



AUTOCANADA INC.

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

For the period ended March 31, 2013

As of May 6, 2013

READER ADVISORIES

The Management's Discussion & Analysis ("MD&A") was prepared as of May 6, 2013 to assist readers in understanding AutoCanada Inc.'s (the "Company" or "AutoCanada") consolidated financial performance for the three month period ended March 31, 2013 and significant trends that may affect AutoCanada's future performance. The following discussion and analysis should be read in conjunction with the unaudited consolidated financial statements and accompanying notes (the "Interim Consolidated Financial Statements") of AutoCanada for the three months ended March 31, 2013, the consolidated financial statements and accompanying notes of the Company for the year ended December 31, 2012 and management's discussion and analysis 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 ended March 31, 2013 of the Company, and compares these to the operating results of the Company for the three-month period March 31, 2012.

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 and investments in associates 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 27 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 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 wholly-owned dealerships and revenues by province for the three month periods ended March 31, 2013 and March 31, 2012.

(In thousands of dollars except % of total and number of dealerships)	<u>March 31, 2013</u>			<u>March 31, 2012</u>		
	<u>Number of Dealerships</u>	<u>Revenue</u>	<u>% of Total</u>	<u>Number of Dealerships</u>	<u>Revenue</u>	<u>% of Total</u>
British Columbia	9	95,213	33%	9	96,237	39%
Alberta	10	131,113	46%	9	100,422	40%
Ontario	3	22,043	8%	3	20,555	8%
All other	<u>3</u>	<u>35,893</u>	<u>13%</u>	<u>3</u>	<u>31,263</u>	<u>13%</u>
Total	<u>25</u>	<u>284,262</u>	<u>100%</u>	<u>24</u>	<u>248,477</u>	<u>100%</u>

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

<u>Location of Dealerships</u>	<u>Operating Name</u>	<u>Franchise</u>	<u>Year Opened or Acquired</u>
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	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
Winnipeg, Manitoba	St. James Audi ⁽¹⁾	Audi	2013
Winnipeg, Manitoba	St. James Volkswagen ⁽¹⁾	Volkswagen	2013
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	General Motors	2012
Sherwood Park, Alberta	Petersen Pontiac Buick GMC	General Motors	2012
Duncan, British Columbia	Peter Baljet Chevrolet GMC Buick	General Motors	2013

¹ On April 1, 2013, the Company acquired St. James Audi and Volkswagen located in Winnipeg, Manitoba.

Seasonality

The results from operations historically have been lower in the first and fourth quarters of each year, largely due to consumer purchasing patterns during the winter holiday season, inclement weather and the number of business days during the different seasons. As a result, our operating results are generally not as strong during the first and fourth quarters than during the other quarters of each fiscal year. The timing of acquisitions may have also caused substantial fluctuations in operating results from quarter to quarter. Due to seasonal fluctuations, the Company provides discussion and analysis of information for the period and compares the information to the same period of the prior year.

OUR PERFORMANCE

Performance vs. the Canadian New Vehicle Market

New light vehicle sales in Canada in the three month period ended March 31, 2013 were down 1.9% when compared to the same period in 2012. Sales of new light vehicles for the first three months of 2013 in Alberta and British Columbia, our primary markets, were up by 4.1% and 3.5% respectively. The Company's same store sales of new vehicles have increased by 15.7% during this period. Our dealerships performed particularly well in new vehicle sales, picking up market share in many sales regions. We accredit the performance of our dealerships to their strong management teams and their ability to leverage best practices in advertising and sales process as a result of operating within a dealer group.

The following table summarizes Canadian new light vehicle sales for the three month period ended March 31, 2013 by Province:

Province	March Year to Date Canadian New Vehicle Sales by Province ¹		Percentage Change	Units Change
	March Year to Date			
	2013	2012		
British Columbia	39,122	37,785	3.5%	1,337
Alberta	54,897	52,711	4.1%	2,186
Saskatchewan	11,595	11,816	(1.9)%	(221)
Manitoba	10,769	10,350	4.0%	419
Ontario	128,249	133,513	(3.9)%	(5,264)
Quebec	84,508	89,555	(5.6)%	(5,047)
New Brunswick	8,095	8,137	(0.5)%	(42)
PEI	1,219	1,307	(6.7)%	(88)
Nova Scotia	10,007	10,300	(2.8)%	(293)
Newfoundland	6,751	6,484	4.1%	267
Total	<u>355,212</u>	<u>361,958</u>	<u>(1.9)%</u>	<u>(6,746)</u>

¹ DesRosiers Automotive Consultants Inc.

Performance vs. the First Quarter of Prior Year

AutoCanada's improved sales and profitability during the first quarter of 2013 is largely driven by increases in new vehicle retail sales as a result of attracting new and existing customers back into our dealership showrooms. During the first quarter of 2013, our same store new vehicle revenue increased by 17.1% primarily as a result of an increase in new vehicles retailed of 18.3%. The strong performance of our new vehicle retail operations resulted in a 31.1% increase in new vehicle gross profit. The increase in new vehicle retail sales was a main driver in our improved finance and insurance revenue, which produces a significant amount of gross profit for the Company. Same store finance and insurance revenues improved by 25.4% over the first quarter of 2012, which translated into a 27.1% increase in same store gross profit in this area of our business. Management is very pleased with our dealerships' improvement in new vehicle retail sales and improvement in market share, an achievement we believe is critical to enhancing our manufacturer relationships with our current partners, as well as attracting new manufacturers to allow public ownership of automotive dealerships in Canada; an issue most brands have accepted in almost all other major economies in the world.

