AUTOCANADA INC.

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

For the year ended December 31, 2013

READER ADVISORIES

The Management's Discussion & Analysis ("MD&A") was prepared as of March 20, 2014 to assist readers in understanding AutoCanada Inc.'s (the "Company" or "AutoCanada") consolidated financial performance for the year ended December 31, 2013 and significant trends that may affect AutoCanada's future performance. The following discussion and analysis should be read in conjunction with the audited annual consolidated financial statements and accompanying notes (the "Consolidated Financial Statements") of AutoCanada as at and for the year ended December 31, 2013. Results are reported in Canadian dollars. Certain dollar amounts have been rounded to the nearest thousand dollars. References to notes are to the Notes of the Consolidated Financial Statements of the Company unless otherwise stated.

To provide more meaningful information, this MD&A typically refers to the operating results for the three month period and year ended December 31, 2013 of the Company, and compares these to the operating results of the Company for the three month period and year ended December 31, 2012. The Company has investments in three General Motors dealerships and account for the investments utilizing the equity method, whereby the operating results of these investments are included in one line item on the statement of comprehensive income known as *Income from investments in associates*. As a result, the Company does not incorporate the consolidated results of its investments in associates in its discussion and analysis. Management has provided limited discussion and analysis of these investments in *Results from operations – Income from Investments in Associates* below.

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, corporations, 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 2013 Annual Information Form dated March 20, 2014, 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 28 wholly-owned franchised dealerships and managing 5 franchised dealership investments (see "GROWTH, ACQUISITIONS, RELOCATIONS AND REAL ESTATE") in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick and Nova Scotia. In 2013, our dealerships sold approximately 36,000 vehicles and processed approximately 364,000 service and collision repair orders in our 381 service bays during that time.

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

The Company's geographical profile is illustrated below by number of wholly-owned dealerships and revenues by province for the years ended December 31, 2013 and December 31, 2012.

(Revenue in $000s)	**December 31, 2013**			**December 31, 2012**		
Location of Dealerships	**Number of Dealerships**	**Revenue $**	**% of Total**	**Number of Dealerships**	**Revenue $**	**% of Total**
British Columbia	9	431,519	31 %	9	405,500	37 %
Alberta	11	637,414	45 %	9	467,819	42 %
Ontario	3	105,594	7 %	3	92,110	8 %
All other	5	234,513	17 %	3	136,473	13 %
Total	28	1,409,040	100 %	24	1,101,902	100 %

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

Location of Dealerships	Operating Name	Franchise	Year Opened or Acquired
Wholly-Owned Dealerships:			
Calgary, Alberta	Courtesy Chrysler Dodge	Chrysler	2013
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	Audi	2013
Winnipeg, Manitoba	St. James Volkswagen	Volkswagen	2013
Winnipeg, Manitoba	Eastern Chrysler Jeep Dodge	Chrysler	2013
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	2008
Newmarket, Ontario	Newmarket Infiniti Nissan	Nissan / Infiniti	2008
Dealership Investments:			
Sherwood Park, Alberta	Sherwood Park Chevrolet	General Motors	2012
Sherwood Park, Alberta	Sherwood Buick GMC (1)	General Motors	2012
Duncan, British Columbia	Peter Baljet Chevrolet GMC Buick	General Motors	2013
Saskatoon, Saskatchewan	Saskatoon Motor Products	General Motors	2014
Prince Albert, Saskatchewan	Mann-Northway Auto Source	General Motors	2014

(1) Formerly Petersen Pontiac Buick GMC

Seasonality

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

OUR PERFORMANCE

Performance vs. the Canadian New Vehicle Market

The Canadian automotive retail sector performed very well in 2013. A combination of a strong performing economy, some pent-up demand for new vehicles, attractive financing rates and strong manufacturer incentives on new vehicles resulted in record new vehicle sales volumes during the year. New light vehicle sales in Canada in the year ended December 31, 2013 were up 4.0% when compared to the same period in 2012 and surpassed 1.7 million in unit sales for the first time since 2002. The Company's same store unit sales of new vehicles increased by 16.1% during this period, which includes an increase in new vehicle units retailed of 16.0% in 2013. Management is very pleased with our dealerships' collective ability to outperform the market.

New vehicle sales were particularly strong in Alberta and British Columbia, our primary markets, which were up by 7.3% and 4.7% respectively. The relatively strong economy in Western Canada has contributed to our ability to outperform the overall market and in particular, the light truck market in these two provinces is very strong, which contributed to the Company's overall increase in sales and gross profit during the year.

