AUTOCANADA INC.

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

For the period ended March 31, 2012

As of May 8, 2012

READER ADVISORIES

The Management's Discussion & Analysis ("MD&A") was prepared as of May 8, 2012 to assist readers in understanding AutoCanada Inc.'s (the "Company" or "AutoCanada") consolidated financial performance for the three month period ended March 31, 2012 and significant trends that may affect AutoCanada's future performance. The following discussion and analysis should be read in conjunction with the unaudited consolidated financial statements and accompanying notes (the "Interim Consolidated Financial Statements") of AutoCanada for the three months ended March 31, 2012, the consolidated financial statements and accompanying notes of the Company for the year ended December 31, 2011 and management's discussion and analysis for the year ended December 31, 2011. Results are reported in Canadian dollars. Certain dollar amounts have been rounded to the nearest thousand dollars. References to notes are to the Notes of the Consolidated Financial Statements of the Company unless otherwise stated.

To provide more meaningful information, this MD&A typically refers to the operating results for the three-month period ended March 31, 2012 of the Company, and compares these to the operating results of the Company for the three-month period March 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 CBCA on October 29, 2009 in connection with participating in an arrangement with AutoCanada Income Fund and the conversion to a corporate structure on December 31, 2009. The principal and head office of ACI is located at 200 - 15505 Yellowhead Trail, Edmonton, Alberta, T5V 1E5. AutoCanada Inc. holds interests in a number of limited partnerships that each carry on the business of a franchised automobile dealership. AutoCanada is a reporting issuer in each of the provinces of Canada. AutoCanada's shares trade on the Toronto Stock Exchange under the symbol "**ACQ**".

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

The Business of the Company

AutoCanada is one of Canada's largest multi-location automobile dealership groups, currently operating 25 franchised dealerships (see "GROWTH, ACQUISITIONS, AND RELOCATIONS") in British Columbia, Alberta, Manitoba, Ontario, New Brunswick and Nova Scotia. In 2011, our dealerships sold approximately 28,000 vehicles and processed approximately 300,000 service and collision repair orders in our 333 service bays during that time.

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

The Company's geographical profile is illustrated below by number of dealerships and revenues by province for the three month periods ended March 31, 2012 and March 31, 2011.

(In thousands of dollars except % of total and number of dealerships)	March 31, 2012			March 31, 2011		
	Number of Dealerships	Revenue	% of Total	Number of Dealerships	Revenue	% of Total
British Columbia	9	96,265	39%	7	77,109	37%
Alberta	9	100,303	40%	9	82,430	39%
Ontario	3	20,544	8%	4	27,187	13%
All other	3	31,285	13%	3	24,058	11%
Total	24	248,397	100%	23	210,784	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
Dealerships as of March 31, 2012:			
Edmonton, Alberta	Crosstown Chrysler Jeep Dodge FIAT	Chrysler	1994
Edmonton, Alberta	Capital Chrysler Jeep Dodge FIAT	Chrysler	2003
Grande Prairie, Alberta	Grande Prairie Chrysler Jeep Dodge	Chrysler	1998
Grande Prairie, Alberta	Grande Prairie Hyundai	Hyundai	2005
Grande Prairie, Alberta	Grande Prairie Subaru	Subaru	1998
Grande Prairie, Alberta	Grande Prairie Mitsubishi	Mitsubishi	2007
Grande Prairie, Alberta	Grande Prairie Nissan	Nissan	2007
Ponoka, Alberta	Ponoka Chrysler Jeep Dodge	Chrysler	1998
Sherwood Park, Alberta	Sherwood Park Hyundai	Hyundai	2006
Abbotsford, British Columbia	Abbotsford Volkswagen	Volkswagen	2011
Chilliwack, British Columbia	Chilliwack Volkswagen	Volkswagen	2011
Kelowna, British Columbia	Okanagan Chrysler Jeep Dodge	Chrysler	2003
Maple Ridge, British Columbia	Maple Ridge Chrysler Jeep Dodge FIAT	Chrysler	2005
Maple Ridge, British Columbia	Maple Ridge Volkswagen	Volkswagen	2008
Prince George, British Columbia	Northland Chrysler Jeep Dodge	Chrysler	2002
Prince George, British Columbia	Northland Hyundai	Hyundai	2005
Prince George, British Columbia	Northland Nissan	Nissan	2007
Victoria, British Columbia	Victoria Hyundai	Hyundai	2006
Thompson, Manitoba	Thompson Chrysler Jeep Dodge	Chrysler	2003
Moncton, New Brunswick	Moncton Chrysler Jeep Dodge	Chrysler	2001
Dartmouth, Nova Scotia	Dartmouth Chrysler Jeep Dodge	Chrysler	2006
Cambridge, Ontario	Cambridge Hyundai	Hyundai	2008
Mississauga, Ontario	401/Dixie Hyundai	Hyundai	2010
Newmarket, Ontario	Newmarket Infiniti Nissan	Nissan / Infiniti	2008
Dealership acquired subsequent to March 31, 2012:			
Edmonton, Alberta	Nicholson Chevrolet (1)	Chevrolet	2012

1 On May 1, 2012, the Company acquired a 31% equity interest in Nicholson Chevrolet located in Edmonton, Alberta. The dealership will be integrated into AutoCanada's operations.

