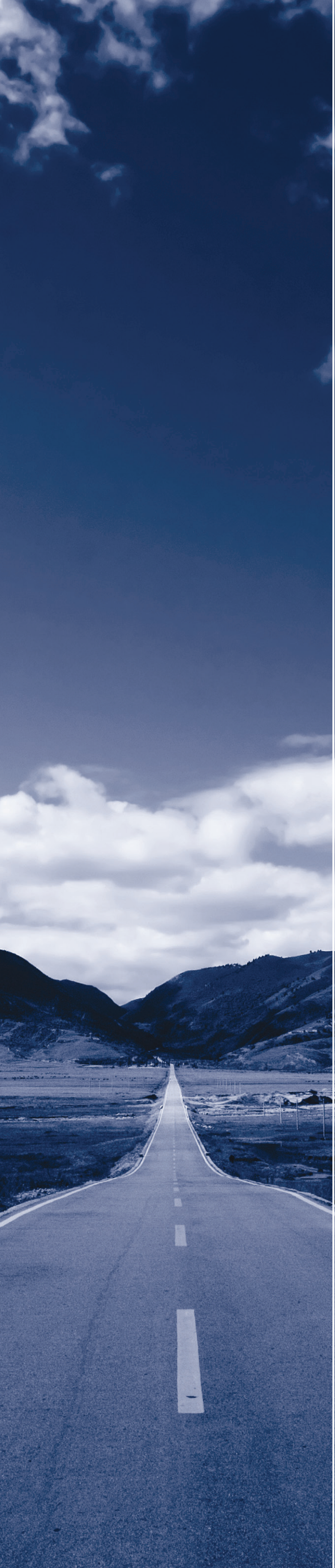
AUTOCANADA

ANNUAL REPORT

2012



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AutoCanada Inc.

MANAGEMENT'S DISCUSSION & ANALYSIS

AutoCanada Inc.

Management's Discussion & Analysis of Financial Conditions and Results of Operations

For the year ended December 31, 2012

As of March 26, 2013

READER ADVISORIES

The Management's Discussion & Analysis ("MD&A") was prepared as of March 26, 2013 to assist readers in understanding AutoCanada Inc.'s (the "Company" or "AutoCanada") consolidated financial performance for the year ended December 31, 2012 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, 2012. 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, 2012 of the Company, and compares these to the operating results of the Company for the three-month period and year ended December 31, 2011.

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

OVERVIEW OF THE COMPANY

Corporate Structure

AutoCanada Inc. ("ACI", "AutoCanada", or the "Company") was incorporated under the Canada Business Corporations Act 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 2012 Annual Information Form dated March 26, 2013, 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 25 wholly-owned franchised dealerships and managing 3 franchised dealership investments (see "GROWTH, ACQUISITIONS, RELOCATIONS AND REAL ESTATE") in British Columbia, Alberta, Manitoba, Ontario, New Brunswick and Nova Scotia. In 2012, our dealerships sold approximately 30,000 vehicles and processed approximately 310,000 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 years ended December 31, 2012 and December 31, 2011.

(In thousands of dollars except % of total and number of dealerships)	December 31, 2012			December 31, 2011		
	Number of Dealerships	Revenue	% of Total	Number of Dealerships	Revenue	% of Total
British Columbia	9	406,329	37%	9	359,725	35%
Alberta	9	468,428	42%	9	411,440	41%
Ontario	3	92,572	8%	3	107,719	11%
All other	3	136,584	13%	3	130,442	13%
Total	24	1,103,913	100%	24	1,009,326	100%

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.

Location of Dealerships	Operating Name	Franchise	Year Opened or Acquired
Wholly-Owned Dealerships:			
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 FIAT	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
Grande Prairie, Alberta	Grande Prairie Volkswagen(1)	Volkswagen	2013
Ponoka, Alberta	Ponoka Chrysler Jeep Dodge	Chrysler	1998
Sherwood Park, Alberta	Sherwood Park Hyundai	Hyundai	2006
Abbotsford, British Columbia	Abbotsford Volkswagen	Volkswagen	2011
Chilliwack, British Columbia	Chilliwack Volkswagen	Volkswagen	2011
Kelowna, British Columbia	Okanagan Chrysler Jeep Dodge FIAT	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
Dealership investments:			
Sherwood Park, Alberta	Sherwood Park Chevrolet(2)	General Motors	2012
Sherwood Park, Alberta	Petersen Pontiac Buick GMC(2)	General Motors	2012
Duncan, British Columbia	Peter Baljet Chevrolet GMC Buick(3)	General Motors	2013

[1] On January 4, 2013, the Company acquired Grande Prairie Volkswagen located in Grande Prairie, Alberta.

[2] During 2012, the Company acquired an indirect 31% equity interest in Nicholson Chevrolet originally located in Edmonton, Alberta, now operating as Sherwood Park Chevrolet in Sherwood Park, Alberta. On June 1, 2012, the Company acquired an indirect 31% equity interest in Petersen Pontiac Buick GMC located in Sherwood Park, Alberta.

[3] On March 1, 2013, the Company acquired an indirect 80% equity interest in Peter Baljet Chevrolet GMC Buick located in Duncan, British Columbia.

OUR PERFORMANCE

New light vehicle sales in Canada in 2012 were up 5.7% when compared to 2011. Annual sales of new light vehicles in Alberta and British Columbia, our primary markets, were up by 9.9% and 10.0% respectively. The Company's same store unit sales of new vehicles have increased by 9.2% during this period, which includes an increase in new vehicle units retailed of 17.0% in 2012. Our dealerships performed particularly well in new vehicle sales, picking up market share in many sales regions. Management is very pleased with our dealerships' abilities to outperform the market in many of the regions in which we operate. We accredit the performance of our dealerships to their strong management teams and their ability to leverage best practices from operating within a dealer group. We believe that the advances our dealership management teams have made in integrating technology and best practices have contributed greatly to their ability to outperform the market in new vehicle sales.

The following table summarizes Canadian new light vehicle sales for 2012 by Province:

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

	December Year to Date		Percentage Change	Units Change
	2012	2011		
Province				
British Columbia	172,126	156,515	10.0%	15,611
Alberta	238,884	217,425	9.9%	21,459
Saskatchewan	54,728	49,607	10.3%	5,121
Manitoba	49,667	46,681	6.4%	2,986
Ontario	617,767	588,402	5.0%	29,365
Quebec	415,694	406,996	2.1%	8,698
New Brunswick	38,789	38,309	1.3%	480
PEI	6,885	5,970	15.3%	915
Nova Scotia	47,985	45,015	6.6%	2,970
Newfoundland	33,150	30,599	8.3%	2,551
Total	**1,675,675**	**1,585,519**	**5.7%**	**90,156**

[1] *DesRosiers Automotive Consultants Inc.*

AutoCanada's success in 2012 is largely driven by increases in new vehicle retail sales, which tend to attract new and existing customers into our dealership showrooms. New vehicle retail sales are the main driver of finance, insurance and other revenue (one of our most profitable revenue streams) as well as parts, service and collision repair business (the foundation of our business and most profitable revenue stream). New vehicle retail sales also typically attract customer trade-in vehicles of which many are reconditioned and marketed for resale in our used vehicle departments. Given the limited supply of quality used vehicles in the marketplace, customer trade-ins of used vehicles from the sale of new retail vehicles are an important source of supply for our used vehicle departments. Most importantly, new vehicle retail sales are the main driver of revenue and profit of our manufacturer partners and we seek to outperform our minimum sales responsibility in all regions to develop a mutually rewarding relationship with our partners.

The Company's manufacturer partners have performed well in Canada in 2012; led by Volkswagen (sales up 12.4% in 2012), Chrysler (sales up 5.5% in 2012), Hyundai (sales up 5.4% in 2012), Infiniti (sales up 15.2%), and Subaru (sales up 14.9%). Various manufacturers also provide our dealerships with performance based incentives for meeting and exceeding monthly new vehicle sales targets. Due to our strong performance in new vehicle retail sales, these performance based incentives have increased significantly in 2012 as compared to the prior year. As a result, we continue to see 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.

As previously noted, the improvement in the new vehicle retail sales during the year has also positively impacted the Company's finance and insurance business. The consumer credit climate is currently well positioned due to low interest rates and favourable loan to value ratios, which assisted in our customers' ability to finance new and used vehicles, accessories and other finance and insurance products. As a result of the improved consumer credit conditions and increases in retail sales, the Company realized a substantial increase in finance and insurance revenue and gross profit over the prior year.

The used vehicle market in Canada remained challenging to many of our dealerships in fiscal 2012. With significant new vehicle retail volume incentives available to our dealerships, our dealership management teams allocated more resources to new vehicle departments and were more aggressive in used vehicle trade-in values, which resulted in a reduction in gross profit in our used vehicle departments. Many of our dealerships have also adopted a new model in their used vehicle departments, which typically results in higher volume and lower margins. Due to advances in technology available to consumers in the used vehicle segment, many of our dealerships have reacted with more competitive pricing in order to attract a higher volume of customers from the internet. Although implementing a velocity pricing model may result in less gross profit per used vehicle retailed, the increase in volume may contribute to higher overall finance and insurance revenues, as well as gross profit from increased reconditioning work in our parts, service and collision repair departments. Although overall gross profit in the Company's used vehicle department decreased, our finance and insurance and parts, service and collision repair departments have benefitted from the increase in overall volumes in used vehicles retailed.

Our parts, service and collision repair department posted modest gains in revenue and gross margins. The Company has invested in technology to improve the customer experience in many of our service departments, which we believe results in a better customer experience and retention of service customers. We expect that the impact the technology will have on customer satisfaction and improvement in customer awareness of ongoing maintenance requirements will lead to increased sales and higher margins in our parts, service and collision repair departments in the future. The parts, service and collision repair business is our most profitable and stable revenue stream, therefore we believe that investing in technology and training our service advisors to improve the customer experience is critical to growing our same store business in the future.

The majority of our operating expenses are variable in nature, mainly consisting of employee costs. Many of our dealership employee pay structures are tied to meeting sales objectives, maintaining customer satisfaction indexes, as well as improving gross profit and net income. Our dealership management teams typically do not promote a reduction in wages as a means to control costs, but rather controlling wages to promote the achievement of its objectives and rewarding employees for the achievement of above average performance. The Company regularly reviews the operating performance of its dealerships and utilizes the leverage of a large dealer group to reduce its overall operating expenses. The Company operates a centralized marketing department and information technology department which provides services to the dealerships in order to leverage the size of the group as a means to lower the operating costs of the dealerships. As a result of pay structures tied to dealership performance and the ability to leverage the group operating structure, the Company has reduced its overall operating expenses as a percentage of gross profit to 78.3% in fiscal 2012 as compared to 80.9% in the prior year.

During late fiscal 2012, the Company was able to refinance its revolving floorplan facilities at twenty-one of its dealerships. The refinancing of its revolving floorplan facilities resulted in a reduction of the interest rate on its financed inventory from 4.20% to approximately 2.52%. Since the refinancing was not completed until November 2012, the Company's finance costs were not significantly reduced in 2012. However, the Company expects significant savings in the 2013 fiscal year as a result of the refinancing.

SELECTED ANNUAL FINANCIAL INFORMATION

The following table shows the audited results of the Company for the years ended December 31, 2010, December 31, 2011 and December 31, 2012. 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 %)	The Company	The Company	The Company
	(Audited)	(Audited)	(Audited)
	2010	2011	2012
Income Statement Data			
Revenue	869,507	1,009,326	1,103,913
New vehicles	514,676	640,722	683,375
Used vehicles	202,552	206,030	243,351
Parts, service & collision repair	108,558	110,678	114,600
Finance, insurance & other	43,721	51,896	62,587
Gross profit	150,020	169,161	190,365
New vehicles	38,164	47,705	57,575
Used vehicles	16,885	17,381	16,311
Parts, service & collision repair	55,888	57,480	59,643
Finance, insurance & other	39,083	46,595	56,836
Gross profit %	17.3%	16.8%	17.2%
Operating expenses	130,237	136,846	149,140
Operating expenses as % of gross profit	86.8%	80.9%	78.3%
Finance costs - floorplan	7,536	8,057	8,832
Finance costs – long term debt	1,076	1,136	984
(Reversal of) Impairment of intangible assets	(8,059)	(25,543)	(222)
Income taxes	4,956	12,509	8,576
Net earnings	14,596	36,784	24,236
EBITDA [1]	16,740	29,137	37,885
Cash dividends per share	0.120	0.310	0.620
Basic earnings (loss) per share	0.734	1.850	1.222
Diluted earnings (loss) per share	0.734	1.850	1.222
Operating Data			
Vehicles (new and used) sold	24,239	27,998	29,780
New retail vehicles sold	12,767	14,499	16,226
New fleet vehicles sold	2,717	4,832	4,096
Used retail vehicles sold	8,755	8,667	9,458
Number of service & collision repair orders completed	309,705	305,298	309,488
Absorption rate [2]	86%	88%	86%
# of dealerships	23	24	24
# of same store dealerships [3]	21	21	22
# of service bays at period end	339	333	333
Same store revenue growth [3]	10.5%	17.3%	8.6%
Same store gross profit growth [3]	4.1%	13.9%	10.9%

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 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Income Statement Data								
New vehicles	128,303	196,850	172,688	142,881	147,383	186,649	190,139	159,204
Used vehicles	44,906	52,054	55,351	53,719	60,453	62,822	62,816	57,260
Parts, service & collision repair	26,462	28,256	26,980	28,980	26,913	28,847	28,593	30,247
Finance, insurance & other	11,113	13,577	14,115	13,091	13,648	16,451	17,133	15,355
Revenue	210,784	290,737	269,134	238,671	248,397	294,769	298,681	262,066
New vehicles	9,724	13,974	12,740	11,267	12,046	14,647	15,461	15,421
Used vehicles	3,486	4,301	5,020	4,574	4,412	4,237	3,994	3,668
Parts, service & collision repair	13,278	15,159	14,492	14,551	14,004	15,228	15,078	15,333
Finance, insurance & other	9,947	12,118	12,647	11,883	12,387	14,878	15,579	13,992
Gross profit	36,435	45,552	44,899	42,275	42,849	48,990	50,112	48,414
Gross profit %	17.3%	15.7%	16.7%	17.7%	17.3%	16.6%	16.8%	18.5%
Operating expenses	31,891	35,127	35,742	34,086	35,381	37,661	38,361	37,737
Operating exp. as % of gross profit	87.5%	77.1%	79.6%	80.6%	82.6%	76.9%	76.6%	77.9%
Finance costs – floorplan	1,685	2,311	2,190	1,871	1,935	2,511	2,645	1,741
Finance costs – long-term debt	283	323	296	234	230	256	267	231
Reversal of impairment of intangibles	-	-	-	(25,543)	-	-	-	(222)
Income taxes	690	2,029	1,646	8,144	1,441	2,216	2,379	2,540
Net earnings [4]	1,995	5,951	5,230	23,608	4,113	6,711	6,807	6,605
EBITDA [1, 4]	4,047	9,321	8,216	7,553	6,809	10,208	10,592	10,276
Basic earnings (loss) per share	0.100	0.299	0.263	1.187	0.207	0.338	0.344	0.334
Diluted earnings (loss) per share	0.100	0.299	0.263	1.187	0.207	0.338	0.344	0.334
Operating Data								
Vehicles (new and used) sold	5,826	8,210	7,649	6,313	6,836	8,154	8,087	6,703
New retail vehicles sold	3,050	4,158	3,886	3,405	3,434	4,400	4,410	3,982
New fleet vehicles sold	796	1,900	1,361	775	969	1,313	1,265	549
Used retail vehicles sold	1,980	2,152	2,402	2,133	2,433	2,441	2,412	2,172
Number of service & collision repair orders completed	72,360	80,851	76,176	75,911	74,439	78,104	78,944	78,001
Absorption rate [2]	80%	91%	90%	91%	81%	89%	89%	85%
# of dealerships at period end	23	22	22	24	24	24	24	24
# of same store dealerships [3]	22	21	21	21	21	21	22	22
# of service bays at period end	339	322	322	333	333	333	333	333
Same store revenue growth [3]	2.7%	19.3%	21.6%	24.8%	20.2%	2.4%	8.0%	7.4%
Same store gross profit growth [3]	2.9%	8.2%	22.9%	20.6%	18.3%	7.1%	7.9%	11.9%
Balance Sheet Data								
Cash and cash equivalents	39,337	43,837	49,366	53,641	53,403	51,198	54,255	34,472
Restricted cash	-	-	-	-	-	-	-	10,000
Accounts receivable	42,260	51,539	44,172	42,448	51,380	52,042	54,148	47,944
Inventories	134,865	149,481	159,732	136,869	155,778	201,302	193,990	199,226
Revolving floorplan facilities	152,075	172,600	175,291	150,816	178,145	221,174	212,840	203,525

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, 2012 increased by 30.2% to $37.9 million, from $29.1 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 reconciles EBITDA to Net comprehensive income for the years ended December 31:

	2012	2011	2010
Net comprehensive income	24,236	36,784	14,596
Goodwill impairment (recovery of impairment)	(222)	(25,543)	(8,059)
Income tax	8,576	12,509	4,956
Amortization	4,311	4,251	4,171
Interest on long-term debt	984	1,136	1,076
EBITDA	**37,885**	**29,137**	**16,740**

Normalized pre-tax earnings increased by $8.8 million or 37.0% to $32.6 million in 2012 from $23.8 million in the prior year. Normalized earnings increased by $6.5 million or 36.9% to $24.1 million in 2012 from $17.6 million in the prior year.

As the pre-tax net effect of reversals of impairment of intangible assets for the year ended December 31, 2012 was $0.2 million, as compared to total reversals of $25.5 million before taxes in 2011, the variances in the following paragraph include the effects of reversals of the impairments, which resulted in a decrease in overall net earnings in 2012 due to the large reversal of impairment incurred in 2011.

Pre-tax earnings decreased by $16.5 million to $32.8 million in 2012 from $49.3 million in 2011. Net earnings decreased by $12.6 million to $24.2 million in 2012 from $36.8 million when compared to the prior year. Income tax expense decreased to $8.6 million in 2012 from $12.5 million in 2011 due to lower pre-tax earnings and future income tax expense related to the reversal of impairment of intangible assets in 2011, which had a significant non-cash impact on earnings and income tax expense.