Regardless of the strength of the particular markets in which we operate, our dealerships have been picking up market share in many sales regions. We accredit the improvement in market share of many of our dealerships to their management teams and their ability to leverage best practices from operating within a dealer group. We believe that the advances our dealership management teams have made in integrating technology, leveraging marketing expertise, and sharing of best practices have contributed greatly to their ability to outperform the market in new vehicle sales.

The following table summarizes Canadian new light vehicle unit sales for the year ended December 31, 2013 by Province:

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

	December Year to Date			
	2013	**2012**	**Percent Change**	**Unit Change**
British Columbia	180,163	172,126	4.7 %	8,037
Alberta	256,218	238,884	7.3 %	17,334
Saskatchewan	57,485	54,728	5.0 %	2,757
Manitoba	54,476	49,667	9.7 %	4,809
Ontario	645,323	617,767	4.5 %	27,556
Quebec	414,697	415,694	(0.2)%	(997)
New Brunswick	40,300	38,789	3.9 %	1,511
PEI	7,312	6,885	6.2 %	427
Nova Scotia	51,839	47,985	8.0 %	3,854
Newfoundland	35,299	33,150	6.5 %	2,149
Total	1,743,112	1,675,675	4.0 %	67,437

[1] DesRosiers Automotive Consultants Inc.

Performance vs. the Prior Year

AutoCanada's record sales and earnings in fiscal 2013 is a direct result of acquisitions completed during the year and strong gains in same store sales and gross profit. The Company completed acquisitions of six dealerships and achieved same store sales and gross profit increases of 17.2% and 17.5%, respectively. As a result, the Company improved its adjusted earnings before tax (see "NON-GAAP MEASURES") by $18.5 million or 56.7% over the prior year. Although the Company issued shares during the year to finance the increased acquisition activity, adjusted earnings per share improved by $0.61 per share or 50.0% over the prior year.

The Company achieved overall sales of $1.4 billion in 2013 as compared to $1.1 billion in 2012, representing an increase of $307.1 million or 27.9%. The increase is a result of same store sales increases of $181.9 million or 17.2% over 2012; as well as revenue from acquired dealerships. With the exception of our parts, service and collision repair department which had a strong increase in revenue of $9.8 million or 9.0% on a same store basis, all other departments achieved double-digit same store sales increases. We believe that our dealerships had very strong sales performances in all departments during the year.

Management typically uses gross profit as its most important measure of top line growth. Overall revenues can vary significantly year over year as a result of fluctuations in sales mix, as well as, fluctuations in low margin fleet sales and used vehicle wholesale sales. As such, Management believes that growth is a better indicator of overall corporate performance. Overall gross profit increased by 29.2% as a result of strong same store sales gross profit and recently completed acquisitions. Same store gross profit increased by 17.5% in 2013 as compared to the prior year which was comprised of gross profit increases across all four business lines. The Company's new vehicle department, as well as its finance and insurance department, achieved over 20% year over year same store gross profit increases. Management is particularly pleased with the 14.8% increase in same store used vehicle gross profit achieved in 2013. This increase is partially due to strong used vehicle retail sales during the year as well as improvement in used wholesale gross profit. We believe that the used vehicle market in Canada has been slowly improving for franchised dealers as increased new vehicle sales volumes over the past three years have helped to supply franchised dealerships with an increased supply of high quality used vehicles. Management is also pleased with the 8.6% increase in its parts, service and collision repair same store gross profit during the year. This department is a very important source of revenue for the Company, as it helps to provide greater earnings stability over the long term. The Company has made improvements in technology and process in its parts and service departments, and we believe that these improvements are beginning to produce results.