Seasonality

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

OUR PERFORMANCE

New light vehicle sales in Canada in the three month period ended March 31, 2012 were up 8.4% when compared to the same period in 2011. Sales of new light vehicles for the first three months of 2012 in Alberta and British Columbia, our primary markets, were up by 11.6% and 10.9% respectively. The Company's same store sales of new vehicles have increased by 17.9% during this period. The majority of our manufacturer partners all outperformed the market this quarter and our dealerships performed particularly well in both new and used vehicle sales. Management is pleased with the Company's ability to outperform the market in new vehicle sales during the period.

The following table summarizes Canadian new light vehicle sales for the three month period ended March 31, 2012 by Province:

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

	March Year to Date		Percentage Change	Units Change
	2012	2011		
Province				
British Columbia	37,785	34,249	10.3%	3,536
Alberta	52,711	45,149	16.7%	7,562
Saskatchewan	11,816	10,349	14.2%	1,467
Manitoba	10,350	9,695	6.8%	655
Ontario	133,514	124,374	7.3%	9,140
Quebec	89,555	85,600	4.6%	3,955
New Brunswick	8,137	7,964	2.2%	173
PEI	1,307	1,313	-0.5%	-6
Nova Scotia	10,300	9,217	11.8%	1,083
Newfoundland	6,484	6,090	6.5%	394
Total	**361,959**	**334,000**	**8.4%**	**27,959**

[1] *DesRosiers Automotive Consultants Inc.*

New vehicle sales are a primary driver of other higher margin sales opportunities. On a same store basis, we achieved a new vehicle revenue increase of 18.0%. The new vehicle sales increases we've achieved over the past few quarters have provided our used vehicle departments with a good source of trade-ins and reconditioning opportunities for our parts and service departments. The Company achieved a 22.9% increase in used vehicle retail units sold, a significant increase over the prior year. The increase in used vehicles retailed contributed to a used vehicle revenue increase of 34.6% over the first quarter of 2011, with some of the increase attributed to higher volumes of used vehicle wholesaling. On a same store basis, the combination of higher new and used vehicles retailed contributed to a 23.9% increase in finance and insurance revenue. This increase in finance and insurance revenue translated into $2.4 million in additional gross profit for the quarter, approximately 38% of our overall gross profit increase. Our parts, service and collision repair department also benefitted from higher vehicle sales and an improved economy in general. On a same store basis, our gross profit increased by $1.0 million or 7.8% over the first quarter of 2011. In past cycles, we usually see new and used vehicle sales running counter-cyclically, which results in more moderate levels of gross profit and earnings. In the first quarter of 2012 we experienced double-digit increases in both new and used vehicle sales which contributed significantly to higher overall margins and profits across all departments.

As noted in previous quarters, various manufacturers also provide our dealerships with performance based incentives for meeting and exceeding monthly new vehicle sales targets. Many of our dealerships have been exceeding sales targets which have resulted in higher performance based incentives in the first quarter of 2012. 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.

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 %)	**Q2 2010**	**Q3 2010**	**Q4 2010**	**Q1 2011**	**Q2 2011**	**Q3 2011**	**Q4 2011**	**Q1 2012**
Income Statement Data								
New vehicles	144,655	141,533	113,967	128,303	196,850	172,688	142,880	147,383
Used vehicles	57,181	50,922	45,414	44,906	52,054	55,351	53,719	60,453
Parts, service & collision repair	27,501	26,540	28,351	26,462	28,256	26,871	28,673	26,913
Finance, insurance & other	12,442	11,060	10,151	11,113	13,577	14,109	13,046	13,648
Revenue	241,779	230,055	197,883	210,784	290,737	269,019	238,318	248,397
New vehicles	11,030	9,983	9,023	9,725	13,974	12,740	11,267	12,046
Used vehicles	4,906	4,221	3,659	3,486	4,302	5,020	4,573	4,412
Parts, service & collision repair	14,612	14,031	13,994	13,277	15,159	14,493	14,551	14,004
Finance, insurance & other	11,107	9,843	9,050	9,947	12,117	12,641	11,853	12,386
Gross profit	41,655	38,078	35,725	36,435	45,552	44,894	42,244	42,848
Gross profit %	17.2%	16.6%	18.1%	17.3%	15.7%	16.7%	17.7%	17.2%
Operating expenses	34,280	33,207	32,010	31,891	35,127	35,742	34,086	35,381
Operating exp. as % of gross profit	82.3%	87.2%	89.6%	87.5%	77.1%	79.6%	80.7%	82.6%
Finance costs – floorplan	2,230	2,042	1,594	1,685	2,311	2,190	1,871	1.935
Finance costs – long-term debt	230	278	332	283	323	296	234	230
Reversal of impairment of intangibles	-	-	(8,059)	-	-	-	(25,543)	-
Income taxes	1,330	692	2,418	690	2,029	1,646	8,144	1,441
Net earnings [4]	3,624	1,983	7,575	1,994	5,951	5,230	23,608	4,113
EBITDA [1, 4]	6,164	4,011	3,469	4,047	9,321	8,216	7,547	6,808
Basic earnings (loss) per share	0.182	0.100	0.381	0.100	0.299	0.263	1.187	0.207
Diluted earnings (loss) per share	0.182	0.100	0.381	0.100	0.299	0.263	1.187	0.207
Operating Data								
Vehicles (new and used) sold	6,994	6,350	5,219	5,826	8,210	7,649	6,313	6,836
New retail vehicles sold	3,614	3,358	3,008	3,050	4,158	3,907	3,405	3,434
New fleet vehicles sold	919	831	306	796	1,900	1,340	775	969
Used retail vehicles sold	2,461	2,161	1,905	1,980	2,152	2,402	2,133	2,433
Number of service & collision repair orders completed	80,072	77,285	77,037	72,360	80,851	76,176	75,911	74,439
Absorption rate [2]	87%	85%	86%	80%	91%	90%	91%	81%
# of dealerships at period end	23	23	23	23	22	22	24	24
# of same store dealerships [3]	19	19	21	22	21	21	21	21
# of service bays at period end	339	339	339	339	322	322	333	333
Same store revenue growth [3]	19.4%	6.7%	2.4%	2.7%	19.3%	21.6%	24.8%	20.2%
Same store gross profit growth [3]	7.5%	(4.0)%	2.9%	2.9%	8.2%	22.9%	20.6%	18.3%
Balance Sheet Data								
Cash and cash equivalents	31,880	34,329	37,541	39,337	43,837	49,366	53,641	53,403
Accounts receivable	46,787	37,149	32,832	42,108	51,539	44,172	42,448	51,380
Inventories	177,294	137,507	118,088	134,710	149,481	159,732	136,869	155,778
Revolving floorplan facilities	194,388	145,652	124,609	152,075	172,600	175,291	150,816	178,145