Revenues

Revenues for the year ended December 31, 2012 increased by $94.6 million or 9.4% as compared to 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 2012, new vehicle sales increased by $42.7 million or 6.7% to $683.4 million from $640.7 million in the prior year. The increase in new vehicle sales was a key driver of the increase in finance and insurance revenue of $10.7 million or 20.6% for the year ended December 31, 2012. Used vehicle sales also increased by $37.3 million or 18.1% to $243.4 million from $206.0 million. Parts, service and collision repair revenue posted a modest increase of $3.9 million or 3.5% for the year ended December 31, 2012.

The tables in the “Same-Store Analysis” sections below summarize the results for the year ended December 31, 2012 on a same store basis by revenue source and compare these results to the same period in 2011. 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, 2009, the results of the acquired entity would be included in quarterly same store comparisons beginning with the quarter ended March 31, 2012 and in annual same store comparisons beginning with the year ended December 31, 2012. As a result, only dealerships opened or acquired prior to January 1, 2011 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) and Abbotsford and Chilliwack Volkswagen (acquired in the last 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, 2012**	**December 31, 2011**	**% Change**
Revenue Source			
New vehicles	666,118	626,790	6.3%
Used vehicles	235,984	202,884	16.3%
Finance, insurance and other	60,440	51,132	18.2%
Subtotal	962,542	880,806	9.3%
Parts, service and collision repair	111,576	107,964	3.3%
Total	1,074,118	988,770	8.6%
New vehicles - retail sold	15,691	13,415	17.0%
New vehicles – fleet sold	4,096	4,706	(13.0)%
Used vehicles sold	9,174	8,284	10.7%
Total	28,961	26,405	9.7%
Total vehicles retailed	24,865	21,699	14.6%

Same store revenue increased by $85.3 million or 8.6% in the year ended December 31, 2012 when compared to 2011. New vehicle revenues increased by $39.3 million or 6.3% for the year ended December 31, 2012 over the prior year due in part to a net increase in new vehicle sales of 1,666 units, consisting of an increase of 2,276 retail units partially offset by a decrease of 610 low margin fleet units. This increase was partially offset by a decrease in the average selling price per new vehicle retailed ("PNVR") of $925 over the prior year.

Same store used vehicle revenues increased by $33.1 million or 16.3% for the year ended December 31, 2012 over the prior year. This increase was due to an increase in the average selling price per used vehicle retailed of $1,232 and an increase in the number of used vehicles retailed of 890 units.

Same store parts, service and collision repair revenue experienced a modest gain of $3.6 million or 3.3% for the year ended December 31, 2012 compared to the prior year and was primarily a result of an increase in the number of repair orders completed of 12,782 or 4.4%, partially offset by a decrease in the average selling price per repair order of $4 or 1.1%.

Same store finance, insurance and other revenue increased by $9.3 million or 18.2% for the year ended December 31, 2012 over the prior year. This was due to an increase in the number of new and used vehicles retailed of 3,166 units along with a modest increase in the average revenue per unit retailed of 3.2%. Credit conditions have continued to improve in 2012 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 $21.2 million or 12.5% for the year ended December 31, 2012 when compared to the prior year. 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 $9.9 million or 20.7% for the year ended December 31, 2012. The increase in new vehicle gross can be attributed to increases in new vehicle unit sales of 991 units or 5.1% and the average gross profit per new vehicle retailed of $365 or 14.8%. The Company's finance and insurance gross profit increased by $10.2 million or 22.0% during 2012. This increase can be attributed to increases in the average gross profit per unit retailed of $202 and in the number of vehicles retailed of 2,518 units. Parts, service and collision repair gross profit increased by $2.2 million or 3.8% in 2012. The increase in overall gross profit of the Company for the year was partially offset by a decrease in used vehicle gross profit of $1.1 million or 6.2% due to a decrease in the average gross profit per used vehicle retailed of $280 or 14.0%.

Gross Profit - Same Store Analysis

The following table summarizes the results for the year ended December 31, 2012, on a same store basis by revenue source, and compares these results to the same periods in 2011.

Same Store Gross Profit and Gross Profit Percentage

	For the Year Ended					
	Gross Profit			Gross Profit %		
(In thousands of dollars except % change and gross profit %)	**Dec. 31, 2012**	**Dec. 31, 2011**	**% Change**	**Dec. 31, 2012**	**Dec. 31, 2011**	**Change**
Revenue Source						
New vehicles	55,573	46,858	18.6%	8.3%	7.6%	0.9%
Used vehicles	15,715	17,271	(9.0)%	6.7%	8.5%	(1.9)%
Finance, insurance and other	54,933	45,938	19.6%	90.6%	89.8%	1.0%
Subtotal	126,221	110,067	14.7%			
Parts, service and collision repair	58,009	56,077	3.4%	52.0%	51.9%	0.7%
Total	184,230	166,144	10.9%	17.2%	16.8%	0.3%

Same store gross profit increased by $18.1 million or 10.9% for the year ended December 31, 2012 when compared to the prior year. New vehicle gross profit increased by $8.7 million or 18.6% in the year ended December 31, 2012 when compared to 2011 as a result of the previously discussed net increase in new vehicle sales of 1,666 units.

Used vehicle gross profit decreased by $1.6 million or 9.0% in the year ended December 31, 2012 over the prior year. This was primarily due to a decrease in the average gross profit per vehicle retailed of $372 or 17.8% partially offset by an increase in the number of used vehicles sold of 890 units or 10.7%.

Parts, service and collision repair gross profit increased by $1.9 million or 3.4% in the year ended December 31, 2012 when compared to the same period in the prior year as a result of an increase of 12,782 in the number of repair orders completed during the year partially offset by a decrease of $2 in the average gross profit earned per repair order.

Finance and insurance gross profit increased by 19.6% or $9.0 million in the year ended December 31, 2012 when compared to the prior year as a result of an increase in the average gross profit per unit sold of $92 and an increase in units retailed of 3,166.

Operating expenses

Operating expenses increased by 9.0% or $12.3 million during the year ended December 31, 2012 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 78.3% in 2012 from 80.9% 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, 2012, employee costs increased by $10.6 million to $93.0 million from $82.4 million in the prior year, primarily as a result of higher commissions paid on increased sales volumes year-over-year. Employee costs as a percentage of gross profit remained relatively stable at 48.9% in 2012 compared 48.7% in 2011.

Selling and administrative costs
During the year ended December 31, 2012, selling and administrative costs increased by $1.3 million or 3.4% primarily due to the inclusion of a full year of expenses from Abbotsford and Chilliwack Volkswagen, which were acquired in November 2011. Selling and administrative expenses as a percentage of gross profit decreased to 21.0% in 2012 from 22.9% in 2011. This decrease is due to more cost-effective advertising and a decrease in other semi-variable costs as a percentage of gross profit. The Company has focused over the past year on cost effective advertising 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, 2012, facility lease costs increased by 2.6% to $11.9 million from $11.6 million. The rent savings from the sale of the Company's Colombo Chrysler Jeep Dodge location in June 2011 partially offsets the increase in rent costs from the acquisition of Abbotsford and Chilliwack Volkswagen at the end of 2011.

Amortization
During the year ended December 31, 2012, amortization increased by 2.3%, mainly due to the purchase of the land and building in the fourth quarter of 2012; which the Company plans to use for the future Kia open point which was awarded in the second quarter of 2012. The Company is currently leasing the facility to a third party.

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 Company performed its annual test for impairment of its cash generating units ("CGUs") in the fourth quarter of 2012. As a result of the tests performed, the Company determined that although the financial results improved in many of the Company's CGUs, in most cases the value of its intangible assets had been fully recovered in 2011. Since impairments of intangible assets cannot be reversed to an amount greater than the intangible asset's original cost, the improved financial results of many of the Company's CGUs has no impact on the value of the Company's intangible assets.

As a result of the tests performed, the Company recorded a net reversal of impairment of intangible assets in the amount of $0.2 million (2011 - $25.5 million).

Income from investment in associate

During the year ended December 31, 2012, the Company earned $0.5 million, including acquisition costs, as a result of its investment in Dealer Holdings Ltd. ("DHL"). During the three and nine month periods ended September 30, 2012, the Company also earned $0.12 million in management services fees with subsidiaries of DHL. The management services agreements are fixed monthly fees charged to the dealerships from AutoCanada in return for marketing, training, technological support and accounting support provided to the two dealerships owned by DHL. AutoCanada provides support services to all dealerships in which it owns and operates, however since the two dealerships are not wholly-owned by AutoCanada, the Company charges a management services fee in order to recover the costs of resources provided. Management believes that as a result of the support provided that the dealerships have improved in sales volumes and profitability since being acquired by DHL.

The Nicholson Chevrolet dealership was successfully relocated to its new location in Sherwood Park, Alberta in the third quarter of 2012 and is now operating under the name of Sherwood Park Chevrolet.

The Petersen GMC Buick dealership remains located in its current facility, which is subject to a remaining lease term of five years. At this time, management has no intention of relocating this dealership.

Since the purchase of Sherwood Park Chevrolet on May 1, 2012 and Petersen GMC Buick on June 1, 2012, management has been satisfied with the return on investment. The net comprehensive income of the dealerships are slightly lower than expected due to the implementation of accounting policies in order to be consistent with the Company's policies. In addition, legal fees associated with the purchase of the two dealerships reduced net comprehensive income during the period. The profitability of both dealerships continues to improve and management has been pleased with their performance.

See GROWTH, ACQUISITIONS, RELOCATIONS AND REAL ESTATE for more information related to the investment.

Finance costs

The Company incurs finance costs on its revolving floorplan facilities, long term indebtedness and banking arrangements. During the year ended December 31, 2012, finance costs on our revolving floorplan facilities increased by 8.6% to $8.8 million from $8.1 million in 2011, mainly due to the Company holding more inventories at year end. Finance costs on long term indebtedness decreased to $1.0 million from $1.1 million in 2011. Finance costs, net of finance income increased by $0.5 million or 5.7% over the prior year, due primarily to the increase in inventory throughout the year.

During the year, the Company refinanced the revolving floorplan facilities at twenty-one of its twenty-four wholly owned dealerships with the Bank of Nova Scotia ("Scotiabank"). As at December 31, 2012, our floorplan interest rates on new vehicles and used vehicles were calculated as Bankers' Acceptance Rate plus 1.40% (2.62%) and Bankers' Acceptance Rate plus 1.90% (3.12%), respectively. As of the date of this MD&A, our floorplan interest rates on new vehicles and used vehicles are calculated as Bankers' Acceptance Rate plus 1.30% (2.50%) and Bankers' Acceptance Rate plus 1.80% (3.00%), respectively. The following table provides a historical summary of the Company's floorplan interest rates on new vehicles at twenty-one of its twenty-four wholly owned dealerships:

	Q1 2011	**Q2 2011**	**Q3 2011**	**Q4 2011**	**Q1 2012**	**Q2 2012**	**Q3 2012**	**Q4 2012**
Interest Rate	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%	2.62%

The refinancing of its revolving floorplan facilities was completed in November of 2012; therefore the impact of the decrease in interest rates was not significant to the Company in 2012. Management expects significant savings in finance costs in 2013 due to the decrease in interest rates associated with its revolving floorplan facilities with Scotiabank.

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, 2012, the net floorplan credits were $6,072 (2011 - $5,501). 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 2012.

(In thousands of dollars)	**Q1 2012**	**Q2 2012**	**Q3 2012**	**Q4 2012**	**For the year ended December 31, 2012**
Net floorplan credits	1,358	1,608	1,755	1,351	6,072

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, 2012	Year ended December 31, 2011
Floorplan financing costs	8,832	8,057
Floorplan credits earned	(6,072)	(5,501)
Net carrying cost of vehicle inventory	2,760	2,556

Income taxes

Income tax expense for the year ended December 31, 2012 decreased by $3.9 million to $8.6 million from $12.5 million in 2011. As a result of the reversal of impairments of intangible assets, the Company recorded deferred tax expense in the amount of $0.06 million (2011 - $6.4 million) as a result of the revised temporary differences between the tax basis and carrying value of these assets.

As a result of its improved earnings over the past two years, the Company recorded $5.8 million in current tax expense in the 2012 fiscal year, as compared to $2.0 million in the fiscal 2011 year. As described in further detail below, the Company effectively maintains a one year deferral of its partnership income (income earned by its wholly-owned dealerships). As such, the current income tax expense for 2012 is mainly calculated based on our dealerships' income from 2011. The income earned by our dealerships in fiscal 2012 will be substantially deferred until next year, however as described in further detail below, the Company's current tax expense contains the first instalment payment of its tax deferral, expected to be fully repaid over the next five years.

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. The Company estimates the following amounts to be recorded as current income tax payable over the next four 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)	**2013**	**2014**	**2015**	**2016**
Increase to current tax payable	1,176	1,366	1,366	1,707

The Company expects income tax to have a more significant effect on our free cash flow and adjusted free cash flow as in fiscal 2012, the Company began to pay current income taxes, as well as, income tax instalments for the anticipated current tax expense for the fiscal year.

Prior to 2012, the Company had not paid any corporate tax or installments for corporate tax. In 2012, the Company paid $4.3 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. 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, 2012 increased by 37.3% to $10.3 million, from $7.6 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 also had strong gains in revenue and gross profit which contributed to strong EBITDA in the fourth quarter of 2012.

The following table reconciles EBITDA to Net comprehensive income for the three months ended December 31:

	2012	**2011**	**2010**
Net comprehensive income	6,605	23,608	7,585
Goodwill impairment (recovery of impairment)	(222)	(25,543)	(8,059)
Income tax	2,540	8,144	2,404
Amortization	1,122	1,110	1,207
Interest on long-term debt	231	234	332
EBITDA	**10,276**	**7,553**	**3,469**

Normalized pre-tax earnings increased by $2.7 million to $8.9 million in the fourth quarter of 2012 from $6.2 million in the same period of the prior year. Normalized net earnings increased by $1.9 million to $6.4 million in the fourth quarter of 2012 from $4.5 million in the prior year.

As previously noted, the Company performs its annual test for impairment or reversal of impairment over its intangible assets in the fourth quarter. As a result, the pre-tax earnings and net earnings of the Company (including reversals of impairment) decreased in 2012 as compared to 2011.

Pre-tax earnings decreased by $22.7 million to $9.1 million for the three month period ended December 31, 2012 from $31.8 million in the same period of 2011. Net earnings decreased by $17.0 million to $6.6 million from $23.6 million when compared to the same period of the prior year. Income tax expense decreased to $2.5 million in the fourth quarter of 2012 from $8.1 million in the same period of 2011 due to lower pre-tax earnings and future income tax expense from the reduction in reversals of impairment of intangible assets in the current year as compared to 2011.

Revenues

Revenues for the three month period ended December 31, 2012 increased by $23.4 million or 9.8% 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 2012, new vehicle sales increased by $16.3 million or 11.4% to $159.2 million from $142.9 million in the prior period. Used vehicle sales increased by $3.5 million or 6.6% in the fourth quarter of 2012 as compared to 2011. The increase in new and used vehicle sales contributed to the increase in finance and insurance revenue of $2.3 million or 17.3% for the three month period ended December 31, 2012. Parts, service and collision repair revenue increased $1.3 million or 4.4% quarter over quarter.

Revenue - Same Store Analysis

The following table summarizes the results for the three-month period ended December 31, 2012 on a same store basis by revenue source and compares these results to the same period in 2011.

Same Store Revenue and Vehicles Sold

	For the Three-Month Period Ended		
(In thousands of dollars except % change and vehicle data)	**December 31, 2012**	**December 31, 2011**	**% Change**
Revenue Source			
New vehicles	154,263	141,315	9.2%
Used vehicles	55,472	53,245	4.2%
Finance, insurance and other	14,528	12,917	12.5%
Subtotal	224,263	207,477	8.1%
Parts, service and collision repair	29,163	28,403	2.7%
Total	253,426	235,880	7.4%
New vehicles - retail sold	3,825	3,405	12.3%
New vehicles – fleet sold	549	775	(29.2)%
Used vehicles sold	2,111	2,133	(1.0)%
Total	6,485	6,313	2.7%
Total vehicles retailed	5,936	5,538	7.2%

Same store revenue increased by $17.5 million or 7.4% in the three month period ended December 31, 2012 when compared to the same period in 2011. New vehicle revenues increased by $12.9 million or 9.2% for the fourth quarter of 2012 over the prior period due in part to a net increase in new vehicle sales of 194 units consisting of an increase of 420 retail units and a decrease of 226 low margin fleet units. This increase was supplemented by an increase in the average selling price per new vehicle retailed ("PNVR") of $1,461 over the prior year largely as a result of the higher proportionate volume of retail units versus fleet units which typically sell for less than retail vehicles.

Same store used vehicle revenues increased by $2.2 million or 4.2% for the three month period ended December 31, 2012 over the same period in the prior year. This increase was due to an increase in the average selling price per used vehicle retailed of $1,315 partially offset by a decrease in the number of used units sold of 22 in the quarter over 2011.

Same store parts, service and collision repair revenue experienced a modest gain of $0.8 million or 2.7% for the fourth quarter of 2012 compared to the prior period and was a result of an increase in the average revenue per work order completed of $13 or 3.5% partially offset by a decrease in the number of repair orders performed of 536 or 0.7%.

Same store finance, insurance and other revenue increased by $1.6 million or 12.5% for the three month period ended December 31, 2012 over the prior period. This was due to an increase in the average revenue per unit retailed of 4.9% along with an increase in the number of new and used vehicles retailed of 398 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 $6.1 million or 14.4% for the three month period ended December 31, 2012 when compared to the same period in the prior year. Gross profit increased due to increases in new vehicles, finance and insurance, and parts, service and collision repair. Gross profit earned on the sale of new vehicles increased by $4.2 million or 36.9% for the fourth quarter of 2012. The increase in new vehicle gross can be attributed to increases in new vehicle unit sales of 351 units or 8.4% and average gross profit per new vehicle sold of $709 or 26.3%. The Company's finance and insurance gross profit increased by $2.3 million or 17.3% during the fourth quarter of 2012. This increase can be mainly attributed to an increase in the average gross profit per unit retailed of $120 and increases in new and used vehicle sales. The increase in overall gross profit of the Company for the quarter was partially offset by a decrease in used vehicle gross profit of $0.9 million or 19.8% due to a decrease in the average gross profit per used vehicle retailed of $455 or 21.2%. Parts, service and collision repair gross profit increased by $0.8 million or 5.4% in the fourth quarter of 2012.

Gross Profit - Same Store Analysis

The following table summarizes the results for the three-month period ended December 31, 2012 on a same store basis by revenue source and compares these results to the same period in 2011.

