



AUTOCANADA INC.

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

For the year ended December 31, 2011

As of March 22, 2012

READER ADVISORIES

The Management's Discussion & Analysis ("MD&A") was prepared as of March 22, 2012 to assist readers in understanding AutoCanada Inc.'s (the "Company" or "AutoCanada") consolidated financial performance for the year ended December 31, 2011 and significant trends that may affect AutoCanada's future performance. The following discussion and analysis should be read in conjunction with the audited annual consolidated financial statements and accompanying notes (the "Consolidated Financial Statements") of AutoCanada for the year ended December 31, 2011. Results are reported in Canadian dollars. Certain dollar amounts have been rounded to the nearest thousand dollars. References to notes are to the Notes of the Consolidated Financial Statements of the Company unless otherwise stated.

To provide more meaningful information, this MD&A typically refers to the operating results for the three-month period and year ended December 31, 2011 of the Company, and compares these to the operating results of the Company for the three-month period and year ended December 31, 2010.

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

OVERVIEW OF THE COMPANY

Corporate Structure

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

Additional information relating to AutoCanada, including our 2011 Annual Information Form dated March 22, 2012, is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com.

The Business of the Company

AutoCanada is one of Canada's largest multi-location automobile dealership groups, currently operating 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 during that time.

Our dealerships derive their revenue from the following four inter-related business operations: new vehicle sales; used vehicle sales; parts, service and collision repair; and finance and insurance. While new vehicle sales are the most important source of revenue, they generally result in lower gross profits than used vehicle sales, parts, service and collision repair operations and finance and insurance sales. Overall gross profit margins increase as revenues from higher margin operations increase relative to revenues from lower margin operations.

The Company's geographical profile is illustrated below by number of dealerships and revenues by province for the year ended December 31, 2011 and December 31, 2010.

(In thousands of dollars except % of total and number of dealerships)	<u>December 31, 2011</u>			<u>December 31, 2010</u>		
	<u>Number of Dealerships</u>	<u>Revenue</u>	<u>% of Total</u>	<u>Number of Dealerships</u>	<u>Revenue</u>	<u>% of Total</u>
British Columbia	9	359,725	35%	7	310,314	35%
Alberta	9	411,024	41%	9	345,877	40%
Ontario	3	107,704	11%	4	111,367	13%
All other	<u>3</u>	<u>130,405</u>	<u>13%</u>	<u>3</u>	<u>101,949</u>	<u>12%</u>
Total	<u>24</u>	<u>1,008,858</u>	<u>100%</u>	<u>23</u>	<u>869,507</u>	<u>100%</u>

The following table sets forth the dealerships that we currently own and operate and the date opened or acquired by the Company or its predecessors, organized by location.

<u>Location of Dealerships</u>	<u>Operating Name</u>	<u>Franchise</u>	<u>Year Opened or Acquired</u>
<i>Dealerships as of December 31, 2011:</i>			
Edmonton, Alberta	Crosstown Chrysler Jeep Dodge FIAT	Chrysler	1994
Edmonton, Alberta	Capital Chrysler Jeep Dodge FIAT	Chrysler	2003
Grande Prairie, Alberta	Grande Prairie Chrysler Jeep Dodge	Chrysler	1998
Grande Prairie, Alberta	Grande Prairie Hyundai	Hyundai	2005
Grande Prairie, Alberta	Grande Prairie Subaru	Subaru	1998
Grande Prairie, Alberta	Grande Prairie Mitsubishi	Mitsubishi	2007
Grande Prairie, Alberta	Grande Prairie Nissan	Nissan	2007
Ponoka, Alberta	Ponoka Chrysler Jeep Dodge	Chrysler	1998
Sherwood Park, Alberta	Sherwood Park Hyundai	Hyundai	2006
Abbotsford, British Columbia	Abbotsford Volkswagen ⁽²⁾	Volkswagen	2011
Chilliwack, British Columbia	Chilliwack Volkswagen ⁽²⁾	Volkswagen	2011
Kelowna, British Columbia	Okanagan Chrysler Jeep Dodge	Chrysler	2003
Maple Ridge, British Columbia	Maple Ridge Chrysler Jeep Dodge FIAT	Chrysler	2005
Maple Ridge, British Columbia	Maple Ridge Volkswagen	Volkswagen	2008
Prince George, British Columbia	Northland Chrysler Jeep Dodge	Chrysler	2002
Prince George, British Columbia	Northland Hyundai	Hyundai	2005
Prince George, British Columbia	Northland Nissan	Nissan	2007
Victoria, British Columbia	Victoria Hyundai	Hyundai	2006
Thompson, Manitoba	Thompson Chrysler Jeep Dodge	Chrysler	2003
Moncton, New Brunswick	Moncton Chrysler Jeep Dodge	Chrysler	2001
Dartmouth, Nova Scotia	Dartmouth Chrysler Jeep Dodge	Chrysler	2006
Cambridge, Ontario	Cambridge Hyundai	Hyundai	2008
Mississauga, Ontario	401/Dixie Hyundai	Hyundai	2010
Newmarket, Ontario	Newmarket Infiniti Nissan	Nissan / Infiniti	2008
<i>Dealerships sold during 2011:</i>			
Woodbridge, Ontario	Colombo Chrysler Jeep Dodge ⁽¹⁾	Chrysler	2005

¹ On June 21, 2011 the Company sold its Colombo Chrysler Jeep Dodge dealership, located in Woodbridge, Ontario.

² On November 4, 2011 the Company acquired Abbotsford Volkswagen and Chilliwack Volkswagen.

OUR PERFORMANCE

New light vehicle sales in Canada in 2011 were up 1.8% when compared to 2010. Annual sales of new light vehicles in Alberta and British Columbia, our primary markets, were up by 8.7% and 1.4% respectively. The Company's same store sales of new vehicles have increased by 26.6% during this period. The Company's manufacturer partners all outperformed the market this year and our dealerships performed particularly well, picking up market share in most sales regions. Management is pleased with the Company's ability to outperform the market in new vehicle sales during the period.

The following table summarizes Canadian new light vehicle sales for 2011 by Province:

Province	December Year to Date Canadian New Vehicle Sales by Province ¹			
	December Year to Date		Percentage Change	Units Change
	2011	2010		
British Columbia	156,515	154,373	1.4%	2,142
Alberta	217,425	200,088	8.7%	17,337
Saskatchewan	49,607	46,517	6.6%	3,090
Manitoba	46,681	44,025	6.0%	2,656
Ontario	588,402	576,629	2.0%	11,773
Quebec	406,996	413,635	-1.6%	-6,639
New Brunswick	38,309	37,740	1.5%	569
PEI	5,970	6,112	-2.3%	-142
Nova Scotia	45,015	46,422	-3.0%	-1,407
Newfoundland	30,599	31,580	-3.1%	-981
Total	<u>1,585,519</u>	<u>1,557,121</u>	<u>1.8%</u>	<u>28,398</u>

¹ *DesRosiers Automotive Consultants Inc.*

AutoCanada's success in 2011 is largely driven by the increase in new vehicle sales. The Company's manufacturer partners have performed well in Canada in 2011; led by Volkswagen (sales up 15.9% in 2011), Chrysler (sales up 12.5% in 2011), Hyundai (sales up 9.1% in 2011), Nissan (sales up 3.9% in 2011) and an increase from Mitsubishi (sales up 5.2% in 2011). Various manufacturers also provide our dealerships with performance based incentives for meeting and exceeding monthly new vehicle sales targets. These performance based incentives have increased significantly in 2011 as compared to the prior year. As a result, we have seen a shift in focus at our dealerships to selling higher volumes of new vehicles as opposed to used vehicles. We cannot project the duration of these performance based incentives; the decrease or loss of such incentives would make it difficult for the Company to maintain its current level of profitability in its new vehicle department. In addition, the Company experienced inventory shortages in 2011 with respect to some of its brands and we expect these shortages to continue into the 2012 fiscal year.

The improvement in the new vehicle market during 2011 has also positively impacted the Company's finance and insurance business. The Company realized an increase in finance and insurance revenue of 18.6% during 2011. The sales increase translated into a \$7.5 million or 19.1% increase in finance and insurance gross profit over the prior year. Consumer credit also continued to improve as more of our customers were able to finance the purchase of their vehicle, accessories and other products.