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

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

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

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

RESULTS FROM OPERATIONS

First quarter Operating Results

EBITDA for the three month period ended March 31, 2012 increased by 68.2% to $6.8 million, from $4.0 million when compared to the results of the Company for the same period in the prior year. The increase in EBITDA for the first quarter can be attributed to the improvement in all four departments of the Company.

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

Period from January 1st to March 31th	EBITDA (In thousands of dollars)
2010	3,096
2011	4,047
2012	6,808

Pre-tax earnings increased by $2.9 million or 107% to $5.6 million in the first quarter of 2012 from $2.7 million in the same period of the prior year. Net earnings increased by $2.1 million or 106% to $4.1 million in the first quarter of 2012 from $2.0 million in the prior year. Income tax expense increased to $1.4 million in the first quarter of 2012 from $0.7 million in the same period of 2011 due to higher pre-tax earnings.

Revenues

Revenues for the three month period ended March 31, 2012 increased by $37.6 million or 17.8% 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 to finance and insurance and our parts, service and collision repair business. In the first quarter of 2012, new vehicle sales increased by $19.1 million or 14.9% to $147.4 million from $128.3 million in the prior period. Used vehicle sales increased by $15.5 million or 34.6% in the first 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 $2.5 million or 22.8% for the three month period ended March 31, 2012. Parts, service and collision repair revenue increased 1.7% or $0.5 million over the first quarter of 2011. The increase in parts, service and collision repair is lower than on a same store basis mainly due to the sale of Colombo Chrysler Jeep Dodge in the second quarter of 2011.

Revenue - Same Store Analysis

The following table summarizes the results for the three-month period ended March 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)	**March 31, 2012**	**March 31, 2011**	**% Change**
Revenue Source			
New vehicles	139,748	118,452	18.0%
Used vehicles	58,099	43,047	35.0%
Finance, insurance and other	12,984	10,480	23.9%
Subtotal	210,831	171,979	22.6%
Parts, service and collision repair	25,554	24,622	3.8%
Total	236,385	196,601	20.2%
New vehicles - retail sold	3,155	2,740	15.1%
New vehicles – fleet sold	969	758	27.8%
Used vehicles sold	2,305	1,865	23.6%
Total	6,429	5,363	19.9%
Total vehicles retailed	5,460	4,605	18.6%

Same store revenue increased by $39.8 million or 20.2% in the three month period ended March 31, 2012 when compared to the same period in 2011. New vehicle revenues increased by $21.3 million or 18.0% for the first quarter of 2012 over the prior period due in part to a net increase in new vehicle sales of 626 units consisting of an increase of 415 retail units and 211 low margin fleet unit sales and an increase in the average selling price per new vehicle ("PNVR") of $23 over the prior year.

Same store used vehicle revenues increased by $15.0 million or 35.0% for the three month period ended March 31, 2012 over the same period in the prior year. This increase was due to an additional 440 units sold in the quarter over 2011 and an increase in used vehicle wholesale revenue due to strong new vehicle sales.

Same store parts, service and collision repair revenue experienced a modest gain of $0.9 million or 3.8% for the first quarter of 2012 compared to the prior period and was primarily a result of an increase in the number of repair orders performed of 3,788 or 5.7%.

Same store finance, insurance and other revenue increased by $2.5 million or 23.9% for the three month period ended March 31, 2012 over the prior period. This was due to an increase in the average revenue per unit retailed of 4.5% along with an increase in the number of new and used vehicles retailed of 855 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 $6.4 million or 17.6% for the three month period ended March 31, 2012 when compared to the same period in the prior year. Similar to revenues, gross profit increased due to increases in all four of our major revenue streams. Gross profit earned on the sale of new vehicles increased by $2.3 million or 23.9% for the first quarter of 2012. The increase in new vehicle gross profit can be mainly attributed to an increase in new vehicle unit sales of 557 units or 14.5%. The Company's finance and insurance gross profit increased by $2.4 million or 24.5% during the first quarter of 2012. This increase can be mainly attributed to an increase in the average gross profit per unit retailed of $134 and increases in new and used vehicle sales. The increase in overall gross profit of the Company for the quarter was supplemented by an increase in used vehicle gross profit of $0.9 million or 26.6%. Parts, service and collision repair gross profit increased by $0.7 million or 5.5% in the first quarter of 2012.