The majority of our operating expenses are variable in nature, mainly consisting of employee costs. Many of our dealership employee pay structures are tied to meeting sales objectives, maintaining customer satisfaction indexes, as well as improving gross profit and net income. Our dealership management teams typically do not promote a reduction in wages as a means to control costs, but rather controlling wages to promote the achievement of its objectives and rewarding employees for the achievement of above average performance. The Company regularly reviews the operating performance of its dealerships and utilizes the leverage of a large dealer group to reduce its overall operating expenses. The Company operates a centralized marketing department and information technology department which provides services to the dealerships in order to leverage the size of the group as a means to lower the operating costs of the dealerships. As a result of pay structures tied to dealership performance and the ability to leverage the group operating structure, the Company has reduced its overall operating expenses as a percentage of gross profit to 76.6% in fiscal 2013 as compared to 78.3% in the prior year. The Company did, however, incur additional expense with respect to the six acquisitions that it completed during the year. Management estimates additional legal and administration expense of approximately $0.2 million for each acquisition that it completes, therefore, we estimate that we incurred approximately $0.6 million in additional acquisition costs in 2013 over 2012. The Company also completed two syndicated credit facilities during the fourth quarter which resulted in additional legal and administration costs of approximately $0.5 million during the year.

The Company's investments in General Motors dealerships performed very well during the year. The Company earned income from these investments in the amount of $2.2 million (after-tax) during the 2013 fiscal year. Our General Motors dealerships have been performing very well and the returns achieved on these investments have been excellent.

The Company's interest costs, net of interest earned, decreased by $0.6 million or 7.1% during 2013. Although the Company maintained higher inventory levels during the year, lower financing rates obtained in November of 2012 and late 2013 resulted in a decrease in overall financing costs.

Overall, management is very pleased with 2013 financial results. We are particularly proud of the performance of our dealership teams, which is evidenced by double-digit increases in same store sales and gross profit. The dealerships that we acquired during the year are integrating very well and are providing a good platform for future growth in sales and gross profit. We have begun to develop platforms in new markets which we plan to expand in the future. The new platforms represent additional geographic areas of growth for the Company and further solidify our position as the one of the largest and truly coast-to-coast operators of automotive dealerships in Canada.

SELECTED ANNUAL FINANCIAL INFORMATION

The following table shows the audited results of the Company for the years ended December 31, 2011, December 31, 2012 and December 31, 2013. The results of operations for these periods are not necessarily indicative of the results of operations to be expected in any given comparable period.

(in thousands of dollars, except Operating Data and gross profit %)	The Company (Audited) 2011	The Company (Audited) 2012	The Company (Audited) 2013
Income Statement Data			
New vehicles	640,721	683,034	882,858
Used vehicles	206,030	243,351	300,881
Parts, service and collision repair	110,465	114,276	142,343
Finance, insurance and other	51,126	61,241	82,958
Revenue	1,008,342	1,101,902	1,409,040
New vehicles	47,762	57,833	75,835
Used vehicles	17,395	16,299	20,273
Parts, service and collision	57,699	59,898	73,755
Finance and insurance	46,364	56,399	76,172
Gross profit	169,220	190,429	246,035
Gross Profit %	16.8 %	17.3 %	17.5 %
Operating expenses	136,846	149,140	188,519
Operating exp. as a % of gross profit	80.9 %	78.3 %	76.6 %
Finance costs - floorplan	8,473	9,279	7,353
Finance costs - long term debt	1,069	960	1,007
Reversal of impairment of intangibles	(25,172)	(222)	(746)
Income from investments in associates	-	468	2,241
Income tax	12,509	8,576	13,696
Net comprehensive income	36,784	24,236	38,166
EBITDA (1)	29,070	37,861	58,469
Basic earnings (loss) per share	1.850	1.219	1.829
Diluted earnings per share	1.850	1.219	1.829
Operating Data			
Vehicles (new and used) sold	27,998	29,780	35,774
Vehicles (new and used) sold including GM (4)	27,998	31,554	40,136
New vehicles sold including GM (4)	19,331	21,501	28,024
New retail vehicles sold	14,499	16,226	20,523
New fleet vehicles sold	4,832	4,096	4,876
Used retail vehicles sold	8,667	9,458	10,375
Number of service & collision repair orders completed	305,298	309,488	364,361
Absorption rate (2)	88 %	86 %	87 %
# of dealerships at year end	24	24	28
# of dealership investments at year end	-	2	3
# of same store dealerships (3)	21	22	21
# of service bays at period end	333	333	381
Same store revenue growth (3)	17.3 %	8.6 %	17.2 %
Same store gross profit growth (3)	13.9 %	10.9 %	17.5 %
Balance Sheet Data			
Cash and cash equivalents	53,641	34,472	35,113
Restricted cash	-	10,000	-
Trade and other receivables	42,448	47,944	57,771
Inventories	137,646	199,119	278,091
Revolving floorplan facilities	150,816	203,525	264,178

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 Company has investments in General Motors dealerships that are not consolidated. This number includes 100% of vehicles sold by these dealerships in which we have less than 100% investment.

