AUTOCANADA INC.

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

For the three and nine month periods ended September 30, 2012

As of November 8, 2012

READER ADVISORIES

The Management's Discussion & Analysis ("MD&A") was prepared as of November 8, 2012 to assist readers in understanding AutoCanada Inc.'s (the "Company" or "AutoCanada") consolidated financial performance for the nine months ended September 30, 2012 and significant trends that may affect AutoCanada's future performance. The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and accompanying notes (the "Condensed Interim Consolidated Financial Statements") of AutoCanada for the nine months ended September 30, 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 Condensed Interim Consolidated Financial Statements of the Company unless otherwise stated.

To provide more meaningful information, this MD&A typically refers to the operating results for the three and nine month periods ended September 30, 2012 of the Company, and compares these to the operating results of the Company for the three and nine month periods ended September 30, 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 2011 Annual Information Form dated March 22, 2012, is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com.

The Business of the Company

AutoCanada is one of Canada's largest multi-location automobile dealership groups, currently operating 24 wholly-owned franchised dealerships and managing 2 franchised dealership investments (see "GROWTH, ACQUISITIONS, RELOCATIONS AND REAL ESTATE") 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 September 30, 2012 and September 30, 2011.

(In thousands of dollars except % of total and number of dealerships)	September 30, 2012			September 30, 2011		
	Number of Dealerships	Revenue	% of Total	Number of Dealerships	Revenue	% of Total
British Columbia	9	104,792	35%	7	92,091	34%
Alberta	9	130,833	44%	9	114,101	43%
Ontario	3	23,982	8%	3	25,073	9%
All other	3	39,074	13%	3	37,869	14%
Total	24	298,681	100%	22	290,737	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	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 investments:			
Sherwood Park, Alberta	Nicholson Chevrolet[(1)]	General Motors	2012
Sherwood Park, Alberta	Petersen Pontiac Buick GMC[(1)]	General Motors	2012

[1] On May 1, 2012, the Company acquired an indirect 29.79% 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.

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. Due to seasonal fluctuations, the Company provides discussion and analysis of information for the period and compares the information to the same period of the prior year.

OUR PERFORMANCE

New light vehicle sales in Canada in the nine month period ended September 30, 2012 were up 6.6% when compared to the same period in 2011. Sales of new light vehicles for the first three quarters of 2012 in Alberta and British Columbia, our primary markets, were up by 11.7% and 11.8% respectively. The following table summarizes Canadian new light vehicle sales for the nine-month periods ended September 30 by Province:

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

	September Year to Date		Percentage Change	Units Change
	2012	2011		
Province				
British Columbia	133,449	119,319	11.8%	14,130
Alberta	182,899	163,686	11.7%	19,213
Saskatchewan	41,707	37,357	11.6%	4,350
Manitoba	38,238	35,567	7.5%	2,671
Ontario	482,268	456,401	5.7%	25,867
Quebec	326,069	317,892	2.6%	8,177
New Brunswick	30,983	30,088	3.0%	895
PEI	5,226	4,706	11.0%	520
Nova Scotia	38,005	35,216	7.9%	2,789
Newfoundland	26,694	23,917	11.6%	2,777
Total	**1,305,538**	**1,224,149**	**6.6%**	**81,389**

[1] *DesRosiers Automotive Consultants Inc.*

The Company's new vehicle retail sales unit volumes to customers increased during the quarter by 13.5% over the three month period ended September 30, 2011. Overall new vehicle unit sales increased by 8.2% for the third quarter as a result of a reduction in fleet unit sales over the three month period ended September 30, 2012 compared to the same period in the prior year. Fleet sales to corporate customers are generally high volume and low margin sales and contribute very little to the Company's overall gross profit and earnings.

As a result of the increase in new vehicle retail sales, the Company increased its new vehicle department gross profit by 21.4%. Since new vehicle sales are also a primary driver of other higher margin sales opportunities, our finance and insurance business also improved during the quarter due to the increase in sales opportunities. The increase in new vehicle sales has also provided reconditioning opportunities for our parts and service departments as a result of customer trade-ins of used vehicles when purchasing a new vehicle.

Our increase in new vehicles retailed during the quarter contributed greatly to our growth in finance, insurance and other revenue, which increased by 21.4% over the same quarter of the prior year. The higher margin nature of finance and insurance transactions resulted in a 23.2% increase in finance and insurance gross profit, approximately 56% 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. Our gross profit from parts, service and collision repair increased by 4.0% over the third quarter of 2011.

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 three quarters 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.

The Company continues to see increased competition between manufacturers in the new vehicle sector which has resulted in the increased affordability of new vehicles to customers, due in part to significant purchase rebates and sub-vented financing available on new vehicles at very low rates of interest which in turn improves the affordability of new vehicles as opposed to used vehicles. With continued significant rebates and low rate financing, the Company has experienced declines in its used vehicle margins. Although revenues from our used vehicle departments increased by 13.5% in the third quarter of 2012, the Company's gross profit in the used vehicle department declined by 20.4%, due to a significant decline in the average gross profit per unit retailed. The Company continues to work with its dealerships to identify opportunities to improve gross profit margins in used vehicles, however it does recognize that with increased affordability of new vehicles, along with the significant increase in performance based incentives for meeting new vehicle sales targets, our dealerships have dedicated greater resources to new vehicle sales and have increased focus on selling new vehicles in order to take advantage of improved new vehicle market and manufacturer incentives. As a result of the increased focus on selling new vehicles, our new vehicle margins have improved substantially and finance and insurance revenues have also improved, somewhat to the detriment of used vehicle gross margins.

