AUTOCANADA INC.

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

For the year ended December 31, 2012

As of March 26, 2013

READER ADVISORIES

The Management's Discussion & Analysis ("MD&A") was prepared as of March 26, 2013 to assist readers in understanding AutoCanada Inc.'s (the "Company" or "AutoCanada") consolidated financial performance for the year ended December 31, 2012 and significant trends that may affect AutoCanada's future performance. The following discussion and analysis should be read in conjunction with the audited annual consolidated financial statements and accompanying notes (the "Consolidated Financial Statements") of AutoCanada for the year ended December 31, 2012. Results are reported in Canadian dollars. Certain dollar amounts have been rounded to the nearest thousand dollars. References to notes are to the Notes of the Consolidated Financial Statements of the Company unless otherwise stated.

To provide more meaningful information, this MD&A typically refers to the operating results for the three-month period and year ended December 31, 2012 of the Company, and compares these to the operating results of the Company for the three-month period and year ended December 31, 2011.

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

OVERVIEW OF THE COMPANY

Corporate Structure

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

Additional information relating to AutoCanada, including our 2012 Annual Information Form dated March 26, 2013, is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com.

The Business of the Company

AutoCanada is one of Canada's largest multi-location automobile dealership groups, currently operating 25 wholly-owned franchised dealerships and managing 3 franchised dealership investments (see "GROWTH, ACQUISITIONS, RELOCATIONS AND REAL ESTATE") in British Columbia, Alberta, Manitoba, Ontario, New Brunswick and Nova Scotia. In 2012, our dealerships sold approximately 30,000 vehicles and processed approximately 310,000 service and collision repair orders in our 333 service bays during that time.

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

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

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

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

Location of Dealerships	Operating Name	Franchise	Year Opened or Acquired
Wholly-Owned Dealerships:			
Edmonton, Alberta	Crosstown Chrysler Jeep Dodge FIAT	Chrysler	1994
Edmonton, Alberta	Capital Chrysler Jeep Dodge FIAT	Chrysler	2003
Grande Prairie, Alberta	Grande Prairie Chrysler Jeep Dodge FIAT	Chrysler	1998
Grande Prairie, Alberta	Grande Prairie Hyundai	Hyundai	2005
Grande Prairie, Alberta	Grande Prairie Subaru	Subaru	1998
Grande Prairie, Alberta	Grande Prairie Mitsubishi	Mitsubishi	2007
Grande Prairie, Alberta	Grande Prairie Nissan	Nissan	2007
Grande Prairie, Alberta	Grande Prairie Volkswagen(1)	Volkswagen	2013
Ponoka, Alberta	Ponoka Chrysler Jeep Dodge	Chrysler	1998
Sherwood Park, Alberta	Sherwood Park Hyundai	Hyundai	2006
Abbotsford, British Columbia	Abbotsford Volkswagen	Volkswagen	2011
Chilliwack, British Columbia	Chilliwack Volkswagen	Volkswagen	2011
Kelowna, British Columbia	Okanagan Chrysler Jeep Dodge FIAT	Chrysler	2003
Maple Ridge, British Columbia	Maple Ridge Chrysler Jeep Dodge FIAT	Chrysler	2005
Maple Ridge, British Columbia	Maple Ridge Volkswagen	Volkswagen	2008
Prince George, British Columbia	Northland Chrysler Jeep Dodge	Chrysler	2002
Prince George, British Columbia	Northland Hyundai	Hyundai	2005
Prince George, British Columbia	Northland Nissan	Nissan	2007
Victoria, British Columbia	Victoria Hyundai	Hyundai	2006
Thompson, Manitoba	Thompson Chrysler Jeep Dodge	Chrysler	2003
Moncton, New Brunswick	Moncton Chrysler Jeep Dodge	Chrysler	2001
Dartmouth, Nova Scotia	Dartmouth Chrysler Jeep Dodge	Chrysler	2006
Cambridge, Ontario	Cambridge Hyundai	Hyundai	2008
Mississauga, Ontario	401/Dixie Hyundai	Hyundai	2010
Newmarket, Ontario	Newmarket Infiniti Nissan	Nissan / Infiniti	2008
Dealership investments:			
Sherwood Park, Alberta	Sherwood Park Chevrolet(2)	General Motors	2012
Sherwood Park, Alberta	Petersen Pontiac Buick GMC(2)	General Motors	2012
Duncan, British Columbia	Peter Baljet Chevrolet GMC Buick(3)	General Motors	2013