Due to a very aggressive used vehicle market in Canada in 2011, our used vehicle sales volumes decreased by 1% in 2011. In spite of this reduction in unit sales, used vehicle gross profits increased by \$0.5 million or 2.9% over 2010. We continue to see a decrease in supply of quality one to five year old used vehicles as vehicle leasing essentially ended in 2009. AutoCanada continues to focus on sourcing quality one to five year old vehicles through customer trade-ins and vehicle auctions.

Our parts and service departments posted modest gains in revenue and gross margins mainly due to an increase in the average revenue per repair order completed over the prior year. The Company continues to invest in new technology to improve the customer experience in our service departments. We expect that the impact the technology will have on customer satisfaction and improvement in customer awareness of maintenance requirements will lead to increased sales and higher margins in our parts, service and collision repair departments.

Operating expenses decreased to 80.9% of gross margin in 2011 compared to 86.8% in 2010 as a result of a number of initiatives undertaken by Management to decrease overhead and semi-variable costs.

SELECTED ANNUAL FINANCIAL INFORMATION

The following table shows the audited results of the Company for the years ended December 31, 2009, December 31, 2010 and December 31, 2011. The results of operations for these periods are not necessarily indicative of the results of operations to be expected in any given comparable period. The column below marked "CGAAP" represents financial information which has not been restated for the Company's adoption of IFRS and readers are cautioned that this column may not provide appropriate comparative information.

(In thousands of dollars except Operating Data and gross profit %)	The Company CGAAP	The Company IFRS	The Company IFRS
	(Audited)	(Audited)	(Audited)
	2009	2010	2011
Income Statement Data			
Revenue	775,836	869,507	1,008,858
New vehicles	412,203	514,676	640,721
Used vehicles	212,234	202,552	206,030
Parts, service & collision repair	108,164	108,558	110,262
Finance, insurance & other	43,235	43,721	51,845
Gross profit	141,976	150,020	169,124
New vehicles	29,308	38,164	47,705
Used vehicles	19,913	16,885	17,381
Parts, service & collision repair	53,338	55,888	57,480
Finance, insurance & other	39,417	39,083	46,558
Gross profit %	18.3%	17.3%	16.8%
Operating expenses	121,813	130,237	136,846
Operating expenses as % of gross profit	85.8%	86.8%	80.9%
Finance costs - floorplan	4,855	7,536	8,057
Finance costs – long term debt	1,647	1,076	1,136
(Reversal of) Impairment of intangible assets	-	(8,059)	(25,543)
Income taxes	449	4,956	12,509
Net earnings	12,578	14,596	36,784
EBITDA ¹	18,352	16,740	29,131
Cash dividends per share	0.062	0.120	0.310
Basic earnings (loss) per share	0.633	0.734	1.850
Diluted earnings (loss) per share	0.633	0.734	1.850
Operating Data			
Vehicles (new and used) sold	23,083	24,239	27,998
New retail vehicles sold	11,117	12,767	14,499
New fleet vehicles sold	2,233	2,717	4,832
Used retail vehicles sold	9,733	8,755	8,667
Number of service & collision repair orders completed	301,282	309,705	305,298
Absorption rate ²	89%	86%	88%
# of dealerships	22	23	24
# of same store dealerships ³	19	21	21
# of service bays at period end	331	339	333
Same store revenue growth ³	(10.5)%	10.5%	17.3%
Same store gross profit growth ³	(7.8)%	4.1%	13.9%

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

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

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

SELECTED QUARTERLY FINANCIAL INFORMATION

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

(In thousands of dollars except Operating Data and gross profit %)								
	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011
Income Statement Data								
New vehicles	114,520	144,655	141,533	113,967	128,303	196,850	172,688	142,880
Used vehicles	49,034	57,181	50,922	45,414	44,906	52,054	55,351	53,719
Parts, service & collision repair	26,168	27,501	26,540	28,351	26,462	28,256	26,871	28,673
Finance, insurance & other	10,067	12,442	11,060	10,151	11,113	13,577	14,109	13,046
Revenue	199,789	241,779	230,055	197,883	210,784	290,737	269,019	238,318
New vehicles	8,128	11,030	9,983	9,023	9,724	13,974	12,740	11,267
Used vehicles	4,099	4,906	4,221	3,659	3,486	4,302	5,020	4,573
Parts, service & collision repair	13,252	14,612	14,031	13,994	13,277	15,159	14,493	14,551
Finance, insurance & other	9,082	11,107	9,843	9,050	9,947	12,117	12,641	11,853
Gross profit	34,561	41,655	38,078	35,725	36,434	45,552	44,894	42,244
Gross profit %	17.3%	17.2%	16.6%	18.1%	17.3%	15.7%	16.7%	17.7%
Operating expenses	30,740	34,280	33,207	32,010	31,891	35,127	35,742	34,086
Operating exp. as % of gross profit	88.9%	82.3%	87.2%	89.6%	87.5%	77.1%	79.6%	80.7%
Finance costs – floorplan	1,670	2,230	2,042	1,594	1,685	2,311	2,190	1,871
Finance costs – long-term debt	236	230	278	332	283	323	296	234
Reversal of impairment of intangibles	-	-	-	(8,059)	-	-	-	(25,543)
Income taxes	516	1,330	692	2,418	690	2,029	1,646	8,144
Net earnings ⁴	1,414	3,624	1,983	7,575	1,995	5,951	5,230	23,608
EBITDA ^{1,4}	3,096	6,164	4,011	3,469	4,047	9,321	8,216	7,547
Basic earnings (loss) per share	0.071	0.182	0.100	0.381	0.100	0.299	0.263	1.187
Diluted earnings (loss) per share	0.071	0.182	0.100	0.381	0.100	0.299	0.263	1.187
Operating Data								
Vehicles (new and used) sold	5,676	6,994	6,350	5,219	5,826	8,210	7,649	6,313
New retail vehicles sold	2,787	3,614	3,358	3,008	3,050	4,158	3,907	3,405
New fleet vehicles sold	661	919	831	306	796	1,900	1,340	775
Used retail vehicles sold	2,228	2,461	2,161	1,905	1,980	2,152	2,402	2,133
Number of service & collision repair orders completed	75,311	80,072	77,285	77,037	72,360	80,851	76,176	75,911
Absorption rate ²	85%	87%	85%	86%	80%	91%	90%	91%
# of dealerships at period end	22	23	23	23	23	22	22	24
# of same store dealerships ³	19	19	19	21	22	21	21	21
# of service bays at period end	331	339	339	339	339	322	322	333
Same store revenue growth ³	16.9%	19.4%	6.7%	2.4%	2.7%	19.3%	21.6%	24.8%
Same store gross profit growth ³	11.1%	7.5%	(4.0)%	2.9%	2.9%	8.2%	22.9%	20.6%
Balance Sheet Data								
Cash and cash equivalents	23,615	31,880	34,329	37,541	39,337	43,837	49,366	53,641
Accounts receivable	40,701	46,787	37,149	32,832	42,260	51,539	44,172	42,448
Inventories	153,847	177,294	137,507	118,088	134,865	149,481	159,732	136,869
Revolving floorplan facilities	160,590	194,388	145,652	124,609	152,075	172,600	175,291	150,816

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

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

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

⁴ The results from operations have been lower in the first and fourth quarters of each year, largely due to consumer purchasing patterns during the holiday season, inclement weather and the reduced number of business days during the holiday season. As a result, our financial performance is generally not as strong during the first and fourth quarters than during the other quarters of each fiscal year. The timing of acquisitions may have also caused substantial fluctuations in operating results from quarter to quarter.

RESULTS FROM OPERATIONS

Annual Operating Results

EBITDA for the year ended December 31, 2011 increased by 74.0% to \$29.1 million, from \$16.7 million when compared to the results of the Company for the prior year. The increase in EBITDA for the year can be mainly attributed to the improvement in new vehicle sales which is a main driver of our business and tends to provide additional sales opportunities in our finance and insurance and parts, service and collision repair departments.