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 %)	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012
Income Statement Data								
New vehicles	113,967	128,304	196,850	172,688	142,880	147,383	186,649	190,139
Used vehicles	45,414	44,906	52,054	55,351	53,719	60,454	62,822	62,816
Parts, service & collision repair	28,351	26,539	28,374	26,980	28,673	27,029	29,004	28,593
Finance, insurance & other	10,151	11,125	13,588	14,115	13,046	13,659	16,512	17,133
Revenue	197,883	210,874	290,866	269,134	238,318	248,525	294,987	298,681
New vehicles	9,023	9,725	13,974	12,740	11,267	12,046	14,646	15,461
Used vehicles	3,659	3,486	4,301	5,020	4,573	4,412	4,238	3,994
Parts, service & collision repair	13,994	13,277	15,159	14,492	14,551	14,004	15,227	15,078
Finance, insurance & other	9,050	9,959	12,129	12,647	11,853	12,398	14,939	15,579
Gross profit	35,725	36,435	45,563	44,899	42,244	42,860	49,050	50,112
Gross profit %	18.1%	17.3%	15.7%	16.7%	17.7%	17.2%	16.6%	16.8%
Operating expenses	32,010	31,891	35,127	35,742	34,086	35,381	37,661	38,361
Operating exp. as % of gross profit	89.6%	87.5%	77.1%	79.6%	80.7%	82.6%	76.9%	76.6%
Finance costs – floorplan	1,594	1,685	2,310	2,190	1,871	1,935	2,511	2,645
Finance costs – long-term debt	332	283	323	296	234	230	256	267
Reversal of impairment of intangibles	(8,059)	-	-	-	(25,543)	-	-	-
Income taxes	2,418	690	2,029	1,646	8,144	1,441	2,216	2,379
Net earnings [4]	7,575	1,994	5,950	5,230	23,608	4,113	6,711	6,807
EBITDA [1, 4]	3,469	4,047	9,319	8,216	7,547	6,808	10,210	10,592
Basic earnings (loss) per share	0.381	0.100	0.299	0.263	1.187	0.207	0.338	0.344
Diluted earnings (loss) per share	0.381	0.100	0.299	0.263	1.187	0.207	0.338	0.344
Operating Data								
Vehicles (new and used) sold	5,219	5,826	8,210	7,649	6,313	6,836	8,154	8,087
New retail vehicles sold	3,008	3,050	4,158	3,886	3,405	3,434	4,400	4,410
New fleet vehicles sold	306	796	1,900	1,361	775	969	1,313	1,265
Used retail vehicles sold	1,905	1,980	2,152	2,402	2,133	2,433	2,441	2,412
Number of service & collision repair orders completed	77,037	72,360	80,851	76,176	75,911	74,439	78,104	78,944
Absorption rate [2]	86%	80%	91%	90%	91%	81%	89%	89%
# of dealerships at period end	23	23	22	22	24	24	24	24
# of same store dealerships [3]	21	22	21	21	21	21	21	22
# of service bays at period end	339	339	322	322	333	333	333	333
Same store revenue growth [3]	2.4%	2.7%	19.3%	21.6%	24.8%	20.2%	2.4%	8.0%
Same store gross profit growth [3]	2.9%	2.9%	8.2%	22.9%	20.6%	18.3%	7.1%	7.9%
Balance Sheet Data								
Cash and cash equivalents	37,541	39,337	43,837	49,366	53,641	53,403	51,198	54,255
Accounts receivable	32,832	42,108	51,539	44,172	42,448	51,380	52,042	54,148
Inventories	118,088	134,710	149,481	159,732	136,869	155,778	201,302	193,990
Revolving floorplan facilities	124,609	152,075	172,600	175,291	150,816	178,145	221,174	212,840

1 EBITDA has been calculated as described under "NON-GAAP MEASURES".
2 Absorption has been calculated as described under "NON-GAAP MEASURES".
3 Same store revenue growth & same store gross profit growth is calculated using franchised automobile dealerships that we have owned for at least 2 full years.
4 The results from operations have been lower in the first and fourth quarters of each year, largely due to consumer purchasing patterns during the holiday season, inclement weather and the reduced number of business days during the holiday season. As a result, our financial performance is generally not as strong during the first and fourth quarters than during the other quarters of each fiscal year. The timing of acquisitions may have also caused substantial fluctuations in operating results from quarter to quarter.

RESULTS FROM OPERATIONS

Third quarter Operating Results

EBITDA for the three month period ended September 30, 2012 increased by 28.9% to $10.6 million, from $8.2 million when compared to the results of the Company for the same period in the prior year. The increase in EBITDA for the quarter can be mainly attributed to the improved profitability of our new vehicle departments and finance and insurance departments.

