's new vehicle business involve the sale of vehicles, parts or vehicles containing parts that are manufactured outside Canada. As a result, ACI's operations are subject to customary risks of importing merchandise, including fluctuations in the relative values of currencies, import duties, exchange controls, trade restrictions, work stoppages and general political and socio-economic conditions in foreign countries. Canada, or the countries from which ACI's products are imported may, from time to time, impose new quotas, duties, tariffs or other restrictions, or adjust presently prevailing quotas, duties or tariffs, which may affect operations and the ability to purchase imported vehicles and/or parts at reasonable prices.

### *Risks Related to Our Business*

#### *The Loss of Key Personnel and Limited Management and Personnel Resources*

ACI's success depends to a significant degree upon the continued contributions of the ACI management team, particularly the senior management and service and sales personnel. Additionally, OEM franchise agreements may

require the prior approval of the applicable OEM before any change is made in franchised automobile dealership general managers. Consequently, the loss of the services of one or more of these key employees may materially impair the efficiency and productivity of operations.

In addition, ACI may need to hire additional managers during expansionary periods. The market for qualified employees in the industry and in the regions in which ACI operates, particularly for general managers and sales and service personnel, is highly competitive and may lead to increased labour costs during periods of low unemployment. The loss of the services of key employees or the inability to attract additional qualified managers may adversely affect the ability of ACI's franchised automobile dealerships to conduct their operations in accordance with the standards set by the head office management.

#### *Unfavourable Conditions in Key Geographic Markets*

ACI's performance is subject to local economic, competitive and other conditions prevailing in the particular geographic areas of ACI's franchised automobile dealerships. Because the majority of ACI's dealerships are located in Alberta and British Columbia, their performance may be subject to local economic, competitive and other conditions prevailing in one or both of those provinces.

#### *Ability to Refinance Credit Agreements in the Future*

The HSBC Revolver provides for a \$30 million revolving loan. At the time the HSBC Revolver will become due for repayment, if not extended by HSBC, ACI will be obliged to repay the outstanding amount or seek refinancing which may not be available on favourable terms. If agreement on a new facility is reached, it may have negative consequences such as:

- We may be required to dedicate a substantial amount of our cash flow from operations to required payments on indebtedness, thereby reducing the availability of cash flow for working capital, capital expenditures, acquisitions, dividends, and other general activities.
- Covenants relating to new credit agreements may limit our ability to obtain financing for working capital, capital expenditures, acquisitions, dividends and other general activities.
- Covenants relating to new credit agreements may limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate.

ACI also has credit facilities with HSBC and the BMO with respect to the properties in which it owns. We are subject to liquidity risk if the loans are not refinanced by the lenders at the end of their respective terms or if the loans cannot be refinanced under favourable terms.

#### *Credit Agreements*

The degree to which the Dealer LPs are and ACI are currently leveraged or may be leveraged in the future could have important consequences to the ACI shareholders including:

- ACI's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited;
- a significant portion of ACI's cash flow from operations could become dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for future operations;
- certain borrowings are at variable rates of interest, which exposes ACI to the risk of increased interest rates; and
- ACI may be more vulnerable to economic downturns and be limited in its ability to withstand competitor pressures.

These factors may increase the sensitivity of the cash available for use on capital expenditures or acquisitions to interest rate variations and could have a negative impact on the ability to make dividend payments to the ACI shareholders.

The Credit Facility Agreement contains numerous restrictive covenants that will limit the discretion of the ACI's management with respect to certain business matters. These covenants place significant restrictions on, among other things:

- the incurrence of additional debt and guarantees of any debt, except purchase money debt to a maximum aggregate amount;
- capital expenditures;
- the creation of liens;
- the payment of dividends;
- the ability to make investments and finance acquisitions;
- the sale of any of AutoCanada's assets except in the normal course of the operation of the business; and
- the merger or consolidation with another entity.

These restrictions could limit ACI's financial flexibility, prohibit or limit strategic initiatives and limit the ability to grow and respond to competitive changes. ACI may also be prevented from taking advantage of business opportunities that arise because of the restrictions contained in the Credit Facility Agreement. In addition, the Credit Facility Agreement contains a number of financial covenants that require AutoCanada to meet certain financial ratios and financial conditions the effect of which could require ACI to take certain action to reduce ACI's debt or take some other action should ACI not satisfy these financial ratios or tests. These restrictions, and the factors referred to above, may also inhibit ACI from refinancing the Credit Facility Agreement at all or on terms that are favourable to ACI, and could have a negative impact on the ability to make dividend payments to the Shareholders.

ACI may not enter into a reconstruction, reorganization, amalgamation, merger or other similar arrangement with any other person, as defined in the Credit Facility Agreement, as this is an event of default, entitling HSBC to require immediate repayment of the Credit Facility Agreement.

A failure by ACI to comply with the obligations in the Credit Facility Agreement could result in a default which, if not cured or waived, could result in a termination of distributions and permit acceleration of the relevant indebtedness. If the indebtedness under the Credit Facility Agreement were to be accelerated, there can be no assurance that the assets of ACI would be sufficient to repay in full that indebtedness. There can be no assurance that future borrowings or equity financing will be available to ACI or available on acceptable terms, in an amount sufficient to repay this indebtedness or to meet ACI's needs.

ACI's wholesale floorplan financing is provided by Ally Credit and VW Credit Canada, Inc. Ally Credit and VW Credit Canada, Inc. provide inventory financing for new and used vehicles through these credit facilities. As standard with all wholesale financing arrangements, our agreement is a discretionary line of credit and may be modified, suspended, or terminated at any time, at our floorplan lenders' sole discretion.

### *Liquidity*

If we are unable to generate sufficient operating cash flow, we may need to enter into certain extraordinary transactions in order to generate sufficient cash to sustain our operations, which may include, but not be limited to selling certain of our dealerships or other assets and borrowing under our existing credit facilities. There can be no assurance that, if necessary, we will be able to enter into any such transactions in a timely manner or on reasonable terms, if at all. Furthermore, in the event we are required to sell dealership assets to enhance our liquidity, the sale of any material portion of such assets could have an adverse effect on our revenue stream, the size of our operations

and certain corporate efficiencies. If we are unable to generate sufficient cash flow or enter into any such transactions in a timely manner, our liquidity may be materially adversely affected.

#### *Governmental Regulations and Environmental Regulation Compliance Costs*

ACI is subject to a wide range of federal, provincial and municipal laws and regulations, such as local licensing requirements, consumer protection laws and environmental requirements governing, among other things, discharges into the air and water, above ground and underground storage of petroleum substances and chemicals, handling and disposal of wastes and remediation of contamination arising from spills and releases. ACI is also subject to the rules imposed by self regulation authorities in various jurisdictions. If ACI violates these laws and regulations, ACI may be subject to civil and criminal penalties, or a cease and desist order may be issued against the operations that are not or are alleged not to be in compliance. ACI's future acquisitions may also be subject to governmental regulation, including antitrust reviews. ACI believes that all of the franchised automobile dealerships comply in all material respects with all applicable laws and regulations relating to ACI's business, but future laws and regulations may be more stringent and require ACI to incur significant additional costs. See "*Description of the AutoCanada Business - Regulatory Matters and Policies*" for more information.

#### *Intangible Assets*

Intangible assets are subject to impairment assessments at least annually (or more frequently when events or circumstances indicate that an impairment may have occurred) by applying a fair-value based test. ACI may be required to incur impairment charges in the future which may have a material effect on our result from operations and financial position.