The Company's manufacturer partners have performed well in Canada in the first three months of 2013. Many of our manufacturer partners 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 in 2013, these performance based incentives increased in the first quarter of 2013 as compared to the same period of 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.

The used vehicle market in Canada remained challenging to many of our dealerships in the first quarter of 2013. With significant new vehicle retail incentives available in the market, combined with sub-vented interest rates (manufacturer incentives on interest rates) from financing sources, the affordability of new vehicles has improved substantially, yet used vehicle prices in the overall market have not decreased proportionately. As such, the improved affordability of new vehicles has negatively impacted our used vehicle margins and we expect this trend to continue in the near term. Management will continue to address the issue of lower used vehicle gross profits by focusing on volume improvement as used vehicle sales typically create additional profit opportunities for our finance and insurance department as well as reconditioning opportunities for our parts, service and collision repair departments.

Our parts, service and collision repair department posted strong gains in revenue and gross margins. Our parts, service and collision repairs departments improved same store sales by 7.7% during the first quarter of 2013 which resulted in same store gross profit improvement of 6.5% quarter over quarter. The parts, service and collision repair business is one of our most profitable and stable revenue streams, therefore we believe that investing in technology and training our service advisors to improve the customer experience is critical to continuing to grow our same store business in the future.

SELECTED QUARTERLY FINANCIAL INFORMATION

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

(In thousands of dollars except Operating Data and gross profit %)								
	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Income Statement Data								
New vehicles	196,850	172,688	142,881	147,383	186,649	190,139	159,204	174,410
Used vehicles	52,054	55,351	53,719	60,453	62,822	62,816	57,260	62,656
Parts, service & collision repair	28,256	26,980	28,980	27,085	28,847	28,593	30,247	29,667
Finance, insurance & other	13,577	14,115	13,091	13,556	16,451	17,133	15,355	17,529
Revenue	290,737	269,134	238,671	248,477	294,769	298,681	262,066	284,262
New vehicles	13,974	12,740	11,267	12,046	14,647	15,461	15,421	15,947
Used vehicles	4,301	5,020	4,574	4,412	4,237	3,994	3,668	3,789
Parts, service & collision repair	15,159	14,492	14,551	14,058	15,228	15,078	15,333	15,232
Finance, insurance & other	12,118	12,647	11,883	12,344	14,878	15,579	13,992	16,157
Gross profit	45,552	44,899	42,275	42,860	48,990	50,112	48,414	51,125
Gross profit %	15.7%	16.7%	17.7%	17.3%	16.6%	16.8%	18.5%	18.0%
Operating expenses	35,127	35,742	34,086	35,381	37,661	38,361	37,737	40,353
Operating exp. as % of gross profit	77.1%	79.6%	80.6%	82.5%	76.9%	76.6%	77.9%	78.9%
Finance costs – floorplan	2,311	2,190	1,871	1,935	2,511	2,645	1,741	1,560
Finance costs – long-term debt	323	296	234	230	256	267	231	194
Reversal of impairment of intangibles	-	-	(25,543)	-	-	-	(222)	-
Income taxes	2,029	1,646	8,144	1,441	2,216	2,379	2,540	2,309
Net earnings ⁴	5,951	5,230	23,608	4,113	6,711	6,807	6,605	6,822
EBITDA ^{1,4}	9,321	8,216	7,553	6,809	10,208	10,592	10,276	10,511
Basic earnings per share	0.299	0.263	1.187	0.207	0.338	0.344	0.334	0.345
Diluted earnings per share	0.299	0.263	1.187	0.207	0.338	0.344	0.334	0.345
Operating Data								
Vehicles (new and used) sold	8,210	7,649	6,313	6,836	8,154	8,087	6,703	7,341
New retail vehicles sold	4,158	3,886	3,405	3,434	4,400	4,410	3,982	4,118
New fleet vehicles sold	1,900	1,361	775	969	1,313	1,265	549	1,036
Used retail vehicles sold	2,152	2,402	2,133	2,433	2,441	2,412	2,172	2,187
Number of service & collision repair orders completed	80,851	76,176	75,911	74,439	78,104	78,944	78,001	77,977
Absorption rate ²	91%	90%	91%	81%	89%	89%	85%	82%
# of dealerships at period end	22	22	24	24	24	24	24	25
# of same store dealerships ³	21	21	21	21	21	22	22	22
# of service bays at period end	322	322	333	333	333	333	333	341
Same store revenue growth ³	19.3%	21.6%	24.8%	20.2%	2.4%	8.0%	7.4%	12.9%
Same store gross profit growth ³	8.2%	22.9%	20.6%	18.3%	7.1%	7.9%	11.9%	16.9%
Balance Sheet Data								
Cash and cash equivalents	43,837	49,366	53,641	53,403	51,198	54,255	34,472	41,991
Restricted cash	-	-	-	-	-	-	10,000	10,000
Accounts receivable	51,539	44,172	42,448	51,380	52,042	54,148	47,965	57,663
Inventories	149,481	159,732	136,869	155,778	201,302	193,990	199,226	217,268
Revolving floorplan facilities	172,600	175,291	150,816	178,145	221,174	212,840	203,525	225,387

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

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

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

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

RESULTS FROM OPERATIONS

First quarter Operating Results

EBITDA for the three month period ended March 31, 2013 increased by 54.4% to \$10.5 million, from \$6.8 million when compared to the results of the Company for the same period in the prior year. The increase in EBITDA for the first quarter can be attributed to the improvement in new vehicles, finance and insurance, and parts, service and collision repair.