Gross Profit - Same Store Analysis

The following table summarizes the results for the three-month period ended March 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

	For the Three-Month Period Ended					
	Gross Profit			**Gross Profit %**		
(In thousands of dollars except % change and gross profit %)	**Mar. 31, 2012**	**Mar. 31, 2011**	**% Change**	**Mar. 31, 2012**	**Mar. 31, 2011**	**% Change**
Revenue Source						
New vehicles	11,418	9,227	23.7%	8.2%	7.8%	0.4%
Used vehicles	4,175	3,429	21.8%	7.2%	8.0%	(0.8)%
Finance, insurance and other	11,892	9,471	25.6%	91.6%	90.4%	1.2%
Subtotal	27,485	22,127	24.2%			
Parts, service and collision repair	13,299	12,335	7.8%	52.0%	50.1%	1.9%
Total	40,784	34,462	18.3%	17.3%	17.5%	(0.3)%

Same store gross profit increased by $6.3 million or 18.3% for the three month period ended March 31, 2012 when compared to the same period in the prior year. The Company's gross profit on new vehicles increased by $2.2 million or 23.7% in the first quarter of 2012, when compared to 2011, as a result of an increase in new vehicle sales of 626 units.

Used vehicle gross profit increased by $0.7 million or 21.8% in the first quarter of 2012 over the prior period. This was primarily due to an increase in the number of used vehicles sold of 440 units or 23.6% which was offset by a decrease in the average gross profit per vehicle retailed of $27 or 1.5%.

Parts, service and collision repair gross profit increased by $1.0 million or 7.8% in the three months ended March 31, 2012 when compared to the same period in the prior year as a result of an increase of 3,788 in repair orders completed during the quarter.

Finance and insurance gross profit increased by 25.6% or $2.4 million in the three month period ended March 31, 2012 when compared to the prior period as a result of an increase in the average gross profit per unit sold of $121 and an increase in new and used vehicle units retailed of 855.

Operating expenses

Operating expenses increased by 10.9% or $3.5 million during the three month period ended March 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 82.6% in the first quarter of 2012 from 87.5% 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 March 31, 2012, employee costs increased by $4.0 million to $22.1 million from $18.1 million in the prior year. Employee costs as a percentage of gross profit increased to 51.6% from 49.6% in the first quarter of 2011, mainly due to an increase in commissions paid to salespeople based on achieving and exceeding sales targets.

Selling and administrative costs
During the three month period ended March 31, 2012, selling and administrative costs decreased by $0.5 million or 5.2% due to the disposition of Colombo Chrysler Jeep Dodge and decreases in legal, consulting and other administrative expenses. Selling and administrative expenses as a percentage of gross profit decreased to 21.7% in the first quarter of 2012 from 27.0% in 2011. This decrease is due to less semi-variable costs such as advertising and other fixed costs as a percentage of gross profit.

Facility lease costs
During the three month period ended March 31, 2012, facility lease costs increased by 0.5% to $2.94 million from $2.92 million in the first quarter of 2011. During the first quarter of 2012, the Company leased the facilities for 22 of its 24 locations. As the Company had still owned Colombo Chrysler Jeep Dodge in the first quarter of 2011, the Company had leased 21 of its then 23 locations. The rent factor at the two new Volkswagen dealerships added in the fourth quarter of 2011 is lower than the rent factor at the Colombo Chrysler Jeep Dodge location which we disposed of in the second quarter of 2011; as a result our facility lease costs remained relatively flat quarter over quarter.

Amortization
During the three month period ended March 31, 2012, amortization of $1.0 million decreased slightly by 5.2% or $0.1 million.

Finance costs

The Company incurs finance costs on its revolving floorplan facilities, long term indebtedness and banking arrangements. During the three month period ended March 31, 2012, finance costs on our revolving floorplan facilities increased to $1.9 million from $1.7 million in 2011. Finance costs on long term indebtedness decreased by $0.05 million in the first quarter of 2012. Finance costs, net of finance income has remained relatively flat quarter over quarter due to the Company holding cash in its Ally account which is used to offset floorplan costs at the current rate of 4.20%.

Income taxes

Income tax expense for the year ended March 31, 2012 increased by $0.7 million to $1.4 million from $0.7 million in 2011. The Company recorded deferred tax recovery in the amount of $8.1 million (2011 - $2.9 million) as a result of the revised temporary differences between the tax basis and carrying value of the fixed and intangible assets the Company.

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. Although the amounts below can change based on our future taxable income, the Company estimates the following amounts to be recorded as current income tax payable over the next five years in conjunction with the payment of the deferral. The Company notes that amount in 2012 noted below has been included in our current tax payable as at March 31, 2012 and future amounts paid will be in addition to the normal current income tax payable of future years:

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

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

Prior to 2012, the Company had not paid any corporate tax or installments for corporate tax. During the first quarter of 2012, the Company paid $2.4 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.

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.

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 March 31, 2012, the net floorplan credits were $1,358 (2011 - $1,184). Accounting standards requires the floorplan credits to be accounted for as a reduction in the cost of new vehicle inventory and subsequently a reduction in the cost of sales as vehicles are sold.