[1] On January 4, 2013, the Company acquired Grande Prairie Volkswagen located in Grande Prairie, Alberta.
[2] During 2012, the Company acquired an indirect 31% equity interest in Nicholson Chevrolet originally located in Edmonton, Alberta, now operating as Sherwood Park Chevrolet in Sherwood Park, Alberta. On June 1, 2012, the Company acquired an indirect 31% equity interest in Petersen Pontiac Buick GMC located in Sherwood Park, Alberta.
[3] On March 1, 2013, the Company acquired an indirect 80% equity interest in Peter Baljet Chevrolet GMC Buick located in Duncan, British Columbia.

OUR PERFORMANCE

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

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

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

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

1 *DesRosiers Automotive Consultants Inc.*

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

The Company's manufacturer partners have performed well in Canada in 2012; led by Volkswagen (sales up 12.4% in 2012), Chrysler (sales up 5.5% in 2012), Hyundai (sales up 5.4% in 2012), Infiniti (sales up 15.2%), and Subaru (sales up 14.9%). Various manufacturers also provide our dealerships with performance based incentives for meeting and exceeding monthly new vehicle sales targets. Due to our strong performance in new vehicle retail sales, these performance based incentives have increased significantly in 2012 as compared to the prior year. As a result, we continue to see a shift in focus at our dealerships to selling higher volumes of new vehicles as opposed to used vehicles. We cannot project the duration of these performance based incentives; the decrease or loss of such incentives would make it difficult for the Company to maintain its current level of profitability in its new vehicle department.

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

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

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

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

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

SELECTED ANNUAL FINANCIAL INFORMATION

The following table shows the audited results of the Company for the years ended December 31, 2010, December 31, 2011 and December 31, 2012. The results of operations for these periods are not necessarily indicative of the results of operations to be expected in any given comparable period.

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

1 EBITDA has been calculated as described under "NON-GAAP MEASURES".
2 Absorption has been calculated as described under "NON-GAAP MEASURES".
3 Same store revenue growth & same store gross profit growth is calculated using franchised automobile dealerships that we have owned for at least 2 full years.

SELECTED QUARTERLY FINANCIAL INFORMATION

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

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

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

RESULTS FROM OPERATIONS

Annual Operating Results

EBITDA for the year ended December 31, 2012 increased by 30.2% to $37.9 million, from $29.1 million when compared to the results of the Company for the prior year. The increase in EBITDA for the year can be mainly attributed to the improvement in new vehicle sales which is a main driver of our business and tends to provide additional sales opportunities in our finance and insurance and parts, service and collision repair departments.

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

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

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

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

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

Revenues

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

The tables in the "Same-Store Analysis" sections below summarize the results for the year ended December 31, 2012 on a same store basis by revenue source and compare these results to the same period in 2011. An acquired or open point dealership may take as long as two years in order to reach normalized operating results. As a result, in order for an acquired or open point dealership to be included in our same store analysis, the dealership must be owned and operated by us for eight complete quarters. For example, if a dealership was acquired on December 1, 2009, the results of the acquired entity would be included in quarterly same store comparisons beginning with the quarter ended March 31, 2012 and in annual same store comparisons beginning with the year ended December 31, 2012. As a result, only dealerships opened or acquired prior to January 1, 2011 are included in this same store analysis. In addition, dealership divestitures are also not included in same store operating results. As a result, the current and historical operating results of Colombo Chrysler Jeep Dodge (divested in the second quarter of 2011) and Abbotsford and Chilliwack Volkswagen (acquired in the last quarter of 2011) are not included in same store analysis.