#### *Insurance Coverage*

ACI maintains insurance coverage in respect of various potential liabilities, including theft and the accidental loss of value of assets from risks, in amounts, with such insurers, and on such terms as considered appropriate, taking into account all relevant factors. However, there are certain types of losses, generally of a catastrophic nature, such as earthquakes and floods that may be uninsurable or not economically insurable. ACI uses discretion in determining amounts, coverage limits and deductibility provisions of insurance, with a view to maintaining appropriate insurance coverage on assets and the business at a reasonable cost and on suitable terms. This may result in insurance coverage that, in the event of a substantial loss, would not be sufficient to pay the full current market value or current replacement cost of the lost investment. Certain factors also might make it unattractive to use insurance proceeds to replace the property after such property has been damaged or destroyed. Under such circumstances, the insurance proceeds received might not be adequate to recover the economic position with respect to such property. There are no assurances that ACI's insurance coverage will continue to be available on reasonable terms, including reasonable premium, deductible and co-insurance requirements, or that ACI's insurer will not disclaim coverage of any future claim. ACI's business, financial condition, liquidity and results of operations could be materially and adversely affected if any of the foregoing developments were to occur.

#### *Governmental Laws and Regulations*

The automotive retailing industry is subject to a wide range of laws and regulations. With respect to motor vehicle sales, leasing, and the sale of finance, insurance, and other products at ACI stores, ACI will be subject to various laws and regulations, the violation of which could subject ACI to lawsuits or government investigations and adverse publicity. The violation of laws and regulations may also jeopardize relationships with various stakeholders, which could result in inability to operate under the present conditions and would adversely affect operations.

#### *Advertising Regulations*

Advertising in our business is subject to numerous federal, provincial and local laws and regulations. These laws and regulations address unfair, deceptive and/or fraudulent trade practices. Claims arising out of actual or alleged violations of law may be asserted against us or any of our dealers by individuals, either individually or through class actions, or by governmental entities in civil or criminal investigations and proceedings. Such actions may expose us to substantial monetary damages and legal defense costs, injunctive relief and criminal and civil fines and penalties.

## ***Risks Related to Our Acquisition Strategy***

### *OEMs' Restrictions on Acquisitions*

ACI is required to obtain the consent of the applicable OEM before acquiring any additional franchised automobile dealerships. The Company will consider acquisition opportunities if a favourable opportunity presents itself and if the acquisition would provide incremental value to the Company. Brands with which the Company does not currently have a relationship, or who are related to same, continue to be reluctant to entertain a relationship with a public multi-brand dealer group. As a result, management offers 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. Obtaining OEM consent for acquisitions may also take a significant amount of time, which may negatively affect the ability to acquire an attractive target. In addition, under an applicable franchise agreement, an OEM may have a right of first refusal to acquire a franchised automobile dealership that ACI's seeks to acquire. Many OEMs place limits on the total number of franchises, or the market share of its vehicles, that any group of affiliated franchised automobile dealerships may obtain. The OEMs have also placed generic limits on the number of franchises or share of total franchises or vehicle sales maintained by an affiliated franchised automobile dealership group on a national, regional or local basis. OEMs may also tailor these types of restrictions to particular franchised automobile dealership groups. ACI may have difficulty in obtaining additional franchises from OEMs once franchise limits have been reached.

As a condition to granting their consent to acquisitions, OEMs may impose additional restrictions. OEMs' restrictions typically prohibit changes of control or extraordinary corporate transactions such as mergers, sales of a substantial amount of assets or the removal of a dealer principal without the consent of the OEM and the use of franchised automobile dealership facilities to sell or service new vehicles of other OEMs. OEMs may direct ACI to apply resources to capital projects that ACI may not otherwise have chosen to participate in. OEMs may direct ACI to implement costly capital improvements to franchised automobile dealerships as a condition for maintaining existing franchise agreements with them. OEMs also typically require that their franchises meet specific standards of appearance. These factors, either alone or in combination, could cause ACI to divert financial resources to capital projects from uses that management believes may be of higher long-term value.

### *Integration of Acquisitions*

ACI's growth depends in large part on the ability to acquire additional franchised automobile dealerships, manage expansion, control costs in operations and integrate acquired franchised automobile dealerships. In pursuing this strategy of acquiring other franchised automobile dealerships, ACI faces risks commonly encountered with growth through acquisition strategies. These risks include, but are not limited to, incurring significantly higher capital expenditures and operating expenses, failing to integrate the operations and personnel of the acquired franchised automobile dealerships, entering new markets with which ACI is unfamiliar, incurring undiscovered liabilities at acquired franchised automobile dealerships, disrupting ongoing business, diverting management resources, failing to maintain uniform standards, controls and policies, impairing relationships with employees, OEMs and customers as a result of changes in management, causing increased expenses for accounting and computer systems, failing to obtain OEMs' consents to acquisitions of additional franchises, and incorrectly valuing acquired entities.

ACI may not adequately anticipate all the demands that growth will impose on personnel, procedures and structures, including financial and reporting control systems, data processing systems and management structure. Moreover, failure to retain qualified management personnel at any acquired franchised automobile dealership may increase the risk associated with integrating the acquired franchised automobile dealership. If ACI cannot adequately anticipate and respond to these demands, ACI may fail to realize acquisition synergies and resources will be focused on incorporating new operations into ACI's structure rather than on areas that may be more profitable. In addition, although ACI will conduct a prudent level of investigation regarding the operating condition of the businesses purchased, in light of the circumstances of each transaction, there is an unavoidable level of risk that remains regarding the actual operating condition of these businesses. Until ACI assumes operating control of such business assets, ACI may not be able to ascertain the actual value of the acquired entity.

### *Financing Constraints and Limitations on Capital Resources*

There is substantial indebtedness represented by the floor plan financing used to finance new and used vehicle inventories. This debt is repayable on demand and in the event that repayment is demanded, ACI cannot provide assurances that ACI could find an alternative floor plan provider.

We have financed our past acquisitions from a combination of the cash flow from our operations and borrowings under our credit arrangements. If the financing of acquisitions through the use of cash flow from operations or borrowings is not available due to constraints, the Company may also finance through the issuance of common stock, preferred shares or private debt offerings. The use of any of these sources of financing could have the effect of reducing earnings per share. We may not be able to obtain financing in the future due to the market price of our Class A common shares and overall market conditions. Furthermore, using cash to complete acquisitions could substantially limit our operating or financial flexibility. Substantially all of the assets of our dealerships are pledged to secure the indebtedness under our Credit Facility and our floorplan financing indebtedness. These pledges may limit our ability to borrow from other sources in order to fund our acquisitions.

Management cannot determine the costs of equity at a future point in time and if new equity cannot be issued at a favourable cost, ACI may not be able to continue to grow through acquisitions or through opening new dealerships.

### *Competition with Other Franchised Automobile Dealerships*

ACI believes that the Canadian retail automotive market is fragmented and offers many potential acquisition candidates that meet acquisition target criteria. However, ACI will compete with several other franchised automobile dealerships, some of which may have greater financial and other resources. In addition, ACI will compete with other franchised automobile dealerships and private investors in the acquisition of franchised automobile dealerships, and this competition for attractive acquisition targets may result in fewer acquisition opportunities and increased acquisition costs. ACI will have to forego acquisition opportunities to the extent that acquisitions can't be negotiated on acceptable terms.

### ***Risks Related to Our Dependence on Automobile Manufacturers***

#### *Adverse Conditions Affecting One or More OEMs*

The success of ACI's franchised automobile dealerships depends to a great extent on OEMs' financial condition, marketing efforts, vehicle design, production capabilities, reputation, management, and labour relations. Adverse conditions affecting these and other important aspects of OEMs' operations and public relations may adversely affect the ability to market vehicles to the public and, as a result, significantly and detrimentally affect profitability. Similarly, the late delivery of vehicles from OEMs, which sometimes occurs during periods of new product introductions, can lead to reduced sales during those periods. ACI has no control over labour disturbances at any OEMs, and labour disturbances at OEMs may restrict the supply of new vehicles, and therefore have an adverse affect upon operations.

The majority of AutoCanada's vehicles are manufactured by Chrysler and therefore ACI will be particularly susceptible to the overall sales and acceptance of vehicles manufactured by Chrysler. The future of Chrysler very much depends on the integration of Chrysler and its parent FIAT, the results of which we are economically dependent on.