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net comprehensive income	6,822	4,113	1,995
Income tax	2,309	1,441	690
Amortization	1,186	1,025	1,079
Interest on long-term debt	194	230	283
EBITDA	<u>10,511</u>	<u>6,809</u>	<u>4,047</u>

Pre-tax earnings increased by \$3.5 million or 62.5% to \$9.1 million in the first quarter of 2013 from \$5.6 million in the same period of the prior year. Net earnings increased by \$2.7 million or 65.9% to \$6.8 million in the first quarter of 2013 from \$4.1 million in the prior year. Income tax expense increased by \$0.9 million to \$2.3 million in the first quarter of 2013 from \$1.4 million in the same quarter of the prior year, mainly due to the increase in pre-tax earnings.

Revenues

Revenues for the three month period ended March 31, 2013 increased by \$35.8 million or 14.4% as compared to the same period of the prior year. This increase was mainly driven by increases in new vehicle sales with modest increases to used vehicle sales, finance and insurance and our parts, service and collision repair business. In the first quarter of 2013, new vehicle sales increased by \$27.0 million or 18.3% to \$174.4 million from \$147.4 million in the prior period. Used vehicle sales increased by \$2.2 million or 3.6% in the first quarter of 2013 as compared to 2012. The increases in new and used vehicle sales contributed to the increase in finance and insurance revenue of \$4.0 million or 29.3% for the three month period ended March 31, 2013. Parts, service and collision repair revenue increased 9.5% or \$2.6 million over the first quarter of 2012.

Revenue - Same Store Analysis

The following table summarizes the results for the three-month period ended March 31, 2013 on a same store basis by revenue source and compares these results to the same period in 2012.

	<u>Same Store Revenue and Vehicles Sold</u>		
	<u>For the Three-Month Period Ended</u>		
(In thousands of dollars except % change and vehicle data)	<u>March 31, 2013</u>	<u>March 31, 2012</u>	<u>% Change</u>
Revenue Source			
New vehicles	169,071	144,328	17.1%
Used vehicles	60,335	59,158	2.0%
Finance, insurance and other	16,606	13,245	25.4%
Subtotal	246,012	216,731	13.5%
Parts, service and collision repair	28,484	26,443	7.7%
Total	<u>274,496</u>	<u>243,174</u>	<u>12.9%</u>

New vehicles - retail sold	3,947	3,337	18.3%
New vehicles – fleet sold	1,036	969	6.9%
Used vehicles sold	2,096	2,374	(11.7)%
Total	7,079	6,680	6.0%
Total vehicles retailed	6,043	5,711	5.8%

Same store revenue increased by \$31.3 million or 12.9% in the three month period ended March 31, 2013 when compared to the same period in 2012. New vehicle revenues increased by \$24.7 million or 17.1% for the first quarter of 2013 over the prior period due in part to a net increase in new vehicle sales of 677 units consisting of an increase of 610 retail units and 67 low margin fleet unit sales and an increase in the average selling price per new vehicle (“PNVR”) of \$411 over the prior year.

Same store used vehicle revenues increased by \$1.2 million or 2.0% for the three month period ended March 31, 2013 over the same period in the prior year. This increase was due to an increase in the average selling price per used vehicle of \$3,867 offset by a decrease in the number of used vehicles sold of 278.

Same store parts, service and collision repair revenue experienced an increase of \$2.0 million or 7.7% for the first quarter of 2013 compared to the prior period and was a result of an increase in the number of repair orders performed of 1,722 or 2.4% and an increase in the average revenue per repair order completed of \$19 or 5.2%.

Same store finance, insurance and other revenue increased by \$3.4 million or 25.4% for the three month period ended March 31, 2013 over the prior period. This was due to an increase in the average revenue per unit retailed of 18.5% along with an increase in the number of new and used vehicles retailed of 332 units. The increases we experienced in new retail sales reflected positively in our finance and insurance revenue for the quarter.

Gross profit

Gross profit increased by \$8.3 million or 19.3% for the three month period ended March 31, 2013 when compared to the same period in the prior year. Gross profit increased due to increases in our new vehicles, finance and insurance, and parts, service and collision repair departments. Gross profit earned on the sale of new vehicles increased by \$3.9 million or 32.5% for the first quarter of 2013. The increase in new vehicle gross profit can be mainly attributed to an increase in new vehicle unit sales of 751 units or 17.1%. The Company’s finance and insurance gross profit increased by \$3.8 million or 30.8% during the first quarter of 2013. This increase can be mainly attributed to an increase in the average gross profit per unit retailed of \$456 and increases in new and used vehicle sales. Parts, service and collision repair gross profit increased by \$1.2 million or 8.4%. The increase in overall gross profit of the Company for the quarter was partially offset by a decrease in used vehicles gross profit \$0.6 million or 14.1% due to a decrease in the number of used vehicles sold of 246 or 10.1% and a reduction in the gross profit per used vehicle sold of \$80 or 4.4%.

Gross Profit - Same Store Analysis

The following table summarizes the results for the three-month period ended March 31, 2013 on a same store basis by revenue source and compares these results to the same period in 2012.

Same Store Gross Profit and Gross Profit Percentage

(In thousands of dollars except % change and gross profit %)	For the Three-Month Period Ended					
	Gross Profit			Gross Profit %		
	Mar. 31, 2013	Mar. 31, 2012	% Change	Mar. 31, 2013	Mar. 31, 2012	% Change
Revenue Source						
New vehicles	15,311	11,678	31.1%	9.1%	8.1%	11.9%
Used vehicles	3,569	4,294	(16.9)%	5.9%	7.3%	(18.5)%
Finance, insurance and other	15,349	12,073	27.1%	92.4%	91.2%	1.4%
Subtotal	34,229	28,045	22.1%			
Parts, service and collision repair	14,611	13,721	6.5%	51.3%	51.9%	(1.1)%
Total	48,840	41,766	16.9%	17.8%	17.2%	3.6%

Same store gross profit increased by \$7.1 million or 16.9% for the three month period ended March 31, 2013 when compared to the same period in the prior year. The Company's gross profit on new vehicles increased by \$3.6 million or 31.1% in the first quarter of 2013, when compared to 2012, as a result of an increase in new vehicle sales of 677 units.