SELECTED QUARTERLY FINANCIAL INFORMATION

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

(in thousands of dollars, except Operating Data and gross profit %)	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013
Income Statement Data								
New vehicles	147,383	186,560	190,065	159,026	174,278	254,261	257,222	197,097
Used vehicles	60,453	62,822	62,816	57,260	62,656	77,113	85,975	75,137
Parts, service and collision repair	26,953	28,915	28,488	29,920	29,515	34,456	37,104	41,268
Finance, insurance and other	13,399	16,139	16,775	14,928	17,602	22,555	22,530	20,271
Revenue	248,188	294,436	298,144	261,134	284,051	388,385	402,831	333,773
New vehicles	12,066	14,684	15,556	15,527	16,022	20,793	20,694	18,326
Used vehicles	4,420	4,238	4,004	3,637	3,789	5,794	6,240	4,450
Parts, service and collision	14,049	15,298	15,133	15,418	15,233	17,586	20,114	20,822
Finance and insurance	12,344	14,842	15,428	13,785	16,096	20,676	20,666	18,734
Gross profit	42,879	49,062	50,121	48,367	51,140	64,849	67,714	62,332
Gross Profit %	17.3 %	16.7 %	16.8 %	18.5 %	18.0 %	16.7 %	16.8 %	18.7 %
Operating expenses	35,381	37,659	38,361	37,739	40,353	48,639	51,080	48,447
Operating exp. as a % of gross profit	82.5 %	76.8 %	76.5 %	78.0 %	78.9 %	75.0 %	75.4 %	77.7 %
Finance costs - floorplan	2,053	2,622	2,745	1,859	1,675	1,888	1,903	1,887
Finance costs - long term debt	214	239	250	257	237	244	139	387
Reversal of impairment of intangibles	-	-	-	(222)	-	-	-	(746)
Income from investments in associates	-	83	130	255	201	648	555	837
Income tax	1,441	2,216	2,379	2,540	2,309	3,976	3,920	3,491
Net earnings (4)	4,112	6,712	6,806	6,606	6,822	10,823	10,968	9,553
EBITDA (1)(4)	6,792	10,195	10,575	10,299	10,557	16,532	16,626	14,754
Basic earnings (loss) per share	0.207	0.338	0.344	0.334	0.345	0.532	0.507	0.441
Diluted earnings per share	0.207	0.338	0.344	0.334	0.345	0.532	0.507	0.441
Operating Data								
Vehicles (new and used) sold	6,836	8,154	8,087	6,703	7,341	10,062	10,325	8,046
Vehicles (new and used) sold including GM (5)	6,836	8,557	8,783	7,378	8,123	11,399	11,405	9,209
New vehicles sold including GM (5)	4,403	5,964	6,178	4,956	5,665	8,246	8,023	6,090
New retail vehicles sold	3,434	4,400	4,410	3,982	4,118	5,487	5,986	4,932
New fleet vehicles sold	969	1,313	1,265	549	1,036	1,923	1,365	552
Used retail vehicles sold	2,433	2,441	2,412	2,172	2,187	2,652	2,974	2,562
Number of service & collision repair orders completed	74,439	78,104	78,944	78,001	77,977	93,352	97,074	95,958
Absorption rate (2)	91 %	81 %	89 %	89 %	85 %	82 %	90 %	90 %
# of dealerships at period end	24	24	24	24	25	27	29	28
# of same store dealerships (3)	21	21	21	22	22	22	22	21
# of service bays at period end	333	333	333	333	341	341	388	381
Same store revenue growth (3)	20.2 %	2.4 %	8.0 %	7.4 %	12.9 %	26.2 %	19.9 %	8.9 %
Same store gross profit growth (3)	18.3 %	7.1 %	7.9 %	11.9 %	16.9 %	25.8 %	18.5 %	9.2 %
Balance Sheet Data								
Cash and cash equivalents	53,403	51,198	54,255	34,472	41,975	35,058	37,940	35,113
Restricted cash	-	-	-	10,000	10,000	10,000	-	-
Trade and other receivables	51,364	52,042	54,148	47,944	57,144	69,136	62,105	57,771
Inventories	156,262	201,692	194,472	199,119	217,707	232,878	237,460	278,091
Revolving floorplan facilities	178,145	221,174	212,840	203,525	225,387	246,325	228,526	264,178

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.
5 The Company has investments in General Motors dealerships that are not consolidated. This number includes 100% of vehicles sold by these dealerships in which we have less than 100% investment.