In March of 2011, an earthquake, tsunami and subsequent nuclear crisis in Japan impacted automotive manufacturers and automotive suppliers. The events damaged facilities, reduced production of vehicles and parts and destroyed inventory in Japan. Many Japanese manufacturers and suppliers were forced to halt production as they reconfigured production logistics. Many plants in Japan were inoperable or ran at limited capacity for a period of time. These events caused a global disruption to the supply of vehicles and automotive parts. As a result, new vehicle sales volumes were negatively impacted in 2011. Vehicle production levels for these automotive manufacturers began to improve in late 2011. In particular, our Nissan, Hyundai and Subaru dealerships experienced inventory shortages in 2011 and this trend has continued into 2012, although improving. We depend on our manufacturers to provide a supply of vehicles which supports expected sales levels. In the event that manufacturers are unable to supply the needed level of vehicles, our financial performance may be adversely impacted.

Certain of our manufacturers have extensive global sales operations and from time to time may, in the case of certain models, face situations where global demand exceeds global supply thereby constraining the ability of the Canadian arm of the manufacturer from securing adequate supply of popular vehicles which may adversely impact our financial performance.

#### *AutoCanada Automobile Dealership Franchise Agreements*

Each of AutoCanada's franchised automobile dealerships operates under the terms of an OEM Agreement with the OEM of each vehicle brand it carries. AutoCanada's franchised automobile dealerships may obtain new vehicles from OEMs, sell new vehicles and display OEMs' trademarks only to the extent permitted under these agreements. As a result of AutoCanada's dependence on the rights under these agreements, OEMs exercise a great deal of control over the day-to-day operations and the terms of an OEM Agreement implicate key aspects of operations, acquisition strategy and capital spending. Each of AutoCanada's OEM Agreements provides the OEM with the right to terminate the agreement under specified circumstances and, in certain agreements, to elect not to renew the agreement on an annual basis. AutoCanada's OEM Agreements include provisions that permit the OEM to terminate the agreement or direct AutoCanada to divest the subject franchised automobile dealerships if the franchised automobile dealership undergoes a change of control or if the dealer principal named in the agreement changes without the approval of the OEM. However, historically in the franchised automobile dealership industry, in the case of well managed and well capitalized dealerships, the OEM Agreements are rarely terminated involuntarily or not renewed by the manufacturer.

Assuming the OEM Agreements are assigned to ACI, in the event that a breach of the provisions in OEM Agreement, ACI may be required to sell franchised automobile dealerships operating under agreements with the OEMs to purchasers approved by the OEMs, or the agreement may be terminated by the manufacturer. The OEM Agreement also provides the OEM with the right to purchase from AutoCanada any franchise that AutoCanada seeks to sell. Provisions such as these may provide OEMs with superior bargaining positions in the event that they seek to terminate franchise agreements or renegotiate the agreements on terms that are disadvantageous to ACI. ACI's results of operations may be materially and adversely affected to the extent that the franchise rights become compromised or operations restricted due to the terms of the OEM Agreement or if ACI loses substantial franchises.

#### *Relationships with Automobile Manufacturers*

We depend on the manufacturers to provide us with a desirable mix of new vehicles. The most popular vehicles usually produce the highest profit margins and are frequently in short supply. If a relationship with a manufacturer deteriorates we may not be able to obtain sufficient quantities of popular models, therefore our profitability could be materially affected.

Manufacturers exert significant control over our stores through the terms and conditions of their franchise agreements. Such agreements contain provisions for termination or non-renewal for a variety of causes, including customer satisfaction scores and sales and financial performance. We cannot assure that our stores will be able to fully comply with these provisions in the future, therefore it is possible that manufacturers could terminate or fail to renew franchise agreements for one or more of our stores. Any such action, although we have not experienced this action in the past, could result in a material adverse effect on our business, results of operations, financial condition and cash flows.

#### *Restrictions on Ownership Thresholds and the Sale of AutoCanada's Business*

ACI has entered into the Chrysler Approval Agreement, the Hyundai Framework Agreement and the Nissan Ownership Agreement.

See *Provisions Affecting a Change of Control or Ownership* for a full description of the Chrysler Approval Agreement and its related risks to the Company.

The Hyundai Framework Agreement requires AutoCanada to obtain its approval of the individuals appointed as directors of the general partners of the Dealer LPs operating under dealership agreements with it. These restrictions may affect the marketability of ACI's business as a going concern, or the ability to introduce other investors into parts of the business.

Under the Nissan Ownership Agreement, if any person or entity acquires more than 20% of AutoCanada, or a group of persons or entities acquire more than 50% of AutoCanada, and, in either case, Nissan Canada, acting reasonably, determines that such persons or entities do not have interests compatible with those of Nissan Canada, or are otherwise not qualified to have an ownership interest in a Nissan or Infiniti dealership, then Nissan Canada shall be entitled to require AutoCanada to divest its ownership interest in those Nissan and Infiniti dealerships owned by AutoCanada. Moreover, if AutoCanada is unable to obtain the requisite approval to a change of control or sale of the business in a timely manner AutoCanada may not be able to take advantage of a market opportunity. These restrictions may also prevent or deter prospective acquirers from acquiring control of ACI and, therefore, may materially and adversely impact the value of ACI Shares.

ACI expects that other OEMs may require similar agreements.

#### *Maintenance of Minimum Working Capital*

The OEM Agreements require AutoCanada to maintain a specified minimum amount of working capital at each of AutoCanada's franchised automobile dealerships, and prohibit any distribution by a franchised automobile dealership if these minimum working capital requirements are not maintained. Compliance with these minimum working capital requirements may affect the amount of cash available to pay dividends on the ACI Shares.

#### ***Risks Related to ACI's Shares***

##### *Payment of Dividends*

As a corporation, ACI's dividend policy is at the discretion of its board of directors. Future dividends will depend on results of operations, cash requirements, financial condition, contractual restrictions, business opportunities, provisions of applicable law and other factors that the board of directors may deem relevant. Accordingly, the payment of dividends by ACI and the level thereof will be uncertain.

The ability of the Dealer LPs to make advances and distributions to ACI to enable ACI to make dividend payments to Shareholders is subject to applicable laws and contractual restrictions contained in various agreements.

##### *Unpredictability and Volatility of ACI Shares*

The market price of ACI Shares could be subject to significant fluctuations in response to variations in quarterly operating results, dividends, and other factors. In addition, industry specific fluctuations in the stock market may adversely affect the market price of the ACI Shares regardless of operating performance. There can be no assurance that the price of the ACI Shares will remain at current levels. In addition, the securities markets have experienced significant price and volume fluctuations from time to time in recent years that often have been unrelated or disproportionate to the operating performance of particular issuers. These broad fluctuations may adversely affect the market price of the ACI Shares.

##### *Dilution*

ACI is authorized to issue an unlimited number of ACI Shares and an unlimited number of preferred shares issuable in series for consideration and on terms and conditions as established by the board of directors of ACI without the approval of its shareholders. The Shareholders have no pre-emptive rights in connection with such further issues.

##### *Requirements as a Public Issuer*

As a public issuer with listed equity securities, ACI must comply with certain laws, regulations and requirements, certain additional provisions relating to corporate governance and certification of financial statements and disclosure controls and related regulations and requirements of the TSX that are not required of a private company. Complying with new statutes, regulations and requirements occupies a significant amount of the time of the board of directors, management and officers, increases costs and expenses, and may divert management's attention from other business concerns.

### *Substantial Interest of CAG*

The members of the COAG Group own 42.3% of the ACI Shares on a fully-diluted basis. As a result, the COAG Group has a substantial influence over AutoCanada's affairs and business.

This concentration of ownership, as well as various provisions contained in AutoCanada's agreements with OEMs, could have the effect of discouraging, delaying or preventing a change in control of ACI or unsolicited acquisition proposals that an ACI shareholder might consider favourable. These provisions include ownership requirements and limits and approval rights with respect to the composition of the board of directors of the general partners of certain of the Dealer LPs. Thus, the concentration of ownership and such provisions may materially and adversely impact the value of the ACI Shares.