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

Period from January 1 to December 31th	EBITDA (In thousands of dollars)
2009	18,352
2010	16,740
2011	29,131

Pre-tax earnings before other items (reversal of impairment of intangible assets) increased by \$12.3 million to \$23.8 million in 2011 from \$11.5 million in the prior year. Net earnings before other items (reversal of impairment of intangible assets and its related tax effect) increased by \$9.0 million to \$17.6 million in 2011 from \$8.6 million in the prior year. The percentage increase in results not including other items represents a 107% increase in pre-tax earnings and a 105% increase in net earnings over 2010 annual results.

Not including other items, pre-tax earnings increased by \$29.7 million to \$49.3 million in 2011 from \$19.6 million in 2010. Net earnings increased by \$22.2 million to \$36.8 million in 2011 from a \$14.6 million when compared to the prior year. Income tax expense increased to \$12.5 million in 2011 from \$5.0 million in 2010 due to higher pre-tax earnings and future income tax expense related to the reversal of impairment of intangible assets.

Revenues

Revenues for the year ended December 31, 2011 increased by \$139.4 million or 16.0% as compared to the prior year. This increase was mainly driven by increases in new vehicle sales with modest increases in the finance and insurance and parts, service and collision repair business. In 2011, new vehicle sales increased by \$126.0 million or 24.5% to \$640.7 million from \$514.7 million in the prior year. The increase in new vehicle sales was a key driver of the increase in finance and insurance revenue of \$8.1 million or 18.6% for the year ended December 31, 2011. Used vehicle sales also increased by \$3.5 million or 1.7% during 2011. Parts, service and collision repair revenue posted a modest increase of \$1.7 million or 1.6% for the year ended December 31, 2011.

The tables in the "Same-Store Analysis" sections below summarize the results for the year ended December 31, 2011 on a same store basis by revenue source and compare these results to the same period in 2010. An acquired or open point dealership may take as long as two years in order to reach normalized operating results. As a result, in order for an acquired or open point dealership to be included in our same store analysis, the dealership must be owned and operated by us for eight complete quarters. For example, if a dealership was acquired on December 1, 2008, the results of the acquired entity would be included in quarterly same store comparisons beginning with the quarter ended March 31, 2011 and in annual same store comparisons beginning with the year ended December 31, 2011. As a result, only dealerships opened or acquired prior to January 1, 2010 are included in this same store analysis. In addition, dealership divestitures are also not included in same store operating results. As a result, the current and historical operating results of Colombo Chrysler Jeep Dodge (divested in the second quarter of 2011) are not included in same store analysis.

Revenues - Same Store Analysis

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

Same Store Revenue and Vehicles Sold

(In thousands of dollars except % change and vehicle data)	For the Year Ended		
	December 31, 2011	December 31, 2010	% Change
Revenue Source			
New vehicles	605,547	479,978	26.2%
Used vehicles	199,254	194,973	2.2%
Finance, insurance and other	49,627	41,605	19.3%
Subtotal	854,428	716,556	19.3%
Parts, service and collision repair	104,630	100,858	3.7%
Total	959,058	817,413	17.3%
New vehicles - retail sold	13,415	11,737	14.3%
New vehicles – fleet sold	4,706	2,572	83.0%
Used vehicles sold	8,284	8,405	(1.4)%
Total	26,405	22,714	16.2%
Total vehicles retailed	21,699	20,142	7.7%

Same store revenue increased by \$141.6 million or 17.3% in the year ended December 31, 2011 when compared to 2010. New vehicle revenues increased by \$125.6 million or 26.2% for the year ended December 31, 2011 over the prior year due in part to a net increase in new vehicle sales of 3,809 units consisting of an increase of 1,678 retail units and 2,134 low margin fleet unit sales. This increase was partially offset by a decrease in the average selling price per new vehicle retailed (“PNVR”) of \$120 over the prior year largely as a result of the higher volume of fleet units which typically sell for less than retail vehicles.

Same store used vehicle revenues increased by \$4.3 million or 2.2% for the year ended December 31, 2011 over the prior year. This increase was due to an increase in the average selling price per used vehicle retailed of \$856, partially offset by a decrease in the number of used vehicles retailed of 121 units.

Same store parts, service and collision repair revenue experienced a modest gain of \$3.8 million or 3.7% for the year ended December 31, 2011 compared to the prior year and was primarily a result of an increase in the average selling price per repair order of \$9 and an increase in the number of repair orders performed of 2,866 or 1.0%.

Same store finance, insurance and other revenue increased by \$8.0 million or 19.3% for the year ended December 31, 2011 over the prior year. This was due to an increase in the average revenue per unit retailed of 10.7% along with a modest increase in the number of new and used vehicles retailed of 1,557 units. Credit conditions have continued to improve in 2011 which has allowed our finance and insurance departments to earn higher commissions on the increased ability of our customers to finance vehicles, parts, accessories and other insurance products.

Gross profit

Gross profit increased by \$19.1 million or 12.7% for the year ended December 31, 2011 when compared to the prior year. Similar to revenues, gross profit increased due to increases in new vehicle sales, finance and insurance and parts, service and collision repair revenue. Gross profit on the sale of new vehicles increased by \$9.5 million or 25.0% for the year ended December 31, 2011. The increase in new vehicle gross can be mainly attributed to an increase in new vehicle unit sales of 3,847 units or 24.8%. The Company's finance and insurance gross profit increased by \$7.5 million or 19.1% during 2011. This increase can be mainly attributed to an increase in the average gross profit per unit retailed of \$194. The increase in overall gross profit of the Company for the year was supplemented by an increase in used vehicle gross profit of \$0.5 million or 2.9%. Parts, service and collision repair gross profit increased by \$1.6 million or 2.9% in 2011.

Gross Profit - Same Store Analysis

The following table summarizes the results for the year ended December 31, 2011, on a same store basis by revenue source, and compares these results to the same periods in 2010.

Same Store Gross Profit and Gross Profit Percentage

(In thousands of dollars except % change and gross profit %)	For the Year Ended					
	Gross Profit			Gross Profit %		
	Dec. 31, 2011	Dec. 31, 2010	% Change	Dec. 31, 2011	Dec. 31, 2010	Change
Revenue Source						
New vehicles	45,772	36,389	25.8%	7.6%	7.6%	0.0%
Used vehicles	16,897	16,772	0.7%	8.5%	8.6%	(0.1)%
Finance, insurance and other	44,941	37,407	20.1%	90.6%	89.9%	0.6%
Subtotal	107,610	90,568	19.4%			
Parts, service and collision repair	54,609	51,886	5.2%	52.2%	51.4%	0.7%
Total	162,219	142,454	13.9%	16.9%	17.4%	(0.5)%

Same store gross profit increased by \$19.8 million or 13.9% for the year ended December 31, 2011 when compared to the prior year. New vehicle gross profit increased by \$9.4 million or 25.8% in the year ended December 31, 2011 when compared to 2010 as a result of the previously discussed increase in new vehicle sales of 3,809 units.

Used vehicle gross profit increased by \$0.1 million or 0.7% in the year ended December 31, 2011 over the prior year. This was primarily due to a decrease in the number of used vehicles sold of 121 units or 1.4%, more than offset by an increase in the average gross profit per vehicle retailed of \$44 or 2.2%.

Parts, service and collision repair gross profit increased by \$2.7 million or 5.2% in the year ended December 31, 2011 when compared to the same period in the prior year as a result of an increase of \$8 in the average gross profit earned per repair order and an increase of 2,866 in the number of repair orders completed during the year.

Finance and insurance gross profit increased by 20.1% or \$7.5 million in the year ended December 31, 2011 when compared to the prior year as a result of an increase in the average gross profit per unit sold of \$214 and an increase in units retailed of 1,557.

Operating expenses

Operating expenses increased by 5.1% or \$6.6 million during the year ended December 31, 2011 as compared to the prior year. Since many operating expenses are variable in nature, management considers operating expenses as a percentage of gross profit to be a good indicator of expense control. Operating expenses as a percentage of gross profit decreased to 80.9% in 2011 from 86.8% in the prior year. Operating expenses consist of four major categories; employee costs, selling and administrative costs, facility lease costs, and amortization.

Employee costs

During the year ended December 31, 2011, employee costs increased by \$6.4 million to \$82.3 million from \$75.9 million in the prior year. Employee costs as a percentage of gross profit decreased to 48.7% in 2011 from 50.6% in 2010. Management attributes the decrease to lower termination and employee benefit costs realized in the year ended December 31, 2011.