Revenues - Same Store Analysis

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

Same Store Revenue and Vehicles Sold

	For the Year Ended		
(In thousands of dollars except % change and vehicle data)	**December 31, 2012**	**December 31, 2011**	**% Change**
Revenue Source			
New vehicles	666,118	626,790	6.3%
Used vehicles	235,984	202,884	16.3%
Finance, insurance and other	60,440	51,132	18.2%
Subtotal	962,542	880,806	9.3%
Parts, service and collision repair	111,576	107,964	3.3%
Total	1,074,118	988,770	8.6%
New vehicles - retail sold	15,691	13,415	17.0%
New vehicles – fleet sold	4,096	4,706	(13.0)%
Used vehicles sold	9,174	8,284	10.7%
Total	28,961	26,405	9.7%
Total vehicles retailed	24,865	21,699	14.6%

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

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

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

Same store finance, insurance and other revenue increased by $9.3 million or 18.2% for the year ended December 31, 2012 over the prior year. This was due to an increase in the number of new and used vehicles retailed of 3,166 units along with a modest increase in the average revenue per unit retailed of 3.2%. Credit conditions have continued to improve in 2012 which has allowed our finance and insurance departments to earn higher commissions on the increased ability of our customers to finance vehicles, parts, accessories and other insurance products.

Gross profit

Gross profit increased by $21.2 million or 12.5% for the year ended December 31, 2012 when compared to the prior year. Gross profit increased due to increases in new vehicle sales, finance and insurance and parts, service and collision repair revenue. Gross profit on the sale of new vehicles increased by $9.9 million or 20.7% for the year ended December 31, 2012. The increase in new vehicle gross can be attributed to increases in new vehicle unit sales of 991 units or 5.1% and the average gross profit per new vehicle retailed of $365 or 14.8%. The Company's finance and insurance gross profit increased by $10.2 million or 22.0% during 2012. This increase can be attributed to increases in the average gross profit per unit retailed of $202 and in the number of vehicles retailed of 2,518 units. Parts, service and collision repair gross profit increased by $2.2 million or 3.8% in 2012. The increase in overall gross profit of the Company for the year was partially offset by a decrease in used vehicle gross profit of $1.1 million or 6.2% due to a decrease in the average gross profit per used vehicle retailed of $280 or 14.0%.

Gross Profit - Same Store Analysis

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

Same Store Gross Profit and Gross Profit Percentage

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

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

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

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

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

Operating expenses

Operating expenses increased by 9.0% or $12.3 million during the year ended December 31, 2012 as compared to the prior year. Since many operating expenses are variable in nature, management considers operating expenses as a percentage of gross profit to be a good indicator of expense control. Operating expenses as a percentage of gross profit decreased to 78.3% in 2012 from 80.9% in the prior year. Operating expenses consist of four major categories; employee costs, selling and administrative costs, facility lease costs, and amortization.

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

Selling and administrative costs
During the year ended December 31, 2012, selling and administrative costs increased by $1.3 million or 3.4% primarily due to the inclusion of a full year of expenses from Abbotsford and Chilliwack Volkswagen, which were acquired in November 2011. Selling and administrative expenses as a percentage of gross profit decreased to 21.0% in 2012 from 22.9% in 2011. This decrease is due to more cost-effective advertising and a decrease in other semi-variable costs as a percentage of gross profit. The Company has focused over the past year on cost effective advertising through more effective use of the internet. These efforts have resulted in a decrease in advertising expense per vehicle retailed.