## **DIVIDENDS/DISTRIBUTIONS**

### **Dividend Policy**

Management reviews ACI's financial results on a monthly basis. The Board of Directors of ACI 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 June 22, 2011, the independent Board of Directors completed a review of the Company's business plan, and, as announced at that time, in view of the continued resistance of some manufacturers to the public ownership model, the Company could not presume that it would be able to grow with any brands that it currently does not own or which are related to these brands. As a result, the ability of the Company to grow as originally intended was not realistically achievable, and hence shareholder value could be best achieved by aligning its business model with a strategy that contemplates modest growth, combined with an emphasis on returning to shareholders a fair share of earnings by way of dividends. In addition, as same store future earnings are very much dependent upon the performance of the Company's key employees, including its dealer principals and senior management, the independent Board, as previously disclosed, amended the Company's policy regarding the private purchase of dealerships by Mr. Priestner and senior management such that such private purchases of dealerships which either the Company could not purchase or those which the independent Board Members chose not to purchase thereby providing a means to better ensure the retention of such employees and to allow for cost saving synergies where the same are available. As a result of the aforesaid, the Company revised its dividend policy such that it shall target quarterly dividends between 70% and 80% of fully diluted earnings per share, to be reviewed on a quarterly basis and adjusted, as required, to meet market conditions.

As a result of the change in policy, the Company has increased its quarterly dividend for the past four consecutive quarters with the most recent dividend declaration on February 15, 2012 of \$0.14 per common share, representing an annual dividend rate of \$0.56 per common share. The dividend was eligible to shareholders of record on February 29, 2012 and was paid on March 15, 2012. The next dividend review is scheduled for May of 2012.

AutoCanada's dividend policy is to target quarterly dividends between 70% and 80% of fully diluted earnings per share. This dividend policy shall be reviewed on a quarterly basis and adjusted, as required, to address changing market 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, our future capital requirements, and the Company's growth prospects.

As per the terms of the HSBC facility, we are restricted from declaring dividends 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.

## Historical Distributions

The following table summarizes the distributions declared by the Fund from inception on January 4, 2006 to December 31, 2009 (including operations from May 11, 2006 to December 31, 2009).

(In thousands of dollars)

Record date	Payment date	Fund Units		Exchangeable Units		Total	
		Declared	Paid	Declared	Paid	Declared	Paid
		\$	\$	\$	\$	\$	\$
May 31, 2006	June 15, 2006	618	618	525	525	1,143	1,143
June 30, 2006	July 17, 2006	912	912	775	775	1,687	1,687
July 31, 2006	August 15, 2006	912	912	775	775	1,687	1,687
August 31, 2006	September 15, 2006	912	912	775	775	1,687	1,687
September 30, 2006	October 16, 2006	912	912	775	775	1,687	1,687
October 31, 2006	November 15, 2006	912	912	775	775	1,687	1,687
November 30, 2006	December 15, 2006	912	912	775	775	1,687	1,687
December 31, 2006	January 15, 2007	912	912	775	775	1,687	1,687
		7,002	7,002	5,950	5,950	12,952	12,952
January 31, 2007	February 15, 2007	912	912	775	775	1,687	1,687
February 28, 2007	March 15, 2007	912	912	775	775	1,687	1,687
March 31, 2007	April 16, 2007	912	912	775	775	1,687	1,687
April 30, 2007	May 15, 2007	912	912	775	775	1,687	1,687
May 31, 2007	June 15, 2007	912	912	775	775	1,687	1,687
June 29, 2007	July 16, 2007	912	912	775	775	1,687	1,687
July 31, 2007	August 15, 2007	912	912	776	776	1,688	1,688
August 31, 2007	September 17, 2007	913	913	775	775	1,688	1,688
September 28, 2007	October 15, 2007	912	912	776	776	1,688	1,688
October 31, 2007	November 15, 2007	913	913	775	775	1,688	1,688
November 30, 2007	December 17, 2007	912	912	776	776	1,688	1,688
December 31, 2007	January 15, 2008	912	912	775	775	1,687	1,687
		10,946	10,946	9,303	9,303	20,249	20,249
January 31, 2008	February 15, 2008	912	912	775	775	1,687	1,687
February 28, 2008	March 17, 2008	912	912	775	775	1,687	1,687
March 31, 2008	April 15, 2008	912	912	775	775	1,687	1,687
April 30, 2008	May 15, 2008	912	912	775	775	1,687	1,687
May 30, 2008	June 16, 2008	912	912	775	775	1,687	1,687
June 30, 2008	July 15, 2008	912	912	776	776	1,688	1,688
July 31, 2008	August 15, 2008	912	912	776	776	1,688	1,688
August 29, 2008	September 15, 2008	912	912	776	776	1,688	1,688
September 30, 2008	October 15, 2008	907	907	776	776	1,683	1,683
October 31, 2008	November 17, 2008	906	906	776	776	1,682	1,682
November 28, 2008	December 15, 2008	884	884	776	776	1,660	1,660
December 31, 2008	January 15, 2009	881	881	775	775	1,656	1,656
		10,874	10,874	9,306	9,306	20,180	20,180
January 30, 2009	February 16, 2009	881	881	775	775	1,656	1,656
February 27, 2009	March 16, 2009	441	441	388	388	829	829
N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	-	-	-	-	-	-
		1,322	1,322	1,163	1,163	2,485	2,485

<sup>(1)</sup> The Fund temporarily suspended distributions on March 14, 2009.

The following table summarizes the dividends declared by ACI from inception on October 29, 2009 to December 31, 2011 on ACI Shares.

(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	796	796
February 28, 2011	March 15, 2011	795	795
May 31, 2011	June 15, 2011	995	995
August 31, 2011	September 15, 2011	1,988	1,988
November 30, 2011	December 15, 2011	2,386	2,386

On February 15, 2012, the Board declared a quarterly eligible dividend of \$0.14 per common share on AutoCanada's outstanding Class A common shares, payable on March 15, 2012 to shareholders of record at the close of business on February 29, 2012. The quarterly eligible dividend of \$0.14 represents an annual dividend rate of \$0.56 per share or a 17% increase in the dividend from the prior quarter.

## MARKET FOR SECURITIES

### Trading Price and Volume

AutoCanada's shares are listed and posted for trading on the Toronto Stock Exchange under the symbol "ACQ". The following table sets forth certain trading information for the ACI Shares on the TSX for the most recently completed financial year based on information from the Historical Data Access section of the TSX website, believed to be reliable by ACI:

	Month	High	Low	Close	Volume
2011	January	4.90	4.45	4.69	271,582
	February	5.00	4.40	4.95	163,893
	March	5.11	4.11	4.42	211,415
	April	4.55	4.20	4.49	88,521
	May	4.87	4.20	4.32	179,325
	June	4.85	3.80	4.85	514,806
	July	4.90	4.42	4.50	176,197
	August	4.49	3.99	4.37	561,906
	September	4.64	4.01	4.44	129,454
	October	4.30	3.80	4.09	397,688
	November	5.85	4.04	5.65	1,036,963
	December	6.54	5.55	6.40	219,027

## DIRECTORS AND OFFICERS

The following table sets forth the name, place of residence, positions for each of the directors and officers of ACI, together with their principal occupations during the last five years and the number of ACI Shares they currently hold. The directors of ACI shall hold office until the next annual meeting of shareholders or until their respective successors have been duly elected or appointed.