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 %		
Revenue Source	**Dec. 31, 2012**	**Dec. 31, 2011**	**% Change**	**Dec. 31, 2012**	**Dec. 31, 2011**	**Change**
New vehicles	14,853	11,064	34.3%	9.6%	7.9%	1.8%
Used vehicles	3,594	4,504	(20.2)%	6.5%	8.5%	(2.0)%
Finance, insurance and other	13,260	11,734	13.0%	91.3%	90.8%	0.4%
Subtotal	31,707	27,302	16.1%			
Parts, service and collision repair	14,907	14,355	3.8%	51.1%	50.5%	0.6%
Total	46,614	41,657	11.9%	18.4%	17.7%	0.7%

Same store gross profit increased by $5.0 million or 11.9% for the three month period ended December 31, 2012 when compared to the same period in the prior year. The Company's gross profit on new vehicles increased by $3.8 million or 34.3% in the fourth quarter of 2012, when compared to 2011, as a result of increases in new vehicle sales of 194 units and the average gross profit per new vehicle sold of $749 or 28.3%.

Used vehicle gross profit decreased by $0.9 million or 20.2% in the fourth quarter of 2012 over the prior period. This was due to a decrease in the number of used vehicles sold of 22 units or 1.0% and a decrease in the average gross profit per used vehicle retailed of $410 or 19.4%.

Parts, service and collision repair gross profit increased by $0.6 million or 3.8% in the three months ended December 31, 2012 when compared to the same period in the prior year as a result of an increase of $9 in the average gross profit earned per repair order partially offset by a decrease of 536 in repair orders completed during the quarter.

Finance and insurance gross profit increased by 13.0% or $1.5 million in the three month period ended December 31, 2012 when compared to the prior period as a result of an increase in the average gross profit per unit sold of $115 and an increase in new and used vehicle units retailed of 398.

Operating expenses

Operating expenses increased by 10.6% or $3.6 million during the three month period ended December 31, 2012 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 78.1% in the fourth quarter of 2012 from 80.7% 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, 2012, employee costs increased by $2.7 million to $23.1 million from $20.4 million in the prior year. Employee costs as a percentage of gross profit decreased to 47.8% from 48.2% in the fourth quarter of 2011. 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 2012.

Selling and administrative costs
During the three month period ended December 31, 2012, selling and administrative costs increased by $0.8 million or 8.2% due to an increase in training costs and other costs related to our ADP system upgrade completed in the fourth quarter of 2012. Selling and administrative expenses as a percentage of gross profit decreased to 22.1% in the fourth quarter of 2012 from 23.0% in 2011. This decrease is due to less fixed costs as a percentage of gross profit.

Facility lease costs
During the three month period ended December 31, 2012, facility lease costs increased by 3.4% to $3.0 million from $2.9 million in the fourth quarter of 2011.

Amortization
During the three month period ended December 31, 2012, amortization remained stable at $1.1 million.

Income from investment in associate

During the three month period ended December 31, 2012, the Company earned $0.26 million as a result of its investment in Dealer Holdings Ltd. ("DHL"). During the three month period ended December 31, 2012, the Company also earned $0.07 million in management services fees with subsidiaries of DHL. The management services agreements are fixed monthly fees charged to the dealerships from AutoCanada in return for marketing, training, technological support and accounting support provided to the two dealerships. AutoCanada provides support services to all dealerships in which it owns and operates, however since the two dealerships are not wholly-owned by AutoCanada, the Company charges a management services fee in order to recover the costs of resources provided. Management is very pleased with the financial results of its investment in DHL for the fourth quarter.

See GROWTH, ACQUISITIONS, RELOCATIONS AND REAL ESTATE for more information related to the investment.

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, 2012, finance costs on our revolving floorplan facilities decreased to $1.7 million from $1.9 million in 2011. Finance costs on long term indebtedness remained flat at $0.2 million in the fourth quarter of 2012. Finance costs, net of finance income has remained relatively flat quarter over quarter due in part to the decrease in the Company's interest rate on twenty-one of its twenty-four wholly owned dealerships which it refinanced in the latter part of the fourth quarter of 2012, and partially offset by an increase in the amount of inventory held by its dealerships.

Inventory costs

As previously noted, 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 three month period ended December 31, 2012, the floorplan credits earned were $1,351 (2011 - $1,300).

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:

	Three months ended December 31, 2012	Three months ended December 31, 2011
Floorplan financing costs	1,741	1,872
Floorplan credits earned	(1,351)	(1,300)
Net carrying cost of vehicle inventory	390	572

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, RELOCATIONS, AND REAL ESTATE

The Company operates 28 franchised automotive dealerships, 25 of which are wholly owned, and three in which it has an investment with significant influence.

Acquisitions

Grande Prairie Volkswagen

On January 4, 2013, the Company purchased substantially all the net operating and fixed assets of People's Automotive Ltd. ("Grande Prairie Volkswagen") for cash consideration of $1,981, which was financed by drawing on the Company's facilities with VW Credit Canada Inc. and the HSBC Revolver. The purchase of this business complements the Company's Grande Prairie platform. In addition, the Company also purchased dealership land and a building for $1,800.

Dealership Investments

Investment in Dealer Holdings Ltd. ("DHL")

During the year ended December 31, 2012, the Company invested a total of $4,262 to acquire a 60.8% participating, non-voting equity interest in Dealer Holdings Ltd. ("DHL"). DHL is an entity formed between a subsidiary of AutoCanada and Mr. Patrick Priestner ("Mr. Priestner"), the Company's Chief Executive Officer.

DHL was formed to acquire future General Motors of Canada ("GM Canada") franchised dealerships, whereby Mr. Priestner is required to maintain voting control of the dealerships, in accordance with the agreement with GM Canada. All shareholders participate equally in the equity and economic risks and rewards of DHL and its interests, based on the percentage of ownership acquired. DHL's principal place of business is Alberta, Canada.

Although the Company holds no voting rights in DHL, the Company exercises significant influence by virtue of its ability to appoint one member of the board of directors of DHL and the ability to participate in financial and operating policy decisions of DHL. However, the Company does not have the power to make key decisions or block key decisions due to a casting vote held by the Company's CEO. As a result, the Company has accounted for its investment in DHL under the equity method. There are no guarantees to DHL or significant relationships other than those disclosed in note 30 of the annual consolidated financial statements of the Company for the year ended December 31, 2012.

Patrick Priestner has a 29.4% equity interest in DHL, and other senior managers of the Company have a 9.8% equity interest in DHL. In addition, to comply with the terms of GM Canada's approval, Patrick Priestner has 100% voting control of DHL. Senior management equity participation in DHL is contingent upon their continued employment with the Company and/or its subsidiaries. The investments in DHL were reviewed and approved by the independent members of AutoCanada's Board of Directors.

Although Mr. Priestner controls DHL, the unanimous shareholder agreement contains certain protective rights for AutoCanada's investment in DHL including prohibiting Mr. Priestner, or related parties of Mr. Priestner, from entering into contracts with DHL without the consent of AutoCanada. In addition, the agreement contains a number of protective clauses for AutoCanada that may prevent Mr. Priestner from the ability to dilute the interests of other shareholders, without prior approval of AutoCanada. Since Mr. Priestner has control over the Board of DHL, if any of the protective clauses in the agreement are breached, AutoCanada has the ability to exit from its shareholdings and require DHL or Mr. Priestner to pay AutoCanada for its shares based on the valuation of the shares by an independent chartered business valuator.

During the three month period ended June 30, 2012, DHL acquired a 49% voting equity interest in Nicholson Chevrolet, now operating as "Sherwood Park Chevrolet ("SPC") with an option to increase its interest to 51% upon SPC's successful relocation to a new facility. SPC relocated to a new facility in Sherwood Park, Alberta, in September 2012. The Company exercised its option to increase its ownership to 51% during the fourth quarter of 2012. The previous owner of SPC retained a 49% voting interest in SPC.

SPC has been servicing the Edmonton and Sherwood Park area for over thirty-nine years; and in 2011 sold 755 new vehicles and 307 used vehicles. Although DHL's investment in SPC includes the operations of the dealership beginning May 1, 2012, in the fiscal 2012 year, the dealership sold 900 new vehicles and 417 used vehicles, representing an improvement in new and used vehicle sales of 19.2% and 35.0% respectively over the fiscal 2011 year.

In conjunction with the SPC investment, DHL is subject to a put option with Romland Development Holdings Ltd. ("Romland"), the owner of the SPC dealership and body shop real estate, whereby DHL may be required to purchase up to 49% of Romland. Upon Romland exercising the put option, DHL will have 180 days to purchase its portion of shares in Romland, which would require further investment in DHL from its shareholders. Romland not exercised its put option as yet.

During the quarter ended June 30, 2012, DHL acquired a 51% equity interest in Petersen Buick GMC ("Petersen"). Petersen has been servicing the Sherwood Park and Edmonton area for over twenty-eight years and in 2011 sold 707 new vehicles and 604 used vehicles. Although DHL's investment in Petersen only includes the operations of the dealership beginning June 1, 2012, in the fiscal 2012 year, the dealership sold 817 new vehicles and 518 used vehicles, representing an improvement in new vehicle sales of 15.6% and a decline in used vehicle sales of 14.2%.

The SPC and Petersen dealerships are both subject to financial covenants as part of their borrowing arrangements that may restrict their ability to transfer funds to the Company if the payment of such funds resulted in a breach of covenants.

As a result of DHL's investments and the exercise of the option in SPC, the Company has indirectly acquired a 31% interest in SPC and Petersen. Through management services agreements with SPC and Petersen, the Company provides both dealerships with operating, accounting, sales, parts and service, marketing, and information technology support.

In respect to future GM dealership acquisitions outside the Sherwood Park area, the Company and Mr. Priestner will seek to acquire a 100% ownership interest, in which AutoCanada would purchase an 80% non-voting equity interest, with our CEO, Pat Priestner and other senior managers purchasing a 20% equity interest. To continue to meet GM Canada requirements, Mr. Priestner would be required to have 100% voting control.

Investment in Green Island G Auto Holdings Ltd. ("GIA")

On March 1, 2013, the Company invested a total of $7,057 to acquire an 80% non-voting equity interest in Green Island G Auto Holdings Ltd. ("GIA"). GIA is an entity formed between a subsidiary of AutoCanada, Mr. Priestner and other senior managers of the Company. GIA was formed to acquire Peter Baljet Chevrolet Buick GMC.

Patrick Priestner has a 15.0% equity interest in GIA and other senior managers of the Company have a 5.0% equity interest in GIA. To comply with the terms of GM Canada's approval, Patrick Priestner is required to have 100% voting control of GIA. Senior management equity participation in GIA is contingent upon their continued employment with the Company and/or its subsidiaries. The investments in GIA were reviewed and approved by the independent members of AutoCanada's Board of Directors.

Although the Company holds no voting rights in GIA, the Company exercises significant influence by virtue of its ability to appoint one member of the board of directors of GIA and the ability to participate in financial and operating policy decisions of GIA. However, the Company does not have the power to make key decisions or block key decisions due to a casting vote held by the Company's CEO. As a result, the Company is expected to account for its investment in GIA under the equity method. There are no guarantees to GIA or significant relationships other than those disclosed in note 30 of the annual consolidated financial statements of the Company for the year ended December 31, 2012.

Although Mr. Priestner controls GIA, the unanimous shareholder agreement contains certain protective rights for AutoCanada's investment in GIA including prohibiting Mr. Priestner, or related parties of Mr. Priestner, from entering into contracts with GIA without the consent of AutoCanada. In addition, the agreement contains a number of protective clauses for AutoCanada that may prevent Mr. Priestner from the ability to dilute the interests of other shareholders, without prior approval of AutoCanada. Since Mr. Priestner has control over the Board of GIA, if any of the protective clauses in the agreement are breached, AutoCanada has the ability to exit from its shareholdings and require GIA or Mr. Priestner to pay AutoCanada for its shares based on the valuation of the shares by an independent chartered business valuator.

On March 1, 2013, GIA acquired the operating assets of Peter Baljet Chevrolet Buick GMC ("Peter Baljet"), located in Duncan, British Columbia. Peter Baljet has been servicing the community of Duncan and Cowichan Valley area of Vancouver Island for over 26 years; and in 2012 sold 416 new vehicles and 372 used vehicles.

As a result of GIA's investment in Peter Baljet, the Company has indirectly acquired an 80% interest in Peter Baljet. Through management services agreements with Peter Baljet, the Company provides the dealership with operating, accounting, sales, parts and service, marketing, and information technology support.

Future Acquisition Opportunities

The Company has experienced a meaningful increase in potential acquisition opportunities over the past three months and as such the Company is cautiously optimistic that it may be able to acquire a further three to five dealerships in 2013.

Open Point Opportunities

On April 20, 2012, the Company announced that it had signed a Letter of Intent with Kia Canada for an open point dealership in Edmonton, Alberta. The opening of the Edmonton Kia dealership will bring the total number of franchises operated by AutoCanada to twenty-nine; with six franchises in the Edmonton area platform. Open point dealerships generally take one to three years to achieve normal profitability levels due to the ability to attract new customers to the dealership and the conquest of customers from other brands and dealerships in its locality. However, management believes open point opportunities to be very attractive as the Company does not pay any goodwill for the dealership. During the year, the Company purchased land and building to be used for the Kia open point dealership for $8.7 million, which has been financed in part with mortgage debt provided by Servus Credit Union. The Company is currently leasing the location to a third party which expires in September of 2013; however the lessee has an option to extend the lease until December 2013. As a result, operations of the Kia open point dealership is expected to commence in late 2013 or January 2014.

Relocation of dealerships

Earlier in the year, Management developed a capital plan which included the possible relocation of four of its dealerships. Management estimates the capital requirements of the relocations to be approximately $27 million with expected completion by the end of fiscal 2015. 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 $10-12 million over the same period.

Relocation of Northland Chrysler Jeep Dodge and Northland Nissan

In 2013, the Company intends to purchase land in Prince George, British Columbia for approximately $5.5 million which it will use to relocate its Northland Chrysler Jeep Dodge dealership. The expected total project cost including land is $18 million of which it expects to finance $12.5 million using a combination of mortgage financing and capital lease financing. The Northland Chrysler Jeep Dodge Ram dealership has outgrown its current facility, as the dealership has frequently been in competition as one of the highest volume Chrysler Jeep Dodge dealerships in the country and thus requires a larger facility to service its expanding customer base over the long term by adding additional service bays, a larger lot for the display of inventory and in particular used inventory. We expect to begin construction of the new facility in the third quarter of 2013 with an expected completion date in 2014.

Once the Company has successfully relocated its Northland Chrysler Jeep Dodge Ram dealership, we intend to renovate the building and relocate our Northland Nissan dealership to operate out of the current Northland Chrysler Jeep Dodge Ram facility. We believe that this facility, which is better situated and larger than Northland Nissan's current facility, will result in increased sales and profitability. We would expect the Northland Nissan relocation to be completed in late 2014 or early 2015.

Relocation of dealerships provides long-term earnings sustainability and is necessary to meet Manufacturer facility requirements and further Manufacturer relationships.

Real estate purchase

On March 26, 2013, the Real Estate Committee, comprised of independent members of the Board of Directors, completed its evaluation of the purchase of dealership real estate owned by subsidiaries of Canada One Auto Group. Upon determining that the purchase would be accretive to shareholders and would provide significant positive cash flow to the Company, the Company has entered into a letter of intent to purchase 11 of these properties currently being leased by the Company. The closing date is scheduled for 90 days, with the Company having the option to extend a further 90 days. The Company has sufficient short term liquidity available to fund the non-mortgage financed portion of the transaction.

As previously disclosed; Pat Priestner, CEO, and Tom Orysiuk, President, are shareholders and directors of Canada One Auto Group and as such are not members of the Real Estate Committee.

The purchase price of the 11 properties will be $58,140,000, not including transaction costs and taxes. Once completed, the Company will achieve annual lease savings of $4,988,000, not including the impact of future increases in lease costs contained in the current lease agreements. The Committee estimates annual adjusted free cash flow accretion of $0.10 to $0.12 per share and earnings per share accretion of $0.02 to $0.04 per share as a result of the transaction; based on the Company's current cost of capital and assuming no changes in market rates or assumptions. The purchase of the real estate will have no impact on general repairs and maintenance expense, insurance or property taxes associated with the buildings as the tenant is currently responsible for these expenses under the current lease agreements.

LIQUIDITY AND CAPITAL RESOURCES

Our principal uses of funds are 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.

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, 2012 was $21.1 million (cash provided by operating activities of $33.5 million less net change in non-cash working capital of $12.4 million) compared to $30.0 million (cash provided by operating activities of $28.8 million plus net change in non-cash working capital of $1.2 million) in the prior year.

Cash flow from operating activities of the Company for the three month period ended December 31, 2012 was $1.8 million (cash provided by operating activities of $9.5 million less net change in non-cash working capital of $7.7 million) compared to $9.7 million (cash provided by operating activities of $7.8 million plus net change in non-cash working capital of $1.9 million) in the fourth quarter of 2011.

As previously noted, the Company had refinanced its revolving floorplan facilities with Scotiabank in the fourth quarter of 2012. Given that the rate of financing on used vehicles was 50 basis points higher than the rate of financing on new vehicles, the Company did not fully utilize its floorplan facility on used vehicles and decided to finance used vehicles with cash on a short term basis rather than incur additional interest costs on its used vehicles. Since the Company holds a significant amount of cash in order to maintain working capital requirements from its manufacturers, the Company determined that reducing its financing on used vehicles was a more prudent use of its cash on a short term basis. This resulted in the negative change in non-cash working capital realized in the fourth quarter of 2012. If the Company requires additional cash for liquidity purposes, it may finance used vehicles in the future to replenish cash balances. At December 31, 2012 the Company had unused floorplan financing availability for used vehicles of approximately $6.9 million which it could utilize in the future to replenish cash balances.

Cash Flow from Investing Activities

Cash flow from investing activities of the Company for the year ended December 31, 2012 was a net outflow of $30.9 million compared to $5.3 million in the prior year. In 2012, the Company purchased land and a building to be used for its Kia open point dealership for $8.7 million, land for potential future dealership operations for $3.2 million, and land adjacent to its Crosstown Chrysler Jeep Dodge FIAT dealership for $2.4 million. These three purchases plus the addition of $10.0 million of restricted cash were main contributors to the increase in cash outflows from investing activities in 2012.