Facility lease costs
During the year ended December 31, 2012, facility lease costs increased by 2.6% to $11.9 million from $11.6 million. The rent savings from the sale of the Company's Colombo Chrysler Jeep Dodge location in June 2011 partially offsets the increase in rent costs from the acquisition of Abbotsford and Chilliwack Volkswagen at the end of 2011.

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

Reversal of impairment of intangible assets

The Company has a number of franchise agreements for its individual dealerships which it classifies as intangible assets. These intangible assets are tested for impairment at least annually as they are considered to be indefinite-lived intangible assets. Under IFRS, previously recognized impairment charges, with the exception of impairment charges related to goodwill, may potentially be reversed if the circumstances causing the impairment have improved or are no longer present. If such circumstances change, a new recoverable amount should be calculated and all or part of the impairment charge should be reversed to the extent the recoverable amount exceeds carrying value. The Company performed its annual test for impairment of its cash generating units ("CGUs") in the fourth quarter of 2012. As a result of the tests performed, the Company determined that although the financial results improved in many of the Company's CGUs, in most cases the value of its intangible assets had been fully recovered in 2011. Since impairments of intangible assets cannot be reversed to an amount greater than the intangible asset's original cost, the improved financial results of many of the Company's CGUs has no impact on the value of the Company's intangible assets.

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

Income from investment in associate

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

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

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

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

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

Finance costs

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

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

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

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

Some of our manufacturers provide non-refundable credits on the finance costs for our revolving floorplan facilities to offset the dealership's cost of inventory that, on average, effectively provide the dealerships with interest-free floorplan financing for the first 45 to 60 days of ownership of each financed vehicle. During the year ended December 31, 2012, the net floorplan credits were $6,072 (2011 - $5,501). The increase in floorplan credits is a result of higher turnover in new vehicle inventory. Accounting standards require the floorplan credits to be accounted for as a reduction in the cost of new vehicle inventory and subsequently a reduction in the cost of sales as vehicles are sold.

The following table summarizes the net floorplan credits that were received in 2012.

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

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

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

Income taxes

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

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

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

In December 2011, legislation was passed implementing tax measures outlined in the 2011 budget (Bill C-13), which included the elimination of the ability of a corporation to defer income as a result of timing differences in the year-end of the corporation and of any partnership of which it is a member, subject to transitional relief over five years. The Company estimates the following amounts to be recorded as current income tax payable over the next four years in conjunction with the payment of the deferral. The Company notes that these amounts paid will be in addition to the normal current income tax payable of future years:

(In thousands of dollars)	**2013**	**2014**	**2015**	**2016**
Increase to current tax payable	1,176	1,366	1,366	1,707

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

Prior to 2012, the Company had not paid any corporate tax or installments for corporate tax. In 2012, the Company paid $4.3 million of cash taxes which relates to the fiscal 2011 taxation year and installments toward the 2012 taxation year. The payment of cash taxes will have an impact on adjusted free cash flow. Investors are cautioned that income taxes will have a more significant effect on the Company's cash flow in the future, and as a result, the current level of adjusted free cash flow will inherently be lowered by cash taxes in the future.

Fourth Quarter Operating Results

EBITDA for the three month period ended December 31, 2012 increased by 37.3% to $10.3 million, from $7.6 million when compared to the results of the Company for the same period in the prior year. The increase in EBITDA for the fourth quarter can be attributed to the improvement in new vehicle sales and the resulting finance and insurance product sales. As explained below, the Company's parts, service and collision repair department also had strong gains in revenue and gross profit which contributed to strong EBITDA in the fourth quarter of 2012.

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

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

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

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

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

Revenues

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

Revenue - Same Store Analysis

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

Same Store Revenue and Vehicles Sold

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

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

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

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

Same store finance, insurance and other revenue increased by $1.6 million or 12.5% for the three month period ended December 31, 2012 over the prior period. This was due to an increase in the average revenue per unit retailed of 4.9% along with an increase in the number of new and used vehicles retailed of 398 units. The increases we experienced in both new and used retail sales reflected positively in our finance and insurance revenue for the quarter.