Selling and administrative costs

During the year ended December 31, 2011, selling and administrative costs increased by \$1.0 million or 2.6% due to an increase in advertising and other administrative expenses. Selling and administrative expenses as a percentage of gross profit decreased to 22.9% in 2011 from 25.1% in 2010. This decrease is due to less advertising and fixed costs as a percentage of gross profit. The Company has focused over the past year on decreasing its advertising expense through more effective use of the internet. These efforts have resulted in a decrease in advertising expense per vehicle retailed.

Facility lease costs

During the year ended December 31, 2011, facility lease costs decreased by 7.0% to \$11.6 million from \$12.5 million. The Company sold its Colombo Chrysler Jeep Dodge location in June of 2011 and purchased one of its previously leased facilities in late 2010 which has attributed to this decrease.

Amortization

During the year ended December 31, 2011, amortization remained relatively flat at \$4.2 million. The 1.8% increase in amortization over the prior year is mainly due to the purchase of the Newmarket Infiniti Nissan facility in late 2010.

Reversal of impairment of intangible assets

The Company has a number of franchise agreements for its individual dealerships which it classifies as intangible assets. These intangible assets are tested for impairment at least annually as they are considered to be indefinite-lived intangible assets. Under IFRS, previously recognized impairment charges, with the exception of impairment charges related to goodwill, may potentially be reversed if the circumstances causing the impairment have improved or are no longer present. If such circumstances change, a new recoverable amount should be calculated and all or part of the impairment charge should be reversed to the extent the recoverable amount exceeds carrying value. The financial results of many of the Company's cash generating units ("CGUs") have significantly improved in 2011, which led to a reversal of previously recorded impairments to intangible assets. During the year ended December 31, 2011, the Company recorded a reversal of impairment of \$25,543 (2010 - \$8,059).

Finance costs

The Company incurs finance costs on its revolving floorplan facilities, long term indebtedness and banking arrangements. During the year ended December 31, 2011, finance costs on our revolving floorplan facilities increased to \$8.1 million from \$7.5 million in 2010. Finance costs on long term indebtedness remained steady at \$1.1 million in 2011. Finance costs, net of finance income has remained relatively flat year over year due to the Company holding cash in its Ally account which is used to offset floorplan costs at the current rate of 4.20%.

The following table summarizes the interest rates at the end of the last eight quarters on our revolving floorplan facilities.

	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011
Interest Rate	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%

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

Some of our manufacturers provide non-refundable credits on the finance costs for our revolving floorplan facilities to offset the

dealership's cost of inventory that, on average, effectively provide the dealerships with interest-free floorplan financing for the first 45 to 60 days of ownership of each financed vehicle. During the year ended December 31, 2011, the net floorplan credits were \$5,501 (2010 - \$4,223). The increase in floorplan credits is a result of higher turnover in new vehicle inventory. Accounting standards require the floorplan credits to be accounted for as a reduction in the cost of new vehicle inventory and subsequently a reduction in the cost of sales as vehicles are sold.

The following table summarizes the net floorplan credits that were received in 2011.

(In thousands of dollars)	Q1 2011	Q2 2011	Q3 2011	Q4 2011	For the year ended December 31, 2011
Net floorplan credits	1,185	1,593	1,423	1,300	5,501

Management believes that a comparison of floorplan financing costs to floorplan credits can be used to evaluate the efficiency of our new vehicle sales relative to stocking levels. The following table details the carrying cost of vehicles based on floorplan interest net of floorplan assistance earned:

	Year ended December 31, 2011	Year ended December 31, 2010
Floorplan financing costs	8,057	7,536
Floorplan credits earned	<u>(5,501)</u>	<u>(4,223)</u>
Net carrying cost of vehicle inventory	2,556	3,313

Income taxes

Income tax expense for the year ended December 31, 2011 increased by \$7.5 million to \$12.5 million from \$5.0 million in 2010. As a result of the reversal of impairments of intangible assets, the Company recorded deferred tax expense in the amount of \$6.4 million (2010 - \$2.1 million) as a result of the revised temporary differences between the tax basis and carrying value of these assets.

Until December 31, 2009, our previous trust structure was such that current income taxes were passed on to our unitholders. In conjunction with our conversion from a trust to a corporation, we became subject to normal corporate tax rates starting in 2010. The corporate income tax rate applicable to 2010 was approximately 29.0%; however, we did not pay any corporate income tax in 2010 due to the tax deductions available to us and the effect of the deferral of our partnership income.

In December 2011, legislation was passed implementing tax measures outlined in the 2011 budget (Bill C-13), which included the elimination of the ability of a corporation to defer income as a result of timing differences in the year-end of the corporation and of any partnership of which it is a member, subject to transitional relief over five years. AutoCanada's deferred tax liability includes deferred partnership income of \$6.7 million that will be reduced over the transition relief period of five years. Although the amounts below can change based on our future taxable income, the Company estimates the following amounts to be recorded as current income tax payable over the next five years in conjunction with the payment of the deferral. The Company notes that these amounts paid will be in addition to the normal current income tax payable of future years:

(In thousands of dollars)	2012	2013	2014	2015	2016
Increase to current tax payable	3,555	557	794	784	980

The Company expects income tax to have a more significant effect on our free cash flow and adjusted free cash flow as the Company will now be required to pay current income taxes, as well as, income tax instalments for the anticipated current tax expense for the fiscal year.

Until 2012, the Company has yet to pay any corporate tax or installments for corporate tax. In 2012, the Company expects to pay approximately \$4.2 million of cash taxes which relates to the fiscal 2011 taxation year and installments toward the 2012 taxation year. The payment of cash taxes will have an impact on adjusted free cash flow. As seen in the chart located in "Adjusted Free

Cash Flow”, adjusted free cash flow for the 2011 fiscal year was \$27.7 million, which was not impacted by cash taxes. If the Company maintained the same results in the 2012 fiscal year, adjusted free cash flow would be \$23.5 million due to the payment of \$4.2 million of cash taxes in 2012. Investors are cautioned that income taxes will have a more significant effect on the Company’s cash flow in the future, and as a result, the current level of adjusted free cash flow will inherently be lowered by cash taxes in the future.

Fourth Quarter Operating Results

EBITDA for the three month period ended December 31, 2011 increased by 117.6% to \$7.5 million, from \$3.5 million when compared to the results of the Company for the same period in the prior year. The increase in EBITDA for the fourth quarter can be attributed to the improvement in new vehicle sales and the resulting finance and insurance product sales. As explained below, the Company’s parts, service and collision repair department and its used vehicle department also had strong gains in revenue and gross profit which contributed to strong EBITDA in the fourth quarter of 2011.

The following table illustrates EBITDA for the three month period ended December 31, for the last 3 years of operations:

Period from October 1st to December 31th	EBITDA (In thousands of dollars)
2009	3,271
2010	3,469
2011	7,547

Pre-tax earnings before other items (reversal of impairment of intangible assets) increased by \$4.3 million to \$6.2 million in the fourth quarter of 2011 from \$1.9 million in the same period of the prior year. Net earnings before other items (reversal of impairment of intangible assets and its related tax effect) increased by \$3.0 million to \$4.5 million in the fourth quarter of 2011 from \$1.5 million in the prior year.

Not including other items, pre-tax earnings increased by \$21.8 million to \$31.8 million for the three month period ended December 31, 2011 from \$10.0 million in the same period of 2010. Net earnings increased by \$16.0 million to \$23.6 million from \$7.6 million when compared to the same period of the prior year. Income tax expense increased to \$8.1 million in the fourth quarter of 2011 from \$2.4 million in the same period of 2010 due to higher pre-tax earnings and future income tax expense related to the reversal of impairment of intangible assets.

Revenues

Revenues for the three month period ended December 31, 2011 increased by \$40.4 million or 20.4% as compared to the same period of the prior year. This increase was mainly driven by increases in new and used vehicle sales with modest increases in the finance and insurance and parts, service and collision repair business. In the fourth quarter of 2011, new vehicle sales increased by \$28.9 million or 25.4% to \$142.9 million from \$114.0 million in the prior period. Used vehicle sales also increased by \$8.3 million or 18.3% in the fourth quarter of 2011 as compared to 2010. The increase in new and used vehicle sales contributed to the increase in finance and insurance revenue of \$2.9 million or 28.5% for the three month period ended December 31, 2011. Parts, service and collision repair revenue remained relatively flat quarter over quarter.