The following table reconciles EBITDA to Net comprehensive income for the periods ended September 30, 2012:

	Three months ended	Nine months ended
Net comprehensive income	6,807	17,628
Income tax	2,379	6,036
Amortization	1,139	3,189
Interest on long-term debt	267	753
EBITDA	**10,592**	**27,606**

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

Period from January 1 to September 30	EBITDA (In thousands of dollars)
2010	13,271
2011	21,582
2012	27,606

Pre-tax earnings increased by $2.3 million or 33.6% to $9.2 million for the three month period ended September 30, 2012 from $6.9 million in the same period of the prior year. Net earnings increased by $1.6 million or 30.2% to a profit of $6.8 million in the third quarter of 2012 from a $5.2 million profit when compared to the prior year. Income tax expense increased to $2.4 million in the third quarter of 2012 from $1.6 million in the same period of 2011 due to higher pre-tax earnings.

For the nine month period ended September 30, 2012, pre-tax earnings increased by $6.1 million or 34.9% to $23.7 million from $17.5 million in the same period of the prior year. Net earnings increased by $4.4 million or 33.8% to a profit of $17.6 million in the nine months ended September 30, 2012 from a $13.2 million profit when compared to the prior year. Income tax expense increased to $6.0 million in the nine months ended September 30, 2012 from $4.4 million in the same period of 2011.

Revenues

Revenues for the three and nine month periods ended September 30, 2012 increased by $29.5 million and $71.3 million or 11.0% and 9.3% respectively as compared to the same period of the prior year. This increase was mainly driven by increases in retail new and used vehicle sales with modest increases in the finance and insurance and parts, service and collision repair business. New vehicle sales increased by $17.5 million or 10.1% for the three month period ended September 30, 2012 to $190.1 million from $172.7 million in the same period of the prior year, mainly due to the increase of 13.5% in the number of retail vehicles sold. The various manufacturer incentives offered on new vehicles have made purchasing a new vehicle more affordable to our customers, which we believe to be a critical driver of new vehicle sales in the industry. The increase in new retail units sold greatly contributed to the increase in finance and insurance revenue, which increased by $3.0 million or 21.4% and $8.5 million or 21.8% in the three and nine month periods ended September 30, 2012, respectively. Used vehicle sales increased by $7.5 million or 13.5% for the three month period ended September 30, 2012. For the nine months ended September 30, 2012, used vehicle sales also increased by $33.8 million or 22.2% compared to the same period in the prior year. Parts, service and collision repair revenue posted modest increases of $1.6 million or 6.0% and $2.7 million or 3.3% for the three and nine month periods ended September 30, 2012 respectively.

Revenues - Same Store Analysis

The following table summarizes the results for the three and nine month periods ended September 30, 2012 on a same store basis by revenue source and compare these results to the same period in 2011.

Same Store Revenue and Vehicles Sold

(In thousands of dollars except % change and vehicle data)	For the Three Months Ended September 30, 2012	September 30, 2011	% Change	For the Nine months Ended September 30, 2012	September 30, 2011	% Change
Revenue Source						
New vehicles	185,963	172,688	7.7%	511,856	485,476	5.4%
Used vehicles	60,402	55,351	9.1%	180,511	149,638	20.6%
Finance & insurance and other	16,499	14,114	16.9%	45,881	38,210	20.1%
Subtotal	262,864	242,153		738,248	673,324	
Parts, service & collision repair	27,826	26,978	3.1%	82,413	79,560	3.6%
Total	290,690	269,131	8.0%	820,661	752,884	9.0%
New vehicles – retail sold	4,278	3,886	10.1%	11,866	10,812	9.7%
New vehicles – fleet sold	1,265	1,361	(7.1)%	3,547	3,961	(10.5)%
Used vehicles sold	2,326	2,402	(3.2)%	7,063	6,445	9.6%
Total	7,869	7,649	2.9%	22,476	21,218	5.9%
Total vehicles retailed	6,604	6,288	5.0%	18,929	17,257	9.7%

Same store revenue increased by $21.6 million or 8.0% in the three month period ended September 30, 2012 when compared to the same period in 2011. New vehicle revenues increased by $13.3 million or 7.7% for the third quarter of 2012 over the prior year due mainly to an increase in new retail vehicle sales of 392 units or 10.1%. Same store new vehicle revenues increased by $26.4 million or 5.4% for the nine month period ended September 30, 2012 over the same period in the prior year due to a net increase in new vehicle sales of 640 units, consisting of an increase of 1,054 retail units and a decrease of 414 low margin fleet units.

Same store used vehicle revenues increased by $5.1 million or 9.1% for the three month period ended September 30, 2012 over the same period in the prior year. Despite a decrease in units sold of 76, revenues increased due to a $2,924 or 12.7% increase in the average selling price per used vehicle retailed. For the nine month period ended September 30, 2012, used vehicle revenues also increased by $30.9 million or 20.6% due to an increase in the number of used vehicles sold of 618 units or 9.6% and an increase in the average selling price per used vehicle retailed of $2,339.