Name and Province or State, and County of Residence	Position	Principal Occupation	No. of ACI Shares <sup>(4)</sup>
GORDON R. BAREFOOT <sup>(1)(3)</sup> British Columbia, Canada	Director and Chair of the Board, since December 31, 2009; (Former Trustee of the Fund and Trust from 2006 to 2009)	Board Director, Corix Infrastructure Inc.; Board Director, Institute of Health Sustainability; President, Cabgor Management Inc., (a management consulting company); prior thereto Chief Financial Officer of Terasen Inc. (a natural gas distributor) and other various senior executive positions from 1998 to 2005	9,000
ROBIN SALMON <sup>(1)(2)</sup> Alberta, Canada	Director, since December 31, 2009; (Former Trustee of the Fund and Trust from 2006 to 2009)	Chief Operating Officer, Camex Equipment Sales & Rentals Inc.; prior thereto Chief Financial Officer, Contava Inc. from November 2010 to September 2011; prior thereto Chief Financial Officer, Almac Machine Works Ltd from June 1, 2006 to June 30, 2010	26,000
MICHAEL ROSS <sup>(2)(3)</sup> Alberta, Canada	Director, since December 31, 2009; (Former Director of AutoCanada GP Inc. from 2007 – 2009)	Chief Executive Officer, Conroy Ross Partners (business advisory and executive search firm); Board Director, Camex Equipment Sales & Rentals Inc.; Board Director, Fountain Tire; Board Director, FYi Doctors; Board Director, Weatherhaven Corporation; Board Director, Norseman Group Ltd.	17,000
DENNIS S. DESROSIERS <sup>(2)(3)</sup> Ontario, Canada	Director, since December 31, 2009 (Former Trustee of the Fund and Trust from May 9, 2007 to December 31, 2009)	President, DesRosiers Automotive Consultants Inc. (an automobile manufacturer consultant)	3,500
CHRISTOPHER CUMMING <sup>(1)</sup> British Columbia, Canada	Director, since May 13, 2011	President, Evident Capital Corp; Director, Highland Therapeutics Inc.; prior thereto Vice-President, Phillips, Hager & North Investment Management Ltd. from 1992 to 2008.	1,325,000
PATRICK J. PRIESTNER <sup>(5)</sup> Alberta Canada	Chief Executive Officer since May 11, 2006; Director, since December 31, 2009; (Former Chair of the Board of Directors of AutoCanada GP Inc. from 2006 to 2009)	Prior to November 2005, President and Dealer Principal at COAG since 1993. Board Director of Rocky Mountain Dealerships Inc.	8,413,488
THOMAS ORYSIUK Alberta, Canada	President since January 13, 2011; prior thereto Executive Vice-President and Chief Financial Officer since November 2005	Prior to November 2005, Chief Financial Officer for Liquor Stores Income Fund since June, 2004; prior thereto Chief Financial Officer of Alberta Oats Milling Ltd. and a principal with Dito Capital Ltd. since 2002	10,000 <sup>(6)</sup>
S.R.E. (STEVE) ROSE Alberta Canada	Executive Vice-President, Corporate Services, General Counsel and Secretary; since January 13, 2011; prior thereto Vice-President, Corporate Development; General Counsel and Secretary from 2007 to 2011	Prior to January 2007, Vice President, General Counsel and Secretary of Chrysler Canada, and assistant general counsel and assistant secretary of Chrysler Canada and its predecessors since 1992	-

Name and Province or State, and County of Residence	Position	Principal Occupation	No. of ACI Shares <sup>(4)</sup>
JEFFERY J. S. CHRISTIE Alberta, Canada	Vice-President, Finance since January 13, 2011; prior thereto Manager, Financial Reporting from 2008 to 2011	Prior to August 2008, articulated and obtained Chartered Accountant designation with KPMG LLP and MacKay LLP since December of 2004	-

**Notes:**

- (1) Member of the audit committee of ACI.
- (2) Member of the nominating and governance committee of ACI.
- (3) Member of the compensation committee of ACI.
- (4) This information has been based upon information furnished by the individual and upon reports filed on the System for Electronic Disclosure by Insiders (SEDI) at www.sedi.ca.
- (5) Patrick J. (Pat) Priestner holds 80% of the outstanding voting securities of COAG. The remaining 20% of the outstanding voting securities of COAG are held by employees of AutoCanada or dealerships operated by AutoCanada.
- (6) These ACI Shares are registered in the name of Mr. Orysiuk's wife, Heidi Orysiuk.

As of March 22, 2012, directors and executive officers of ACI, as a group, beneficially own or control or direct, directly or indirectly (including through the members of the COAG Group), an aggregate of 9,803,988 ACI Shares, approximately 49.3% of the issued and outstanding ACI Shares.

**Corporate Cease Trade Orders or Bankruptcies**

To the knowledge of the Company, other than as disclosed herein, no member of the Management Group is, or within the ten years prior to the date hereof, has been, a trustee, director, chief executive officer or chief financial officer of any company that, while that person was acting in that capacity: (i) was the subject of a cease trade order or similar order, or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; or (ii) was subject to a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days that was issued after such person ceased to be a trustee, director, chief executive officer or chief financial officer and which resulted from an event that occurred while such person was acting in the capacity of a trustee, director, chief executive officer or chief financial officer.

To the knowledge of the Company, other than as disclosed herein, no member of the Management Group or a Shareholder holding a sufficient number of ACI shares to affect materially the control of the Company, is, or within the ten years prior to the date hereof, has been, a trustee, director or executive officer of any company that, while that person was acting in that capacity within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Mr. Barefoot was a Director of EarthFirst Canada Inc. until mid-November 2009. EarthFirst Canada Inc. sought creditor protection in November 2008 and through a court approved process successfully settled with creditors in November 2009. Effective March 2, 2010, EarthFirst Canada Inc. amalgamated with Maxim Power Corp. Mr. Barefoot was previously a Director of ISE Limited and resigned from this position in February of 2011. ISE Limited was a Cayman Island corporation with an operating company in San Diego, United States. In 2010, ISE Limited was delisted as it sought creditor protection under Chapter 11. The assets of ISE Limited have since been sold and the Corporation is in the process of being wound-up.

### **Penalties or Sanctions**

To the knowledge of the Company, no member of the Management Group or a Shareholder holding a sufficient number of ACI shares to affect materially the control of ACI has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities authority, or any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### **Personal Bankruptcies**

To the knowledge of the Company, no member of the Management Group or a Shareholder holding a sufficient number of ACI shares to affect materially the control of ACI has, within the ten years prior to the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or became subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold such person's assets.

### **Conflicts of Interest**

Other than as disclosed herein, to the knowledge of the Directors, there are no existing or potential material conflicts of interest among us and any member of the Management Group.

### **PROMOTERS**

No members of management or directors have been promoters of ACI within the three most recently completed years.

### **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

Other than as disclosed below and herein, we are not aware of any legal proceedings to which we are or were a party to, or that any of our property is or was the subject of, during our financial year ended December 31, 2011, where such claims do not exceed 10% of our current assets. In addition, we are not aware of any penalties or sanctions imposed against us by a court relating to securities legislation or by a securities regulatory authority during our financial year ended December 31, 2011 or any other penalties or sanctions imposed by a court or regulatory body against us that would likely be considered important to a reasonable investor in making an investment decision, and we have not entered into any settlement agreements with a court relating to securities legislation or with a securities regulatory authority during our financial year ended December 31, 2011.

From time to time, we are named in claims involving the manufacture of vehicles, contractual disputes and other matters arising in the ordinary course of our business. Currently, no legal proceedings are pending against us that, in management's opinion, could be expected to have a material adverse effect on our business, financial condition or results of operations.

Because of their vehicle inventory and the nature of their business, franchised automobile dealerships generally require significant levels of insurance covering a broad variety of risks. Our insurance program includes three umbrella policies with a total per occurrence and aggregate limit of \$15 million. We also have insurance on our leased property, comprehensive coverage for our vehicle inventory, garage liability and general liability insurance, employee dishonesty insurance and errors and omissions insurance in connection with our vehicle sales and financing activities.

### **TRANSFER AGENT AND REGISTRAR**

The transfer agent and registrar for the ACI Shares is Valiant Trust Company at its principal offices in Vancouver, British Columbia and Toronto, Ontario.

## MATERIAL CONTRACTS

The only material contracts entered into by the Company and within the most recently completed financial year, or before the most recently completed financial year, and which remain in effect, are as follows:

1. Chrysler Standard Dealer Sales and Service Agreement and Additional Terms has been signed by each dealership and sets out the terms under which each dealership may sell new Chrysler, Dodge and Jeep vehicles
2. the HSBC Revolver described under “Financing — Credit Facilities”;
3. the Chrysler Approval Agreement;
4. the Hyundai Framework Agreement;
5. the Nissan Framework Agreement;
6. the Ally Facilities;

The contracts listed above are filed on SEDAR at [www.sedar.com](http://www.sedar.com).