Revenue - Same Store Analysis

The following table summarizes the results for the three-month period ended December 31, 2011 on a same store basis by revenue source and compares these results to the same period in 2010.

(In thousands of dollars except % change and vehicle data)	Same Store Revenue and Vehicles Sold		
	For the Three-Month Period Ended		
	December 31, <u>2011</u>	December 31, <u>2010</u>	<u>% Change</u>
Revenue Source			
New vehicles	136,761	103,981	31.5%
Used vehicles	52,121	43,499	19.8%
Finance, insurance and other	12,575	9,518	32.1%
Subtotal	201,457	156,998	28.3%
Parts, service and collision repair	27,452	26,368	4.1%
Total	228,909	183,366	25.0%
New vehicles - retail sold	3,226	2,687	20.1%
New vehicles – fleet sold	775	279	177.8%
Used vehicles sold	2,056	1,798	14.3%
Total	6,057	4,764	27.1%
Total vehicles retailed	5,282	4,485	17.8%

Same store revenue increased by \$45.5 million or 24.8% in the three month period ended December 31, 2011 when compared to the same period in 2010. New vehicle revenues increased by \$32.8 million or 31.5% for the fourth quarter of 2011 over the prior period due in part to a net increase in new vehicle sales of 1,005 units consisting of an increase of 539 retail units and 496 low margin fleet unit sales. This increase was partially offset by a decrease in the average selling price per new vehicle retailed (“PNVR”) of \$524 over the prior year largely as a result of the higher volume of fleet units which typically sell for less than retail vehicles.

Same store used vehicle revenues increased by \$8.6 million or 19.8% for the three month period ended December 31, 2011 over the same period in the prior year. This increase was due to an additional 258 units sold in the quarter over 2010 and an increase in the average selling price per used vehicle retailed of \$1,158.

Same store parts, service and collision repair revenue experienced a modest gain of \$1.1 million or 4.2% for the fourth quarter of 2011 compared to the prior period and was primarily a result of an increase in the number of repair orders performed of 2,932 or 4.2%.

Same store finance, insurance and other revenue increased by \$3.1 million or 32.1% for the three month period ended December 31, 2011 over the prior period. This was due to an increase in the average revenue per unit retailed of 12.2% along with an increase in the number of new and used vehicles retailed of 797 units. The increases we experienced in both new and used retail sales reflected positively in our finance and insurance revenue for the quarter.

Gross profit

Gross profit increased by \$6.5 million or 18.2% for the three month period ended December 31, 2011 when compared to the same period in the prior year. Similar to revenues, gross profit increased due to increases in all four of our major revenue streams. Gross profit earned on the sale of new vehicles increased by \$2.2 million or 24.9% for the fourth quarter of 2011. The increase in new vehicle gross can be mainly attributed to an increase in new vehicle unit sales of 866 units or 26.1%. The Company's finance and insurance gross profit increased by \$2.8 million or 31.0% during the fourth quarter of 2011. This increase can be mainly attributed to an increase in the average gross profit per unit retailed of \$298 and increases in new and used vehicle sales. The increase in overall gross profit of the Company for the quarter was supplemented by an increase in used vehicle gross profit of \$0.9 million or 25.0%. Parts, service and collision repair gross profit increased by \$0.6 million or 4.0% in the fourth quarter of 2011.

Gross Profit - Same Store Analysis

The following table summarizes the results for the three-month period ended December 31, 2011 on a same store basis by revenue source and compares these results to the same period in 2010.

Same Store Gross Profit and Gross Profit Percentage

(In thousands of dollars except % change and gross profit %)	For the Three-Month Period Ended					
	Gross Profit			Gross Profit %		
	Dec. 31, 2011	Dec. 31, 2010	% Change	Dec. 31, 2011	Dec. 31, 2010	Change
Revenue Source						
New vehicles	10,835	8,554	26.7%	7.9%	8.2%	(0.3)%
Used vehicles	4,398	3,620	21.5%	8.4%	8.3%	0.1%
Finance, insurance and other	11,507	8,558	34.5%	91.5%	89.9%	1.6%
Subtotal	26,740	20,732	29.0%			
Parts, service and collision repair	13,923	12,981	7.3%	50.7%	49.2%	1.5%
Total	40,663	33,713	20.6%	17.8%	18.4%	(0.6)%

Same store gross profit increased by \$7.0 million or 20.6% for the three month period ended December 31, 2011 when compared to the same period in the prior year. The Company's gross profit on new vehicles increased by \$2.3 million or 26.7% in the fourth quarter of 2011, when compared to 2010, as a result of an increase in new vehicle sales of 1,005 units.

Used vehicle gross profit increased by \$0.8 million or 21.5% in the fourth quarter of 2011 over the prior period. This was primarily due to an increase in the number of used vehicles sold of 258 units or 14.3% and an increase in the average gross profit per vehicle retailed of \$126 or 6.3%.

Parts, service and collision repair gross profit increased by \$0.9 million or 7.3% in the three months ended December 31, 2011 when compared to the same period in the prior year as a result of an increase of \$6 in the average gross profit earned per repair order and an increase of 2,932 in repair orders completed during the quarter.

Finance and insurance gross profit increased by 34.5% or \$2.9 million in the three month period ended December 31, 2011 when compared to the prior period as a result of an increase in the average gross profit per unit sold of \$271 and an increase in new and used vehicle units retailed of 797.

Operating expenses

Operating expenses increased by 6.5% or \$2.1 million during the three month period ended December 31, 2011 as compared to the prior period. Since many operating expenses are variable in nature, management considers operating expenses as a percentage of gross profit to be a good indicator of expense control. Operating expenses as a percentage of gross profit decreased to 80.7% in the fourth quarter of 2011 from 89.6% in the prior year. Operating expenses consist of four major categories; employee costs, selling and administrative costs, facility lease costs, and amortization.

Employee costs

During the three month period ended December 31, 2011, employee costs increased by \$2.0 million to \$20.3 million from \$18.3 million in the prior year. Employee costs as a percentage of gross profit decreased to 48.1% from 51.3% in the fourth quarter of 2010. Although commissioned wages generally increase as a percentage of gross profit, salaried wages do not increase with sales which will generally decrease employee costs as a percentage of gross profit during times of increased sales, as was the case in the fourth quarter of 2011.

Selling and administrative costs

During the three month period ended December 31, 2011, selling and administrative costs increased by \$0.3 million or 3.0% due to an increase in advertising and other administrative expenses. Selling and administrative expenses as a percentage of gross profit decreased to 23.1% in the fourth quarter of 2011 from 26.5% in 2010. This decrease is due to less advertising and fixed costs as a percentage of gross profit.

Facility lease costs

During the three month period ended December 31, 2011, facility lease costs decreased by 3.2% to \$3.0 million from \$3.1 million in the fourth quarter of 2010.

Amortization

During the three month period ended December 31, 2011, amortization decreased slightly by \$0.1 million.

Finance costs

The Company incurs finance costs on its revolving floorplan facilities, long term indebtedness and banking arrangements. During the three month period ended December 31, 2011, finance costs on our revolving floorplan facilities increased to \$1.9 million from \$1.6 million in 2010. Finance costs on long term indebtedness decreased by \$0.1 million in the fourth quarter of 2011. Finance costs, net of finance income has remained relatively flat quarter over quarter due to the Company holding cash in its Ally account which is used to offset floorplan costs at the current rate of 4.20%.

Sensitivity

Based on our historical financial data, management estimates that an increase or decrease of one new retail vehicle sold (and the associated finance and insurance income on the sale) would have resulted in a corresponding increase or decrease in our estimated free cash flow of approximately \$1,500 - \$2,000 per vehicle. The net earnings achieved per new vehicle retailed can fluctuate between individual dealerships due to differences between the manufacturers, geographical locations of our dealerships and the demographic of which our various dealerships' marketing efforts are directed. The above sensitivity analysis represents an average of our dealerships as a group and may vary depending on increases or decreases in new vehicles retailed at our various locations.