Same store parts, service and collision repair revenue experienced a modest gain of $0.8 million or 3.1% for the third quarter of 2012 compared to the prior period and was the result of a $10 or 2.8% increase in the average revenue per repair order completed and an increase in overall repair orders completed of 355. For the nine month period ended September 30, 2012, parts, service and collision repair revenue increased by $2.9 million or 3.6%, mainly due to an increase in the number of repair orders completed of 3,621 and an increase in average revenue per repair order completed of $7.

Same store finance, insurance and other revenue increased by $2.4 million or 16.9% for the three month period ended September 30, 2012 over the same period in 2011. This was due to an increase in the average revenue per unit retailed of $253 or 11.3% along with an increase in the number of new and used vehicles retailed of 316 units. Credit conditions have continued to improve in the third quarter of 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. For the nine month period ended September 30, 2012, same store finance, insurance and other revenue increased by $7.7 million or 20.1% over the same period in 2011 mainly due to an increase in the average revenue per vehicle retailed of $210 or 9.5% and an increase in total vehicles retailed of 1,672 units or 9.7%. The increases we experienced in both new and used retail sales reflected positively in our finance and insurance revenue for the first three quarters of 2012.

Gross profit

Gross profit increased by $5.2 million and $15.1 million, or 11.6% and 11.9% respectively, for the three and nine month periods ended September 30, 2012 when compared to the same periods in the prior year. Gross profit increased due to increases in new vehicle retail sales, finance and insurance and parts, service and collision repair revenue. Gross profit on the sale of new vehicles increased by $2.7 million or 21.4% for the three month period ended September 30, 2012. The increase in new vehicle gross profit can be attributed to increases in the new vehicles sold of 428 and average profit per new vehicle sold of $296 or 12.2%. Despite the decrease in the number of new fleet vehicle units sold, new vehicle revenue still increased overall because fleet units are sold at very low margin. The Company's finance and insurance gross profit increased by $2.9 million or 23.2% during the third quarter of 2012. This increase can be mainly attributed to an increase in the average gross profit per unit retailed of $273 and an increase in the total number of vehicles retailed of 534 units. The increase in overall gross profit of the Company for the third quarter was partially offset by a decrease in used vehicle gross profit of $1.0 million or 20.4%. As previously discussed, the Company has experienced a decrease in the gross margin associated with used vehicle sales as significant manufacturer rebates and sub-vented financing improve the affordability of new vehicles for our customers. Many of our customers, which in the past may have purchased a used vehicle due to the lower price, are in many cases able to afford a new vehicle with a similar monthly payment as a lower priced used vehicle due to sub-vented financing from the manufacturer and significant purchase rebates. Nearly-new used vehicle prices continue to remain high due to lack of supply, thus the Company's margins on used vehicle sales have declined. Parts, service and collision repair gross profit increased by $0.6 million in the third quarter of 2012, due to the increase in the number of repair orders completed of 2,768 orders.

Gross Profit - Same Store Analysis

The following table summarizes the results for the three and nine month periods ended September 30, 2012, on a same store basis by revenue source, and compare these results to the same periods in 2011.

Same Store Gross Profit and Gross Profit Percentage

	For the Three Months Ended						**For the Nine months Ended**					
	Gross Profit			**Gross Profit %**			**Gross Profit**			**Gross Profit %**		
(In thousands of dollars except % change and gross profit %)	**September 30, 2012**	**September 30, 2011**	**% Change**	**September 30, 2012**	**September 30, 2011**	**Change**	**September 30, 2012**	**September 30, 2011**	**% Change**	**September 30, 2012**	**September 30, 2011**	**Change**
Revenue Source												
New vehicles	14,953	12,727	17.5%	8.0%	7.4%	0.7%	40,720	35,794	13.8%	8.0%	7.4%	0.6%
Used vehicles	3,806	5,019	(24.2)%	6.3%	9.1%	(2.8)%	12,121	12,767	(5.1)%	6.7%	8.5%	(1.8)%
Finance & insurance and other	15,024	12,646	18.8%	91.1%	89.6%	1.5%	41,673	34,204	21.8%	90.8%	89.5%	1.3%
Subtotal	33,783	30,392					94,614	82,765				
Parts, service & collision repair	14,645	14,507	0.9%	52.6%	53.8%	(1.1)%	43,102	41,722	3.3%	52.3%	52.4%	(0.1)%
Total	48,428	44,899	7.9%	16.7%	16.7%	0.0%	137,616	124,487	10.5%	16.8%	16.5%	0.3%

Same store gross profit increased by $3.5 million or 7.9% and $13.2 million or 10.6% for the three and nine month periods ended September 30, 2012, respectively, when compared to the same period in the prior year. New vehicle gross profit increased by $2.2 million or 17.5% in the three month period ended September 30, 2012 when compared to 2011 as a result of the previously discussed increase in new retail vehicle sales of 392 units offset by the decrease in lower margin new fleet vehicle sales of 96 units. The average gross profit per new vehicle sold increased by $272 from 2011. As previously discussed, lower levels of fleet sales will have a positive impact on gross margin percentage in our new vehicle department. For the nine month period ended September 30, 2012, new vehicle gross profit increased by $4.9 million or 13.8% which can be mainly attributed to an increase in retail unit sales of 1,054 for the period.