RESULTS FROM OPERATIONS

Annual Operating Results

EBITDA for the year ended December 31, 2013 increased by 54.4% to $58.5 million, from $37.9 million when compared to the results of the Company for the same period in the prior year. The increase in EBITDA for the quarter can be mainly attributed to improvements in all four business streams and the dealership acquisitions completed during 2013.

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

(in thousands of dollars)	2013	2012	2011
Net comprehensive income	38,166	24,236	36,784
Impairment of intangible assets	(746)	(222)	(25,543)
Income tax	13,696	8,576	12,509
Amortization of property and equipment	6,346	4,311	4,251
Interest on long-term indebtedness	1,007	960	1,069
EBITDA	58,469	37,861	29,070

Adjusted pre-tax earnings increased by $18.5 million or 56.7% to $51.1 million in 2013 from $32.6 million in the prior year. Adjusted earnings increased by $13.3 million or 54.7% to $37.6 million in 2013 from $24.3 million in the prior year.

As the pre-tax net effects of reversals of impairment of intangible assets for the year ended December 31, 2013 was $0.7 million, as compared to total reversals of $0.2 million before taxes in 2012, the variances in the following paragraph include the effects of reversals of impairments, which resulted in an increase in overall net earnings in 2013 due to the increase in reversals of impairment of intangible assets compared to the prior year.

Pre-tax earnings increased by $19.1 million or 58.2% to $51.9 million from $32.8 million in 2012. Net earnings increased by $14.0 million or 57.9% to $38.2 million in 2013 from $24.2 million in 2012. Income tax expense increased by $5.1 million to $13.7 million in 2013 from $8.6 million in 2012 due to the increase in pre-tax earnings.

Revenues

Revenues for the year ended December 31, 2013 increased by $307.1 million or 27.9% compared to the prior year. This increase was driven by increases in same store sales across all four revenue streams and additional revenues from dealerships acquired during the year. In 2013 new vehicle sales increased by $199.9 million or 29.3% to $882.9 million from $683.0 million in the prior year, mainly due to a 25.0% increase in the number of new vehicles sold. Used vehicle sales increased by $57.5 million or 23.6% to $300.9 million from $243.4 million in the prior year. Finance and insurance revenue increased by $21.7 million or 35.4% for the year ended December 31, 2013. Parts, service and collision repair revenue increased by $28.1 million or 24.6% for the year ended December 31, 2013.

The tables in the "Same-Store Analysis" sections below summarize the results for the year ended December 31, 2013 on a same store basis by revenue source and compare

The tables in the “Same-Store Analysis” sections below summarize the results for the year ended December 31, 2013 on a same store basis by revenue source and compare these results to the same period in 2012. An acquired or open point dealership may take as long as two years in order to reach normalized operating results. As a result, in order for an acquired or open point dealership to be included in our same store analysis, the dealership must be owned and operated by us for eight complete quarters. For example, if a dealership was acquired on December 1, 2010, the results of the acquired entity would be included in quarterly same store comparisons beginning with the quarter ended March 31, 2013 and in annual same store comparisons beginning with the year ended December 31, 2013. As a result, only dealerships opened or acquired prior to January 1, 2011 are included in this same store analysis. In addition, dealership divestitures are also not included in same store operating results. As a result, the current and historical operating results of Abbotsford Volkswagen and Chilliwack Volkswagen (acquired in the fourth quarter of 2011), Grande Prairie Volkwsagen (acquired in the first quarter of 2013), St. James Audi and Volkswagen (acquired in the second quarter of 2013), Courtesy Chrysler (acquired in the third quarter of 2013), and Eastern Chrysler (acquired in the third quarter of 2013) are not included in same store analysis.

Revenues - Same Store Analysis

Company management considers same store gross profit and sales information to be an important operating metric when comparing the results of the Company to other industry participants. The following table summarizes the results for the year ended December 31, 2013 on a same store basis by revenue source and compare these results to the same period in 2012.