Used vehicle gross profit decreased by \$0.7 million or 16.9% in the first quarter of 2013 over the prior period. This was due to decreases in both the number of used vehicles sold of 278 units or 11.7% and the average gross profit per used unit sold of \$106 or 5.9%.

Parts, service and collision repair gross profit increased by \$0.9 million or 6.5% in the three months ended March 31, 2013 when compared to the same period in the prior year as a result of an increase of 1,722 in repair orders completed during the quarter.

Finance and insurance gross profit increased by 27.1% or \$3.3 million in the three month period ended March 31, 2013 when compared to the prior period as a result of an increase in the average gross profit per unit sold of \$426 and an increase in new and used vehicle units retailed of 332.

Operating expenses

Operating expenses increased by 14.3% or \$5.0 million during the three month period ended March 31, 2013 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 78.9% in the first quarter of 2013 from 82.5% in the prior year. It is important to note when comparing this metric to the public dealer groups in the United States that they typically do not include amortization in this metric. In addition, the public dealer groups in the United States report under US GAAP as opposed to IFRS. As a result, the classification of operating expenses may differ. Operating expenses consist of four major categories; employee costs, selling and administrative costs, facility lease costs, and amortization.

Employee costs

During the three month period ended March 31, 2013, employee costs increased by \$4.1 million to \$26.2 million from \$22.1 million in the prior year. Employee costs as a percentage of gross profit decreased to 51.2% from 51.6% in the first quarter of 2012.

Selling and administrative costs

During the three month period ended March 31, 2013, selling and administrative costs increased by \$0.7 million or 7.5%. The Company has incurred increased professional fees as a result of increased acquisition activity. Selling and administrative expenses as a percentage of gross profit decreased to 19.6% in the first quarter of 2013 from 21.7% in 2012. This decrease is due to less semi-variable costs such as advertising and other fixed costs as a percentage of gross profit.

Facility lease costs

During the three month period ended March 31, 2013, facility lease costs increased by 1.7% to \$2.98 million from \$2.93 million in the first quarter of 2012. The increase is primarily due to the addition of Grande Prairie Volkswagen at the beginning of the first quarter of 2013.

Amortization

During the three month period ended March 31, 2013, amortization of \$1.2 million increased by 15.7% or \$0.2 million due to the acquisition of Grande Prairie Volkswagen in January 2013 and the purchase of a building in September 2012.

Income from investments in associates

During the three month period ended March 31, 2013, the Company earned \$0.2 million as a result of its investments in General Motors dealerships. During the first quarter of 2013, the Company also earned \$0.07 million in management services fees from these investments. The management services agreements are fixed monthly fees charged to the General Motors dealerships from AutoCanada in return for marketing, training, technological support and accounting support. AutoCanada provides support services to all dealerships in which it owns and operates, however since the three 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 investments in associates for the first three months of 2013.

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

Finance costs

The Company incurs finance costs on its revolving floorplan facilities, long term indebtedness and banking arrangements. During the three month period ended March 31, 2013, finance costs on our revolving floorplan facilities decreased to \$1.6 million from \$1.9 million in 2012 due to the reduction in interest rates obtained on the changeover to Scotiabank. Finance costs on long term indebtedness decreased by \$0.04 million in the first quarter of 2013. Finance costs net of finance income has decreased slightly over the previous quarter due to further reductions in interest rates on the floorplan facilities.

Income taxes

Income tax expense for the year ended March 31, 2013 increased by \$0.9 million to \$2.3 million from \$1.4 million in 2012.

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.

In the first quarter of 2013, the Company paid \$5.1 million of cash taxes which relates to the fiscal 2012 taxation year and installments toward the 2013 taxation year. The payment of cash taxes will have an impact on adjusted free cash flow. Investors are cautioned that income taxes will have a more significant effect on the Company’s cash flow in the future, and as a result, the current level of adjusted free cash flow will inherently be lowered by cash taxes in the future.

Sensitivity

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

Floorplan costs net of manufacturer interest credits

Some of our manufacturers provide non-refundable credits on the finance costs for our revolving floorplan facilities to offset the dealership’s cost of inventory that, on average, effectively provide the dealerships with interest-free floorplan financing for the first 45 to 60 days of ownership of each financed vehicle. During the three month period ended March 31, 2013, the net floorplan credits were \$1,360 (2012 - \$1,358). Accounting standards requires the floorplan credits to be accounted for as a reduction in the cost of new vehicle inventory and subsequently a reduction in the cost of sales as vehicles are sold.

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

	Three months ended March 31, 2013	Three months ended March 31, 2012
Floorplan financing costs	1,560	1,935
Floorplan credits earned	(1,360)	(1,358)
Net carrying cost of vehicle inventory	<u>200</u>	<u>577</u>

GROWTH, ACQUISITIONS, AND RELOCATIONS

The Company operates 30 franchised automotive dealerships, 27 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 cash from operations. 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. The Company intends to refinance approximately 65-75% of the land and building by way of mortgage debt in the second quarter of 2013.