## INTEREST OF EXPERTS

There is no person or company whose profession or business gives authority to a statement made by such person or company and who is named as having prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing, made under NI 51-102 by ACI during, or related to, its most recently completed financial year other than PricewaterhouseCoopers LLP, the external auditors of ACI.

PricewaterhouseCoopers LLP has advised that they are independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants (Alberta).

## AUDIT COMMITTEE INFORMATION

### Charter of the Audit Committee

The audit committee charter of ACI is attached as Schedule B to this AIF.

### Composition of the Audit Committee

The audit committee of ACI consists of Gordon R. Barefoot, Robin (Rob) Salmon and Christopher Cumming.

Each member of the audit committee of ACI is independent and financially literate; as such terms are defined in *National Instrument 52-110 – Audit Committees* (“NI 52-110”).

### Relevant Education and Experience

The education and experience of each audit committee member of ACI that is relevant to the performance of his responsibilities as an audit committee member is described below:

*Gordon R. Barefoot* – Mr. Barefoot is a chartered accountant. Mr. Barefoot was, until November, 2005, the Senior Vice President, Finance & Chief Financial Officer of Terasen Inc. where he served in various senior executive positions since July, 1998. Mr. Barefoot is currently a member of the audit committee of two other private entities. Mr. Barefoot also served on the board of directors of Nventa Biopharmaceuticals Corporation until June of 2008 and the board of directors of ISE Limited until February of 2010, both reporting issuers. Prior to joining Terasen, Mr. Barefoot was a partner of Ernst & Young, where, during a 20 year career, he worked with a variety of clients in a broad range of industries. Each of the foregoing positions required Mr. Barefoot to have an understanding of, and assess, accounting principles, including in the context of estimates, accruals and reserves, as well as have an

understanding of internal controls and procedures for financial reporting. The positions also required Mr. Barefoot to prepare, analyze and evaluate financial statements and supervise others who prepared analyzed and evaluated financial statements. Mr. Barefoot also participates in accounting seminars and programs to help maintain the skill and knowledge necessary to perform his duties as the chair of the audit committee.

*Robin (Rob) Salmon* – Mr. Salmon is a chartered accountant. Mr. Salmon is currently the Chief Financial Officer of Camex Equipment Sales & Rentals Inc. Prior thereto Mr. Salmon was Chief Financial Officer of Contava Inc. from November, 2010 until September 2011. Prior thereto, Mr. Salmon was Chief Financial Officer of Almac Machine Works Ltd. from June, 2006 to June, 2010 and was the Chief Financial Officer of ViRexx from September, 2001 until November, 2005. Mr. Salmon was also a director of ViRexx until 2004 and corporate secretary thereafter. From May 2003 until December 2004, Mr. Salmon served as the Chief Financial Officer and director of AltaRex Medical Corp. Prior to September, 2001, from September, 2000, Mr. Salmon was the Chief Financial Officer of Indico Technologies Limited. Prior thereto, Mr. Salmon was a partner of KPMG LLP, where, during a 20 year career, he focused on taxation and corporate finance for private and public companies. In the foregoing positions, Mr. Salmon was responsible for, and supervised others engaged in, preparing, analyzing and evaluating financial statements and for understanding and assessing accounting principles, including in the context of estimates, accruals and reserves, as well as implementing internal controls and procedures for financial reporting.

*Christopher Cumming* – Mr. Cumming is currently the President of Evident Capital Corp., a Canadian investment management company. Mr. Cumming was previously the Vice-President of Phillips, Hager & North Investment Management Ltd., a large investment management company, from 1992 to 2008. Mr. Cumming is currently a member of the board of directors of Highland Therapeutics Ltd. As a result of his current and past experience, Mr. Cumming has a broad understanding of the financial industry and investment community which inherently allows Mr. Cumming to have a general knowledge of accounting principles, including in the context of estimates, accruals and reserves, as well as knowledge of internal controls and procedures for financial reporting.

### **Reliance on Exemptions**

At no time since the commencement of the Company's most recently completed financial year has the Company relied upon an exemption, in whole or in part, from NI 52-110 other than the exemption in Section 2.4 (*De-Minimus Non-audit Services*) of NI 52-110.

### **Prior Approval of Policies and Procedures**

The audit committee of ACI must pre-approve all non-audit services to be provided to ACI or its subsidiaries by ACI's external auditor, other than non-audit services where:

- (a) the aggregate amount of all such non-audit services that were not pre-approved is reasonably expected to constitute no more than five per cent of the total amount of fees paid by ACI and its subsidiaries to ACI's external auditor during the fiscal year in which the services are provided;
- (b) ACI or its subsidiaries, as the case may be, did not recognize the services as non-audit services at the time of the engagement; and
- (c) the services are promptly brought to the attention of the audit committee of ACI and approved, prior to the completion of the audit, by the audit committee of ACI or by one or more of its members to whom authority to grant such approvals had been delegated by the audit committee of ACI.

### **Audit Committee Oversight**

At no time since the beginning of the Company's most recently completed financial year has a recommendation of the audit committee of ACI to nominate or compensate an external auditor not been adopted by the board of directors.

### External Auditor Service Fees (by category)

The following table sets forth, by category, the fees billed by PricewaterhouseCoopers LLP, ACI's auditors, for the years ended December 31:

Fee category	2011	2010
Audit fees	\$391,206	\$394,915
Audit-related fees	-	-
Tax fees	\$68,365	\$55,305
All other fees	\$127,885	\$33,960
Total	\$587,456	\$484,180

“**Audit fees**” include all fees paid to PricewaterhouseCoopers LLP for the audit of the annual consolidated financial statements, review of the interim financial statements and other services in connection with regulatory filings.

“**Tax fees**” consist of all fees paid to PricewaterhouseCoopers LLP for tax compliance matters during the fiscal 2011 year.

“**All other fees**” consist of all fees paid to PricewaterhouseCoopers LLP for non-audit fees including audit procedures performed with respect to ACI's conversion to IFRS and non-audit engagements associated with fulfilling our respective banking covenants.

### ADDITIONAL INFORMATION

Additional information relating to us may be found on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information, including directors' and officers' remuneration and indebtedness, principal holders of our securities and securities authorized for issuance under equity compensation plans, as applicable, is contained in our information circular for our most recent annual meeting of Shareholders that involves the election of Directors. Additional financial information is provided in our audited consolidated financial statements and management's discussion and analysis for our most recently completed financial year.

**SCHEDULE A  
GLOSSARY OF TERMS**

“**ACI**” or the “**Company**” means AutoCanada Inc., a corporation incorporated under the CBCA;

“**ACI Share**” means a common share in the capital of ACI;

“**ACI Stock Option Plan**” or “**The Plan**” means the stock option plan of ACI;

“**ADP**” means ADP Dealer Services Ltd.;

“**affiliate**” has the meaning provided for in Rule 45-106 of the Ontario Securities Commission as at the date of this AIF;

“**AIF**” means this annual information form of the Company for the year ended December 31, 2011;

“**Ally Credit**” means Ally Credit Canada Limited;

“**Ally Facilities**” means the agreement dated June 5, 2009, between AutoCanada and Ally Credit (formerly GMAC Canada);

“**Arrangement**” means the arrangement involving the Fund, ACI and certain other entities that was carried out pursuant to the CBCA, on December 31, 2009;

“**Arrangement Agreement**” means the arrangement agreement dated November 6, 2009, among the Fund, the Trust, the Partnership, Holdings, ACI and the members of the COAG Group pursuant to which the Fund, the Trust, the Partnership, Holdings, ACI and the members of the COAG Group have implemented the Arrangement, a copy of which has been filed on SEDAR;

“**AutoCanada**” means the Company and its interests in its subsidiaries, the Holding LPs, the Dealer LPs and any other franchised automobile dealership owned or operated by the foregoing parties or CAG;

“**AutoCanada GP**” means AutoCanada GP Inc., a corporation incorporated under the CBCA;

“**BMO**” means Bank of Montreal of Canada;

“**BMO Term Loan**” means the financing agreement between AutoCanada and BMO dated October 8, 2008;