Used vehicle gross profit decreased by $1.2 million or 24.2% in the three month period ended September 30, 2012 over the prior year. This was due to decreases of $454 in the average gross profit earned per vehicle retailed and in the number of used vehicles sold of 76 units. For the nine month period ended September 30, 2012, same store used vehicle gross profits decreased by $0.6 million or 5.1% which was mainly due to a decrease in the average gross profit per vehicle retailed of $265 or 13.4%, partially offset by an increase in the number of vehicles retailed of 618 units.

Parts, service and collision repair gross profit increased by $0.1 million or 0.9% in the three month period ended September 30, 2012 when compared to the same period in the prior year due primarily to an increase in repair orders completed of 355. For the nine month period ended September 30, 2012, parts, service and collision repair gross profit increased by $1.4 million or 3.3% which can be mainly attributed to an increase in the average gross per repair order completed of 1.6% and an increase in the number of repair orders completed of 3,621 units.

Finance and insurance gross profit increased by 18.8% or $2.4 million in the three month period ended September 30, 2012 when compared to the prior year as a result of an increase in the average gross profit per unit sold of $264 and an increase in units retailed of 316. For the nine month period ended September 30, 2012, finance and insurance gross profit increased by $7.5 million or 21.8% and can be attributed to an increase in the average gross per vehicle retailed of $220 and an increase in units retailed of 1,672 vehicles.

Operating expenses

Operating expenses increased by 7.3% or $2.6 million during the three month period ended September 30, 2012 as compared to the same period in the prior year, mainly due to increases in employee costs, as discussed below. 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 76.6% in the third quarter of 2012 from 79.6% in the same period of the prior year. For the nine month period ended September 30, 2012, operating expenses as a percentage of gross profit also decreased to 78.4% from 81.0% in the same period of 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 September 30, 2012, employee costs increased by $2.0 million to $24.2 million from $22.2 million in the prior year period. Employee costs as a percentage of gross profit decreased to 48.2% compared to 49.4% in the same period of the prior year. Employee costs as a percentage of gross profit for the nine month period ended September 30, 2012 increased to 49.3% from 48.9% for the same period in the prior year. Management attributes the increases mainly to an increase in commissions and incentives paid to salespeople based on achieving and exceeding sales targets.

Selling and administrative costs

During the three month period ended September 30, 2012, selling and administrative costs increased by $0.3 million or 3.5% primarily due to increases in advertising costs, a new program implemented during year to improve the service departments' processes and tracking, as well as consulting and professional fees. Selling and administrative expenses as a percentage of gross profit decreased to 20.1% in the third quarter of 2012 from 21.7% in the comparable period of 2011. For the nine month period ended September 30, 2012, selling and administrative costs as a percentage of gross profit decreased to 20.6% from 22.8% in the same period of the prior year. These decreases are due to less semi-variable costs such as advertising, company vehicle, utilities and travel expense as a percentage of gross profit.

Facility lease costs

During the three month period ended September 30, 2012, facility lease costs increased by 6.4% to $3.0 million from $2.8 million. For the nine month period ended September 30, 2012 the Company's facility lease costs have increased by 2.7%. Facility lease costs increased due to modest increases in rental rates and the addition of the two Volkswagen dealerships at the end of 2011, partially offset by the disposition of Colombo during the middle of last year.

Amortization

During the three month period ended September 30, 2012, amortization remained relatively flat at $1.1 million. For the nine month period ended September 30, 2012, amortization also remained relatively flat at $3.2 million.

Income from investment in associate

During the three and nine month periods ended September 30, 2012, the Company earned $0.13 million and $0.21 million respectively, 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 $0.05 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 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. 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 Nicholson 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 three month period ended September 30, 2012, finance costs on our revolving floorplan facilities increased by 20.8% to $2.6 million from $2.2 million in the third quarter of 2011, mainly due to the Company holding more inventories during the quarter. Finance costs on long term indebtedness remained constant at $0.3 million. Finance costs, net of finance income increased by $0.4 million or 18.1% over the same quarter in the prior year, due primarily to the increase in inventory throughout the quarter.

Income taxes

Income tax expense for the three month period ended September 30, 2012 increased by $0.7 million to $2.4 million from $1.6 million in 2011. For the nine month period ended September 30, 2012, income tax expense increased by $1.7 million from $4.4 million to $6.0 million.

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 partner, 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 September 30, 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	1,024	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 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 three quarters of 2012, the Company paid $3.5 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, prior year levels 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.

Inventory costs

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 and nine month periods ended September 30, 2012, the floorplan credits earned were $1,755 (2011 - $1,423) and $4,721 (2011 - $4,201), respectively. 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.