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 March 31, 2012	Three months ended March 31, 2011
Floorplan financing costs	1,935	1,685
Floorplan credits earned	(1,358)	(1,184)
Net carrying cost of vehicle inventory	577	501

GROWTH, ACQUISITIONS, AND RELOCATIONS

The Company currently owns 24 franchised automotive dealerships, together with a 31% equity interest in a newly acquired dealership, Nicholson Chevrolet. At the time of AutoCanada's initial public offering ("IPO") in May of 2006, AutoCanada owned 14 franchised automotive dealerships. Since that time the Company has acquired or opened twelve additional dealerships and has sold one of its dealerships.

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

Regarding open points and acquisitions, on April 20, 2012, the Company was pleased to announce that it had signed a Letter of Intent with Kia Canada for an open point dealership in Edmonton, Alberta. The Company intends to operate the dealership out of a new facility, designed to Kia Canada image standards, with construction anticipated to be completed in 2013. The opening of the Edmonton Kia Open Point will bring the total number of franchises operated by AutoCanada to twenty-six; with five franchises in the Edmonton area platform. Open point dealerships generally take one to three years to achieve profitability due to the ability to attract new customers to the dealership and the conquest of customers from other brands and dealerships in its location. However, management believes open point opportunities to be very attractive as the Company does not pay any goodwill for the dealership. At this time, detailed construction plans and estimates have not been completed; however management estimates the cost of land, construction and capital assets of the dealership to be approximately $10 million, of which it expects to be able to obtain mortgage debt for a portion of the cost.

On April 30, 2012, the Company announced that it had obtained approval from General Motors of Canada ("GM Canada") to purchase a 31% non-voting equity interest in a GM dealership in Canada. The investment in Nicholson Chevrolet ("Nicholson") was completed on May 1, 2012. Nicholson 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. To comply with the terms of GM Canada's approval, AutoCanada made its investment through a holding company together with Pat Priestner, Chief Executive Officer of AutoCanada, and other senior managers, with Mr. Priestner having 100% of the voting shares of the holding company. The holding company has a 49% voting interest in Nicholson, with an option to purchase an additional 2% voting equity interest in Nicholson upon successful relocation of the dealership to a new facility in Sherwood Park or within six months. The current owner of Nicholson has currently retained a 51% interest in the dealership and will retain a 49% voting interest once the option is exercised. The transaction was reviewed and approved by the independent members of our Board of Directors. The Company plans to integrate the operations of Nicholson into our Edmonton area platform. This investment, AutoCanada's first with a GM Canada dealership, represents a significant milestone for the Company. Chevrolet is a very significant brand in the Canadian automotive landscape and management is extremely pleased that GM Canada has agreed to accept AutoCanada as part of the GM family. We look forward to building a strong long-term relationship with GM Canada and its Canadian Management team. We also look forward to our new partnership with the current owners of the dealership, Blaine and Todd Nicholson, whose family has owned and successfully operated the dealership for almost forty years. AutoCanada will be actively seeking out additional GM acquisitions, as our Management team is very excited to be a part of the future growth and success of GM Canada. In respect to future GM dealership acquisitions outside the Sherwood Park area, we 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 meet GM Canada requirements, Mr. Priestner will have 100% voting control in future dealerships. The final purchase price of Nicholson is still to be finalized; however we estimate our investment in the dealership to be approximately $2.9 million. The Company may also be investing in a land holding company to facilitate the dealership's relocation to Sherwood Park, Alberta, which is expected to take place in August of 2012. The purchase price of this investment is yet to be determined; however management estimates our investment to be approximately $2.0-2.5 million for a 49% interest in the land holding company.

Management continues to work with current and new manufacturers on acquisition opportunities. The Company is currently in negotiations to acquire an additional dealership this year and will provide further guidance as these plans develop.

LIQUIDITY AND CAPITAL RESOURCES

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

On June 22, 2011 the Company announced that following a review of its business plan by the independent members of the Board, it has revised its dividend policy such that it shall target quarterly dividends between 70% and 80% of fully diluted earnings per share. Since the time of this announcement, the Company's earnings and growth prospects have exceeded our expectations. Management believes that many of our current investors will appreciate a balance between growth and dividend. AutoCanada will continue to work toward improving its earnings through acquisition growth and continue to fund a high level of dividend. Our highest priority with respect to the dividend is to ensure its long term sustainability. As such, we will continue to monitor our results and review the dividend on a regular basis to ensure we continue to provide a sustainable and attractive yield to investors, with consideration of our future capital requirements.

Cash Flow from Operating Activities

Cash flow from operating activities of the Company for the three month period ended March 31, 2012 was $3.5 million (cash provided by operating activities of $4.5 million plus net decrease in non-cash working capital of $1.0 million) compared to $4.2 million (cash provided by operating activities of $3.9 million plus net change in non-cash working capital of $0.3 million) in the first quarter of 2011. Cash flow from operating activities, although relatively flat quarter over quarter, was reduced in the first quarter of 2012 due to $2.4 million of cash taxes paid. The Company has now begun to pay income taxes; therefore we expect cash flow from operating activities to be lower in the future due to income taxes.

Cash Flow from Investing Activities

For the three month period ended March 31, 2012, cash flow from investing activities of the Company was a net outflow of $0.9 million as compared to a net outflow of $1.5 million in the same period of the prior year. In the first quarter of 2011 the Company incurred approximately $0.7 million of expenses related to the new body shop at the Crosstown Chrysler dealership which is the main contributor to the decrease in 2011.