“**CADA**” means Canadian Automobile Dealers Association;

“**COAG**” means Canada One Auto Group Ltd. and its subsidiaries;

“**CBCA**” means the *Canada Business Corporations Act* and the regulations thereto, as amended;

“**CDS**” means The Canadian Depository for Securities Limited or a successor thereof;

“**Chrysler Canada**” means Chrysler Canada Inc., formerly known as DaimlerChrysler Canada Inc.;

“**Credit Facility Agreement**” means the credit facility agreement dated October 6, 2009, between AutoCanada and HSBC Bank Canada;

“**Dealer GPs**” means a corporation incorporated under the CBCA to operate as a general partner of each Dealer LP;

“**Dealer LPs**” means the limited partnerships established under the laws of the Province of Manitoba to carry on the business of owning and operating one of AutoCanada LP’s franchised automobile dealerships, as well as activities ancillary thereto;

“**Dealer principal**” means an individual, approved by the automobile manufacturer, who is responsible for the day to day management and operations of a franchised automobile dealership;

“**Exchangeable Units**” mean the exchangeable units of the former Partnership;

“**floor plan financing**” is a type of asset-based financing used by franchised automobile dealerships to finance their new (and in some instances used) vehicle inventories. See “Financing — Floor Plan Financing”;

“**fully-diluted**” in respect to the number of securities of any person to be issued and outstanding at such time means the number of such securities of such person that would be issued and outstanding at such time if all rights to acquire or be issued such securities under all issued and outstanding rights of conversion, exchange, issue or purchase had been exercised at such time;

“**Fund**” means the former AutoCanada Income Fund, an unincorporated, open-ended trust established under the laws of the Province of Alberta;

“**GAAP**” means generally accepted accounting principles in Canada;

“**Holding GPs**” means the corporations incorporated under the CBCA to operate as a general partner of each Holding LP;

“**Holding LPs**” means the limited partnerships established under the laws of the Province of Manitoba to carry on certain franchised automobile dealerships of AutoCanada, as well as activities ancillary thereto, following the Arrangement;

“**Holdings**” means AutoCanada Holdings Inc., a corporation incorporated under the CBCA;

“**HSBC**” means HSBC Bank Canada;

“**HSBC Revolver**” means a financing agreement between AutoCanada and HSBC dated July 21, 2010;

“**HSBC Term Loan**” means a financing agreement between AutoCanada and HSBC dated July 21, 2010;

“**Hyundai**” means Hyundai Auto Canada, a division of Hyundai Motor America, a California corporation;

“**Hyundai Framework Agreement**” means the framework agreement dated April 28, 2006, as amended on April 2, 2007, among Hyundai Auto Canada Corp. (by way of assignment from Hyundai Auto Canada), the Company, certain members of the COAG Group and certain Dealer LP’s;

“**Management Group**” mean the directors and executive officers of ACI;

“**Mitsubishi**” means Mitsubishi Motor Sales of Canada, Inc.;

“**NADAP Rules**” means the rules adopted by the Canadian Vehicle Manufacturer’s Association, the Association of International Automobile Manufacturers of Canada and CADA that provide for dispute resolution between the automobile manufacturers and the franchised automobile dealerships in the Canadian automobile industry;

“**NI 51-102**” means National Instrument 51-102 – *Continuous Disclosure Obligations* issued by the Canadian Securities Regulators;

“**Nissan Framework Agreement**” means the multiple market ownership agreement dated March 26, 2008, between Nissan Canada Inc. and ACI;

“**OEM**” means original equipment manufacturers;

“**OEM Agreements**” means the dealership franchise or sales and service agreements entered into by each of the Dealer LPs with the applicable OEM;

“**Offering**” means the initial public offering of Units issued and sold by the former Fund (including the over-allotment option);

“**Open Point**” means a new franchised automobile dealership opened, or to be opened, pursuant to the right to open a new franchised automobile dealership in a specific location granted to a dealer by an automobile manufacturer;

“**Reynolds and Reynolds**” means the Reynolds and Reynolds Company;

“**Shareholders**” mean the holders of Shares of ACI;

“**Subaru**” means Subaru Canada Inc.;

“**Subsidiary**” has the meaning provided for in the CBCA, read as if the word “body corporate” includes a trust, partnership, limited liability company or other form of business organization;

“**Tax Act**” means the *Income Tax Act* (Canada) and the regulations thereunder, as amended;

“**Trust**” means the former AutoCanada Operating Trust, an unincorporated, open-ended trust established under the laws of the Province of Alberta;

“**Trustees**” mean the former trustees of the former Fund;

“**TSX**” means the Toronto Stock Exchange;

“**Unitholders**” mean the holders of former Units;

“**Units**” means Units of the former Fund;

“**VCCI Facilities**” means the agreement dated November 9, 2011, between AutoCanada and VW Credit Canada Inc.;

“**VW Canada**” means Volkswagen Canada Inc.

**SCHEDULE B  
AUTOCANADA INC.**

**AUDIT COMMITTEE CHARTER**

The term “**ACI**” refers to AutoCanada Inc., the term “**Board**” refers to the board of directors of ACI. The term “**Governance Agreements**” refers to the corporate bylaws of ACI.

**PURPOSE**

The Audit Committee (the “**Committee**”) is a standing committee appointed by the Board to assist the Board in fulfilling its oversight responsibilities with respect to ACI’s financial reporting including responsibility to:

oversee the integrity of ACI’s consolidated financial statements and financial reporting process, including the audit process and ACI’s internal accounting controls and procedures and compliance with related legal and regulatory requirements;

oversee the qualifications and independence of ACI’s external auditors;

oversee the work of ACI’s financial management and external auditors in these areas; and

provide an open avenue of communication between the external auditors, the Board, and the officers (collectively, “**Management**”) of ACI.

In addition, the Committee will review and/or approve any other matter specifically delegated to the Committee by the Board.

**COMPOSITION AND PROCEDURES**

In addition to the procedures and powers set out in any resolution of the Board, the Committee will have the following composition and procedures:

**1. Composition**

The Committee shall consist of no fewer than three members. None of the members of the Committee shall be an officer or employee of ACI or any of their respective subsidiaries and each member of the Committee shall be an “independent director” (in accordance with the definition of “independent director” from time to time under the requirements or guidelines for audit committee service under applicable securities laws and the rules of any stock exchange on which ACI’s shares are listed for trading).

**2. Appointment and Replacement of Committee Members**

Any member of the Committee may be removed or replaced at any time by the Board and shall automatically cease to be a member of the Committee upon ceasing to be a director. The Board may fill vacancies on the Committee by election from among its members. The Board shall fill any vacancy if the membership of the Committee is less than three directors. If and whenever a vacancy shall exist on the Committee, the remaining members may exercise all its power so long as a quorum remains in office. Subject to the foregoing, the members of the Committee shall be elected by the Board annually and each member of the Committee shall hold office as such until the next annual meeting of shareholders after his or her election or until his or her successor shall be duly elected and qualified.

**3. Financial literacy**

All members of the Committee must be “financially literate” (as that term is interpreted by the Board in its reasonable judgment or as may be defined from time to time under the requirements or guidelines for audit committee service under securities laws and the rules of any stock exchange on which ACI’s shares are listed for trading) or must become financially literate within a reasonable period of time after his or her appointment to the Committee.

#### **4. Separate Executive Meetings**

The Committee will endeavour to meet at least once every quarter, and more often as warranted, with the Chief Financial Officer of ACI and the external auditors in separate executive sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately.

#### **5. Professional Assistance**

The Committee may retain special legal, accounting, financial or other consultants to advise the Committee at ACI's expense.

#### **6. Reliance**

Absent actual knowledge to the contrary (which will be promptly reported to the Board), each member of the Committee shall be entitled to rely on (i) the integrity of those persons or organizations within and outside ACI from which it receives information, (ii) the accuracy of the financial and other information provided to the Committee by such persons or organizations and (iii) representations made by ACI or its senior management and the external auditors, as to any information, technology, internal audit and other non-audit services provided by the external auditors to ACI and its subsidiaries.