Gross profit

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

Gross Profit - Same Store Analysis

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

Same Store Gross Profit and Gross Profit Percentage

	For the Three-Month Period Ended					
	Gross Profit			Gross Profit %		
(In thousands of dollars except % change and gross profit %) **Revenue Source**	**Dec. 31, 2012**	**Dec. 31, 2011**	**% Change**	**Dec. 31, 2012**	**Dec. 31, 2011**	**Change**
New vehicles	14,853	11,064	34.3%	9.6%	7.9%	1.8%
Used vehicles	3,594	4,504	(20.2)%	6.5%	8.5%	(2.0)%
Finance, insurance and other	13,260	11,734	13.0%	91.3%	90.8%	0.4%
Subtotal	31,707	27,302	16.1%			
Parts, service and collision repair	14,907	14,355	3.8%	51.1%	50.5%	0.6%
Total	46,614	41,657	11.9%	18.4%	17.7%	0.7%

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

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

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

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

Operating expenses

Operating expenses increased by 10.6% or $3.6 million during the three month period ended December 31, 2012 as compared to the prior period. Since many operating expenses are variable in nature, management considers operating expenses as a percentage of gross profit to be a good indicator of expense control. Operating expenses as a percentage of gross profit decreased to 78.1% in the fourth quarter of 2012 from 80.7% in the prior year. Operating expenses consist of four major categories; employee costs, selling and administrative costs, facility lease costs, and amortization.

Employee costs
During the three month period ended December 31, 2012, employee costs increased by $2.7 million to $23.1 million from $20.4 million in the prior year. Employee costs as a percentage of gross profit decreased to 47.8% from 48.2% in the fourth quarter of 2011. Although commissioned wages generally increase as a percentage of gross profit, salaried wages do not increase with sales which will generally decrease employee costs as a percentage of gross profit during times of increased sales, as was the case in the fourth quarter of 2012.

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

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

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

Income from investment in associate

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

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

Finance costs

The Company incurs finance costs on its revolving floorplan facilities, long term indebtedness and banking arrangements. During the three month period ended December 31, 2012, finance costs on our revolving floorplan facilities decreased to $1.7 million from $1.9 million in 2011. Finance costs on long term indebtedness remained flat at $0.2 million in the fourth quarter of 2012. Finance costs, net of finance income has remained relatively flat quarter over quarter due in part to the decrease in the Company's interest rate on twenty-one of its twenty-four wholly owned dealerships which it refinanced in the latter part of the fourth quarter of 2012, and partially offset by an increase in the amount of inventory held by its dealerships.

Inventory costs

As previously noted, some of our manufacturers provide non-refundable credits on the finance costs for our revolving floorplan facilities to offset the dealership's cost of inventory that, on average, effectively provide the dealerships with interest-free floorplan financing for the first 45 to 60 days of ownership of each financed vehicle. During the three month period ended December 31, 2012, the floorplan credits earned were $1,351 (2011 - $1,300).

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

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

Sensitivity

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

GROWTH, ACQUISITIONS, RELOCATIONS, AND REAL ESTATE

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

Acquisitions

Grande Prairie Volkswagen

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

Dealership Investments

Investment in Dealer Holdings Ltd. ("DHL")

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Future Acquisition Opportunities

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

Open Point Opportunities

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

Relocation of dealerships

Earlier in the year, Management developed a capital plan which included the possible relocation of four of its dealerships. Management estimates the capital requirements of the relocations to be approximately $27 million with expected completion by the end of fiscal 2015. Management expects to finance the relocations with a combination of mortgage debt, revolver debt and cash from operations. Management expects the non-mortgage debt financing requirement related to these relocations to be in the range of $10-12 million over the same period.