Cash Flow from Financing Activities

For the three month period ended March 31, 2012, cash flow from financing activities was a net outflow of $2.9 million as compared to $0.9 million in the same period of 2011. In the first quarter of 2012, the Company paid $2.8 million in dividends which is the main contributor to this decrease in cash flow.

Economic Dependence

As stated in Note 5 of the condensed interim consolidated financial statements for the period ended March 31, 2012, the Company has significant commercial and economic dependence on Chrysler Canada and Ally Credit Canada Limited ("Ally Credit"). As a result, the Company is subject to significant risk in the event of the financial distress of Chrysler Canada, one of our major vehicle manufacturers and parts suppliers, and Ally Credit, which provides the Company with revolving floorplan facilities for 22 of its 25 dealerships.

Credit Facilities and Floor Plan Financing

There have been no changes to credit facilities or our floorplan financing facilities since described in the annual management discussion and analysis for the year ended December 31, 2011, which is available on SEDAR (www.sedar.com).

Financial Instruments

Details of the Company's financial instruments, including risks and uncertainties are included in Note 21 of the annual audited consolidated financial statements for the year ended December 31, 2011. There have been no significant changes to the Company's financial instruments since that time.

Growth vs. Non-growth Capital Expenditures

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

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

(In thousands of dollars)	**January 1, 2012 to March 31, 2012**
	$
Leasehold improvements	113
Machinery and equipment	92
Furniture and fixtures	41
Computer equipment	94
Company & lease vehicles	21
	361

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 quarter ended March 31, 2012, no growth capital expenditures were incurred.

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)	**January 1, 2012 to March 31, 2012**
	$
Purchase of property and equipment from the Statement of Cash Flows	361
Less: Amounts related to the expansion of sales and service capacity	-
Purchase of non-growth property and equipment	361

Repairs and maintenance expenditures are expensed as incurred and have been deducted from earnings for the period. Repairs and maintenance expense incurred during the three-month period ended March 31, 2012 was $0.6 million (2011 - $0.6 million).

Planned Capital Expenditures

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

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

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

Contractual Obligations

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

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

	$
2012	7,404
2013	9,074
2014	8,770
2015	8,447
2016	7,262
Thereafter	56,481
Total	97,438

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

Financial Position

The following table shows selected audited balances of the Company (in thousands) for December 31, 2011 and December 31, 2010, as well as unaudited balances of the Company at March 31, 2012, September 30, 2011, June 30, 2011, March 31, 2011, September 30, 2010, and June 30, 2010.

Balance Sheet Data	**March 31, 2012**	**December 31, 2011**	**September 30, 2011**	**June 30, 2011**	**March 31, 2011**	**December 31, 2010**	**September 30, 2010**	**June 30, 2010**
Cash and cash equivalents	53,403	53,641	49,366	43,837	39,337	37,541	34,329	31,880
Accounts receivable	51,380	42,448	44,172	51,539	42,260	32,832	37,149	46,787
Inventories	155,778	137,040	159,732	149,481	134,865	118,088	137,326	177,294
Total assets	361,307	334,394	327,568	318,956	291,291	261,435	271,635	314,662
Revolving floorplan facilities	178,145	150,816	175,291	172,600	152,075	124,609	145,652	194,388
Non-current debt and lease obligations	20,071	20,115	20,210	24,895	24,989	25,094	24,200	18,942

Net Working Capital

The automobile manufacturers represented by the Company require the Company to maintain net working capital for each individual dealership. At March 31, 2012, the aggregate of net working capital requirements was approximately $32.7 million. At March 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 interim consolidated financial statements. At March 31, 2012, the Company had aggregate working capital of approximately $39.1 million.

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

Off Balance Sheet Arrangements

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

Related Party Transactions

Note 19 of the condensed interim consolidated financial statements of the Company for the period ended March 31, 2012 summarize the transactions between the Company and its related parties. These transactions are prepayments of rent, rents paid to companies with common ownership, management and directors and management fees.

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

DIVIDENDS

Dividends to Shareholders

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

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

(In thousands of dollars)

		Total	
Record date	**Payment date**	**Declared**	**Paid**
		$	**$**
February 28, 2012	March 15, 2012	2,783	2,783
May 31, 2012	June 15, 2012	2,982	-

On May 8, 2012, the Board declared a quarterly eligible dividend of $0.15 per common share on AutoCanada's outstanding Class A common shares, payable on June 15, 2012 to shareholders of record at the close of business on May 31, 2012. The quarterly eligible dividend of $0.15 represents an annual dividend rate of $0.60 per share or a 7% increase in the dividend from the prior quarter. Management is pleased to have increased the dividend for the fifth consecutive quarter.

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

Free Cash Flow

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

(In thousands of $ except unit and per unit amounts)	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012
Cash provided by operating activities	14,382	4,983	7,810	4,166	5,292	10,851	9,718	3,520
Deduct:								
Purchase of property and equipment	(1,156)	(572)	(2,130)	(930)	(612)	(694)	(718)	(361)
Free Cash Flow [1]	13,226	4,411	5,680	3,236	4,680	10,157	9,000	3,159
Weighted average shares outstanding at end of period	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930
Free cash flow per share	0.665	0.222	0.286	0.163	0.235	0.511	0.453	0.159
Free cash flow – 12 month trailing	30,758	25,970	29,945	26,553	18,007	23,753	27,073	26,996

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

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

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

The following table summarizes the net increase in cash due to changes in non-cash working capital for the years ended March 31, 2012 and March 31, 2011.