St. James Audi and Volkswagen

On April 1, 2013, the Company purchased the shares of The St. James Group of Companies ("St. James"), which own and operate two premium brand franchises, Audi and Volkswagen, located in Winnipeg, Manitoba. Total cash consideration paid for St. James was \$23.3 million, which includes the land and building which the Company purchased for approximately \$9.5 million. The Company intends to refinance approximately 65-75% of the land and building by way of mortgage debt in the second quarter of 2013. Each of the two franchises is equipped with a six car showroom and is located adjacent to each other on a property owned by St. James. The two franchises share a collision center and service department consisting of 27 service bays. In 2012, the franchises retailed a combined 642 new vehicles and 252 used vehicles.

Dealership Investments

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 accounting for its investment in GIA under the equity method. There are no guarantees to GIA or significant relationships other than those disclosed in note 12 of the condensed consolidated interim financial statements of the Company for the period ended March 31, 2013.

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.

Integration of New Dealerships and Investments

Over the past few months, the Company's acquisition activity has increased substantially, which requires additional resources in order to successfully integrate new dealerships. In 2012, the integration efforts for our two General Motors investments have generated significant returns. Profitability of the investments met our expectations in 2012 and we expect these investments to provide annual pre-tax returns in excess of 20% of original investment in the future as a result of successful integration under our group structure. We will continue to dedicate significant resources to newly acquired dealerships in order to successfully integrate acquisitions in an efficient manner. As noted in our same store analysis, we expect acquisitions to take between one to two years in order to meet our expected return on investment. As a result, we expect to incur additional selling and administrative costs in the future in order to successfully integrate new dealerships under the model. The dealership acquisitions that we have made in 2013 have been performing well and management is very pleased with the progress made.

Future Acquisition Opportunities

The Company is very pleased with the continued exceptional performance of the Chrysler Dodge Jeep Ram brands and the Company's relationship with Chrysler Canada; which the Company is pleased to continue and indeed expand upon in markets that are appropriate and if the Company is successful in working with its OEM partner regarding regional ownership limits.

Management is also very pleased with the performance of its General Motors dealerships and the General Motors brands which the Company believes to have significant value in the marketplace. As such, the Company is very committed to continue to invest in further GM dealerships and to improve the GM market share in the regions in which we operate. The Company notes that future growth in respect to GM dealerships is subject to meeting the GM Canada requirement that Mr. Priestner, CEO of AutoCanada, retain 100 percent voting control of the GM dealerships, as well as invests personally a minimum of 15% in the dealership; which Mr. Priestner has indicated to the Company his continued intention to facilitate.

As well Management is very excited to have become part of the Audi brand family through its acquisition of St. James Audi and St. James Volkswagen in April of 2013, and looks very much forward to growing with each of these exceptional brands. We've been extremely pleased with our Volkswagen dealerships and look forward to growth with this brand.

The Company's portfolio of Hyundai dealerships has performed very well and we are very pleased with the product offerings and the exceptional growth of the brand in Canada over the past number of years. We also look forward to beginning a long term relationship with Kia Canada toward the end of 2013 with our Edmonton open point.

Nissan and Infiniti are very large global brands with a significant presence in Canada and we look to grow Nissan and Infiniti's market share in the regions in which we operate and would be pleased to add additional Nissan or Infiniti dealerships.

The Subaru brand in Canada has been experiencing strong growth and it continues to impress the Company with its new product offerings. We would like to add additional Subaru dealerships in the right markets as we believe this brand will continue to grow its share in Canada.

The Company continues to experience a greater than usual number of expressions of interest in acquisitions than in the past and this, together with its expanded brand portfolio, has caused the Company to revise its outlook on acquisitions upward as noted in the Company's outlook, located further in this document.

As a result of the increased acquisition activity, Management is reviewing its structure to ensure that it will have the necessary resources to manage and successfully integrate new dealerships. Management believes that it has a structure in place that is scalable; however the Company does expect to incur some additional administrative and legal costs as the Company adds additional dealerships.

Relocation of dealerships

In the prior 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 the second quarter of 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. Historically, the relocation of our dealerships has resulted in significant improvements in revenues and overall profitability.

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 Company expects to complete the real estate purchase in the second or third quarter of 2013.

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

The Company has been working with its lenders to increase its revolving term facility and refinance various owned properties. The Company also maintains working capital in excess of manufacturer requirements which may be used for capital expenditures. The Company's analysis of its available capital based on the balance sheet at March 31, 2013, subject to credit approval from various lenders, is as follows:

- The Company has approximately \$46.1 million in working capital. At March 31, 2013, the Company's aggregate net

manufacturer working capital requirements were \$34.7 million. As such, the Company has approximately \$11.4 million in cash available for capital expenditures.

- The Company has drawn \$31.5 million on its \$40.0 million revolving term facility. This facility may be increased to \$50.0 million, subject to credit approval of the lender, which results in approximately \$18.5 million available for further capital expenditures.
- As a result of discussions with its current lenders, the Company also believes it has additional debt capacity for at least \$20.0 million in financing which could be used for the financing of acquisitions.
- The Company also has a \$5.0 million capital lease line which it may utilize for future capital expenditures whereby it may finance the equipment at its current dealerships or future dealership acquisitions.
- The Company is currently in the process of refinancing various properties in which it currently owns. As a result, we believe the Company may have access to approximately \$4.0 million as a result of such initiatives.

As a result of the above initiatives, Management believes that, subject to various credit approvals, the Company will have approximately \$58.9 million in available liquidity, not including future retained cash from operations. The Company believes that its available liquidity is sufficient to complete its current capital expenditure commitments. The Company regularly reviews its capital requirements and shall at such time as acquisition opportunities or other capital expenditures arise, review its capital structure and seek such additional sources of capital which are in the best interests of the Company at that time.