GROWTH, ACQUISITIONS, AND RELOCATIONS

The Company currently owns 24 franchised automotive dealerships. At the time of AutoCanada's initial public offering ("IPO") in May of 2006, AutoCanada owned 14 franchised automotive dealerships. Since this time the Company has acquired or opened 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 within 12 months, a relocation with its attendant costs was likely, 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 substantially 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.

LIQUIDITY AND CAPITAL RESOURCES

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

On June 22, 2011 the Company announced that following an independent Board review of its business plan, it has revised its dividend policy such that it shall 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 meet market conditions. As such, the Company expects the new dividend policy to place some constraints on its ability to fund future growth through cash from operations. If the acquisition landscape changes in the future whereby significant growth opportunities are available, the Company may fund acquisitions through the issuance of debt or equity, or revise the dividend policy to fund future acquisitions through cash from operations.

Cash Flow from Operating Activities

Cash flow from operating activities (including changes in non-cash working capital) of the Company for the year ended December 31, 2011 was \$30.0 million (cash provided by operating activities of \$28.8 million plus net change in non-cash working capital of \$1.2 million) compared to \$34.3 million (cash provided by operating activities of \$16.2 million plus net change in non-cash working capital of \$18.2 million) in the prior year.

Cash flow from operating activities of the Company for the three month period ended December 31, 2011 was \$9.7 million (cash provided by operating activities of \$7.8 million plus net change in non-cash working capital of \$1.9 million) compared to \$7.8 million (cash provided by operating activities of \$3.3 million plus net change in non-cash working capital of \$4.5 million) in the fourth quarter of 2010.

Cash Flow from Investing Activities

Cash flow from investing activities of the Company for the year ended December 31, 2011 was a net outflow of \$5.3 million compared to \$18.1 million in the prior year. In 2010, the Company purchased the land and building at its Newmarket Nissan Infiniti location for \$6.0 million and purchased the assets of 401 Dixie Hyundai in the second quarter of 2010 for \$3.6 million. These two factors were main contributors to the decrease in cash flow from investing activities in 2011.

For the three month period ended December 31, 2011, cash flow from investing activities of the Company was a net outflow of \$2.9 million as compared to a net outflow of \$4.7 million in the same period of the prior year. In the fourth quarter of 2010 the Company prepaid an additional \$2.0 million in rent which is the main contributor to the decrease in 2011.

Cash Flow from Financing Activities

Cash flow from financing activities of the Company for the year ended December 31, 2011 was a net outflow of \$8.6 million compared to \$0.2 million in the prior year. In third quarter of 2010, the Company financed the purchase of the land and building at its Newmarket Nissan Infiniti location and made a draw on its revolving term facility for the purchase of 401 Dixie Hyundai for total proceeds of \$5.5 million. In 2011, the Company repaid \$2.4 million of its long term debt and increased its dividends paid during the year by \$3.8 million when compared to the same period in the prior year.

For the three month period ended December 31, 2011, cash flow from financing activities was a net outflow of \$2.5 million as compared to a net inflow of \$0.1 million in the same period of 2010. In the fourth quarter of 2011, the Company paid \$2.4 million in dividends which is the main contributor to this decrease in cash flow.

Economic Dependence

As stated in Note 7 of the annual audited consolidated financial statements, the Company has significant commercial and economic dependence on Chrysler Canada and Ally Credit Canada Limited (“Ally Credit”). As a result, the Company is subject to significant risk in the event of the financial distress of Chrysler Canada, one of our major vehicle manufacturers and parts

suppliers, and Ally Credit, which provides the Company with revolving floorplan facilities for 22 of its 24 dealerships. Details of these relationships and balances of assets with Chrysler Canada and Ally Credit are described in Note 7 of the annual consolidated financial statements for the year ended December 31, 2011.

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. 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 MD&A).

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 below in *Floor Plan Financing* section).

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 including a copy of the agreement can be found on SEDAR (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 AutoCanada Holdings Inc. (“ACHI”), a subsidiary of AutoCanada Inc. 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.

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 dealerships. The Ally Facilities provide each of our 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 each of our 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 the respective 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 twenty-two dealerships provided with the Ally Facilities. The individual notes payable of the Ally Facilities are due when the related vehicle is sold or according to an aging based repayment policy as mandated by Ally Credit.

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 these 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.

Our ability to finance our new, used and demonstrator inventory is a significant factor in the Company's liquidity management. The Company is generally able to increase or decrease the number of vehicles it finances, subject to limits imposed by floorplan lenders, as part of its treasury management function. If floorplan limits are reduced, the Company may not be able to maintain its current level of inventories which may impact our results.

Financial Instruments

Details of the Company's financial instruments, including risks and uncertainties are included in Note 21 of the annual consolidated financial statements for the year ended December 31, 2011.

Growth vs. Non-growth Capital Expenditures

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

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

(In thousands of dollars)	<u>October 1, 2011 to December 31, 2011</u>	<u>January 1, 2011 to December 31, 2011</u>
	\$	
Leasehold improvements	32	143
Machinery and equipment	116	265
Furniture and fixtures	67	198
Computer equipment	193	413
Company & lease vehicles	-	52
	<u>408</u>	<u>1,071</u>

Amounts relating to the expansion of sales and service capacity are considered growth expenditures. Growth expenditures are discretionary, represent cash outlays intended to provide additional future cash flows and are expected to provide benefit in future periods. During the year ended December 31, 2011 growth capital expenditures of \$1.9 million were incurred. These expenditures related primarily to leasehold improvements and purchases of equipment for our Crosstown body shop relocation and the renovation of three dealerships to accommodate newly appointed FIAT franchises. Dealership relocations are included as growth expenditures if they contribute to the expansion of sales and service capacity of the dealership.

The following table provides a reconciliation of the purchase of property and equipment as reported on the Statement of Cash Flows to the purchase of non-growth property and equipment as calculated in the free cash flow section below.

(In thousands of dollars)	<u>October 1, 2011 to December 31, 2011</u>	<u>January 1, 2011 to December 31, 2011</u>
	\$	\$
Purchase of property and equipment from the Statement of Cash Flows	718	2,954
Less: Amounts related to the expansion of sales and service capacity	<u>(310)</u>	<u>(1,883)</u>
Purchase of non-growth property and equipment	<u>408</u>	<u>1,071</u>

Repairs and maintenance expenditures are expensed as incurred and have been deducted from earnings for the period. Repairs and maintenance expense incurred during the three-month period and year ended December 31, 2011, were \$0.5 million and \$2.1 million, respectively (2010 - \$0.5 million and \$2.0 million).

Planned Capital Expenditures

Our capital expenditures consist primarily of leasehold improvements, the purchase of furniture and fixtures, machinery and equipment, service vehicles, computer hardware and computer software. Management expects that our annual capital expenditures will increase in the future, as a function of increases in the number of locations requiring maintenance capital expenditures, the cost of opening new locations and increased spending on information systems.

Management is also considering the purchase of real estate for some of the properties in which it currently leases. Based on current lease rates, our estimates of appraisal values and current market financing rates, Management believes that the purchase of certain properties may provide value and will continue to evaluate this option if opportunities arise in which a property is available to purchase. If a significant real estate purchase is undertaken, the Company may seek additional debt and/or equity financing to fund the purchase.

For further information regarding planned capital expenditures, see “GROWTH, ACQUISITIONS, AND RELOCATIONS” above.

Contractual Obligations

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

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

	\$
2012	10,109
2013	8,611
2014	8,307
2015	7,984
2016	6,881
Thereafter	<u>56,481</u>
Total	<u>98,373</u>

Information regarding our contractual obligations with respect to long-term debt, capital lease obligations and other long-term obligations is included in the *Liquidity Risk* section of *Note 21 – Financial Instruments* of the Company's annual consolidated financial statements.

Financial Position

The following table shows selected audited balances of the Company (in thousands) for December 31, 2011 and December 31, 2010 as well as unaudited balances of the Company at September 30, 2011, June 30, 2011, March 31, 2011, September 30, 2010, June 30, 2010 and March 31, 2010.