(In thousands of dollars)	January 1, 2012 to March 31, 2012 $	January 1, 2011 to March 31, 2011 $
Accounts receivable	(8,932)	(9,407)
Inventories	(18,319)	(16,648)
Prepaid expenses	(183)	(105)
Accounts payable and accrued liabilities	(379)	(975)
Leased vehicle repurchase obligations	(517)	(45)
Revolving floorplan facility	27,329	27,466
	(1,001)	284

Adjusted Free Cash Flow

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

(In thousands of $ except unit and per unit amounts)	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012
Cash provided by operating activities before changes in non-cash working capital	6,047	3,836	3,313	3,882	9,076	8,032	7,799	4,521
Deduct:								
Purchase of non-growth property and equipment	(819)	(365)	(565)	(232)	(188)	(244)	(407)	(361)
Adjusted Free Cash Flow[1]	5,228	3,471	2,748	3,650	8,888	7,788	7,392	4,160
Weighted average shares outstanding at end of period	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930
Adjusted Free Cash Flow / Share	0.263	0.175	0.138	0.184	0.447	0.392	0.372	0.209
Adjusted Free Cash flow – 12 Month Trailing	16,710	14,267	14,009	15,097	18,757	23,074	27,718	28,228

[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.

In the first quarter of 2012, the Company paid approximately $2.4 million in corporate income 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 affect on free cash flow and adjusted free cash flow. See "RESULTS FROM OPERATIONS – First Quarter 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)	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012
EBITDA[1]	6,164	4,011	3,469	4,047	9,321	8,216	7,547	6,808
Add (deduct):								
Amortization	(961)	(1,058)	(1,207)	(1,079)	(1,018)	(1,044)	(1,104)	(1,024)
EBIT[1]	5,203	2,953	2,262	2,967	8,303	7,172	6,443	5,784
Average long-term debt	19,244	21,924	25,461	26,201	26,071	25,201	24,282	23,873
Average shareholders' equity	72,991	75,000	78,985	82,973	86,056	89,156	102,383	113,794
Average capital employed[1]	92,235	96,924	104,445	109,174	111,127	114,357	126,665	137,666
Return on capital employed[1]	5.6%	3.0%	2.2%	2.7%	7.5%	6.3%	5.1%	4.2%
Comparative adjustment[2]	9,301	9,301	3,579	3,579	3,579	3,579	(15,376)	(15,376)
Adjusted average capital employed[2]	101,536	106,225	110,885	112,753	114,706	117,936	120,766	122,290
Adjusted return on capital employed[2]	5.1%	2.8%	2.0%	2.6%	7.2%	6.1%	5.3%	4.7%

[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, 2010 forward under IFRS have been adjusted at the post-tax rate at the time the adjustment to the intangible asset carrying amount was made. Management believes that the adjusted return on capital employed provides more useful information about the return on capital employed.

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

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICY DEVELOPMENTS

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

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are not yet effective for the financial year ended March 31, 2012. A listing of new standards can be found in Note 4 of the annual consolidated financial statements for the year ended December 31, 2011. The Company is currently assessing the following standards to determine whether early adoption will be applied in order to account for the Nicholson acquisition and future acquisitions under standards to be ultimately adopted in the future:

- IFRS 10, *Consolidated Financial Statements*, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, *Consolidation—Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*.

The Company has yet to fully assess the impact of early adoption of this standard and will provide further details on the effect of this standard if adopted in the second quarter of 2012.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended March 31, 2012, there were no changes in the Company's disclosure controls or internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

OUTLOOK

The outlook regarding vehicle sales in Canada is difficult to predict. New light vehicle unit sales in Canada are expected to increase by 3.2 percent in 2012 as compared to the prior year.

New Vehicle Sales Outlook by Province*

(thousands of units, annual rates)

	1994-2005 Average	2006-09 Average	2010	2011	2012f
Canada	**1,446**	**1,592**	**1,557**	**1,589**	**1,640**
Atlantic	**102**	**117**	**122**	**119**	**121**
Central	**936**	**983**	**990**	**997**	**1,025**
Quebec	366	406	414	408	418
Ontario	570	577	576	589	607
West	**408**	**492**	**445**	**473**	**494**
Manitoba	42	44	44	47	49
Saskatchewan	36	44	46	50	52
Alberta	166	225	200	218	229
British Columbia	164	179	155	158	164

* Includes cars and light trucks

Source: Scotia Economics - Global Auto Report, April 25, 2012

AutoCanada continued to benefit from the general improvement in the economy in Canada during the first three months of 2012. This improvement was evident by the increase in new and used vehicle sales and the improvement in finance and insurance revenues (an indicator of improved credit conditions). Management believes that as a result of both the number of variables and the volatility of these variables that it is difficult to predict the direction of new and used vehicle sales with any certainty. With respect to macroeconomic factors, Management does not expect inflationary or vehicle pricing concerns to have a significant impact on our business. Unemployment rates and consumer confidence indexes are macroeconomic factors that we believe are good indicators of the health of the retail automotive industry in Canada and we have seen improvement in these two factors over the past two years. Due to the unpredictability of the economy, Management believes that the best approach is to continue its emphasis on existing operations for continued earnings and cash flow growth and, in particular, those aspects of its operations which are most impacted by same.