Relocation of Northland Chrysler Jeep Dodge and Northland Nissan

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

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

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

Real estate purchase

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

Cash Flow from Operating Activities

Cash flow from operating activities (including changes in non-cash working capital) of the Company for the year ended December 31, 2012 was $21.1 million (cash provided by operating activities of $33.5 million less net change in non-cash working capital of $12.4 million) compared to $30.0 million (cash provided by operating activities of $28.8 million plus net change in non-cash working capital of $1.2 million) in the prior year.

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

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

Cash Flow from Investing Activities

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

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

Cash Flow from Financing Activities

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

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

Economic Dependence

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

Credit Facilities and Floor Plan Financing

Credit Facilities

HSBC Bank Canada ("HSBC") provides AutoCanada with a $40 million revolving term loan (the "HSBC Revolver") that may be increased to $50 million subject to credit approval by HSBC. The HSBC Revolver is a 365 day fully committed, extendible revolving term loan. The HSBC Revolver's maturity date is June 30, 2014, however the facility may be extended for an additional 365 days prior to the maturity of the facility at the request of AutoCanada and upon approval by HSBC. The HSBC Revolver contains an annual renewal fee of $15. The HSBC Revolver bears interest at HSBC Prime Rate plus 0.75% per annum (currently 3.75% at the date of this MD&A).

The HSBC Revolver is secured by all of the present and future assets of the Company, the various Limited Partnerships and the General Partners of each dealership within AutoCanada. As part of priority agreements signed by HSBC and the Company, the collateral for the HSBC Revolver excludes all new, used, and demonstrator inventory financed with the Revolving Floorplan Facilities (discussed further below).

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

- (i) The Debt to Tangible Net Worth ratio, including floorplan, must not exceed 7.50:1. Intangible assets to be deducted from Tangible Net Worth, and shareholder loans to be added to tangible net worth and deducted from debt, if postponed to HSBC; tested quarterly
- (ii) The Debt to Tangible Net Worth ratio, excluding floorplan, must not exceed 2.50:1. Intangible assets to be deducted from Tangible Net Worth, and shareholder loans to be added to tangible net worth and deducted from debt, if postponed to HSBC; tested quarterly
- (iii) The Current Ratio, net of flooring, shall not be less than 1.20:1 at any time; tested quarterly
- (iv) The Fixed Charge Ratio shall not be less than 1.20:1 at any time.

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

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

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

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

Revolving Floorplan Facilities

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

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

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

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

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

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

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

The VCCI Facilities require maintenance of financial covenants which require all dealerships to maintain minimum cash and equity balances. At December 31, 2012 the financial covenants had been met.

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

Financial Instruments

Details of the Company's financial instruments, including risks and uncertainties are included in Note 21 of the annual consolidated financial statements for the year ended December 31, 2012.

Growth vs. Non-growth Capital Expenditures

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

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

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

Amounts relating to the expansion of sales and service capacity are considered growth expenditures. Growth expenditures are discretionary, represent cash outlays intended to provide additional future cash flows and are expected to provide benefit in future periods. During the year ended December 31, 2012 growth capital expenditures of $14.4 million were incurred. These expenditures related primarily to three pieces of land and a building that were purchased for future dealership operations during the last three quarters of 2012 for a total of $13.9 million. Dealership relocations are included as growth expenditures if they contribute to the expansion of sales and service capacity of the dealership.

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

(In thousands of dollars)	**October 1, 2012 to December 31, 2012**	**January 1, 2012 to December 31, 2012**
	$	**$**
Purchase of property and equipment from the Statement of Cash Flows	2,918	16,069
Less: Amounts related to the expansion of sales and service capacity	(2,461)	(14,374)
Purchase of non-growth property and equipment	457	1,695

Repairs and maintenance expenditures are expensed as incurred and have been deducted from earnings for the period. Repairs and maintenance expense incurred during the three-month period and year ended December 31, 2012, were $0.5 million and $2.2 million, respectively (2011 - $0.5 million and $1.9 million).