For the three month period ended December 31, 2012, cash flow from investing activities of the Company was a net outflow of $13.1 million as compared to a net outflow of $2.9 million in the same period of the prior year. In the fourth quarter of 2012, the Company purchased land for $2.4 million, as described above, and added $10.0 million to restricted cash, which contributed to the increase in net cash outflows.

Cash Flow from Financing Activities

Cash flow from financing activities of the Company for the year ended December 31, 2012 was a net outflow of $9.3 million compared to $8.6 million in the prior year. In 2012, the Company obtained mortgage financing of $6.3 million, which partially offset the $0.9 million paid to purchase treasury shares and additional $6.1 million in dividends paid when compared to the same period in the prior year.

For the three month period ended December 31, 2012, cash flow from financing activities was a net outflow of $8.4 million as compared to $2.5 million in the same period of 2011. In the fourth quarter of 2012, the Company paid $3.4 million in dividends and repaid $5.1 million of debt, which are the main contributors to this increase in cash outflow.

Economic Dependence

As stated in Note 8 of the annual audited consolidated financial statements, the Company has significant commercial and economic dependence on Chrysler Canada. As a result, the Company is subject to significant risk in the event of the financial distress of Chrysler Canada, one of our major vehicle manufacturers and parts suppliers. Details of this relationship and balances of assets with Chrysler Canada are described in Note 8 of the annual consolidated financial statements for the year ended December 31, 2012.

Credit Facilities and Floor Plan Financing

Credit Facilities

HSBC Bank Canada ("HSBC") provides AutoCanada with a $40 million revolving term loan (the "HSBC Revolver") that may be increased to $50 million subject to credit approval by HSBC. The HSBC Revolver is a 365 day fully committed, extendible revolving term loan. The HSBC Revolver's maturity date is June 30, 2014, 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. The HSBC Revolver bears interest at HSBC Prime Rate plus 0.75% per annum (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 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).

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 Fixed Charge Ratio shall not be less than 1.20:1 at any time.

Additional information relating to the HSBC Revolver including a copy of the agreement can be found on SEDAR (www.sedar.com).

During the quarter ended December 31, 2012, the Company signed a renewal letter from HSBC with respect to its HSBC Term Loan. The HSBC Term Loan has been extended to January 31, 2013, which if not renewed at the time will become payable on January 31, 2014. The security, covenants, fees, interest rates and other terms remain consistent with the current HSBC Term Loan. HSBC has indicated to the Company that repayment will not be required on January 31, 2014 as the Company is currently in the renewal process for the HSBC Term Loan and expects to renew the loan for an additional term.

On August 30, 2012, the Company arranged a mortgage agreement with Servus Credit Union ("Servus"), whereby Servus would provide the Company a $6.25 million commercial mortgage to facilitate the purchase of land and building to be used for the operations of the Kia open point dealership. The mortgage bears an annual interest rate of 3.90%, fixed, payable and calculated monthly in arrears, originally amortized over a 20 year period with term expiring 5 years after the fund date. The Servus Mortgage requires certain reporting requirements and is collateralized by general security agreement consisting of a first fixed charge over the land and building. With respect to financial covenants, a subsidiary of the Company is required to maintain a minimum annual Debt Service Coverage ratio of 1.25:1.

The Bank of Montreal ("BMO") provided the Company with a 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 matured 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. The Company is currently in the renewal process for the BMO Term Loan.

Revolving Floorplan Facilities

During the fourth quarter of 2012, The Bank of Nova Scotia ("Scotiabank") provided the Company a revolving floorplan facility to finance new and used vehicle inventory in the total amount of $240 million to refinance the Ally facilities previously used to finance new and used vehicles at twenty-one of its twenty-four wholly owned dealerships. The facility for new vehicle inventory bears interest at Bankers' Acceptance rate plus 1.40% per annum (2.62% at December 31, 2012). The facility for used vehicle inventory bears interest at Scotiabank prime rate plus 1.90% (3.12% at December 31, 2012). The facility is collateralized by the individual dealerships' inventory, which are directly financed by Scotiabank, and a guarantee from AutoCanada Holdings Inc., a subsidiary of the Company.

On March 22, 2013, the Company announced that its revolving floorplan facility agreement with Scotiabank had been increased by $50 million to accommodate the growing inventory requirements of its dealerships. The total amount available under the Scotiabank facility is now $290 million. In addition to the increase, the Company received a 50 basis point interest rate reduction in both its new and used vehicle floorplan facilities with Scotiabank. Under the facility, the interest rates have been revised to Bankers' Acceptance plus 1.30% (currently 2.50%) for new vehicles and Bankers' Acceptance plus 1.80% (currently 3.00%) for used vehicles.

The facility has been provided to 21 of the 26 dealerships in which AutoCanada operates. The terms and conditions of the facility apply only to the collective group of 21 dealerships which are to be funded (the "Borrowers"). With respect to financial covenants, the Borrowers are required to maintain the following covenants:

(i) The ratio of consolidated current assets to current liabilities of the Borrowers is to be maintained at all times at 1.1:1 or better;
(ii) Consolidated Tangible Net Worth of the Borrowers is to be maintained in excess of $40 million at all times; and
(iii) The ratio of Consolidated Debt to Tangible Net Worth of the Borrowers is not to exceed 7.5:1.

The facility also contains a requirement for Mr. Pat Priestner, CEO of AutoCanada, to maintain an indirect ownership interest in AutoCanada Inc. of a minimum of 10%. As noted previously, the facility also requires AutoCanada to maintain a minimum of $10 million in bulk offset accounts with Scotiabank which may be used as security repayment in the event of default on its revolving floorplan facilities. The bulk offset accounts earn interest equal to the rate of interest charged on new vehicles.

VW Credit Canada Inc. ("VCCI Facilities") provides revolving floorplan facilities for all of the Company's Volkswagen dealerships. The VCCI Facilities consist of an aggregate of $12.025 million in revolving floorplan facilities 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 ("RBC") prime rate plus 0.50% per annum (3.50% at December 31, 2012) and is payable monthly in arrears. The VCCI Facilities also provide the three dealerships with used vehicle floorplan financing to a maximum of $3.965 million during peak selling season. The used vehicle facilities are due on demand and bear interest between Royal Bank of Canada prime plus 0.75 - 1.00% depending on the type of used vehicles financed (3.75% - 4.00% at December 31, 2012). In February 2013, the rate on the new vehicle facilities was lowered to RBC prime rate.

The VCCI Facilities are collateralized by all new, used and demonstrator inventory financed by VCCI and a general security agreement with each of the three 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 all dealerships to maintain minimum cash and equity balances. At December 31, 2012 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 future 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, 2012.

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)	October 1, 2012 to December 31, 2012 $	January 1, 2012 to December 31, 2012
Leasehold improvements	44	339
Machinery and equipment	215	541
Furniture and fixtures	23	160
Computer equipment	155	609
Company & lease vehicles	20	46
	457	1,695

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, 2012 growth capital expenditures of $14.4 million were incurred. These expenditures related primarily to three pieces of land and a building that were purchased for future dealership operations during the last three quarters of 2012 for a total of $13.9 million. 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)	October 1, 2012 to December 31, 2012 $	January 1, 2012 to December 31, 2012 $
Purchase of property and equipment from the Statement of Cash Flows	2,918	16,069
Less: Amounts related to the expansion of sales and service capacity	(2,461)	(14,374)
Purchase of non-growth property and equipment	457	1,695

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, 2012, were $0.5 million and $2.2 million, respectively (2011 - $0.5 million and $1.9 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.

For further information regarding planned capital expenditures, see "GROWTH, ACQUISITIONS, RELOCATIONS, AND REAL ESTATE" 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:

	$
2013	10,605
2014	10,289
2015	9,967
2016	8,205
2017	6,460
Thereafter	50,378
Total	95,904

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, 2012 and December 31, 2011 as well as unaudited balances of the Company at September 30, 2012, June 30, 2012, March 31, 2012, September 30, 2011, June 30, 2011 and March 31, 2011.

Balance Sheet Data	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011
Cash and cash equivalents and restricted cash	44,472	54,255	51,198	53,403	53,641	49,366	43,837	39,337
Accounts receivable	47,944	54,148	52,042	51,380	42,448	44,172	51,539	42,260
Inventories	199,226	193,990	201,302	155,778	137,016	159,732	149,481	134,865
Total assets	410,469	420,050	414,061	361,307	334,370	327,568	318,956	291,291
Revolving floorplan facilities	203,525	212,840	221,174	178,145	150,816	175,291	172,600	152,075
Non-current debt and lease obligations	23,937	26,039	23,027	20,071	20,115	20,210	24,895	24,989

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, 2012, the aggregate of net working capital requirements was approximately $32.7 million. At December 31, 2012, 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, 2012, the Company had aggregate working capital of approximately $45.5 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 three 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 for the year ended December 31, 2012 summarize the transactions between the Company and its related parties.

Administrative support fees
The Company currently earns administrative support fees from companies controlled by the CEO of AutoCanada. The administrative support fees consist of a portion of human resource and fixed costs associated with providing technological and accounting support to these companies. The Company believes that providing support services to these companies provides value to both the companies supported and AutoCanada. By providing support, AutoCanada is able to reduce its overall fixed costs associated with accounting and information technology.

Management services agreements
The Company currently earns management services fees from companies in which AutoCanada has significant influence. The management services agreements are fixed monthly fees charged to subsidiaries of DHL from AutoCanada in return for marketing, training, technological support and accounting support provided to the dealerships. AutoCanada provides support services to all dealerships in which it owns and operates, however since the two dealerships are not wholly-owned by AutoCanada, the Company charges a management services fee in order to recover the costs of resources provided. Management believes that, as a result of the support provided, the dealerships have improved in sales volumes and profitability since being acquired by DHL. The services provided also allow both the dealerships and AutoCanada to share in savings as a result of negotiating group rates on services such as advertising and purchasing.

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

DIVIDENDS

Dividends to Shareholders

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

The following table summarizes the dividends declared and paid by the Company in 2012:

(In thousands of dollars)

		Total	
Record date	**Payment date**	**Declared**	**Paid**
		$	**$**
February 29, 2012	March 15, 2012	2,783	2,783
May 31, 2012	June 15, 2012	2,982	2,982
August 31, 2012	September 17, 2012	3,181	3,181
November 30, 2012	December 17, 2012	3,380	3,380

On February 15, 2013, the Board declared a quarterly eligible dividend of $0.18 per common share on AutoCanada's outstanding common shares, payable on March 15, 2013 to shareholders of record at the close of business on February 28, 2013. The quarterly eligible dividend of $0.18 represents an annual dividend rate of $0.72 per share. The next scheduled dividend review will be in May 2013.

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 share and per share amounts)	**Q1 2011**	**Q2 2011**	**Q3 2011**	**Q4 2011**	**Q1 2012**	**Q2 2012**	**Q3 2012**	**Q4 2012**
Cash provided by operating activities	4,166	5,292	10,851	9,718	3,520	6,569	9,235	1,748
Deduct:								
Purchase of property and equipment	(930)	(612)	(694)	(718)	(361)	(410)	(511)	(858)
Free Cash Flow [1]	3,236	4,680	10,157	9,000	3,159	6,159	8,724	890
Weighted average shares outstanding at end of period	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930	19,876,139	19,804,014	19,802,947
Free cash flow per share	0.163	0.235	0.511	0.453	0.159	0.310	0.441	0.045
Free cash flow – 12 month trailing	26,553	18,007	23,753	27,073	26,996	28,474	27,042	18,932

[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 (decrease) in cash due to changes in non-cash working capital for the years ended December 31, 2012 and December 31, 2011.

(In thousands of dollars)	**January 1, 2012 to December 31, 2012** $	**January 1, 2011 to December 31, 2011** $
Accounts receivable	(5,496)	(9,808)
Inventories	(63,105)	(26,080)
Prepaid expenses	18	33
Accounts payable and accrued liabilities	3,311	5,305
Leased vehicle repurchase obligations	171	340
Revolving floorplan facilities	52,709	31,441
	(12,392)	1,231

Adjusted Free Cash Flow

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

(In thousands of $ except share and per share amounts)	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Cash provided by operating activities before changes in non-cash working capital	3,882	9,076	8,032	7,799	4,391	9,609	10,029	9,435
Deduct:								
Purchase of non-growth property and equipment	(232)	(188)	(244)	(407)	(361)	(366)	(511)	(457)
Adjusted Free Cash Flow[1]	3,650	8,888	7,788	7,392	4,030	9,243	9,518	8,978
Weighted average shares outstanding at end of period	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930	19,876,139	19,804,014	19,802,947
Adjusted Free Cash Flow / Share	0.184	0.447	0.392	0.372	0.203	0.465	0.481	0.453
Adjusted Free Cash flow – 12 Month Trailing	15,097	18,757	23,074	27,718	28,096	28,453	30,183	31,769

[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.

During the year ended December 31, 2012, the Company paid approximately $4.3 million in corporate taxes and tax installments. Accordingly, this reduced our adjusted free cash flow by this amount. The Company expects the payment of corporate income taxes to have a more significant negative effect 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 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
EBITDA[1]	4,047	9,321	8,216	7,553	6,809	10,208	10,592	10,276
Add (deduct):								
Amortization	(1,079)	(1,018)	(1,044)	(1,110)	(1,024)	(1,027)	(1,139)	(1,121)
EBIT[1]	2,967	8,303	7,172	6,443	5,785	9,181	9,453	9,155
Average long-term debt	26,201	26,071	25,201	24,282	23,873	25,276	30,390	31,007
Average shareholders' equity	82,973	85,056	89,156	102,383	113,794	116,050	119,380	122,877
Average capital employed[1]	109,174	111,127	114,357	126,665	137,666	141,326	149,770	153,884
Return on capital employed[1]	2.7%	7.5%	6.3%	5.1%	4.2%	6.5%	6.3%	5.9%
Comparative adjustment[2]	3,579	3,579	3,579	(15,376)	(15,376)	(15,376)	(15,376)	(15,542)
Adjusted average capital employed[2]	112,753	114,706	117,936	120,766	122,290	125,950	134,394	138,425
Adjusted return on capital employed[2]	2.6%	7.2%	6.1%	5.3%	4.7%	7.3%	7.0%	6.6%
Adjusted return on capital employed - 12 month trailing				21.3%				25.9%

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

[2]A 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, 2011 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 6 of the annual consolidated financial statements for the year ended December 31, 2012.

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, 2012. 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, 2015.
- 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. This standard becomes effective on January 1, 2013.

- 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.

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, 2012, 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 National 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 (l) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2012, 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, 2012.

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, 2012.

OUTLOOK

The outlook regarding vehicle sales in Canada is difficult to predict. New light vehicle unit sales in Canada are expected to increase by 0.8 percent in 2013 as compared to the prior year.

New Vehicle Sales Outlook by Province*

(thousands of units, annual rates)

	1994-2005 Average	2006-08 Average	2009	2010	2011	2012
Canada	**1,446**	**1,637**	**1,461**	**1,557**	**1,589**	**1,677**
Atlantic	**102**	**119**	**115**	**122**	**119**	**126**
Central	**936**	**1,002**	**927**	**990**	**997**	**1,034**
Quebec	366	411	392	414	408	416
Ontario	570	591	535	576	589	618
West	**408**	**516**	**419**	**445**	**473**	**517**
Manitoba	42	45	43	44	47	50
Saskatchewan	36	43	44	46	50	55
Alberta	166	239	182	200	218	239
British Columbia	164	189	150	155	158	173

* Includes cars and light trucks

Source: Scotia Economics - Global Auto Report, March 6, 2013

During 2012, the Company continued to benefit from the general improvement in the Canadian economy. Inflation and vehicle pricing are expected to be relatively stable. The unemployment rate and consumer confidence indices are generally good indicators of the health of the auto industry and these continue to improve, all of which support the increase in retail new and used vehicle sales and finance and insurance revenues (an indicator of improved credit conditions).

It was within this context that on July 10, 2012, the Board of Directors held its annual strategic review meeting. As a result of the continued improvement in the above macroeconomic conditions, the recently announced investment in two GM dealerships and a Kia open point, together with 2012 PwC Trendsetter report which indicates a dealership succession issue in the coming years due to an aging dealer body and ever increasing facility capital requirements, the Board believes that there will be greater growth opportunities over the coming years than previously considered, as independent owners exit the business. In July 2012, Management anticipated that the bulk of these growth opportunities would come in the latter two to five years more so than in the short term. However, as noted above, the Company has begun to experience a significant increase in acquisition opportunities and is cautiously optimistic that it may complete an additional three to five acquisitions in 2013.

As previously disclosed, however, the Company has not convinced a number of Manufacturers to accept the public ownership model. Although the Company is not privy to the reasons, it appears that some Manufacturers strongly prefer a model that favours a single vested owner who controls the dealership, as evidenced by the GM Canada requirement in respect to the Company's investments in GM Canada dealerships that Mr. Priestner, CEO of AutoCanada, retain 100 percent voting control of the GM dealership entity as well as invest personally in the dealership, a prerequisite which may or may not be imposed by other brands the Company currently does not represent. The Company may also limited in its ability to purchase automotive dealership groups in that many dealership groups contain dealership brands which have not accepted the public ownership model to date.

Regarding dividends, the Board of Directors remain committed to providing investors with an attractive dividend which it continues to review on a regular basis in the context of a number of factors, including acquisition opportunities.

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 2012 Annual Information Form dated March 26, 2013 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 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;
- expectations regarding finance costs savings as a result of the floorplan refinancing;
- expectations and estimates regarding income taxes and their effect on cash flow and dividends;
- estimates regarding the impact on free cash flow of an increase or decrease of one new retail vehicle sold (and the associated finance and insurance income on the sale);
- expectations and future plans regarding Nicholson Chevrolet, Petersen GMC Buick, Peter Baljet, and other potential GM acquisitions;
- expectations, estimates and assumptions regarding the Real Estate Committee's analysis of the real estate purchase from Canada One Auto Group including purchase price, lease cost savings, timing, financial and other metrics;
- expectations and future plans regarding the Kia open point dealership;
- our assumption on the amount of time it may take for an acquisition or open point to achieve normal operating results;
- guidance with respect to future acquisition and open point opportunities;
- 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;
- the impact of and estimates related to dealership real estate relocations and purchases and its impact on liquidity, financial performance and the Company's capital requirements;
- the impact of a significant decline in sales as a result of the inability to procure adequate supply of vehicles and/or lower consumer demand on cash flows from operations and our ability to fund capital expenditures;
- our plans to finance used vehicles in the future if additional cash is needed for liquidity purposes;
- the impact of floorplan limits on inventory levels and our results;
- the impact of working capital requirements and its impact on future liquidity;
- our expectations regarding annual non-growth capital expenditures;
- our expectations regarding growth expenditures and their related impact:

- our expectation to increase annual capital expenditures and the reasons for this expected increase;
- our expectations regarding the potential purchase of real estate properties and the reasons for the purchase;
- our belief that free cash flow can fluctuate significantly and the impact of these fluctuations on our operations and performance;
- our belief that maintenance capital expenditures should be funded by cash flow provided by operating activities;
- our potential use of Adjusted Return on Capital Employed as a measure for comparison and analysis;
- our expectation that inflation and vehicle pricing is to be relatively stable;
- our expectations regarding the reasons for and timing of future growth opportunities;
- 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;
- management's assessment of our dividend policy and its effect on liquidity;
- our assumptions regarding financial covenants and our ability to meet covenants in the future;
- expectations and assumptions regarding the Company's ability to pay future dividends and growth;
- assumptions over non-GAAP measures and their impact on the Company;
- management's 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 MD&A 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 MD&A 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.