In response to the recognition that its growth prospects were then limited, the Company last year adopted a business model which focused on maximizing same store earnings and sharing a very high percentage of these earnings with its shareholders. With the recent acceptance by Kia Canada and GM Canada, the Company's growth prospects have improved meaningfully beyond that which Management previously considered. To capitalize on these growth opportunities, while maintaining a high dividend, requires equity capital over that which can be raised by debt, the effect of which may impact on our ability to grow with certain Manufacturers. As previously disclosed, the Company has not convinced a number of Manufacturers to accept the public model. Although the Company is not privy to the reasons, it appears that some Manufacturers strongly prefer a model that favours a vested owner who controls the dealership. Management has over the past years endeavoured to convince Manufacturers that the public model would meet their requirements, and Management has had some success with some Manufacturers. However, the requirement of GM Canada in respect to the Company's recently announced investment in a GM Canada dealership that Mr. Priestner, CEO of AutoCanada, retain 100 percent voting control of the GM dealership entity as well as invest personally in the dealership, together with the previously disclosed Chrysler Canada's minimum shareholding requirements of Mr. Priestner, indicates that the continued personal investment and control of Mr. Priestner is a prerequisite to growth with GM Canada and Chrysler Canada, a prerequisite which may or may not be imposed by other brands the Company currently does not represent. As a result of the changed growth opportunities, the Company shall in the current quarter review its business and acquisition strategies, funding alternatives and dividend policy in the context of maintaining its current dividend and the control requirements of some Manufacturers. Management will provide acquisition guidance upon completion of the above review.

RISK FACTORS

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

ADDITIONAL RISK FACTORS

In addition to the usual restrictions Manufacturers place on franchisees pursuant to their franchise agreements (see "Risk Factors" in our 2011 Annual Information Form dated March 22, 2012 available on the SEDAR website at www.sedar.com"), some Manufacturers the Company currently represent have placed change of control, sale of business and other like restrictions on the Company (see "Restrictions on Ownership Thresholds and the Sale of AutoCanada 's Business" in our 2011 Annual Information Form dated March 22, 2012 available on the SEDAR website at www.sedar.com.). In the case of the Company's recent investment in a GM Canada Dealership (see "Growth, Acquisitions and Relocations"), GM Canada requires Mr. Pat Priestner, CEO of the Company, to purchase a 15% equity interest, and have 100% voting control of GM dealerships. Chrysler Canada imposes minimum shareholdings requirements of Mr. Priestner. In the result, under the Company's current share structure, whereby Mr. Priestner and senior management control less than 51% of the votes of the Company, the success and ability of the Company to grow with GM brands and possibly other brands is dependent upon the efforts, abilities, and continued willingness of senior management, and, in particular, Mr. Priestner, to invest personally in such brands.

Additional information

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

FORWARD LOOKING STATEMENTS

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

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

- the future level of performance based incentives and its effect on our profitability;
- the impact of income taxes on future cash flow;
- expectations and future plans regarding Nicholson Chevrolet and other potential GM acquisitions;
- our expectation that if the business landscape changes and new brands consider the acceptance of the public ownership

model, that Management and the Board may revise the dividend policy to better align the Company's capital structure to fund future growth expectations;

- guidance with respect to future acquisition and open point opportunities;
- our belief that relocation of certain dealerships may provide incremental long-term earnings growth and better align some of our dealerships with the growth expectations of our manufacturer partners;
- management's assessment of our dividend policy and its effect on liquidity;
- our expectation to incur annual non-growth capital expenditures;
- our expectation to increase annual capital expenditures and the reasons for this expected increase;
- the impact of dealership real estate relocations and purchases and its impact on liquidity, financial performance and the Company's capital requirements;
- the impact of working capital requirements and its impact on future liquidity;
- our assumptions regarding financial covenants and our ability to meet covenants in the future;
- our assumption on the amount of time it may take for an acquisition or open point to achieve normal operating results;
- expectations and assumptions regarding the Company's ability to pay future dividends and growth;
- expectations and estimates regarding income taxes and their effect on cash flow and dividends;
- assumptions over non-GAAP measures and their impact on the Company;
- management's assumptions and expectations over the future economic and general outlook.

Although we believe that the expectations reflected by the forward-looking statements presented in this release are reasonable, our forward-looking statements have been based on assumptions and factors concerning future events that may prove to be inaccurate. Those assumptions and factors are based on information currently available to us about ourselves and the businesses in which we operate. Information used in developing forward-looking statements has been acquired from various sources including third-party consultants, suppliers, regulators, and other sources. In some instances, material assumptions are disclosed elsewhere in this release in respect of forward-looking statements. We caution the reader that the following list of assumptions is not exhaustive. The material factors and assumptions used to develop the forward-looking statements include but are not limited to:

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

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

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

- the ability to obtain automotive manufacturers' approval for acquisitions;

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

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

NON-GAAP MEASURES

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

EBITDA

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

EBIT

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

Free Cash Flow

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

Adjusted Free Cash Flow

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

Absorption Rate

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

Average Capital Employed

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

Adjusted Average Capital Employed

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

Return on Capital Employed

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

Adjusted Return on Capital Employed

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

Cautionary Note Regarding Non-GAAP Measures

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

EBITDA, EBIT, Free Cash Flow, Absorption Rate, Average Capital Employed, Return on Capital Employed. Adjusted Average Capital Employed and Adjusted Return on Capital Employed may differ from the methods used by other issuers. Therefore, the Company's EBITDA, EBIT, Free Cash Flow, Absorption Rate, Average Capital Employed, Return on Capital Employed, Adjusted Average Capital Employed and Adjusted Return on Capital Employed may not be comparable to similar measures presented by other issuers.