Balance Sheet Data	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
Cash and cash equivalents	53,641	49,366	43,837	39,337	37,541	34,329	31,880	23,615
Accounts receivable	42,448	44,172	51,539	42,260	32,832	37,149	46,787	40,701
Inventories	136,869	159,732	149,481	134,865	118,088	137,326	177,294	153,847
Total assets	334,223	327,568	318,956	291,291	261,435	271,635	314,662	274,657
Revolving floorplan facilities	150,816	175,291	172,600	152,075	124,609	145,652	194,388	160,590
Non-current debt and lease obligations	20,115	20,210	24,895	24,989	25,094	24,200	18,942	19,010

Net Working Capital

The automobile manufacturers represented by the Company require the Company to maintain net working capital for each individual dealership. At December 31, 2011, the aggregate of net working capital requirements was approximately \$31.4 million. At December 31, 2011, all working capital requirements had been met by each dealership. The working capital requirements imposed by the automobile manufacturers' may limit our ability to fund capital expenditures, acquisitions, dividends, or other commitments in the future if sufficient funds are not generated by the Company. Net working capital, as defined by automobile manufacturers, may not reflect net working capital as determined using GAAP measures. As a result, it is possible that the Company may meet automobile manufacturers' net working capital requirements without having sufficient aggregate working capital using GAAP measures. The Company defines net working capital amounts as current assets less current liabilities as

presented in the annual consolidated financial statements. At December 31, 2011, the Company had aggregate working capital of approximately \$45.0 million.

The net working capital requirements above restrict the Company's ability to transfer funds up from its subsidiary's as each subsidiary dealership is required to be appropriately capitalized as explained above. In addition, our VCCI Facilities required the two VW dealerships to maintain minimum cash and equity, which also restricts our ability to transfer up funds.

Off Balance Sheet Arrangements

The Company has not entered into any material off balance sheet arrangements.

Related Party Transactions

Note 30 of the annual consolidated financial statements of the Company summarize the transactions between the Company and its related parties. These transactions are prepayments of rent and rents paid to companies with common ownership, management and directors.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties and have been reviewed and approved by the independent members of our Board of Directors and where considered necessary are supported by independent appraisals.

DIVIDENDS

Dividends to Shareholders

Management reviews the Company's financial results on a monthly basis. The Board of Directors review 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.

The following table summarizes the dividends declared by the Company in 2011:

(In thousands of dollars)

Record date	Payment date	Total	
		Declared	Paid
		\$	\$
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	2,385	2,385

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. The next scheduled dividend review will be in 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. The impact of items such as asset impairments, the future income tax effect of impairments and other unusual items are typically removed from the calculation of diluted earnings per share used in calculating the target dividend level of 70% - 80% of fully diluted earnings per share. The current dividend level set by Management and the Board of Directors is 63% of fully diluted earnings per share, normalized for factors noted above.

As per the terms of the HSBC facility, we are restricted from declaring dividends and distributing cash if we are in breach of our financial covenants or our available margin and facility limits or if such dividend would result in a breach of our covenants or our available margin and facility limits. At this time, the Company is well within its covenants, as such, Management does not believe that a restriction from declaring dividends is likely in the foreseeable future.

Free Cash Flow

The Company has defined free cash flow to be cash flows provided by operating activities (including changes in non-cash operating working capital) less capital expenditures (excluding capital assets acquired by acquisitions or purchases of real estate).

(In thousands of \$ except unit and per unit amounts)	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011
Cash provided by operating activities	7,169	14,382	4,983	7,810	4,166	5,292	10,851	9,718
Deduct:								
Purchase of property and equipment	(541)	(1,156)	(572)	(2,130)	(930)	(612)	(694)	(718)
Free Cash Flow¹	6,628	13,226	4,411	5,680	3,236	4,680	10,157	9,000
Weighted average shares outstanding at end of period	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930
Free cash flow per share	0.333	0.665	0.222	0.286	0.163	0.235	0.511	0.453
Free cash flow – 12 month trailing	17,968	30,758	25,970	29,945	26,553	18,007	23,753	27,073

¹ These financial measures are identified and defined under the section “NON-GAAP MEASURES”.

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

Changes in non-cash working capital consist of fluctuations in the balances of trade and other receivables, inventories, other current assets, trade and other payables and revolving floorplan facilities. Factors that can affect these items include seasonal sales trends, strategic decisions regarding inventory levels, the addition of new dealerships, and the day of the week on which period end cutoffs occur.

The following table summarizes the net increase in cash due to changes in non-cash working capital for the years ended December 31, 2011 and December 31, 2010.

(In thousands of dollars)	<u>January 1, 2011 to December 31, 2011</u>	<u>January 1, 2010 to December 31, 2010</u>
	\$	\$
Accounts receivable	(9,808)	2,510
Inventories	(25,933)	(9,499)
Prepaid expenses	33	529
Accounts payable and accrued liabilities	5,165	1,656
Leased vehicle repurchase obligations	340	742
Revolving floorplan facility	31,441	22,239
	<u>1,238</u>	<u>18,177</u>

Adjusted Free Cash Flow

The Company has defined adjusted free cash flow to be cash flows provided by operating activities (before changes in non-cash operating working capital) less non-growth capital expenditures. Columns marked “IFRS” represent financial information which has been restated for the Company’s adoption of International Financial Reporting Standards (“IFRS”) on January 1, 2010.

(In thousands of \$ except unit and per unit amounts)	Q1 2010 IFRS	Q2 2010 IFRS	Q3 2010 IFRS	Q4 2010 IFRS	Q1 2011 IFRS	Q2 2011 IFRS	Q3 2011 IFRS	Q4 2011 IFRS
Cash provided by operating activities before changes in non-cash working capital	2,971	6,047	3,836	3,313	3,882	9,076	8,032	7,799
Deduct:								
Purchase of non-growth property and equipment	(409)	(819)	(365)	(565)	(232)	(188)	(244)	(407)
Adjusted Free Cash Flow¹	2,562	5,228	3,471	2,748	3,650	8,888	7,788	7,392
Weighted average shares outstanding at end of period	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930
Adjusted Free Cash Flow / Share	0.129	0.263	0.175	0.138	0.184	0.447	0.392	0.372
Adjusted Free Cash flow – 12 Month Trailing	17,073	16,710	14,267	14,009	15,097	18,757	23,074	27,718

¹ These financial measures are identified and defined under the section “NON-GAAP MEASURES”.

Management believes that non-growth property and equipment is necessary to maintain and sustain the current productive capacity of the Company’s operations and cash available for growth. Management believes that maintenance capital expenditures should be funded by cash flow provided by operating activities. Capital spending for the expansion of sales and service capacity is expected to improve future free cash and as such is not deducted from cash flow provided by operating activities before changes in non-cash working capital in arriving at adjusted free cash flow. Adjusted free cash flow is a measure used by management in forecasting and determining the Company’s available resources for future capital expenditure, repayment of debt, funding the future growth of the Company and dividends to Shareholders.

The Company expects the payment of corporate income taxes to have a more significant negative affect on free cash flow and adjusted free cash flow. See “RESULTS FROM OPERATIONS – Annual Operating Results – *Income Taxes*” for further detail regarding the impact of corporate income taxes on cash flow.

Adjusted Return on Capital Employed

The Company has defined Adjusted Return on Capital Employed to be EBIT (EBITDA, as defined in “NON-GAAP MEASURES”, less depreciation and amortization) divided by Average Capital Employed in the Company (average of shareholders’ equity and interest bearing debt, excluding floorplan financing, for the period, less the comparative adjustment defined below). Calculations below represent the results on a quarterly basis, except for the adjusted return on capital employed – 12 month trailing which incorporates the results based on the trailing 12 months for the periods presented.