Normalized Earnings

Normalized earnings are calculated by adding back the after-tax effect of impairment or reversals of impairment of intangible assets and impairments of goodwill. Adding back these non-cash charges to net earnings allows management to assess the net earnings of the Company from ongoing operations.

Normalized Pre-Tax Earnings

Normalized pre-tax earnings are calculated by adding back the impairment or reversals of impairment of intangible assets and impairments of goodwill. Adding back these non-cash charges to pre-tax net earnings allows management to assess the pre-tax net earnings of the Company from ongoing operations.

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. Adjusted free cash flow is considered relevant because it provides an indication of how much cash generated by operations before changes in non-cash working capital is available after deducting expenditures for non-growth capital assets. It shall be noted that although we consider this measure to be adjusted free cash flow, financial and non-financial covenants in our credit facilities and dealer agreements may restrict cash from being available for distributions, re-investment in the Company, potential acquisitions, or other purposes. Investors should be cautioned that adjusted free cash flow may not actually be available for 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, Adjusted Free Cash Flow, Absorption Rate, Average Capital Employed, Return on Capital Employed, Normalized Earnings, Normalized Pre-tax Earnings, 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, Adjusted Free Cash Flow, Absorption Rate, Average Capital Employed, Return on Capital Employed, Normalized Earnings, Normalized Pre-tax Earnings, Adjusted Average Capital Employed and Adjusted Return on Capital Employed may not be comparable to similar measures presented by other issuers.

CONSOLIDATED FINANCIAL STATEMENTS

AutoCanada Inc.

Consolidated Financial Statements

December 31, 2012

March 26, 2013

Independent Auditor's Report

To the Shareholders of
AutoCanada Inc.

We have audited the accompanying consolidated financial statements of AutoCanada Inc., which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011, and the consolidated statements of comprehensive income, statement of changes in equity, and statements of cash flow for the years ended at December 31, 2012 and December 31, 2011, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

PricewaterhouseCoopers LLP
TD Tower, 10088 102 Avenue NW, Suite 1501, Edmonton, Alberta, Canada T5J 3N5
T: +1 780 441 6700, F: +1 780 441 6776

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AutoCanada Inc. as at December 31, 2012 and December 31, 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

AutoCanada Inc.

Consolidated Statements of Comprehensive Income
For the Years Ended
(in thousands of Canadian dollars except for share and per share amounts)

	December 31, 2012 $	December 31, 2011 $
Revenue (Note 9)	1,103,913	1,009,326
Cost of sales (Note 10)	(913,548)	(840,165)
Gross profit	190,365	169,161
Operating expenses (Note 11)	(149,140)	(136,846)
Operating profit before other income	41,225	32,315
Loss on disposal of assets	(95)	(41)
Reversal of impairment of assets (Note 20)	222	25,543
Income from investment in associate (Note 15)	468	-
Operating profit	41,820	57,817
Finance costs (Note 13)	(10,583)	(9,848)
Finance income (Note 13)	1,575	1,324
Net income for the year before taxation	32,812	49,293
Income tax (Note 14)	8,576	12,509
Net comprehensive income for the year	24,236	36,784
Earnings per share		
Basic	1.222	1.850
Diluted	1.222	1.850
Weighted average shares		
Basic	19,840,802	19,880,930
Diluted	19,840,802	19,880,930

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

Approved on behalf of the Company:

(Signed) "Gordon R. Barefoot", Director

(Signed) "Robin Salmon", Director

AutoCanada Inc.

Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

	December 31, 2012 $	December 31, 2011 $
ASSETS		
Current assets		
Cash and cash equivalents (Note 16)	34,472	53,641
Restricted cash (Note 16)	10,000	-
Trade and other receivables (Note 17)	47,944	42,448
Inventories (Note 18)	199,226	137,016
Other current assets	1,102	1,120
	292,744	234,225
Property and equipment (Note 19)	38,513	25,975
Intangible assets (Note 20)	66,403	66,181
Goodwill	380	380
Other long-term assets (Note 22)	7,699	7,609
Investment in associate (Note 15)	4,730	-
	410,469	334,370
LIABILITIES		
Current liabilities		
Trade and other payables (Note 23)	35,697	32,279
Revolving floorplan facilities (Note 24)	203,525	150,816
Current tax payable (Note 14)	3,719	2,046
Current lease obligations (Note 25)	1,282	1,204
Current indebtedness (Note 24)	3,000	2,859
	247,223	189,204
Long-term indebtedness (Note 24)	23,937	20,115
Deferred tax (Note 14)	14,809	12,056
	285,969	221,375
EQUITY	124,500	112,995
	410,469	334,370

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

AutoCanada Inc.

Consolidated Statements of Changes in Equity
For the Years Ended
(in thousands of Canadian dollars)

	Share capital	Treasury shares	Contributed surplus	Total capital	Accumulated deficit	Equity
	$		$	$	$	$
Balance, January 1, 2012	190,435	-	3,918	194,353	(81,358)	112,995
Net comprehensive income	-	-	-	-	24,236	24,236
Dividends declared on common shares (Note 28)	-	-	-	-	(12,301)	(12,301)
Common shares repurchased (Note 28)	-	(935)	-	(935)	-	(935)
Share-based compensation	-	-	505	505	-	505
Balance, December 31, 2012	190,435	(935)	4,423	193,923	(69,423)	124,500

	Share capital	Treasury Shares	Contributed surplus	Total capital	Accumulated deficit	Equity
	$		$	$	$	$
Balance, January 1, 2011	190,435	-	3,918	194,353	(111,979)	82,374
Net comprehensive income	-	-	-	-	36,784	36,784
Dividends declared on common shares (Note 28)	-	-	-	-	(6,163)	(6,163)
Balance, December 31, 2011	190,435	-	3,918	194,353	(81,358)	112,995

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

AutoCanada Inc.

Consolidated Statements of Cash Flows
For the Years Ended
(in thousands of Canadian dollars)

	December 31, 2012 $	December 31, 2011 $
Cash provided by (used in)		
Operating activities		
Net comprehensive income	24,236	36,784
Income taxes (Note 14)	8,576	12,509
Amortization of prepaid rent	452	452
Amortization of property and equipment (Note 11)	4,311	4,251
Loss on disposal of assets	95	41
Reversal of impairment of assets (Note 20)	(222)	(25,543)
Share-based compensation	739	302
Income from investment in associate (Note 15)	(468)	-
Income taxes paid	(4,255)	-
Net change in non-cash working capital (Note 31)	(12,392)	1,231
	21,072	30,027
Investing activities		
Addition to restricted cash (Note 16)	(10,000)	-
Business acquisitions	-	(1,753)
Investment in associate (Note 15)	(4,262)	-
Purchases of property and equipment	(16,069)	(2,954)
Disposal (purchase) of other assets	(58)	11
Proceeds on sale of property and equipment	32	68
Proceeds on divestiture of dealership	-	1,464
Prepayments of rent (Note 30)	(540)	(2,160)
	(30,897)	(5,324)
Financing activities		
Proceeds from long-term indebtedness (Note 24)	6,218	-
Repayment of long-term indebtedness	(2,349)	(2,440)
Common shares repurchased (Note 28)	(912)	-
Dividends paid (Note 28)	(12,301)	(6,163)
	(9,344)	(8,603)
Increase (decrease) in cash	(19,169)	16,100
Cash and cash equivalents at beginning of year	53,641	37,541
Cash and cash equivalents at end of year	34,472	53,641

1 General Information

Entity information

AutoCanada Inc. ("AutoCanada" or "The Company") is a corporation from Alberta, Canada with common shares listed on the Toronto Stock Exchange ("TSX") under the symbol of "ACQ". The business of AutoCanada, held in its subsidiaries, is the operation of franchised automobile dealerships in British Columbia, Alberta, Manitoba, Ontario, Nova Scotia and New Brunswick. The Company offers a diversified range of automotive products and services, including new vehicles, used vehicles, vehicle parts, vehicle maintenance and collision repair services, extended service contracts, vehicle protection products and other after-market products. The Company also arranges financing and insurance for vehicle purchases by its customers through third-party finance and insurance sources. The address of its registered office is 200, 15505 Yellowhead Trail, Edmonton, Alberta, Canada, T5V 1E5.

2 Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and Canadian Generally Accepted Accounting Principles ("GAAP") as issued by the Canadian Institute of Chartered Accountants.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are described in Note 5.

These financial statements were approved by the Board of Directors for issue on March 26, 2013.

3 Significant Accounting Policies

The significant accounting policies used in the preparation of these consolidated financial statements are as follows:

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value, including liabilities for cash-settled share-based payment arrangements.

Principles of consolidation

The consolidated financial statements comprise the financial statements of AutoCanada and all of its subsidiaries. Subsidiaries are all entities over which the Company has control, either legally or in substance through power, exposure to variable returns, and the ability to use its power over the entity to affect the Company's returns. The Company has a shareholding of 100% of the voting rights in its subsidiaries. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are no longer consolidated on the date control ceases.

3 Significant Accounting Policies continued

Principles of consolidation continued

Intercompany transactions, balances, income and expenses, and gains or losses on transactions are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the accounting policies adopted by the Company.

Business combinations

Business combinations are accounted for using the acquisition method of accounting. This involves recognizing identifiable assets (including intangible assets not previously recognised by the acquiree) and liabilities (including contingent liabilities) of acquired businesses at fair value at the acquisition date. The excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill. If the acquisition cost is less than the fair value of the net assets acquired, the fair value of the net assets is re-assessed and any remaining difference is recognized directly in the statement of comprehensive income. Transaction costs are expensed as incurred.

Investment in associate

An associate is an entity over which the Company has significant influence, but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights, but with considerations over the relationships between the investors and the investee. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Company's investment in associate includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss, where appropriate.

The Company's share of post-acquisition profit or loss is recognized in the statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Company determines at each reporting date whether there are any indicators of impairment to the associate whereby there is a significant or prolonged decline in the investment's fair value or other objective evidence of impairment. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount, which is calculated based on the higher of value-in-use or fair value less costs to sell, of the associate and its carrying value and recognizes the amount adjacent to its share of profit or loss of the associate in the statement of comprehensive income.

3 Significant Accounting Policies continued

Investment in associate continued

Profits and losses resulting from upstream and downstream transactions between the Company and its associate are recognized in the Company's financial statements only to the extent of unrelated investors' interests in the associate. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the assets transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Company. Dilution gains and losses arising from the investment in the associate are recognized in the statement of comprehensive income.

Revenue recognition

(a) Vehicles, parts, service and collision repair

Revenue from the sale of goods and services is measured at the fair value of the consideration receivable, net of rebates and any discounts and includes finance and insurance commissions. It excludes sales related taxes and intercompany transactions.

Revenue is recognized when the risks and rewards of ownership have been transferred to the customer and the revenue and costs can be reliably measured and it is probable that economic benefits will flow to the Company. In practice, this means that revenue is recognized when vehicles are invoiced and physically delivered to the customer and payment has been received or credit approval has been obtained by the customer. Revenue for parts, service and collision repair is recognized when the service has been performed.

(b) Finance and insurance

The Company arranges financing for customers through various financial institutions and receives a commission from the lender based on the difference between the interest rate charged to the customer and the interest rate set by the financing institution, or a flat fee. This revenue is included in vehicle revenue on the statement of comprehensive income.

The Company also receives commissions for facilitating the sale of third-party insurance products to customers, including credit and life insurance policies and extended service contracts. These commissions are recorded as revenue at the time the customer enters into the contract and the Company is entitled to the commission. The Company is not the obligor under any of these contracts. In the case of finance contracts, a customer may prepay or fail to pay their contract, thereby terminating the contract. Customers may also terminate extended service contracts, which are fully paid at purchase, and become eligible for refunds of unused premiums. In these circumstances, a portion of the commissions the Company receives may be charged back to the Company based on the terms of the contracts. The revenue the Company records relating to commissions is net of an estimate of the amount of chargebacks the Company will be required to pay. This estimate is based upon historical chargeback experience arising from similar contracts, including the impact of refinance and default rates on retail finance contracts and cancellation rates on extended service contracts and other insurance products.

3 Significant Accounting Policies continued

Taxation

(a) Deferred tax

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the statement of financial position. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax liabilities:

- are generally recognized for all taxable temporary differences; and
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets:

- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

(b) Current tax

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Manufacturer incentives and other rebates

Various incentives from manufacturers are received based on achieving certain objectives, such as specified sales volume targets. These incentives are typically based upon units sold to retail or fleet customers. These manufacturer incentives are recognized as a reduction of new vehicle cost of sales when earned, generally at the latter of the time the related vehicles are sold or upon attainment of the particular program goals.

Manufacturer rebates to our dealerships and assistance for floorplan interest are reflected as a reduction in the carrying value of each vehicle purchased by us. These incentives are recognized as a reduction to the cost of sales as the related vehicles are sold.

3 Significant Accounting Policies continued

Manufacturer incentives and other rebates continued

Advertising

Manufacturer advertising rebates that are reimbursements of costs associated with specific advertising expenses are earned in accordance with the respective manufacturers' reimbursement-based advertising assistance programs, which is typically after the corresponding advertising expenses have been incurred, and are reflected as a reduction in advertising expense included in selling, general and administrative expense in the statement of comprehensive income.

Share-based compensation

(a) Restricted Share Units (RSUs)

The Company grants RSUs to designated management employees entitling them to receive a combination of cash and common shares based on the Company's share price at each vesting date. The RSUs are also entitled to earn additional units based on dividend payments made by the Company and the share price on the date of payment. The RSUs granted are scheduled to vest evenly over three years conditional upon continued employment with the Company.

(b) Deferred Share Units (DSUs)

The Company grants DSUs to independent directors of the Company which are cash-settled. DSUs are granted based on the Company's average share price for the five business days prior to the date on which quarterly directors' fees are paid. The DSUs granted are scheduled to vest upon the termination date of the director, at which time, the DSUs will be settled in cash no sooner than the termination date and no later than December 15 of the calendar year following the director's termination date.

Financial instruments

Financial instruments are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are recognized on the settlement date, which is the date on which the asset is delivered to or by the Company. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or were transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation is discharged, cancelled or expired. The Company's financial assets, including cash and cash equivalents and trade and other receivables, are classified as loans and receivables at the time of initial recognition. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method. The Company's financial liabilities, including accounts payable and accrued liabilities, revolving floorplan facilities, lease obligations and long-term debt, are classified as other liabilities at the time of initial recognition. Other liabilities are non-derivative financial liabilities and are initially recognized at fair value and subsequently carried at amortized cost using the effective interest method.

3 Significant Accounting Policies continued

Cash and cash equivalents

Cash and cash equivalents include amounts on deposit with financial institutions and amounts with the Bank of Nova Scotia ("Scotiabank") that are readily available to the Company (See Note 21 - *Financial instruments - Credit risk* for explanation of credit risk associated with amounts held with Scotiabank).

Restricted cash

Restricted cash is cash held in a segregated account in connection with the facility from Scotiabank. The restricted cash earns interest income to partially offset the interest expense incurred on the borrowings. (See Note 21 - *Financial instruments - Credit risk* for explanation of credit risk associated with restricted cash balances).

Trade and other receivables

Trade and other receivables are amounts due from customers, financial institutions and suppliers from providing services or sale of goods in the ordinary course of business. Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of comprehensive income within operating expenses.

When a trade and other receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the statement of comprehensive income.

Inventories

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

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

3 Significant Accounting Policies continued

Property and equipment

Property and equipment are stated at cost less accumulated amortization and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Residual values, useful lives and methods of amortization are reviewed, and adjusted if appropriate, at each financial year end. Land is not amortized. Other than as noted below, amortization of property and equipment is provided for over the estimated useful life of the assets on the declining balance basis at the following annual rates:

Machinery and equipment	20%
Furniture, fixtures and other	20%
Company vehicles	30%
Computer equipment	30%

Buildings are amortized on a straight-line basis over 25-41 years based on the estimated useful lives of the buildings. The useful lives are determined based on the Company's understanding and experience as to how the related assets depreciate.

The useful life of leasehold improvements is determined to be the lesser of the lease term or the estimated useful life of the improvement. Leasehold improvements are amortized using the straight-line method if useful life is determined to be the lease term and declining balance method if other than the lease term is used.

Amortization of leased vehicles is based on a straight line amortization of the difference between the cost and the estimated residual value at the end of the lease over the term of the lease. Leased vehicle residual values are regularly reviewed to determine whether amortization rates are reasonable.

Goodwill and intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of a cash-generating unit ("CGU") include the carrying amount of goodwill relating to the CGU sold.

(b) Intangible assets

Intangible assets consist of rights under franchise agreements with automobile manufacturers (“dealer agreements”). The Company has determined that dealer agreements will continue to contribute to cash flows indefinitely and, therefore, have indefinite lives due to the following reasons:

- Certain of our dealer agreements continue indefinitely by their terms; and
- Certain of our dealer agreements have limited terms, but are routinely renewed without substantial cost to the Company.

3 Significant Accounting Policies continued

Goodwill and intangible assets continued

(b) Intangible assets continued

Intangible assets are carried at cost less impairment losses. When acquired in a business combination, the cost is determined in connection with the purchase price allocation based on their respective fair values at the acquisition date. When market value is not readily determinable, cost is determined using generally accepted valuation methods based on revenues, costs or other appropriate criteria.