Planned Capital Expenditures

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

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

Contractual Obligations

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

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

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

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

Financial Position

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

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

Net Working Capital

The automobile manufacturers represented by the Company require the Company to maintain net working capital for each individual dealership. At December 31, 2012, the aggregate of net working capital requirements was approximately $32.7 million. At December 31, 2012, all working capital requirements had been met by each dealership. The working capital requirements imposed by the automobile manufacturers' may limit our ability to fund capital expenditures, acquisitions, dividends, or other commitments in the future if sufficient funds are not generated by the Company. Net working capital, as defined by automobile manufacturers, may not reflect net working capital as determined using GAAP measures. As a result, it is possible that the Company may meet automobile manufacturers' net working capital requirements without having sufficient aggregate working capital using GAAP measures. The Company defines net working capital amounts as current assets less current liabilities as presented in the annual consolidated financial statements. At December 31, 2012, the Company had aggregate working capital of approximately $45.5 million.

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

Off Balance Sheet Arrangements

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

Related Party Transactions

Note 30 of the annual consolidated financial statements of the Company for the year ended December 31, 2012 summarize the transactions between the Company and its related parties.

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

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

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

DIVIDENDS

Dividends to Shareholders

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

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

(In thousands of dollars)

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

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

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

Free Cash Flow

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

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

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

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

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

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

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

Adjusted Free Cash Flow

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

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

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

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

During the year ended December 31, 2012, the Company paid approximately $4.3 million in corporate taxes and tax installments. Accordingly, this reduced our adjusted free cash flow by this amount. The Company expects the payment of corporate income taxes to have a more significant negative effect on free cash flow and adjusted free cash flow. See “RESULTS FROM OPERATIONS – Annual Operating Results – *Income Taxes*” for further detail regarding the impact of corporate income taxes on cash flow.

Adjusted Return on Capital Employed

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

(In thousands of $ except share and per share amounts)	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
EBITDA[1]	4,047	9,321	8,216	7,553	6,809	10,208	10,592	10,276
Add (deduct):								
Amortization	(1,079)	(1,018)	(1,044)	(1,110)	(1,024)	(1,027)	(1,139)	(1,121)
EBIT[1]	2,967	8,303	7,172	6,443	5,785	9,181	9,453	9,155
Average long-term debt	26,201	26,071	25,201	24,282	23,873	25,276	30,390	31,007
Average shareholders' equity	82,973	85,056	89,156	102,383	113,794	116,050	119,380	122,877
Average capital employed[1]	109,174	111,127	114,357	126,665	137,666	141,326	149,770	153,884
Return on capital employed[1]	2.7%	7.5%	6.3%	5.1%	4.2%	6.5%	6.3%	5.9%
Comparative adjustment[2]	3,579	3,579	3,579	(15,376)	(15,376)	(15,376)	(15,376)	(15,542)
Adjusted average capital employed[2]	112,753	114,706	117,936	120,766	122,290	125,950	134,394	138,425
Adjusted return on capital employed[2]	2.6%	7.2%	6.1%	5.3%	4.7%	7.3%	7.0%	6.6%
Adjusted return on capital employed - 12 month trailing				21.3%				25.9%

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

[2]A comparative adjustment has been made in order to adjust for impairments and reversals of impairments of intangible assets. Due to the increased frequency of impairments and reversals of impairments, management has provided an adjustment in order to freeze intangible assets at the pre-IFRS amount of $43,700. As a result, all differences from January 1, 2011 forward under IFRS have been adjusted at the post-tax rate at the time the adjustment to the intangible asset carrying amount was made. Management believes that the adjusted return on capital employed provides more useful information about the return on capital employed.

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

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICY DEVELOPMENTS

A complete listing of critical accounting policies, estimates, judgments and measurement uncertainty can be found in Note 6 of the annual consolidated financial statements for the year ended December 31, 2012.