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 September 30, 2012	**Three months ended September 30, 2011**	**Nine months ended September 30, 2012**	**Nine months ended September 30, 2011**
Floorplan financing costs	2,645	2,190	7,091	6,185
Floorplan credits earned	(1,755)	(1,423)	(4,721)	(4,201)
Net carrying cost of vehicle inventory	890	767	2,370	1,984

GROWTH, ACQUISITIONS, RELOCATIONS AND REAL ESTATE

The Company operates twenty-six franchised automotive dealerships, twenty-four of which are wholly owned, and two in which it has an investment with significant influence.

Investment in Dealer Holdings Ltd. ("DHL")

During the quarter ended June 30, 2012, the Company invested a total of $4,154 to acquire a 60.8% participating, non-voting common share 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 involvement in 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 21 of the unaudited condensed interim consolidated financial statements of the Company for the period ended September 30, 2012.

To comply with the terms of GM Canada's approval, Patrick Priestner is required to have 100% voting control of DHL. As a result, Patrick Priestner has a 29.4% voting common share interest in DHL and other senior managers of the Company have a 9.8% non-voting common share interest in DHL. The investment in non-voting common shares by senior managers of the Company is contingent upon the continued employment of each investor with AutoCanada and its subsidiaries. If the senior manager's employment with AutoCanada or one of its subsidiaries is terminated, DHL shall purchase the senior manager's share interest. 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. Certain protective clauses in the agreement prohibit 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 common share interest in Nicholson Chevrolet ("Nicholson") with an option to increase its interest to 51% upon Nicholson's successful relocation to a new facility. Nicholson Chevrolet, now operating as Sherwood Park Chevrolet, successfully relocated to a new facility in Sherwood Park, Alberta, in September 2012. The Company is currently in the process of exercising the option to increase its ownership to 51%, which is expected to be completed during the fourth quarter of 2012. The current owner of Nicholson retained a 51% interest in the dealership and will retain a 49% voting interest once the option is exercised by DHL. 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.
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 Nicholson's operations, 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.

During the quarter ended June 30, 2012, DHL acquired a 51% voting common share 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.

The Nicholson 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, the Company has indirectly acquired a 29.79% interest in Nicholson and a 31% interest in Petersen. Through management services agreements with Nicholson 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 will have 100% voting control in future dealerships.

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-seven; 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 quarter, 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 of 2013. As a result, operations of the Kia open point dealership is expected to commence in late 2013 or early 2014.

Acquisition opportunities

The Company regularly reviews potential acquisition opportunities, some of which do not result in an acquisition by the Company due to a number of factors such as profitability of the dealership, location of the dealership, total purchase price of the dealership, the Seller's desire or motivation to sell and other factors. The Company has been more actively seeking opportunities to purchase dealerships over the past three months. We are currently in the early stages of discussions with various owners of dealerships looking to sell; the result of which we cannot determine at this time. The Company is not able to give further acquisition guidance due to the uncertainty with respect to timing and potential closing of various acquisition opportunities that arise.

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 $20 million with expected completion by the end of fiscal 2014. 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.

Potential real estate purchase

During the quarter, the independent members of AutoCanada's Board of Directors formed a committee to evaluate the potential purchase of real estate from subsidiaries of Canada One Auto Group (COAG), a related party. The real estate committee is currently evaluating appraisals of thirteen properties which, depending on the results and further financial analysis, may result in AutoCanada purchasing all or some of the properties from the subsidiaries of COAG. The Company's Chief Executive Officer, Pat Priestner, and President, Tom Orysiuk are both shareholders and directors of COAG. As such, both Mr. Priestner and Mr. Orysiuk are not members of the committee evaluating the potential purchase. Based on preliminary analysis, the Company would expect significant cash flow savings as a result of the purchase. The Company will provide additional information with respect to the purchase as the committee continues to evaluate the transaction.

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.

Cash Flow from Operating Activities

Cash flow from operating activities (including changes in non-cash working capital) of the Company for the three month period ended September 30, 2012 was $9.2 million (cash provided by operating activities of $10.0 million less net change in non-cash working capital of $0.8 million) compared to $10.8 million (cash provided by operating activities of $8.0 million plus net change in non-cash working capital of $2.8 million) in the same period of the prior year.

Cash Flow from Investing Activities

For the three month period ended September 30, 2012, cash flow from investing activities of the Company was a net outflow of $9.2 million as compared to $1.2 million in the same period of the prior year. In the third quarter of 2012, the Company purchased land and a building for its Kia open point dealership for approximately $8.7 million.

Cash Flow from Financing Activities

For the three month period ended September 30, 2012, cash flow from financing activities was a net inflow of $3.0 million as compared to a net outflow of $4.1 million in the same period of 2011. During the quarter, the Company financed the land and building purchase with $6.3 million of mortgage debt. The Company also paid dividends of $3.2 million during the period.

Economic Dependence

As stated in Note 5 of the condensed interim consolidated financial statements for the period ended September 30, 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 24 wholly-owned dealerships.