Cash Flow from Operating Activities

Cash flow from operating activities of the Company for the three month period ended March 31, 2013 was \$6.1 million (cash provided by operating activities of \$5.5 million plus net increase in non-cash working capital of \$0.6 million) compared to \$3.5 million (cash provided by operating activities of \$4.5 million plus net decrease in non-cash working capital of \$1.0 million) in the first quarter of 2012. Cash flow from operating activities increased due to the increase in pre-tax earnings during the first quarter of 2013.

Cash Flow from Investing Activities

For the three month period ended March 31, 2013, cash flow from investing activities of the Company was a net outflow of \$11.4 million as compared to a net outflow of \$0.9 million in the same period of the prior year. In the first quarter of 2013, the Company acquired Grande Prairie Volkswagen and invested in Green Isle G Auto Holdings Inc. for total cash consideration of \$9.0 million plus land and building for the Grande Prairie Volkswagen dealership for \$1.8 million.

Cash Flow from Financing Activities

For the three month period ended March 31, 2013, cash flow from financing activities was a net inflow of \$12.8 million as compared to a net outflow of \$2.9 million in the same period of 2012. In late March, the Company had drawn \$16.5 million from its revolving term facility in order to finance the purchase of the St. James Group which was purchased on April 1, 2013.

Economic Dependence

As stated in Note 5 of the condensed interim consolidated financial statements for the period ended March 31, 2013, 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 5 of the condensed interim consolidated financial statements for the quarter ended March 31, 2013.

Credit Facilities and Floor Plan Financing

Other than as described below, there have been no changes to credit facilities or our floorplan financing facilities since described in the annual management discussion and analysis for the year ended December 31, 2012, which is available on SEDAR (www.sedar.com).

The committed, extendible non-revolving term loan (the "HSBC term loan") provided by HSBC was extended to April 30, 2013. The facility may be extended at the request of the Company and upon approval by HSBC. If the HSBC term loan is not extended by HSBC, repayment of the outstanding amount is not due until April 30, 2014.

Financial Instruments

Details of the Company's financial instruments, including risks and uncertainties are included in Note 21 of the annual audited consolidated financial statements for the year ended December 31, 2012. There have been no significant changes to the Company's financial instruments since that time.

Growth vs. Non-growth Capital Expenditures

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

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

(In thousands of dollars)	January 1, 2013 to <u>March 31, 2013</u>
	\$
Leasehold improvements	114
Machinery and equipment	103
Furniture and fixtures	53
Computer equipment	281
Company & lease vehicles	22
	<hr/>
	573
	<hr/>

Amounts relating to the expansion of sales and service capacity are considered growth expenditures. Growth expenditures are discretionary, represent cash outlays intended to provide additional future cash flows and are expected to provide benefit in future periods. During the quarter ended March 31, 2013, the Company purchased land and a building in conjunction with the acquisition of the Grande Prairie Volkswagen dealership for \$1.8 million.

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

(In thousands of dollars)	January 1, 2013 to <u>March 31, 2013</u>
	\$
Purchase of property and equipment from the Statement of Cash Flows	2,390
Less: Amounts related to the expansion of sales and service capacity	<hr/> 1,817
Purchase of non-growth property and equipment	<hr/> 573

Repairs and maintenance expenditures are expensed as incurred and have been deducted from earnings for the period. Repairs and maintenance expense incurred during the three-month period ended March 31, 2013 was \$0.6 million (2012 - \$0.6 million).

Planned Capital Expenditures

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

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	7,920
2014	10,289
2015	9,967
2016	8,205
2017	6,460
Thereafter	<u>50,378</u>
Total	<u>93,219</u>

The proposed purchase of the real estate from Canada One Auto Group (“CAG”) discussed in *Real Estate Purchase* earlier in this document would result in an annual reduction of the above contractual obligations of approximately \$5 million. Further 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, 2010, as well as unaudited balances of the Company at March 31, 2013, September 30, 2012, June 30, 2012, March 31, 2012, September 30, 2011, and June 30, 2011.

Balance Sheet Data	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011
Cash and cash equivalents and restricted cash	51,991	44,472	54,255	51,198	53,403	53,641	49,366	43,837
Accounts receivable	57,663	47,965	54,148	52,042	51,380	42,448	44,172	51,539
Inventories	217,268	199,226	193,990	201,302	155,778	137,016	159,732	149,481
Total assets	454,889	410,490	420,050	414,061	361,307	334,370	327,568	318,956
Revolving floorplan facilities	225,387	203,525	212,840	221,174	178,145	150,816	175,291	172,600
Non-current debt and lease obligations	40,340	23,937	26,039	23,027	20,071	20,115	20,210	24,895

Net Working Capital

The automobile manufacturers represented by the Company require the Company to maintain net working capital for each individual dealership. At March 31, 2013, the aggregate of net working capital requirements was approximately \$34.7 million. At March 31, 2013, all working capital requirements had been met by each dealership. The working capital requirements imposed by the automobile manufacturers' may limit our ability to fund capital expenditures, acquisitions, dividends, or other commitments in the future if sufficient funds are not generated by the Company. Net working capital, as defined by automobile manufacturers, may not reflect net working capital as determined using GAAP measures. As a result, it is possible that the Company may meet automobile manufacturers' net working capital requirements without having sufficient aggregate working capital using GAAP measures. The Company defines net working capital amounts as current assets less current liabilities as presented in the interim consolidated financial statements. At March 31, 2013, the Company had aggregate working capital of approximately \$46.1 million.

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

Off Balance Sheet Arrangements

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

Related Party Transactions

Note 20 of the condensed interim consolidated financial statements of the Company for the period ended March 31, 2013 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 review the financial results on a quarterly basis, or as requested by Management, and determine whether a dividend shall be paid based on a number of factors.