Impairment

Impairments are recorded when the recoverable amount of assets are less than their carrying amounts. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. Impairment losses, other than those relating to goodwill, are evaluated for potential reversals of impairment when events or changes in circumstances warrant such consideration.

(a) Non-financial assets

The carrying values of non-financial assets with finite lives, such as property and equipment are assessed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

(b) Intangible assets and goodwill

The carrying values of all intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Additionally, the carrying values of identifiable intangible assets with indefinite lives and goodwill are tested annually for impairment. Specifically:

- Our dealership franchise agreements with indefinite lives are subject to an annual impairment assessment. For purposes of impairment testing, the fair value of our franchise agreements is determined using a combination of a discounted cash flow approach and earnings multiple approach.
- For the purpose of impairment testing, goodwill is allocated to cash-generating units ("CGU") based on the level at which management monitors it, which is not higher than an operating segment. Goodwill is allocated to those CGU's that are expected to benefit from the business combination in which the goodwill arose.

Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. Trade payables are recognized initially at fair value and subsequently measured at amortized cost, and are classified as current liabilities if payment is due within one year or less.

3 Significant Accounting Policies continued

Provisions

Provisions represent liabilities to the Company for which the amount or timing is uncertain. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expected expenditures to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in provision due to passage of time is recognized as interest expense.

Leases

Leases are classified as either operating or finance, based on the substance of the transaction at inception of the lease. Classification is re-assessed if the terms of the lease are changed.

(a) Finance lease

Leases in which substantially all the risks and rewards of ownership are transferred to the Company are classified as finance leases. Assets meeting finance lease criteria are capitalized at the lower of the present value of the related lease payments or the fair value of the leased asset at the inception of the lease. Minimum lease payments are apportioned between the finance charge and the liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(b) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under an operating lease (net of any incentives received from the lessor) are recognized in the statement of comprehensive income on a straight-line basis over the period of the lease.

New Accounting Policies

During the year ended December 31, 2012, the Company elected to early adopt the following standards:

- IFRS 10, *Consolidated financial statements*, replaces all the guidance on control and consolidation in IAS 27, *Consolidated and separate financial statements*, and SIC-12, *Consolidation - special purpose entities*. Full retrospective application is required in accordance with the transition provisions of the standard, unless impracticable, in which case the Company applies it from the earliest practicable date.
- IAS 27 was amended following the issuance of IFRS 10. The revised IAS 27 deals only with the accounting for subsidiaries, associates and joint ventures in the separate financial statements of the parent company.

3 Significant Accounting Policies continued

New Accounting Policies continued

- IFRS 11, *Joint Arrangements*, supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities - Non-monetary Contributions by Venturers*. Under IAS 31, entities have the choice to proportionately consolidate or equity account for interests in jointly controlled entities. IFRS 11 requires an entity to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures are accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation.
- IFRS 12, *Disclosure of Interests in Other Entities*, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interest in other entities.
- IAS 28 was amended following the issuance of IFRS 11. The revised IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The Company has applied the above standards retrospectively. The above standards did not result in significant changes to the Company's previously filed financial statements and related disclosures.

4 Changes in significant accounting estimates

On October 1, 2012, the Company changed the method of amortizing buildings from declining balance to straight line over the estimated useful life of the building to reflect the change in the Company's evaluation of the nature of depreciation of buildings. The Company believes buildings depreciate evenly over time as opposed to declining balance depreciation that is more applicable to other types of assets. The change in amortization method has been applied prospectively beginning on October 1, 2012. As a result of the change in amortization method, amortization expense for the year ended December 31, 2012 is $128 lower than under the declining balance method.

5 Accounting standards and amendments issued but not yet adopted

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, 2012. The standards issued 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, 2015.

5 Accounting standards and amendments issued but not yet adopted continued

- 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. This standard becomes effective on January 1, 2013.
- 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.

6 Critical accounting estimates, judgments & measurement uncertainty

The preparation of financial statements requires management to make estimates and judgments about the future. Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Critical estimates and assumptions in determining the value of assets and liabilities:

Intangible assets and goodwill

Intangible assets and goodwill arise out of business combinations. The Company applies the acquisition method of accounting to these transactions, which involves the allocation of the cost of an acquisition to the underlying net assets acquired based on their respective estimated fair values. As part of this allocation process, the Company must identify and attribute values to the intangible assets acquired. These determinations involve significant estimates and assumptions regarding cash flow projections, economic risk and weighted average cost of capital.

These estimates and assumptions determine the amount allocated to intangible assets and goodwill. If future events or results differ significantly from these estimates and assumptions, the Company could record impairment charges in the future.

The Company tests at least annually whether indefinite life intangible assets and goodwill has suffered impairment, in accordance with its accounting policies. The recoverable amounts of CGU's have been estimated based on the greater of fair value less costs to sell and value-in-use calculations.

Inventories

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

6 Critical accounting estimates, judgments & measurement uncertainty continued

Allowance for doubtful accounts

The Company must make an assessment of whether accounts receivable are collectible from customers. Accordingly, management establishes an allowance for estimated losses arising from non-payment and other sales adjustments, taking into consideration customer creditworthiness, current economic trends and past experience. If future collections differ from estimates, future earnings would be affected.

Estimated useful life of property and equipment

The Company estimates the useful life and residual values of property and equipment and reviews these estimates at each financial year end. The Company also tests for impairment when a trigger event occurs.

Critical judgments in applying accounting policies:

Investment in associate

When assessing control over an investee, an investor considers the nature of its relationship with other parties and whether those other parties are acting on the investor's behalf; that is, acting as a de facto agent. The determination of whether other parties are acting as de facto agents requires judgment, considering not only the nature of the relationship but also how those parties interact with each other and the investor.

AutoCanada has a non-voting equity interest in an entity, Dealer Holdings Ltd. ("DHL"), for which the voting interests are held 100% by the Company's Chief Executive Officer ("CEO") (as described in Note 17). When assessing whether the Company has control of DHL, management has considered the Company's relationship with its CEO and whether the Company has the ability to direct decision-making rights of the CEO pertaining to their investment in DHL. In making this assessment, the Company considered that the CEO has de facto control over AutoCanada; therefore, the CEO should not be perceived to be a de facto agent of AutoCanada. The following facts were considered to assess the relationship between AutoCanada and its CEO:

- Regardless of employment at AutoCanada, the CEO's interest in DHL would remain with full ability to control decisions as they pertain to DHL.
- The CEO has not relied on any financial support from the Company in making his investment, and therefore the risk of loss and reward to the CEO personally is significant.
- There are no contractual rights providing the Company with decision making power over the CEO.
- The CEO's level of expertise and knowledge in operating DHL.

When combining these considerations with the fact that the CEO has the casting vote on decisions of the Board of DHL, and therefore governs relevant activities of the investee, management has concluded that the Company does not have power over DHL, and therefore does not consolidate this investment.

(in thousands of Canadian dollars except for share and per share amounts)

6 Critical accounting estimates, judgments & measurement uncertainty continued

Should the nature of the relationship between the CEO and the Company change in the future, this assessment would need to be further evaluated.

7 Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker ("CODM"), the Company's CEO, who is responsible for allocating resources and assessing performance of the operating segment. The Company has identified one reportable business segment since the Company is operated and managed on a dealership basis. Dealerships operate a number of business streams such as new and used vehicle sales, parts, service and collision repair and finance and insurance products. Management is organized based on the dealership operations as a whole rather than the specific business streams.

These dealerships are considered to have similar economic characteristics and offer similar products and services which appeal to a similar customer base. As such, the results of each dealership have been aggregated to form one reportable business segment. The CODM assesses the performance of the operating segment based on a measure of both revenue and gross profit.

8 Economic dependence

The Company has significant commercial and economic dependence on Chrysler Canada. As a result, the Company is subject to significant risk in the event of the financial distress of Chrysler Canada, one of the Company's major vehicle manufacturers and parts suppliers.

The Company's consolidated financial statements include the operations of franchised automobile dealerships, representing the product lines of eight global automobile manufacturers. The Company's Chrysler, Jeep, Dodge, Ram ("CJDR") dealerships, which generated 73% of the Company's revenue in the period-ended December 31, 2012 (2011 – 74%), purchase all new vehicles, a significant portion of parts and accessories and certain used vehicles from Chrysler Canada. In addition to these inventory purchases, the Company is eligible to receive monetary incentives from Chrysler Canada if certain sales volume targets are met and is also eligible to receive payment for warranty service work that is performed for eligible vehicles.

At December 31, 2012 and December 31, 2011, the Company had recorded the following assets that relate to transactions it has entered into with Chrysler Canada:

	December 31, 2012 $	December 31, 2011 $
Accounts receivable	6,655	5,032
New vehicle inventory	122,595	72,749
Demonstrator vehicle inventory	4,784	4,338
Parts and accessories inventory	6,043	6,081

Chrysler Canada is a subsidiary of Chrysler Group LLC ("Chrysler Group") in the United States. The viability of Chrysler Canada is directly dependent on the viability of Chrysler Group.

(in thousands of Canadian dollars except for share and per share amounts)

9 Revenue

	2012 $	2011 $
New vehicles	683,375	640,722
Used vehicles	243,351	206,030
Finance, insurance and other	62,587	51,896
Parts, service and collision repair	114,600	110,678
	1,103,913	1,009,326

10 Cost of sales

	2012 $	2011 $
New vehicles	625,800	593,017
Used vehicles	227,040	188,649
Finance, insurance and other	5,751	5,301
Parts, service and collision repair	54,957	53,198
	913,548	840,165

11 Operating expenses

	2012 $	2011 $
Employee costs (Note 12)	93,012	82,381
Administrative costs (1)	39,949	38,655
Facility lease costs	11,868	11,559
Depreciation	4,311	4,251
	149,140	136,846

(1) Administrative costs include professional fees, consulting services, technology-related expenses, selling and marketing, and other general and administrative costs.

(in thousands of Canadian dollars except for share and per share amounts)

12 Employees

The average number of people employed by the Company in the following areas was:

	2012	2011
Sales	477	442
Service	612	605
Administration	138	123
	1,227	1,170

Operating expenses incurred in respect of employees were:

	2012 $	2011 $
Wages, salaries and commissions	86,555	76,016
Withholding taxes and insurance	3,903	3,652
Employee benefits and other	2,554	2,713
	93,012	82,381

13 Finance costs and finance income

	2012 $	2011 $
Finance costs:		
Long-term debt	984	1,136
Floorplan financing	8,832	8,057
Other interest expense	767	655
	10,583	9,848
Finance income:		
Short term bank deposits	(1,575)	(1,324)

Cash interest paid during the year ended December 31, 2012 was $10,620 (2011 - $9,812).

14 Taxation

Components of income tax expense are as follows:

	2012 $	2011 $
Current	5,823	2,046
Deferred tax	2,753	10,463
Total income tax expense	8,576	12,509

(in thousands of Canadian dollars except for share and per share amounts)

14 Taxation continued

Factors affecting tax expense for the year:

	2012 $	2011 $
Income before taxes	32,812	49,293
Income before tax multiplied by the standard rate of Canadian corporate tax of 25.5% (2011 - 27.0%)	8,367	13,309
Effects of:		
Change in deferred tax rate	11	(200)
Difference between future and current rate	(14)	(717)
Non-deductible expenses	259	74
Other, net	(47)	43
Total income tax expense	8,576	12,509

The movements of deferred tax assets and liabilities are shown below:

Deferred tax assets (liabilities)	Deferred income from partnerships $	Property and equipment $	Goodwill and intangible assets $	Other $	Total $
January 1, 2011	(4,260)	643	1,671	394	(1,552)
(Expense) benefit to income statement	(2,419)	(198)	(7,490)	(356)	(10,463)
Deferred tax acquired on acquisition	-	-	-	(41)	(41)
December 31, 2011	(6,679)	445	(5,819)	(3)	(12,056)
Benefit (expense) to income statement	(1,630)	(242)	(818)	(63)	(2,753)
December 31, 2012	(8,309)	203	(6,637)	(66)	(14,809)

Changes in the deferred income tax components are adjusted through deferred tax expense. Of the above components of deferred income taxes, $8,309 of the deferred tax liabilities is expected to be recovered within 12 months. The decrease in standard rate of Canadian corporate tax is due to general decreases in the corporate tax rate in the jurisdictions in which the Company operates. The Company applies a blended rate in determining its overall income tax expense.

15 Investment in associate

During 2012, the Company invested a total of $4,262 to acquire a 60.8% participating, non-voting equity interest in Dealer Holdings Ltd. ("DHL"). DHL is an entity formed between a subsidiary of AutoCanada and Mr. Patrick Priestner ("Priestner"), the Company's CEO. DHL was formed to acquire future General Motors of Canada ("GM Canada") franchised dealerships, whereby Priestner is required to maintain voting control of the dealerships, in accordance with the agreement with GM Canada. All shareholders participate equally in the equity and economic risks and rewards of DHL and its interests, based on the percentage of ownership acquired. DHL's principal place of business is Alberta, Canada.

Although the Company holds no voting rights in DHL, the Company exercises significant influence by virtue of its ability to appoint one member of the board of directors of DHL and its ability to participate in financial and operating policy decisions of DHL. However, the Company does not have the power to make key decisions or block key decisions due to a casting vote held by Priestner. As a result, the Company has accounted for its investment in DHL under the equity method. There are no guarantees to DHL or significant relationships other than those disclosed in Note 30.

During the second quarter of 2012, DHL acquired a 49% voting equity interest in Nicholson Chevrolet ("Nicholson") with an option to increase its interest to 51% upon Nicholson's successful relocation to a new facility. DHL exercised this option in the fourth quarter of 2012 subsequent to Nicholson's relocation to Sherwood Park, Alberta and change in operating name to Sherwood Park Chevrolet. In conjunction with the Nicholson investment, DHL is subject to a put option with Romland Development Holdings Ltd. ("Romland"), the owner of the dealership and body shop real estate used in Sherwood Park Chevrolet's operations, whereby DHL may be required to purchase up to 49% of Romland at fair value. Upon Romland exercising the put option, DHL will have 180 days to purchase its portion of shares of Romland, which would require further investment in DHL from its shareholders.

During the second quarter of 2012, DHL also acquired a 51% voting equity interest in Petersen Buick GMC ("Petersen").

The Sherwood Park Chevrolet and Petersen dealerships are both subject to financial covenants as part of its borrowing arrangements that may restrict their ability to transfer funds to DHL if the payment of such funds resulted in a breach of covenants. The dealerships are also subject to minimum working capital requirements imposed by GM Canada, which may restrict the dealerships' ability to transfer funds to DHL if minimum working capital requirements are not met.

(in thousands of Canadian dollars except for share and per share amounts)

15 Investment in associate continued

As a result of DHL's investments, the Company has indirectly acquired a 31% interest in Sherwood Park Chevrolet and a 31% interest in Petersen. Summarized information in respect of the investment in DHL is as follows:

	Carrying amount $	Fair value adjustments $	Fair value $	Interest in Dealer Holdings Ltd. $
Current assets	29,837	(92)	29,745	9,221
Non-current assets	18,072	592	18,664	5,786
Current liabilities	24,611	-	24,611	7,629
Non-current liabilities	10,050	-	10,050	3,116
Equity attributable to DHL	13,248	500	13,748	
Equity	4,107	155	4,262	4,262

From the date of acquisition to December 31, 2012, on a consolidated basis, DHL generated revenue of $88,045 and total net comprehensive income of $784. For the year ended December 31, 2012, no dividends have been received from DHL. The fair value of the Company's investment in DHL approximates the carrying value presented below. The following table summarizes the Company's carrying value of its investment in DHL:

	Year ended December 31, 2012 $
Balance, beginning of the year	-
Investment in Dealer Holdings Ltd.	4,262
Income from investment in associate	468
Balance, end of year	4,730

16 Cash, cash equivalents and restricted cash

	December 31, 2012 $	December 31, 2011 $
Cash at bank and on hand	13,992	14,911
Short-term deposits	20,480	38,730
Cash and cash equivalents	34,472	53,641
Restricted cash	10,000	-
Cash and cash equivalents and restricted cash	44,472	53,641

(in thousands of Canadian dollars except for share and per share amounts)

16 Cash, cash equivalents and restricted cash continued

Short-term deposits consist of cash held with Scotiabank. The Company's revolving floorplan facility agreements allow the Company to hold excess cash in accounts with Scotiabank, which is used to offset our finance costs on our revolving floorplan facilities. Restricted cash relates to cash required by Scotiabank to be held in a separate account, which would be used to repay our facilities if we are in default of our facilities. See Note 21 for further detail regarding cash balances held with Scotiabank.

17 Trade and other receivables

	December 31, 2012 $	December 31, 2011 $
Trade receivables	45,998	41,294
Less: Allowance for doubtful accounts	(447)	(359)
Net trade receivables	45,551	40,935
Other receivables	2,393	1,513
Trade and other receivables	47,944	42,448

The aging of trade and other receivables at each reporting date was at follows:

	December 31, 2012 $	December 31, 2011 $
Current	41,986	36,741
Past due 31 - 60 days	3,473	3,165
Past due 61 - 90 days	957	613
Past due 91 - 120 days	1,201	602
Past due > 120 days	327	1,327
	47,944	42,448

Included in amounts greater than 120 days are $327 (2011 - $559) of receivables related to corporate fleet leasing arrangements.

The Company is exposed to normal credit risk with respect to its accounts receivable and maintains provisions for potential credit losses. Potential for such losses is mitigated because there is limited exposure to any single customer and because customer creditworthiness is evaluated before credit is extended.

(in thousands of Canadian dollars except for share and per share amounts)

18 Inventories

	December 31, 2012 $	December 31, 2011 $
New vehicles	158,251	101,135
Demonstrator vehicles	7,333	6,302
Used vehicles	25,622	21,531
Parts and accessories	8,020	8,048
	199,226	137,016

During the year ended December 31, 2012, $913,548 of inventory (2011 - $840,165) was expensed as cost of goods sold which included net write-downs on used vehicle inventory of $899 (2011 - $85). During the year ended December 31, 2012, $1,150 of demonstrator expense (2011 - $1,219) was included in selling, general, and administration expense. During the year ended December 31, 2012, demonstrator reserves increased by $207 (2011 - $237). As at December 31, 2012, the Company had recorded reserves for inventory write downs of $2,121 (2011 - $1,429).