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are not yet effective for the financial year ended December 31, 2012. The standards impacted that are applicable to the Company are as follows:

- IFRS 9, *Financial Instruments* – The new standard will ultimately replace IAS 39, *Financial Instruments: Recognition and Measurement.* The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments and the issuance of IFRS 9 is part of the first phase. This standard becomes effective on January 1, 2015.
- IFRS 13, *Fair Value Measurement*, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date.

Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures. This standard becomes effective on January 1, 2013.

- IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls & Procedures

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

As of December 31, 2012, the Company’s management, with the participation of the CEO and CFO, evaluated the effectiveness of the design and operation of its disclosure controls and procedures, as defined in National Instrument 52-109 of the Canadian Securities Administrators, and have concluded that the Company's disclosure controls and procedures are effective.

Internal Controls over Financial Reporting

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

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

Management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2012, based on the framework established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concluded that the company maintained effective internal control over financial reporting as of December 31, 2012.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting during the year ended December 31, 2012.

OUTLOOK

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

New Vehicle Sales Outlook by Province*

(thousands of units, annual rates)

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

* Includes cars and light trucks

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

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

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

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

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

RISK FACTORS

We face a number of business risks that could cause our actual results to differ materially from those disclosed in this MD&A (See "FORWARD LOOKING STATEMENTS") Investors and the public should carefully consider our business risks, other uncertainties and potential events as well as the inherent uncertainty of forward looking statements when making investment decisions with respect to AutoCanada. If any of the business risks identified by AutoCanada were to occur, our business, financial condition, results of operations, cash flows or prospects could be materially adversely affected. In such case, the trading price of our shares could decline. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also adversely affect our business and operations. A comprehensive discussion of the known risk factors of AutoCanada and additional business risks is available in our 2012 Annual Information Form dated March 26, 2013 available on the SEDAR website at www.sedar.com.

Additional information

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

FORWARD LOOKING STATEMENTS

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

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

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

- our expectation to increase annual capital expenditures and the reasons for this expected increase;
- our expectations regarding the potential purchase of real estate properties and the reasons for the purchase;
- our belief that free cash flow can fluctuate significantly and the impact of these fluctuations on our operations and performance;
- our belief that maintenance capital expenditures should be funded by cash flow provided by operating activities;
- our potential use of Adjusted Return on Capital Employed as a measure for comparison and analysis;
- our expectation that inflation and vehicle pricing is to be relatively stable;
- our expectations regarding the reasons for and timing of future growth opportunities;
- our expectation that if the business landscape changes and new brands consider the acceptance of the public ownership model, that Management and the Board may revise the dividend policy to better align the Company's capital structure to fund future growth expectations;
- management's assessment of our dividend policy and its effect on liquidity;
- our assumptions regarding financial covenants and our ability to meet covenants in the future;
- expectations and assumptions regarding the Company's ability to pay future dividends and growth;
- assumptions over non-GAAP measures and their impact on the Company;
- management's assumptions and expectations over the future economic and general outlook.

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

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

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

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

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

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

NON-GAAP MEASURES

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

EBITDA

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

EBIT

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

Normalized Earnings

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

Normalized Pre-Tax Earnings

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

Free Cash Flow

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

Adjusted Free Cash Flow

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

Absorption Rate

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

Average Capital Employed

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

Adjusted Average Capital Employed

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

Return on Capital Employed

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

Adjusted Return on Capital Employed

Adjusted return on capital employed is a measure used by management to evaluate the profitability of our invested capital. As a corporation, management of AutoCanada may use this measure to compare potential acquisitions and other capital investments against our internally computed cost of capital to determine whether the investment shall create value for our shareholders.

Management may also use this measure to look at past acquisitions, capital investments and the Company as a whole in order to ensure shareholder value is being achieved by these capital investments. Adjusted return on capital employed is calculated as EBIT (defined above) divided by Adjusted Average Capital Employed (defined above).

Cautionary Note Regarding Non-GAAP Measures

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