The following table summarizes the dividends declared by the Company in 2013:

(In thousands of dollars)

Record date	Payment date	Total	
		Declared	Paid
		\$	\$
February 28, 2013	March 15, 2013	3,579	3,579
May 31, 2013	June 17, 2013	3,777	-

On May 6, 2013, the Board declared a quarterly eligible dividend of \$0.19 per common share on AutoCanada's outstanding Class A common shares, payable on June 17, 2013 to shareholders of record at the close of business on May 31, 2013. The quarterly eligible dividend of \$0.19 represents an annual dividend rate of \$0.76 per share.

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)	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Cash provided by operating activities	5,292	10,851	9,718	3,508	6,569	9,235	1,760	6,125
Deduct:								
Purchase of property and equipment	(612)	(694)	(718)	(361)	(410)	(511)	(858)	(590)
Free Cash Flow¹	4,680	10,157	9,000	3,147	6,159	8,724	902	5,535
Weighted average shares outstanding at end of period	19,880,930	19,880,930	19,880,930	19,880,930	19,876,139	19,804,014	19,802,947	19,802,048
Free cash flow per share	0.235	0.511	0.453	0.158	0.310	0.441	0.046	0.280
Free cash flow – 12 month trailing	18,007	23,753	27,073	26,984	28,474	27,042	18,932	21,320

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

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

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

The following table summarizes the net increase in cash due to changes in non-cash working capital for the years ended March 31, 2013 and March 31, 2012.

(In thousands of dollars)

	<u>January 1, 2013 to</u> <u>March 31, 2013</u>	<u>January 1, 2012 to</u> <u>March 31, 2012</u>
	\$	\$
Accounts receivable	(9,682)	(8,932)
Inventories	(16,586)	(18,319)
Prepaid expenses	(269)	(183)
Accounts payable and accrued liabilities	5,493	(379)
Leased vehicle repurchase obligations	(257)	(517)
Revolving floorplan facility	21,862	27,329
	<u>561</u>	<u>(1,001)</u>

Adjusted Free Cash Flow

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

<u>(In thousands of \$ except share</u> <u>and per share amounts)</u>	<u>Q2 2011</u>	<u>Q3 2011</u>	<u>Q4 2011</u>	<u>Q1 2012</u>	<u>Q2 2012</u>	<u>Q3 2012</u>	<u>Q4 2012</u>	<u>Q1 2013</u>
Cash provided by operating activities before changes in non-cash working capital	9,076	8,032	7,799	4,510	9,609	10,029	9,435	5,564
Deduct:								
Purchase of non-growth property and equipment	(188)	(244)	(407)	(361)	(366)	(511)	(457)	(573)
Adjusted Free Cash Flow¹	8,888	7,788	7,392	4,149	9,243	9,518	8,978	4,991
Weighted average shares outstanding at end of period	19,880,930	19,880,930	19,880,930	19,880,930	19,876,139	19,804,014	19,802,947	19,802,048
Adjusted Free Cash Flow / Share	0.447	0.392	0.372	0.209	0.465	0.481	0.453	0.252
Adjusted Free Cash flow – 12 Month Trailing	18,757	23,074	27,718	28,217	28,453	30,183	31,769	32,730

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

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

In the first quarter of 2013, the Company paid approximately \$5.1 million in corporate income taxes and tax installments. Accordingly, this reduced our adjusted free cash flow by this amount. The Company expects the payment of corporate income taxes to have a more significant negative affect on free cash flow and adjusted free cash flow. See “RESULTS FROM OPERATIONS – First Quarter Operating Results – *Income Taxes*” for further detail regarding the impact of corporate income taxes on cash flow.

Adjusted Return on Capital Employed

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

(In thousands of \$ except share and per share amounts)	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
EBITDA¹	9,321	8,216	7,553	6,809	10,208	10,592	10,276	10,511
Add (deduct):								
Amortization	(1,018)	(1,044)	(1,110)	(1,025)	(1,027)	(1,139)	(1,121)	(1,186)
EBIT¹	8,303	7,172	6,443	5,784	9,181	9,453	9,155	9,325
Average long-term debt	26,071	25,201	24,282	23,873	25,276	30,390	31,007	36,293
Average shareholders’ equity	85,056	89,156	102,383	113,794	116,050	119,380	122,877	126,188
Average capital employed¹	111,127	114,357	126,665	137,666	141,326	149,770	153,884	162,481
Return on capital employed¹	7.5%	6.3%	5.1%	4.2%	6.5%	6.3%	5.9%	5.7%
Comparative adjustment ²	3,579	3,579	(15,376)	(15,376)	(15,376)	(15,376)	(15,542)	(15,542)
Adjusted average capital employed²	114,706	117,936	120,766	122,290	125,950	134,394	138,425	146,938
Adjusted return on capital employed²	7.2%	6.1%	5.3%	4.7%	7.3%	7.0%	6.6%	6.3%
Adjusted return on capital employed - 12 month trailing				23.6%				27.6%

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

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

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

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICY DEVELOPMENTS

A complete listing of critical accounting policies, estimates, judgments and measurement uncertainty can be found in Note 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 period ended March 31, 2013. 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.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended March 31, 2013, there were no changes in the Company's disclosure controls or internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

OUTLOOK

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

New Vehicle Sales Outlook by Province*

(thousands of units, annual rates)

	<u>1994-2005</u> Average	<u>2006-09</u> Average	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013F</u>
Canada	1,446	1,592	1,557	1,589	1,677	1,690
Atlantic	102	117	122	119	126	128
Central	936	983	990	997	1,034	1,038
Quebec	366	406	414	408	416	417
Ontario	570	577	576	589	618	621
West	408	492	445	473	517	524
Manitoba	42	44	44	47	50	50
Saskatchewan	36	44	46	50	55	56
Alberta	166	225	200	218	239	244
British Columbia	164	179	155	158	173	174

* Includes cars and light trucks

Source: Scotia Economics - Global Auto Report, April 4, 2013

As previously noted; the Company has begun to experience a significant increase in acquisition opportunities. Over the past 24 months, the Company has obtained approval for five new brands, completed seven dealership acquisitions and was awarded one open point opportunity. As for the future, it appears to Management that the Canadian dealership succession issue, which Management previously thought would be in the 2-5 year range, is beginning to materialize, and as such Management believes that it is well positioned to play the role that it has long sought as a consolidator and looks to add an additional six to nine dealerships over the coming 24 months.