(in thousands of Canadian dollars except for share and per share amounts)

19 Property and equipment

	Company & lease vehicles $	Leasehold Improvements $	Machinery & Equipment $	Land & buildings $	Furniture, fixtures & other $	Computer hardware $	Total $
Cost:							
December 31, 2010	3,751	6,900	10,605	10,226	4,497	3,126	39,105
Capital expenditures	-	1,124	811	-	539	480	2,954
Acquisitions of dealership assets	546	9	117	-	102	27	801
Disposals	-	(2,100)	(387)	-	(13)	(24)	(2,524)
Transfer in to inventory, net	768	-	-	-	-	-	768
December 31, 2011	5,065	5,933	11,146	10,226	5,125	3,609	41,104
Capital expenditures	-	747	514	-	207	673	2,141
Acquisitions of real estate	-	-	-	13,928	-	-	13,928
Disposals	-	(40)	(90)	-	(70)	(275)	(475)
Transfer in to (from) inventory, net	112	-	-	-	-	-	112
December 31, 2012	5,177	6,640	11,570	24,154	5,262	4,007	56,810
Accumulated depreciation:							
December 31, 2010	(1,078)	(3,419)	(4,623)	(678)	(1,833)	(1,884)	(13,515)
Current year depreciation	(961)	(543)	(1,258)	(527)	(568)	(394)	(4,251)
Disposals	-	1,958	89	-	(142)	(90)	1,815
Transfers in to inventory	822	-	-	-	-	-	822
December 31, 2011	(1,217)	(2,004)	(5,792)	(1,205)	(2,543)	(2,368)	(15,129)
Current year depreciation	(1,118)	(568)	(1,112)	(494)	(554)	(465)	(4,311)
Disposals	-	40	59	-	51	179	329
Transfers in to (from) inventory, net	814	-	-	-	-	-	814
December 31, 2012	(1,521)	(2,532)	(6,845)	(1,699)	(3,046)	(2,654)	(18,297)
Carrying amount:							
December 31, 2011	3,848	3,929	5,354	9,021	2,582	1,241	25,975
December 31, 2012	3,656	4,108	4,725	22,455	2,216	1,353	38,513

Fully depreciated assets are retained in cost and accumulated depreciation accounts until such assets are removed from service. Proceeds from disposals are netted against the related assets and the accumulated depreciation and included in the statement of operations and comprehensive income.

Bank borrowings are secured on land and buildings for the value of $6,960 (2011 - $6,960).

(in thousands of Canadian dollars except for share and per share amounts)

20 Intangible assets

Intangible assets consist of rights under franchise agreements with automobile manufacturers ("dealer agreements").

	December 31, 2012 $	December 31, 2011 $
Cost:		
Opening balance	74,003	77,130
Acquisitions	-	620
Divestitures	-	(3,747)
Closing balance	74,003	74,003
Accumulated impairment:		
Opening balance	7,822	37,112
Recovery of impairment of intangible assets	(222)	(25,543)
Divestitures	-	(3,747)
Closing balance	7,600	7,822
Carrying amount	66,403	66,181

Cash generating units have been determined to be individual dealerships. The following table shows the carrying amount of dealer agreements by cash generating unit:

Cash Generating Unit	December 31, 2012 $	December 31, 2011 $
A	21,687	21,687
B	9,431	9,431
C	3,670	3,303
D	9,626	9,626
E	8,497	8,497
F	3,258	3,258
G	1,234	1,234
H	1,413	1,102
I	1,359	1,359
J	955	2,053
K	1,726	1,726
L	394	57
M	185	693

(in thousands of Canadian dollars except for share and per share amounts)

20 Intangible assets continued

Cash Generating Unit	December 31, 2012 $	December 31, 2011 $
Other N - T combined	2,968	2,155
	66,403	66,181

The following table shows the impairments (recoveries of impairment) of dealer agreements by cash generating unit:

Cash Generating Unit	December 31, 2012 $	December 31, 2011 $
A	-	(11,313)
B	-	(2,397)
C	(368)	(122)
D	-	-
E	-	(4,712)
F	-	(3,258)
G	-	(371)
H	(311)	(1,102)
I	-	(1,013)
J	1,098	-
K	-	-
L	(337)	(57)
M	508	693
Other N - T combined	(812)	(1,891)
	(222)	(25,543)

Impairment test of dealer agreements

The Company performed its annual test for impairment at December 31, 2012. As a result of the test performed, the Company recorded a net reversal of impairment in the amount of $222 for the year ended December 31, 2012 (2011 - $25,543).

The carrying value of dealer agreements for each significant CGU is identified separately in the table above. "N - T combined" comprises dealer agreements allocated to the remaining CGUs.

The valuation techniques, significant assumptions and sensitivities applied in the intangible assets impairment test are described as follows:

20 Intangible assets continued

Valuation Techniques

The Company did not make any changes to the valuation methodology used to assess impairment since the impairment test on transition to IFRS. The recoverable amount of each CGU was based on the greater of fair value less cost to sell and value in use.

Value in Use

Value in use ("VIU") is predicated upon the value of the future cash flows that a business will generate going forward. The discounted cash flow ("DCF") method was used which involves projecting cash flows and converting them into a present value equivalent through discounting. The discounting process uses a rate of return that is commensurate with the risk associated with the business or asset and the time value of money. This approach requires assumptions about revenue growth rates, operating margins, and discount rates.

Fair value less costs to sell

Fair value less costs to sell ("FVLCS") assumes that companies operating in the same industry will share similar characteristics and that company values will correlate to those characteristics. Therefore, a comparison of a CGU to similar companies may provide a reasonable basis to estimate fair value. Under this approach, fair value is calculated based on EBITDA ("Earnings before interest, taxes, depreciation and amortization") multiples comparable to the businesses in each CGU. Data for EBITDA multiples was based on recent comparable transactions and management estimates. Multiples used in the test for impairment for each CGU were in the range of 4.0 to 6.0 times forecasted EBITDA.

Significant Assumptions for Value in Use

Growth

The assumptions used were based on the Company's internal budget which is approved by the Board of Directors. The Company projected revenue, gross margins and cash flows for a period of one year, and applied growth rates for years thereafter commensurate with industry forecasts. Management applied a 2% terminal growth rate in its projections. In arriving at its forecasts, the Company considered past experience, economic trends and inflation as well as industry and market trends.

Discount Rate

The Company applied a discount rate to calculate the present value of its projected cash flows. The discount rate represented the Company's internally computed weighted average cost of capital ("WACC") for each CGU with appropriate adjustments for the risks associated with the CGUs to which intangible assets are allocated. The WACC is an estimate of the overall required rate of return on an investment for both debt and equity owners and serves as the basis for developing an appropriate discount rate. Determination of the discount rate requires separate analysis of the cost of equity and debt and considers a risk premium based on an assessment of risks related to the projected cash flows of each CGU.

(in thousands of Canadian dollars except for share and per share amounts)

20 Intangible assets continued

Significant Assumptions for Fair Value Less Costs to Sell

EBITDA

The Company's assumptions for EBITDA were based on the Company's internal budget which is approved by the Board of Directors. The Company projected EBITDA for a period of one year and reduced the amount for allocation of corporate overhead based on a percentage of gross profit for each CGU as compared to the gross profit of the Company. As noted above, data for EBITDA multiples was based on recent comparable transactions and management estimates.

Costs to sell

Management applied a percentage of 5% of the estimated purchase price in developing an estimate of costs to sell, based on historical transactions.

Additional Assumptions

The key assumptions used in performing the impairment test, by CGU, were as follows:

	Basis of Recoverable Amount	Discount Rate	Perpetual Growth Rate
A	VIU	14.68 %	2.00 %
B	VIU	15.02 %	2.00 %
C	VIU	14.51 %	2.00 %
D	VIU	15.36 %	2.00 %
E	VIU	15.70 %	2.00 %
F	VIU	14.68 %	2.00 %
G	FVLCS	15.02 %	2.00 %
H	FVLCS	15.87 %	2.00 %
I	VIU	14.68 %	2.00 %
J	VIU	14.51 %	2.00 %
K	VIU	15.02 %	2.00 %
L	VIU	15.19 %	2.00 %
M	FVLCS	16.04 %	2.00 %
N - T combined	VIU/FVLCS	14.00 - 15.36 %	2.00 %

(in thousands of Canadian dollars except for share and per share amounts)

20 Intangible assets continued

Sensitivity

The recoverable amount for the CGUs that were in excess of their carrying values was 289.7% of the carrying value of the applicable CGUs based on a weighted average. On a weighted-average basis, the fair value for the CGUs that were below their carrying values was 10.7% of the carrying value of the applicable CGUs. As a result, the Company expects future impairments and reversals of impairments to occur as market conditions change and risk premiums used in developing the discount rate change.

Based on sensitivity analysis, no reasonably possible change in growth rate assumptions would cause the recoverable amount of any CGU to have a significant change from its current valuation. A 1% change in the discount rate would not have a significant impact on the recoverable amounts of CGUs. The recoverable amount of each CGU is sensitive to changes in market conditions and could result in material changes in the carrying value of intangible assets in the future.

21 Financial instruments

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in the accounting policies. The Company's financial assets have been classified as loans and receivables. The Company's financial liabilities have been classified as other financial liabilities. Details of the Company's financial assets and financial liabilities are disclosed below:

	December 31, 2012 $	**December 31, 2011 $**
Financial assets		
Cash and cash equivalents	34,472	53,641
Restricted cash	10,000	-
Trade and other receivables	47,944	42,448
Financial liabilities		
Current indebtedness	3,000	2,859
Long-term indebtedness	23,937	20,115
Revolving floorplan facilities	203,525	150,816
Trade and other payables	35,697	32,279

Financial Risk Management Objectives

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

21 Financial instruments continued

Market Risk

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

Foreign Currency Risk

Foreign currency risk arises from fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. The Company is not directly exposed to significant foreign currency risk with respect to its financial instruments.

Interest Rate Risk

The Scotiabank revolving floorplan facilities ("Scotiabank facilities") are subject to interest rate fluctuations and the degree of volatility in these rates. The Company does not currently hold any financial instruments that mitigate this risk. The Scotiabank facilities bear interest at Bankers' Acceptance Rate plus 1.40%-1.90% (Bankers' Acceptance Rate as at December 31, 2012 is 1.22%).

The VW Credit Canada, Inc. revolving floorplan facilities ("VCCI facilities") are subject to interest rate fluctuations and the degree of volatility in these rates. The Company does not currently hold any financial instruments that mitigate this risk. The VCCI facilities bear interest at Prime Rate plus 0.50% for new vehicles and Prime Rate plus 0.75-1.00% for used vehicles. These facilities define Prime Rate as the Royal Bank of Canada Prime Rate (3.00% as at December 31, 2012).

The HSBC Revolver and the HSBC Term Loan (the “HSBC Facilities”) are also subject to interest rate fluctuations and the degree of volatility in these rates. The Company does not currently hold any financial instruments that mitigate this risk. The HSBC Revolver bears interest at the HSBC Prime Rate plus 0.75% and the HSBC Term Loan bears interest at the HSBC Prime Rate plus 1.75% (HSBC Prime Rate as at December 31, 2012 is 3.00%).

The BMO Term Loan is a fixed rate term loan that matured on September 30, 2012, at which time became subject to market rates of interest until the amount is refinanced.

The Servus Mortgage is a fixed rate mortgage bearing interest at an annual rate of 3.90%.

The Company’s exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The sensitivity analysis below has been determined based on the exposure to interest rates at the reporting date and stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. The amounts below represent an increase to the reported account if positive and a decrease to the reported account if negative. A 100 basis point change and 200 basis point change is used when reporting interest risk internally to key management personnel and represents management’s assessment of the possible change in interest rates.

(in thousands of Canadian dollars except for share and per share amounts)

21 Financial instruments continued

Interest Rate Risk continued

	+ 200 Basis Point		- 200 Basis Point		+ 100 Basis Point		- 100 Basis Point	
	2012	2011	2012	2011	2012	2011	2012	2011
	$	$	$	$	$	$	$	$
Finance costs	4,433	1,936	(4,433)	(450)	2,216	225	(2,216)	(225)
Finance income	360	387	(360)	-	180	-	(180)	-

Credit Risk

The Company's exposure to credit risk associated with its accounts receivable is the risk that a customer will be unable to pay amounts due to the Company or its subsidiaries. Concentration of credit risk with respect to contracts-in-transit and accounts receivable is limited primarily to automobile manufacturers and financial institutions. Credit risk arising from receivables with commercial customers is not significant due to the large number of customers dispersed across various geographic locations comprising our customer base. Details of the aging of the Company's trade and other receivables are located in Note 17.

The Company evaluates receivables for collectability based on the age of the receivable, the credit history of the customer and past collection experience. Allowances are provided for potential losses that have been incurred at the balance sheet date. The amounts disclosed on the balance sheet for accounts receivable are net of the allowance for bad debts. Details of the allowances for doubtful accounts are located in Note 17.

Concentration of cash and cash equivalents exist due to the significant amount of cash held with Scotiabank. The Revolving floorplan facilities allow our dealerships to hold excess cash (used to satisfy working capital requirements of our various OEM partners) in an account with Scotiabank which bears interest equal to the interest rates of the Scotiabank facilities for new vehicles (2.62% at December 31, 2012). In the event of a default by a dealership in its floorplan obligation, the cash may be used to offset unpaid balances under the Scotiabank facilities. Additionally, the restricted cash balance is held at a Canadian chartered bank with a credit rating of A+ as at December 31, 2012, and as a result, credit risk is considered nominal. As a result, there is a concentration of cash balances risk to the Company in the event of a default under the Scotiabank facilities.

Liquidity Risk

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

The Company is exposed to liquidity risk as a result of its economic dependence on suppliers. (See Note 8 for further information regarding the Company's economic dependence on Chrysler Canada and the potential effect on the Company's liquidity).

(in thousands of Canadian dollars except for share and per share amounts)

21 Financial instruments continued

Liquidity Risk continued

The following table details the Company's remaining contractual maturity for its financial liabilities. The tables below have been drawn up based on the undiscounted contractual maturities of the financial liabilities. Contractual interest payable includes interest that will accrue to these liabilities except where the Company is entitled and intends to repay the liability before its maturity.

	2013 $	2014 $	2015 $	2016 $	2017 $	Total $
December 31, 2012						
Trade and other payables	35,697	-	-	-	-	35,697
Revolving floorplan facilities	203,525	-	-	-	-	203,525
HSBC revolving term facility	-	15,000	-	-	-	15,000
HSBC fixed term loan	175	2,940	-	-	-	3,115
BMO fixed rate term loan	2,604	-	-	-	-	2,604
Lease obligations	1,282	-	-	-	-	1,282
Servus Mortgage	221	221	230	239	5,307	6,218
Contractual interest payable	1,083	511	221	212	1,745	3,772
	244,587	18,672	451	451	7,052	271,213

	2012 $	2013 $	Total $
December 31, 2011			
Trade and other payables	32,279	-	32,279
Revolving floorplan facilities	150,816	-	150,816
HSBC revolving term facility	-	17,000	17,000
HSBC fixed term loan	176	3,115	3,291
BMO fixed rate term loan	2,683	-	2,683
Lease obligations	1,204	-	1,204
Contractual interest payable	890	384	1,274
	188,048	20,499	208,547

(in thousands of Canadian dollars except for share and per share amounts)

22 Other long-term assets

	December 31, 2012 $	December 31, 2011 $
Prepaid rent (Note 30)	7,646	7,558
Other assets	53	51
	7,699	7,609

23 Payables, accruals and provisions

	December 31, 2012 $	December 31, 2011 $
Trade payables	19,255	15,111
Accruals and provisions	5,091	5,284
Sales tax payable	282	2,239
Wages and withholding taxes payable	11,069	9,645
	35,697	32,279

The following table provides a continuity schedule of all recorded provisions included in accruals and provisions above. Refer to Note 26 for additional information on litigation provisions:

	Finance and insurance (a) $	Litigation $	Severance (b) $	Other $	Total $
January 1, 2012	928	-	360	351	1,639
Provisions arising during the year	125	-	-	200	325
Amounts disbursed	-	-	(360)	-	(360)
December 31, 2012	1,053	-	-	551	1,604

(a) Represents an estimated chargeback reserve provided by the Company's insurance provider.

(b) For terminated employees.

(in thousands of Canadian dollars except for share and per share amounts)

24 Indebtedness

This note provides information about the contractual terms of the Company's interest-bearing debt, which is measured at amortized cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see Note 21.

	December 31, 2012 $	December 31, 2011 $
Current indebtedness		
Current portion of indebtedness (iii, iv, v)	3,000	2,859
Revolving floorplan facilities - Scotiabank (vi)	199,001	-
Revolving floorplan facilities - Ally Credit (vii)	-	148,587
Revolving floorplan facilities - VCCI (i)	4,524	2,228
	206,525	153,674
Non-current indebtedness		
HSBC revolving term loan (ii)	15,000	17,000
HSBC non-revolving fixed term loan (iii)	2,940	3,115
Servus Mortgage (v)	5,997	-
Total indebtedness	230,462	173,789

Terms and conditions of outstanding loans were as follows:

i The revolving floorplan facilities ("VCCI facilities") are available to the Company from VW Credit Canada, Inc. ("VCCI") to finance new and used vehicles for all of the Company's Volkswagen dealerships. The VCCI facilities bear interest at the Royal Bank of Canada ("RBC") prime rate (3.00% at December 31, 2012) plus 0.50% for new vehicles and 0.75-1.00% for used vehicles. The maximum amount of financing provided by the VCCI facilities is $15,990. The VCCI facilities are collateralized by both of the dealerships' assets financed by VCCI and all cash and other collateral in the possession of VCCI and a general security agreement from the Company's Volkswagen dealerships. The individual notes payable of the VCCI facilities are due when the related vehicle is sold, as outlined in the agreement with VW Credit Canada, Inc. In February 2013, VCCI further reduced the interest rate on the new vehicle facilities to RBC Prime Rate.

ii HSBC Bank Canada ("HSBC") provides the Company with a fully committed, extendible revolving term loan (the "HSBC Revolver") in the amount of $40,000 and may be increased by $10,000 subject to approval from HSBC. The facility is repayable on June 30, 2014 and may be extended for an additional 365 days at the request of the Company and upon approval by HSBC. The HSBC Revolver bears interest at HSBC's Prime Rate plus 0.75% (3.75% at December 31, 2012). The HSBC Revolver is collateralized by all of the present and future assets of the subsidiaries of AutoCanada Inc., the various Limited Partnerships and the General Partners of each dealership within the Company. As part of a priority agreement signed by HSBC and the Company, the collateral for the HSBC Revolver excludes all new, used and demonstrator inventory financed with the Scotiabank and VCCI revolving floorplan facilities.