#### **7. Review of Charter**

The Committee will periodically review and reassess the adequacy of this Charter as it deems appropriate and recommend changes to the Board. The Committee will evaluate its performance with reference to this Charter. The Committee will approve the form of disclosure of this Charter, where required by applicable securities laws or regulatory requirements, in the annual proxy circular or annual report of ACI.

#### **8. Delegation**

The Committee may delegate from time to time to any person or committee of persons any of the Committee's responsibilities that lawfully may be delegated.

#### **9. Reporting to the Board**

The Committee will report through the Committee Chair to the Board following meetings of the Committee on matters considered by the Committee, its activities and compliance with this Charter.

### **SPECIFIC MANDATES OF THE COMMITTEE**

The Committee will:

#### **A. In Respect of ACI's External Auditors**

- (1) review the performance of the external auditors of ACI who are accountable to the Committee and the Board as the representatives of the shareholders of ACI, including the lead partner of the independent auditor team and make recommendations to the Board as to the reappointment or appointment of the external auditors of ACI to be proposed in ACI's proxy circular for shareholder approval and shall have authority to terminate the external auditors;
- (2) review the reasons for any proposed change in the external auditors of ACI which is not initiated by the Committee or Board and any other significant issues related to the change, including the response of the incumbent auditors, and enquire as to the qualifications of the proposed replacement auditors before making its recommendation to the Board;

- (3) approve the terms of engagement and the compensation to be paid by ACI to ACI's external auditors;
- (4) review the independence of ACI's external auditors, including a written report from the external auditors respecting their independence and consideration of applicable auditor independence standards;
- (5) approve in advance all permitted non-audit services to be provided to ACI or any of its affiliates by the external auditors or any of their affiliates, subject to any de minimus exception allowed by applicable law; the Committee may delegate to one or more designated members of the Committee the authority to grant pre-approvals required by this subsection;
- (6) review the disclosure with respect to its pre-approval of audit and non-audit services provided by ACI's external auditors;
- (7) approve any hiring by ACI or its subsidiaries of employees or former employees of ACI's external auditors;
- (8) review a written or oral report describing:
  - a) critical accounting policies and practices to be used in ACI's annual audit,
  - b) alternative treatments of financial information within generally accepted accounting principles that have been discussed with management and that are significant to ACI's consolidated financial statements, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditors, and
  - c) other material written communication between ACI's external auditors and management, such as any management letter or schedule of unadjusted differences;
- (9) review with the external auditors and management the general audit approach and scope of proposed audit of the consolidated financial statements of ACI, the objectives, staffing, locations, co-ordination and reliance upon management in the audit, the overall audit plans, the audit procedures to be used and the timing and estimated budgets of the audits;
- (10) if a review engagement report is requested of the external auditors, review such report before the release of ACI's interim consolidated financial statements; and
- (11) discuss with the external auditors any difficulties or disputes that arose with management during the course of the audit, any restrictions on the scope of activities or access to requested information and the adequacy of management's responses in correcting audit-related deficiencies.

**B. In Respect of ACI's Financial Disclosure**

- (1) review with the external auditors and Management:
  - a) ACI's audited consolidated financial statements and the notes and Managements' Discussion and Analysis relating to such consolidated financial statements, the annual report, the annual information form, the financial information of ACI contained in any prospectus or information circular or other disclosure documents or regulatory filings of ACI, the recommendations for approval of each of the foregoing from each of the Chairman of the Board, CEO and CFO and based on such recommendations provide, where applicable, its own recommendations to the Board for their approval and release of each of the foregoing to the public;
  - b) ACI's interim consolidated financial statements and the notes and Managements' Discussion and Analysis relating to such consolidated financial statements, the recommendations for approval of each of the foregoing from each of the Chairman of the Board, CEO and CFO and based on such recommendations provide, where applicable, its own recommendations to the Board for their approval and release of each of the foregoing to the public;
  - c) the quality, appropriateness and acceptability of ACI's accounting principles and practices used in its financial reporting, changes in ACI's accounting principles or practices and the application of particular accounting principles and disclosure practices by Management to new transactions or events;
  - d) all significant financial reporting issues and judgments made in connection with the preparation of ACI's consolidated financial statements, including the effects of alternative methods in respect of any matter considered significant by the external auditor within generally accepted accounting principles on the consolidated financial statements and any "second opinions" sought by Management from an independent or other audit firm or advisor with respect to the accounting treatment of a particular item;
  - e) the effect of regulatory and accounting initiatives on ACI's consolidated financial statements and other financial disclosures;
  - f) any reserves, accruals, provisions or estimates that may have a significant effect upon the consolidated financial statements of ACI;
  - g) the use of special purpose entities and the business purpose and economic effect of off balance sheet transactions, arrangements, obligations, guarantees and other relationships of ACI and their impact on the reported financial results of ACI;
  - h) any legal matter, claim or contingency that could have a significant impact on the consolidated financial statements,

ACI's compliance policies and any material reports, inquiries or other correspondence received from regulators or governmental agencies and the manner in which any such legal matter, claim or contingency has been disclosed in ACI's consolidated financial statements;

- i) review the treatment for financial reporting purposes of any significant transactions that are not a normal part of ACI's operations; and
  - j) the use of any "pro forma" or "adjusted" information not in accordance with generally accepted accounting principles.
- (2) review and resolve disagreements between Management and ACI's external auditors regarding financial reporting or the application of any accounting principles or practices;
  - (3) review earnings press releases, as well as financial information and earnings guidance provided to analysts and ratings agencies, it being understood that such discussions may, in the discretion of the Committee, be done generally (i.e., by discussing the types of information to be disclosed and the type of presentation to be made) and that the Committee need not discuss in advance each earnings release or each instance in which ACI gives earning guidance;
  - (4) establish and monitor procedures for the receipt and treatment of complaints received by ACI regarding accounting, internal accounting controls or audit matters and the anonymous submission by employees of concerns regarding questionable accounting or auditing matters and review periodically with the Management these procedures and any significant complaints received;
  - (5) receive from the Chief Executive Officer and the Chief Financial Officer a certificate certifying in respect of each annual and interim report the matters such officers are required to certify in connection with the filing of such reports under applicable securities laws; and
  - (6) review and discuss ACI's major financial risk exposures and the steps taken to monitor and control such exposures, including the use of any financial derivatives and hedging activities.

**C. In Respect of Insurance**

- (1) review periodically insurance programs relating to ACI and its investments.

**D. In Respect of Internal Controls**

- (1) review the adequacy and effectiveness of ACI's internal accounting and financial controls based on recommendations from Management and the external auditors for the improvement of accounting practices and internal controls; and
- (2) oversee compliance with internal controls and the Joint Code of Business Conduct.

**E. In respect of Other Items**

- (1) on an annual basis review and assess committee member attendance and performance and report thereon to the Board and review this Charter and, if required implement amendments to this Charter;
- (2) on a quarterly basis review compliance with Governance Agreements with respect to matters that relate to the financial statements of ACI;
- (3) on a quarterly basis review the prior quarter distributions;
- (4) on an annual basis review the performance of the Board under the Board's mandate;
- (5) on a quarterly basis review compliance with the Joint Disclosure Policy of ACI.

**OVERSIGHT FUNCTION**

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that ACI's consolidated financial statements are complete and accurate or are in accordance with GAAP and applicable rules and regulations. These are the responsibilities of Management and ACI's external auditors. The Committee, its Chair and any Committee members identified as having accounting or related financial expertise are members of the Board, appointed to the Committee to provide broad oversight of the financial, risk and control related activities of ACI, and are specifically not accountable or responsible for the day-to-day operation or performance of such activities. Although the designation of a Committee member as having accounting or related financial expertise for disclosure purposes or otherwise is based on that individual's education and experience, which that individual will bring to bear in carrying out his or her duties on the Committee, such designation does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the Committee and Board in the absence of such designation. Rather, the role of a Committee member who is identified as having accounting or related financial expertise, like the role of all Committee members, is to oversee the process, not to certify or guarantee the internal or external audit of ACI's financial information or public disclosure.