As discussed previously in *Liquidity and Capital Resources*, based on the Company's available liquidity at March 31, 2013, the Company believes that it has available liquidity to complete its current capital expenditure commitments. The Company regularly reviews its capital requirements and shall at such time as acquisition opportunities or other capital expenditures arise, review its capital structure and seek such additional sources of capital which are in the best interests of the Company at that time.

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 RISK FACTORS

In addition to the usual restrictions Manufacturers place on franchisees pursuant to their franchise agreements (see “Risk Factors” in our 2012 Annual Information Form dated March 26, 2013 available on the SEDAR website at www.sedar.com), some Manufacturers the Company currently represent have placed change of control, sale of business and other like restrictions on the Company (see “Restrictions on Ownership Thresholds and the Sale of AutoCanada’s Business” in our 2012 Annual Information Form. In the case of the Company’s recent investment in GM Canada Dealerships (see “Growth, Acquisitions and Relocations”), GM Canada requires Mr. Pat Priestner, CEO of the Company, to purchase a 15% equity interest, and have 100% voting control of GM dealerships. In the result, under the Company’s current share structure, whereby Mr. Priestner and senior management control less than 51% of the votes of the Company, the success and ability of the Company to grow with GM brands and possibly other brands is dependent upon the efforts, abilities, and continued willingness of senior management, and, in particular, Mr. Priestner, to invest personally in such brands.

With respect to minimum shareholding requirements of Mr. Priestner, through his ownership in CAG, the Company is pleased that Chrysler Canada has reduced the requirement to a minimum of 20% equity ownership interest in AutoCanada Inc. as of April 2013.

Additional information

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

FORWARD LOOKING STATEMENTS

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

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

- the future level of performance based incentives and its effect on our profitability;
- the impact of income taxes on future cash flow;
- intentions to refinance a portion of the land and building related to the Grande Prairie Volkswagen and St. James Audi and Volkswagen acquisitions with mortgage debt;
- expectations and future plans regarding our current and other potential GM acquisitions;
- expectations of acquisitions to take between one to two years to meet our expected return on investment;
- expectations to incur additional selling and administrative costs in the future to successfully integrate new dealerships;

- commitments regarding future investments in additional GM dealerships;
- commitments by the Company's CEO to continue to personally invest in GM dealerships to facilitate the Company's intention to grow its portfolio of GM dealerships;
- expectations to incur additional selling, general, and administrative costs in the future to facilitate the growth anticipated by the Company due to increased acquisition activity;
- estimates, intentions, and expectations regarding the potential relocation of certain dealerships;
- 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 dealership real estate relocations and purchases and its impact on liquidity, financial performance and the Company's capital requirements;
- estimates and expectations regarding the potential real estate purchase;
- 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;
- the possibility of seeking additional capital in the form of debt or equity to capitalized on acquisition opportunities;
- our expectation to incur annual non-growth capital expenditures in an amount approximating our amortization of property and equipment reported in each period;
- our expectation to increase annual capital expenditures and the reasons for this expected increase;
- the impact of working capital requirements and its impact on future liquidity;
- the belief that a restriction from declaring dividends is not likely in the foreseeable future;
- 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;
- guidance with respect to future acquisition and open point opportunities;
- commitments to provide investors with attractive dividends;
- our assumption on the amount of time it may take for an acquisition or open point to achieve normal operating results;
- expectations and estimates regarding income taxes and their effect on cash flow and dividends;
- assumptions over non-GAAP measures and their impact on the Company;
- management's assumptions and expectations over the future economic and general outlook.

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

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

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

- rapid appreciation or depreciation of the Canadian dollar relative to the U.S. dollar;
- a sustained downturn in consumer demand and economic conditions in key geographic markets;

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

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

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

NON-GAAP MEASURES

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

EBITDA

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

EBIT

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

Free Cash Flow

Free cash flow is a measure used by management to evaluate its performance. While the closest Canadian GAAP measure is cash provided by operating activities, free cash flow is considered relevant because it provides an indication of how much cash generated by operations is available after capital expenditures. It shall be noted that although we consider this measure to be free cash flow, financial and non-financial covenants in our credit facilities and dealer agreements may restrict cash from being available for distributions, re-investment in the Company, potential acquisitions, or other purposes. Investors should be cautioned

that free cash flow may not actually be available for growth or distribution of the Company. References to “Free cash flow” are to cash provided by (used in) operating activities (including the net change in non-cash working capital balances) less capital expenditure (not including acquisitions of dealerships and dealership facilities).

Adjusted Free Cash Flow

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

Absorption Rate

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

Average Capital Employed

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

Adjusted Average Capital Employed

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

Return on Capital Employed

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

Adjusted Return on Capital Employed

Adjusted return on capital employed is a measure used by management to evaluate the profitability of our invested capital. As a

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

Cautionary Note Regarding Non-GAAP Measures

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