24 Indebtedness continued

iii HSBC provides the Company with a committed, extendible non-revolving term loan (the "HSBC Term Loan"). The HSBC Term Loan's maturity date is January 31, 2013, 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 January 31, 2014. The HSBC Term Loan bears interest at HSBC's Prime Rate plus 1.75% (4.75% at December 31, 2012). Repayments are based on a 20 year amortization of the original loan amount; consisting of fixed monthly principal repayments of $15 plus applicable interest. The HSBC Term Loan requires maintenance of certain financial covenants and is collateralized by a first fixed charge in the amount of $3,510 registered over the Newmarket Infiniti Nissan property. At December 31, 2012, the carrying amount of the Newmarket Infiniti Nissan property was $5,370. The Company is currently in the renewal process for the HSBC Term Loan.

iv Bank of Montreal provides the Company a Fixed Rate Term Loan (the "BMO Term Loan"). The BMO Term Loan matured September 30, 2012 and bears interest at a fixed rate of 5.11%. Repayments consist of fixed monthly payments totaling $20 per month. The BMO Term Loan requires maintenance of certain financial covenants and is collateralized by a general security agreement consisting of a first fixed charge in the amount of $3,450 registered over the Cambridge Hyundai property. At December 31, 2012, the carrying amount of the Cambridge Hyundai property was $3,232. The Company is currently in the renewal process for the BMO Term Loan.

v Servus Credit Union provides the Company with a mortgage (the "Servus Mortgage"). The Servus Mortgage bears interest at a fixed annual rate of 3.90% and is repayable with monthly blended instalments of $38, originally amortized over a 20 year period with term expiring September 27, 2017. The Servus Mortgage has certain reporting requirements and financial covenants and is collateralized by a general security agreement consisting of a first fixed charge over the property. At December 31, 2012, the carrying amount of the property was $8,575.

vi During the year, the Bank of Nova Scotia ("Scotiabank") provided the Company a revolving floorplan facility in the amount of $240,000 to refinance the Ally facilities previously used to finance new and used vehicle inventory. The facility for the new vehicle inventory bears interest at Bankers' Acceptance Rate plus 1.40% per annum (2.62% at December 31, 2012). The facility for used vehicle inventory bears interest at Bankers' Acceptance Rate plus 1.90% per annum (3.12% at December 31, 2012). The facility is collateralized by the individual dealership's inventories which are directly financed by Scotiabank, a general security agreement with each dealership financed, and a guarantee from AutoCanada Holdings Inc., a subsidiary of the Company.

(in thousands of Canadian dollars except for share and per share amounts)

24 Indebtedness continued

vii The Revolving floorplan facilities - Ally Credit ("Ally facilities") available to the Company to finance new, demonstrator, and used vehicles bear interest at Prime Rate plus 0.20% (4.20% at December 31, 2011) and are payable monthly in arrears. Prime Rate is defined as the greater of the Royal Bank of Canada ("RBC") prime rate (3.00% at December 31, 2011) or 4.00%. The maximum amounts of financing provided by the Ally facilities are based on a maximum number of new, used, and demonstrator vehicles to be financed on an individual dealership basis. The Ally facilities are collateralized by all of the dealerships' new, used, and demonstrator inventory financed by the Ally facilities and a general security agreement and cross guarantee from each of the Company's dealerships financed by Ally Credit. 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.

25 Leases and vehicle repurchase obligations

This note provides information about the contractual terms of the Company's lease obligations.

	December 31, 2012 $	December 31, 2011 $
Current		
Vehicle repurchase obligations (i)	1,254	1,082
Current finance lease obligations (ii)	28	122
Total lease obligations	1,282	1,204

Terms and conditions of lease obligations were as follows:

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

ii A number of equipment leases are classified as finance leases. At inception of the leases, the Company recognized an asset and a liability at an amount equal to the estimated fair value of the equipment. The imputed finance costs on the liability were determined based on the lower of the Company's incremental borrowing rate and the rates implicit in each lease.

(in thousands of Canadian dollars except for share and per share amounts)

25 Leases and vehicle repurchase obligations continued

Other leasing arrangements

In conjunction with the acquisition of Valley Autohouse in 2011, the Company acquired an in-house leased vehicle portfolio in which the Company acts as lessor. The vehicles are leased to third parties pursuant to non-cancellable operating lease agreements. As at December 31, 2012, the lease terms for the remaining vehicle leases range from 36 to 48 months. The future aggregate minimum lease payments to be received under the non-cancellable operating leases are $37 within 1 year and $11 thereafter. The Company intends to wind-down the in-house lease program at this location over the next 24 months.

26 Commitments and Contingencies

Commitments

The Company has operating lease commitments, with varying terms through 2029, to lease premises and equipment used for business purposes. The Company leases the majority of the lands and buildings used in its franchised automobile dealership operations from related parties (Note 30) and other third parties. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	December 31, 2012 $	December 31, 2011 $
2012	-	10,109
2013	10,605	8,611
2014	10,289	8,307
2015	9,967	7,984
2016	8,205	6,881
2017	6,460	5,689
Thereafter	50,378	50,792
	95,904	98,373

Lawsuits and legal claims

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

(in thousands of Canadian dollars except for share and per share amounts)

26 Commitments and Contingencies continued

Lawsuits and legal claims continued

In addition to the matters described above, the Company is engaged in various legal proceedings and claims that have arisen in the ordinary course of business. The outcome of all of the proceedings and claims against the Company, including those described above, is subject to future resolution, including the uncertainties of litigation. Based on information currently known to the Company and after consultation with outside legal counsel, management believes that it is not probable that the ultimate resolution of any such proceedings and claims, individually or in the aggregate, would have a material adverse effect on the financial condition of the Company, taken as a whole.

27 Share-based payments

The Company operates a cash and equity-settled compensation plan under which it receives services from employees as consideration for cash and share payments. The plan is described below:

Restricted Share Units (RSUs)

The Company grants RSUs to designated management employees entitling them to receive a combination of cash and common shares based on the Company's share price at each vesting date. The RSUs are also entitled to earn additional units based on dividend payments made by the Company and the share price on date of payment. The RSUs granted are scheduled to vest evenly over three years conditional upon continued employment with the Company.

The following table shows the change in the number of RSUs for the following years:

	2012 Number of RSUs	**2011 Number of RSUs**
Outstanding, beginning of the year	12,245	-
Granted	76,916	11,752
Dividends reinvested	3,549	493
Outstanding, end of the year	92,710	12,245

Deferred Share Units (DSUs)

Independent members of the Board of Directors are entitled to receive up to 100% of their cash remuneration in the form of DSUs based on the Company's average share price for the five business days prior to the date on which quarterly directors' fees are paid. The DSUs are also entitled to earn additional units based on dividend payments made by the Company and the Company's share price on the date of payment. The DSUs granted are scheduled to vest upon the termination date of the director, at which time, the DSUs will be settled in cash no sooner than the termination date and no later than December 15 of the calendar year following the director's termination date.

(in thousands of Canadian dollars except for share and per share amounts)

27 Share-based payments continued

The following table shows the change in the number of DSUs for the following years:

	2012 Number of DSUs	2011 Number of DSUs
Granted	3,397	-
Dividends reinvested	38	-
Outstanding, end of the period	3,435	-

28 Share capital

Common shares of the Company are voting shares and have no par value. The authorized share capital is an unlimited number of common shares.

RSU Trust

In June 2012, the Company established a share purchase trust ("Trust") to hedge the risk of future share price increases from the time Restricted Share Units ("RSU" - see Note 27) are granted to when they are fully vested and can be exercised. The beneficiaries of the Trust are members of the Executive Management Team who participate in the long-term incentive compensation plan called the Restricted Share Unit Plan (the "Plan"). Under the Trust Agreement, the trustee will administer the distribution of cash and shares to the beneficiaries upon vesting, as directed by the Company. The Company contributed cash to the trustee to purchase a total of 76,916 shares of the Company at a total cost of $912 on the open market to fund the future payment of awards to eligible individuals under the Plan. Dividends earned on the shares held in trust of $23 are reinvested to purchase additional shares. The shares held in the Trust are accounted for as treasury shares and have been deducted from the Company's consolidated equity as at December 31, 2012. As the Company controls the Trust, it has included the Trust in its consolidated financial statements for the year ended December 31, 2012.

The following table shows the change in shareholders' capital from January 1, 2012 to December 31, 2012:

	2012 Number	2012 Amount $
Outstanding, beginning of the year	19,880,930	190,435
Common shares repurchased	(78,781)	(935)
Outstanding, end of the year	19,802,149	189,500

(in thousands of Canadian dollars except for share and per share amounts)

28 Share capital continued

Dividends

Dividends are discretionary and are determined based on a number of factors. Dividends are subject to approval of the Board of Directors. During the year ended December 31, 2012, eligible dividends totaling $12,301 (2011 - $6,163) were declared and paid. On February 15, 2013, the Board of Directors of the Company declared a quarterly eligible dividend of $0.18 per common share on the Company's outstanding Class A common shares, payable on March 15, 2013 to shareholders of record at the close of business on February 28, 2013.

Earnings per share

Basic earnings per share was calculated by dividing earnings attributable to common shares by the sum of the weighted-average number of shares outstanding during the period. The Company does not have any dilutive stock options or other securities. Earnings used in determining earnings per share from continuing operations are presented below:

	2012 **$**	**2011** **$**
Earnings attributable to common shares	24,236	36,784

The weighted-average number of shares outstanding is presented below:

	2012	**2011**
Weighted-average number of shares outstanding, opening	19,881	19,881
Weighted-average common shares held in treasury	(40)	-
Weighted-average number of shares outstanding, closing	19,841	19,881

29 Capital disclosures

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

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

	December 31, 2012 **$**	**December 31, 2011** **$**
Long-term indebtedness(Note 24)	23,937	20,115
Equity	124,500	112,995
	148,437	133,110

29 Capital disclosures continued

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

30 Related party transactions

Transactions with Companies Controlled by the CEO of AutoCanada

During the year ended December 31, 2012, the Company had financial transactions with entities controlled by the Company's CEO. Mr. Priestner is the controlling shareholder of Canada One Auto Group ("COAG") and its subsidiaries, which beneficially own approximately 42.3% of the Company's shares. In addition to COAG, Mr. Priestner is the controlling shareholder of other companies in which AutoCanada earns administrative fees. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. All transactions between AutoCanada and companies controlled by Mr. Priestner are approved by the Company's independent members of the Board of Directors.

a Prepaid rent

During the year ended December 31, 2012, the Company prepaid rent to a company controlled by Mr. Priestner as part of an agreement for a long-term rent reduction, which was entered into in 2009. Total prepayments of rent for the period ended December 31, 2012 was $540 (2011 - $2,160). The total unamortized prepayment of rent to the Company as at December 31, 2012 is $7,646, which is included in "Other long term assets" on the Consolidated Statement of Financial Position. Prepayments of rent are amortized straight-line over the term of the lease as an increase in facilities lease costs. As such, a total of $452 (2011 - $452) has been amortized to current period facility lease costs.

b Rent paid to companies with common directors

During the year ended December 31, 2012, total rent paid to companies controlled by Mr. Priestner amounted to $7,875 (2011 - $7,906). The Company currently leases thirteen of twenty-six properties in which the Company operates from COAG, a company controlled by Mr. Priestner. The Company's independent Board of Directors has received advice from a national real estate appraisal company that the market rents at each of the COAG properties were at fair market value rates when the leases were entered into.

c Administrative support fees

During the year ended December 31, 2012, total administrative support fees received from companies controlled by Mr. Priestner amount to $432 (2011 - $201). Administrative support fees consist of a fixed monthly fee in exchange for information technology, accounting, and other administrative support. The fees are determined annually based on the estimated cost of services provided.

(in thousands of Canadian dollars except for share and per share amounts)

30 Related party transactions continued

Commitments with Companies controlled by the CEO of AutoCanada

The Company has operating lease commitments, with varying terms through 2029, to lease the lands and buildings used in certain of its franchised automobile dealerships from COAG, a company controlled by Mr. Priestner. The future aggregate minimum lease payments under non-cancelable operating leases with COAG are as follows:

	December 31, 2012 $	December 31, 2011 $
2012	-	7,811
2013	7,937	6,320
2014	7,916	6,299
2015	7,821	6,204
2016	6,169	5,211
2017	5,206	4,435
Thereafter	40,087	40,087
	75,136	76,367

Key management personnel compensation

Key management personnel consists of the Company's executive officers and directors. Key management personnel compensation is as follows:

	2012 $	2011 $
Employee costs (including directors)	3,239	3,106
Short-term employee benefits	96	117
Termination benefits	-	(265)
Share-based payments	701	302
	4,036	3,260

(in thousands of Canadian dollars except for share and per share amounts)

31 Net change in non-cash working capital

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, 2012 and 2011:

	December 31, 2012 $	December 31, 2011 $
Accounts receivable	(5,496)	(9,808)
Inventories	(63,105)	(26,080)
Prepaid expenses	18	33
Accounts payable and accrued liabilities	3,311	5,305
Leased vehicle repurchase obligations	171	340
Revolving floorplan facility	52,709	31,441
	(12,392)	1,231

32 Subsequent Events

Real Estate

On March 26, 2013, the Real Estate Committee, comprised of independent members of the Board of Directors, completed its evaluation of the purchase of dealership real estate owned by subsidiaries of Canada One Auto Group. The Company has entered into a letter of intent to purchase 11 of these properties. The closing date is scheduled for 90 days from March 26, 2013, with the Company having the option to extend a further 90 days.

Scotiabank Floorplan Increase and Interest Rate Reduction

On March 22, 2013, the Company announced that its revolving floorplan facility agreement with The Bank of Nova Scotia ("Scotiabank") had been increased by $50 million to accommodate the growing inventory requirements of its dealerships. The total amount available under the Scotiabank facility is now $290 million. In addition to the increase, the Company received a 50 basis point interest rate reduction in both its new and used vehicle floorplan facilities with Scotiabank. Under the facility, the interest rates on the floorplan facility have been revised to Bankers' Acceptance plus 1.30% (currently 2.50%) on new vehicles and Bankers' Acceptance plus 1.80% (currently 3.00%) on used vehicles.

(in thousands of Canadian dollars except for share and per share amounts)

32 Subsequent Events continued

Peter Baljet Chevrolet Buick GMC

On March 1, 2013, the Company invested a total of $7,057 to acquire an 80.0% participating, non-voting equity interest in Green Isle G Auto Holdings Inc. ("GIA"). GIA is an entity formed between a subsidiary of AutoCanada and Mr. Patrick Priestner ("Priestner"), the Company's Chief Executive Officer. GIA was formed to acquire future General Motors of Canada ("GM Canada") franchised dealerships, whereby Priestner is required to maintain voting control of the dealerships, in accordance with the agreement with GM Canada. All shareholders participate equally in the equity and economic risks and rewards of GIA and its interests, based on the percentage of ownership acquired.

Although the Company holds no voting rights in GIA, the Company exercises significant influence by virtue of its ability to appoint one member of the board of directors of GIA and its ability to participate in financial and operating policy decisions of GIA. However, the Company does not have the power to make key decisions or block key decisions due to a casting vote held by Priestner. As a result, the Company is expected to account for its investment in GIA under the equity method. There are no guarantees to GIA or significant relationships.

On March 1, 2013, GIA purchased substantially all of the net operating and fixed assets of Peter Baljet Chevrolet Buick GMC ("Peter Baljet") in Duncan, British Columbia.

The dealership is subject to financial covenants as part of its borrowing arrangements that may restrict its ability to transfer funds to GIA if the payment of such funds resulted in a breach of covenants. Peter Baljet is also subject to minimum working capital requirements imposed by GM Canada, which may restrict the dealership's ability to transfer funds to GIA if minimum working capital requirements are not met.

As a result of GIA's investment, the Company has indirectly acquired an 80.0% interest in Peter Baljet. Summarized information in respect of the investment in GIA is as follows:

	Carrying amount $	Fair value adjustments $	Fair value $	Interest in Green Isle G Auto Holdings Ltd. $
Current assets	1,527	-	1,527	1,222
Non-current assets	7,294	-	7,294	5,835
Net assets	8,821	-	8,821	7,057

The financial information presented above is an estimate, based on the preliminary conclusion that Peter Baljet will be accounted for as an investment in associate. Such estimates and judgments may be subject to change.

(in thousands of Canadian dollars except for share and per share amounts)

32 Subsequent Events continued

Grande Prairie Volkswagen

On January 4, 2013, the Company purchased substantially all of the net operating and fixed assets of People's Automotive Ltd. ("Grande Prairie Volkswagen") for total cash consideration of $1,981. The acquisition was funded by drawing on the Company's VCCI facilities (Note 26) in the amount of $1,413 and the remaining $568 was financed with the HSBC Revolver (Note 26). The acquisition will be accounted for using the acquisition method. The purchase of this business complements the Company's other dealerships in Grande Prairie. In addition to the business, the Company also purchased land and a building used for business operations for $1,800.

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

	Carrying amount $	Fair value adjustments $	Fair value $
Current assets			
Trade and other receivables	16	-	16
Inventories	1,777	-	1,777
	1,793	-	1,793
Long term assets			
Property and equipment	1,897	-	1,897
Total assets	3,690	-	3,690
Current liabilities			
Trade and other payables	9	-	9
	9	-	9
Long term liabilities			
Total liabilities	9	-	9
Net assets acquired	3,681	-	3,681
Intangible - franchise agreement	-	100	100
Total net assets acquired	3,681	100	3,781

The purchase price allocated, as presented above, is an estimate and subject to change.

CORPORATE INFORMATION

Shareholder Information

AutoCanada Inc.

Senior Management

Patrick Priestner,
Chief Executive Officer

Thomas Orysiuk,
President and Chief Financial Officer

Stephen Rose,
Executive Vice-President, Corporate Services

Jeffery Christie,
Vice-President, Finance

Board of Directors

Gordon Barefoot – Chairman

Michael Ross

Dennis DesRosiers

Christopher Cumming

Patrick Priestner

Thomas Orysiuk

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Shares Listed

Toronto Stock Exchange
Trading Symbol: ACQ

Transfer Agent

Valiant Trust Company

Annual General Meeting

Tuesday, May 7, 2013
10:00 a.m. Mountain Time
AutoCanada Inc. Corporate Head Office
200 – 15505 Yellowhead Trail
Edmonton, Alberta

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