(In thousands of \$ except share and per share amounts)	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011
EBITDA¹	3,096	6,164	4,011	3,469	4,047	9,321	8,216	7,547
Add (deduct): Amortization	(931)	(961)	(1,058)	(1,207)	(1,079)	(1,018)	(1,044)	(1,104)
EBIT¹	2,165	5,203	2,953	2,262	2,967	8,303	7,172	6,443
Average long-term debt	21,314	19,244	21,924	25,461	26,201	26,071	25,201	24,282
Average shareholders’ equity	70,872	72,991	75,000	78,985	82,973	86,056	89,156	102,383
Average capital employed¹	92,185	92,235	96,924	104,445	109,174	111,127	114,357	126,665
Return on capital employed¹	2.3%	5.6%	3.0%	2.2%	2.7%	7.5%	6.3%	5.1%
Comparative adjustment ²	9,301	9,301	9,301	3,579	3,579	3,579	3,579	(15,376)
Adjusted average capital employed²	101,486	101,536	106,225	110,885	112,753	114,706	117,936	120,766
Adjusted return on capital employed²	2.1%	5.1%	2.8%	2.0%	2.6%	7.2%	6.1%	5.3%
Adjusted return on capital employed - 12 month trailing				11.7%				21.3%

¹These financial measures are identified and defined under the section “NON-GAAP MEASURES”

²A comparative adjustment has been made in order to adjust for impairments and reversals of impairments of intangible assets. Due to the increased frequency of impairments and reversals of impairments, management has provided an adjustment in order to freeze intangible assets at the pre-IFRS amount of \$43,700. As a result, all differences from January 1, 2010 forward under IFRS have been adjusted at the post-tax rate at the time the adjustment to the intangible asset carrying amount was made. Management believes that the adjusted return on capital employed provides more useful information about the return on capital employed.

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

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICY DEVELOPMENTS

A complete listing of critical accounting policies, estimates, judgments and measurement uncertainty can be found in Note 3 of the annual consolidated financial statements for the year ended December 31, 2011.

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee (“IFRIC”) that are not yet effective for the financial year ended December 31, 2011. The standards impacted that are applicable to the Company are as follows:

- IFRS 9, *Financial Instruments* - The new standard will ultimately replace IAS 39, *Financial Instruments: Recognition and Measurement*. The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments and the issuance of IFRS 9 is part of the first phase. This standard becomes effective on January 1, 2013.
- IFRS 10, *Consolidated Financial Statements*, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, *Consolidation—Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*.
- IFRS 13, *Fair Value Measurement*, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.
- IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.
- IFRS 7, *Financial Instruments: Disclosures*, has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity’s financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual periods beginning on or after July 1, 2011, with earlier application permitted.
- IAS 12, *Income Taxes*, was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendment, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale when considering the expected manner or recovery or settlement. SIC 21, *Income Taxes - Recovery of Revalued Non-Depreciable Assets*, will no longer apply to investment properties carried at fair value. The amendment also incorporates into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.

The Company is currently assessing the impact of new standards affecting its 2012 fiscal year. The Company has yet to assess the impact of the new standards on its results of operations, financial position and disclosures for the 2013 fiscal year.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls & Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in reports filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis, and is accumulated and communicated to the Company’s management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

As of December 31, 2011, the Company’s management, with the participation of the CEO and CFO, evaluated the effectiveness of the design and operation of its disclosure controls and procedures, as defined in Multilateral Instrument 52-109 of the Canadian Securities Administrators, and have concluded that the Company’s disclosure controls and procedures are effective.

Internal Controls over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal controls over financial reporting. These controls include policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2011, based on the framework established in *Internal Control – Integrated Framework* issued by the Committee Of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concluded that the company maintained effective internal control over financial reporting as of December 31, 2011.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting during the year ended December 31, 2011.

OUTLOOK

The outlook regarding vehicle sales in Canada is difficult to predict. New light vehicle unit sales in Canada are expected to increase by 1.1 percent in 2012 as compared to the prior year.

New Vehicle Sales Outlook by Province*

(thousands of units, annual rates)

	<u>1994-2005</u> Average	<u>2006-08</u> Average	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012f</u>
Canada	1,446	1,637	1,461	1,557	1,589	1,605
Atlantic	102	119	115	122	119	120
Central	936	1,002	927	990	997	1,002
Quebec	366	411	392	414	408	409
Ontario	570	591	535	576	589	593
West	408	516	419	445	473	483
Manitoba	42	45	43	44	47	48
Saskatchewan	36	43	44	46	50	51
Alberta	166	239	182	200	218	224
British Columbia	164	189	150	155	158	160

* Includes cars and light trucks

Source: Scotia Economics - Global Auto Report, February 27, 2012

AutoCanada continued to benefit from the general improvement in the economy in Canada in 2011. This improvement was evident by the increase in new vehicle sales and the improvement in finance and insurance revenues (an indicator of improved

credit conditions). Canadian new vehicle sales over the first two months of 2012 continue to be strong and sales in January and February are estimated to be running at an annualized rate of 1.70 million. Management believes that as a result of both the number of variables and the volatility of these variables that it is difficult to predict the direction of new and used vehicle sales with any certainty. With respect to macroeconomic factors, Management does not expect inflationary or vehicle pricing concerns to have a significant impact on our business. We do believe that higher gasoline prices may impact our sales of light trucks which may have a significant impact on our operations if sales volumes of light trucks decrease. Both unemployment rates and consumer confidence indexes are macroeconomic factors that we believe are good indicators of the health of the retail automotive industry in Canada and we have seen improvement in these two factors over the past two years. Due to the unpredictability of the economy, Management believes that the best approach is to continue its emphasis on existing operations for continued earnings and cash flow growth and, in particular, those aspects of its operations which are most impacted by same. In view of the number of brands which to date have accepted public ownership in Canada, and the need to ensure that acquisitions are priced to be accretive, profitable acquisitions remain challenging and their timing is uncertain.

RISK FACTORS

We face a number of business risks that could cause our actual results to differ materially from those disclosed in this MD&A (See “FORWARD LOOKING STATEMENTS”) Investors and the public should carefully consider our business risks, other uncertainties and potential events as well as the inherent uncertainty of forward looking statements when making investment decisions with respect to AutoCanada. If any of the business risks identified by AutoCanada were to occur, our business, financial condition, results of operations, cash flows or prospects could be materially adversely affected. In such case, the trading price of our shares could decline. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also adversely affect our business and operations. A comprehensive discussion of the known risk factors of AutoCanada and additional business risks is available in our 2011 Annual Information Form dated March 22, 2012 available on the SEDAR website at www.sedar.com.

Additional information

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

FORWARD LOOKING STATEMENTS

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

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

- the future level of performance based incentives and its effect on our profitability;
- the impact of investments in technology on customer satisfaction, sales and profitability;
- whether permitting senior management to privately purchase dealerships will better ensure the retention of such employees and allow for cost savings synergies;
- our expectation that if the business landscape changes and new brands consider the acceptance of the public ownership model, that Management and the Board may revise the dividend policy to better align the Company’s capital structure to fund future growth expectations;
- guidance with respect to future acquisition and open point opportunities;
- our assessment of the addition of FIAT franchises and its effect on earnings;
- our belief that relocation of certain dealerships may provide incremental long-term earnings growth and better align some of our dealerships with the growth expectations of our manufacturer partners;

- management's assessment of our dividend policy and its effect on liquidity;
- our expectation to incur annual non-growth capital expenditures;
- the impact of dealership real estate relocations and purchases and its impact on liquidity, financial performance and the Company's capital requirements;
- the impact of working capital requirements and its impact on future liquidity;
- Our assumptions regarding financial covenants and our ability to meet covenants in the future;
- our assumption on the amount of time it may take for an acquisition or open point to achieve normal operating results;
- expectations and assumptions regarding the Company's ability to pay future dividends and growth;
- expectations and estimates regarding income taxes and their effect on cash flow and dividends;
- assumptions over non-GAAP measures and their impact on the Company;
- management's assumptions and expectations over the future economic and general outlook.

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

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

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

NON-GAAP MEASURES

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

EBITDA

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

EBIT

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

Free Cash Flow

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

Adjusted Free Cash Flow

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

Absorption Rate

Absorption rate is an operating measure commonly used in the retail automotive industry as an indicator of the performance of the

parts, service and collision repair operations of a franchised automobile dealership. Absorption rate is not a measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, absorption rate may not be comparable to similar measures presented by other issuers that operate in the retail automotive industry. References to “absorption rate” are to the extent to which the gross profits of a franchised automobile dealership from parts, service and collision repair cover the costs of these departments plus the fixed costs of operating the dealership, but does not include expenses pertaining to our head office. For this purpose, fixed operating costs include fixed salaries and benefits, administration costs, occupancy costs, insurance expense, utilities expense and interest expense (other than interest expense relating to floor plan financing) of the dealerships only.

Average Capital Employed

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

Adjusted Average Capital Employed

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

Return on Capital Employed

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

Adjusted Return on Capital Employed

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

Cautionary Note Regarding Non-GAAP Measures

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