Credit Facilities and Floor Plan Financing

On July 31, 2012, the Company entered into an agreement with The Bank of Nova Scotia ("Scotiabank"), whereby Scotiabank would provide the Company a revolving floorplan facility to finance new and used vehicle inventory in the total amount of $240,000. The facility for new vehicle inventory bears interest at the lower of Scotiabank prime rate plus 0.50% (3.50% at September 30, 2012) or Bankers' Acceptance rate plus 1.80% per annum (3.05% at September 30, 2012). The facility for used vehicle inventory bears interest at Scotiabank prime rate plus 0.50% (3.50% at September 30, 2012). The facility will be collateralized by the individual dealerships' assets which are directly financed by Scotiabank and a general security agreement with each dealership financed and AutoCanada Holdings Inc., a subsidiary of the Company.

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:

- 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.
- Consolidated Tangible Net Worth of the Borrowers is to be maintained in excess of $40,000 at all times.
- 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%. The Company successfully refinanced the twenty-one dealerships subject to the Scotiabank floorplan facility during the fourth quarter of 2012.
During the period ended September 30, 2012, the Company signed a renewal letter from HSBC with respect to its HSBC Revolver. The HSBC Revolver has been increased to $40,000 and may be increased to $50,000 subject to a 30 day notice and credit approval by HSBC. The HSBC Revolver will bear interest at the lower of HSBC Prime Rate plus 0.75% per annum or Bankers' Acceptance rate plus 2.25%. The HSBC Revolver contains a two year term and is extendible by one year on the first anniversary of the term. Security, covenants, fees and other terms remain consistent with the previous HSBC Revolver.

During the period ended September 30, 2012, the Company also signed a renewal letter from HSBC with respect to its HSBC Term Loan. The HSBC Term Loan has been extended to September 30, 2012, which if not renewed at the time will become payable on September 30, 2013. 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 September 30, 2013 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.

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)	**July 1, 2012 to September 30, 2012**	**January 1, 2012 to September 30, 2012**
	$	**$**
Computer equipment	201	453
Furniture and fixtures	29	137
Machinery and equipment	133	326
Company and lease vehicles	-	26
Leasehold improvements	148	296
	511	1,238

Amounts relating to the expansion of sales and service capacity are considered growth expenditures. Growth expenditures are discretionary, represent cash outlays intended to provide additional future cash flows and are expected to provide benefit in future periods. During the three and nine month periods ended September 30, 2012 growth capital expenditures of $8.7 million and $11.9 million were incurred, respectively. These expenditures related to two pieces of land and a building that were purchased for future dealership operations during the second and third quarters of 2012 for a total of $11.9 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)	**July 1, 2012 to September 30, 2012**	**January 1, 2012 to September 30, 2012**
	$	**$**
Purchase of property and equipment from the Statement of Cash Flows	9,161	13,150
Less: Amounts related to the expansion of sales and service capacity	(8,650)	(11,912)
Purchase of non-growth property and equipment	511	1,238

Repairs and maintenance expenditures are expensed as incurred and have been deducted from earnings for the period. Repairs and maintenance expense incurred during the three month and nine month periods ended September 30, 2012, were $0.5 million and $1.6 million (2011 - $0.4 million and 1.4 million), respectively.

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 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, 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:

	$
2012	2,656
2013	10,605
2014	10,289
2015	9,967
2016	8,205
Thereafter	56,838
Total	98,560

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

Financial Position

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

Balance Sheet Data	**September 30, 2012**	**June 30, 2012**	**March 31, 2012**	**December 31, 2011**	**September 30, 2011**	**June 30, 2011**	**March 31, 2011**	**December 31, 2010**
Cash and cash equivalents	54,255	51,198	53,403	53,641	49,366	43,837	39,337	37,541
Accounts receivable	54,148	52,042	51,380	42,448	44,172	51,539	42,260	32,832
Inventories	193,990	201,302	155,778	137,016	159,732	149,481	134,865	118,088
Total assets	420,050	414,061	361,307	334,370	327,568	318,956	291,291	261,435
Revolving floorplan facilities	212,840	221,174	178,145	150,816	175,291	172,600	152,075	124,609
Non-current debt and lease obligations	26,039	23,027	20,071	20,115	20,210	24,895	24,989	25,094

Net Working Capital

The automobile manufacturers represented by the Company require the Company to maintain net working capital for each individual dealership. At September 30, 2012, the aggregate of net working capital requirements was approximately $32.7 million. At September 30, 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 condensed interim consolidated financial statements. At September 30, 2012, the Company had aggregate working capital of approximately $43.5 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 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 21 of the condensed interim consolidated financial statements of the Company for the period ended September 30, 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.

DIVIDENDS

Dividends to Shareholders

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

Record date	Payment date	Total Declared $	Total Paid $
February 28, 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	-

On November 8, 2012, the Board declared a quarterly eligible dividend of $0.17 per common share on AutoCanada's outstanding Class A common shares, payable on December 17, 2012 to shareholders of record at the close of business on November 30, 2012. The quarterly eligible dividend of $0.17 represents an annual dividend rate of $0.68 per share.

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).

(In thousands of $ except unit and per unit amounts)	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012
Cash provided by operating activities	7,810	4,166	5,289	10,850	9,718	3,520	6,569	9,235
Deduct:								
Purchase of property and equipment	(2,130)	(930)	(612)	(694)	(718)	(361)	(3,624)	(9,161)
Free Cash Flow [1]	5,680	3,236	4,677	10,156	9,000	3,159	2,945	74
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	19,876,139	19,804,014
Free cash flow per share	0.286	0.163	0.235	0.511	0.453	0.159	0.148	0.004
Free cash flow – 12 month trailing	29,945	26,553	18,004	23,749	27,073	26,996	25,261	15,178

[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 three month periods ended September 30, 2012 and September 30, 2011.

(In thousands of dollars)	July 1, 2012 to September 30, 2012	July 1, 2011 to September 30, 2011
	$	$
Accounts receivable	(2,106)	7,367
Inventories	6,212	(10,792)
Prepaid expenses	968	418
Accounts payable and accrued liabilities	1,818	2,663
Leased vehicle repurchase obligations	648	471
Revolving floorplan facility	(8,334)	2,691
	(794)	2,818

Adjusted Free Cash Flow

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

(In thousands of $ except unit and per unit amounts)	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012
Cash provided by operating activities before changes in non-cash working capital	3,313	3,882	9,074	8,032	7,799	4,391	9,609	10,029
Deduct:								
Purchase of non-growth property and equipment	(565)	(232)	(188)	(244)	(407)	(361)	(366)	(511)
Adjusted Free Cash Flow[1]	2,748	3,650	8,886	7,788	7,392	4,030	9,243	9,518
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	19,876,139	19,804,014
Adjusted Free Cash Flow / Share	0.138	0.184	0.447	0.392	0.372	0.203	0.465	0.481
Adjusted Free Cash flow – 12 Month Trailing	14,009	15,097	18,755	23,072	27,718	28,096	28,453	30,183

[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 three quarters of 2012, the Company paid approximately $3.6 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 – Third 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)	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012
EBITDA[1]	3,469	4,047	9,321	8,216	7,547	6,808	10,210	10,592
Add (deduct):								
Amortization	(1,207)	(1,079)	(1,017)	(1,044)	(1,104)	(1,024)	(1,027)	(1,139)
EBIT[1]	2,262	2,967	8,302	7,172	6,443	5,784	9,183	9,453
Average long-term debt	25,461	26,201	26,071	25,201	24,282	23,873	25,276	30,390
Average shareholders' equity	78,985	82,973	86,056	89,156	102,383	113,794	116,050	119,380
Average capital employed[1]	104,445	109,174	111,127	114,357	126,665	137,666	141,326	149,770
Return on capital employed[1]	2.2%	2.7%	7.5%	6.3%	5.1%	4.2%	6.5%	6.3%
Comparative adjustment[2]	3,579	3,579	3,579	3,579	(15,376)	(15,376)	(15,376)	(15,376)
Adjusted average capital employed[2]	110,885	112,753	114,706	117,936	120,766	122,290	125,950	134,394
Adjusted return on capital employed[2]	2.0%	2.6%	7.2%	6.1%	5.3%	4.7%	7.3%	7.0%
Adjusted return on capital employed – 12 month trailing				19.1%				22.8%

[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 period year ended September 30, 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. During the quarter ended June 30, 2012, the Company elected to early adopt IFRS 10, IFRS 11, IFRS 12, IAS 27, and IAS 28. Note 3 of the condensed interim consolidated financial statements of the Company for the period ended September 30, 2012 contains related disclosures for the early adoption of these standards and additional policy disclosure related to the investment in associate and manufacturer incentives and other rebates.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended September 30, 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 5.7 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**	**1,680**
Atlantic	**102**	**117**	**122**	**119**	**123**
Central	**936**	**983**	**990**	**997**	**1,047**
Quebec	366	406	414	408	420
Ontario	570	577	576	589	627
West	**408**	**492**	**445**	**473**	**510**
Manitoba	42	44	44	47	50
Saskatchewan	36	44	46	50	54
Alberta	166	225	200	218	237
British Columbia	164	179	155	158	169

* Includes cars and light trucks

Source: Scotia Economics - Global Auto Report, October 4, 2012

During the first three quarters of 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. It is expected that the bulk of these growth opportunities will come in the latter two to five years more so than in the short term. Regardless of the timing, the Board supports Management in actively seeking appropriately accretive growth opportunities as a means to provide superior long term shareholder value, while remaining committed to a high dividend.

Regarding dividends, without targeting a specific dividend payout ratio based on earnings, as noted, the Board of Directors remains committed to a high dividend, which it shall periodically review within the context of earnings growth, alternative strategic opportunities to re-invest in the business, and sustainability.

The Company also notes, however, that it 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 recently announced 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 is also limited in its ability to purchase automotive dealership groups. Since the vast majority of automotive dealership groups contain certain dealership brands which have not accepted the public ownership model to date, the Company may not be able to purchase automotive dealership groups.

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 investments in GM Canada dealerships (see "Growth, Acquisitions, Relocations and Real Estate"), 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. In addition to ownership restrictions noted above, Mr. Priestner will also be required to maintain a minimum 10% indirect ownership interest in AutoCanada as a result of the recently signed revolving floorplan facility agreement with Scotiabank.

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;
- 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 and other potential GM acquisitions;
- 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 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 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 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.