Same Store Revenue and Vehicles Sold

(in thousands of dollars)	For the Year Ended December 31, 2013	For the Year Ended December 31, 2012	% Change
Revenue Source			
New vehicles	782,744	656,724	19.2 %
Used vehicles	265,177	233,832	13.4 %
Finance, insurance and other	73,391	58,686	25.1 %
Subtotal	1,121,312	949,242	18.1 %
Parts, service and collision repair	118,739	108,957	9.0 %
Total	1,240,051	1,058,199	17.2 %
New retail vehicles sold	17,949	15,472	16.0 %
New fleet vehicles sold	4,754	4,090	16.2 %
Used retail vehicles sold	9,118	9,111	0.1 %
Total	31,821	28,673	11.0 %
Total vehicles retailed	27,067	24,583	9.2 %

Same store revenue increased by $181.9 million or 17.2% in the year ended December 31, 2013 when compared to 2012. New vehicle revenues increased by $126.0 million or 19.2% over the prior year due to an increase in new vehicle sales of 3,141 units or 16.1% and increase in the average revenue per new vehicle sold of $906 or 2.7%.

Same store used vehicle revenues increased by $31.3 million or 13.4% due to an increase in used vehicle sales of 7 units or 0.1% and an increase in the average revenue per used vehicle sold of $3,418 or 13.3%.

Same store parts, service and collision repair revenue increased by $9.8 million or 9.0%, due to an increase in overall repair orders completed of 14,836 and a $14 or 3.8% increase in the average revenue per repair order completed.

Same store finance, insurance and other revenue increased by $14.7 million or 25.1% due to an increase in the average revenue per unit retailed of $324 or 13.6% and an increase in the number of new and used vehicles retailed of 2,484 units or 10.1% .

Gross Profit

Gross profit increased by $55.6 or 29.2% for the year ended December 31, 2013 when compared to the prior year due to increases in gross profit across all four revenue streams. Gross profit on the sale of new vehicles increased by $18.0 million or 31.1% for the year ended December 31, 2013. The increase in new vehicles gross profit can be attributed to increases in new vehicle unit sales of 5,077 units or 25.0% and the average gross profit per new vehicle retailed of $140. Gross profit from the sale of used vehicles sold increased by $4.0 million or 24.5%. This increase can be attributed to increases in the average gross profit per used vehicle retailed of $231 and number of used vehicles sold of 917. The Company's finance and insurance gross profit increased by $19.8 million or 35.1% in 2013 due to increases in the number of vehicles retailed of 5,214 units and average gross profit per vehicle retailed of $269. Parts, service and collision repair gross profit increased by $13.9 million or 23.2% in 2013 due to an increase of 54,873 in the number of repair orders completed.

Gross Profit - Same Store Analysis

The following table summarizes the results for the year ended December 31, 2013, on a same store basis by revenue source, and compare these results to the same periods in 2012.

Same Store Gross Profit and Gross Profit Percentage

	For the Year Ended					
	Gross Profit			**Gross Profit %**		
(in thousands of dollars)	**December 31, 2013**	**December 31, 2012**	**% Change**	**December 31, 2013**	**December 31, 2012**	**% Change**
Revenue Source						
New vehicles	66,396	54,801	21.2 %	8.5 %	8.3 %	0.2 %
Used vehicles	18,235	15,881	14.8 %	6.9 %	6.8 %	0.1 %
Finance and insurance	67,119	54,072	24.1 %	91.5 %	92.1 %	(0.6)%
Subtotal	151,750	124,754	21.6 %	13.5 %	13.1 %	0.4 %
Parts, service and collision	62,212	57,279	8.6 %	52.4 %	52.6 %	(0.2)%
Total	213,962	182,033	17.5 %	17.3 %	17.2 %	0.1 %

Same store gross profit increased by $31.9 million or 17.5% for the year ended December 31, 2013 when compared to the prior year. New vehicle gross profit increased by $11.6 million or 21.2% for the year ended December 31, 2013 when compared to the prior year which can be mainly attributed to an increase in new vehicle sales of 3,141 units or 16.1% and increase in the average gross profit per new vehicle sold of $123 or 4.4%.

Used vehicle gross profit increased by $2.4 million or 14.8% for the year ended December 31, 2013 when compared to the prior year which was mainly due to an increase in the average gross profit per vehicle retailed of $257 or 14.7% and an increase in the number of vehicles retailed of 7 units.

Parts, service and collision repair gross profit increased by $4.9 million or 8.6% for the year ended December 31, 2013 when compared to the prior year which can be mainly attributed to an increase in the number of repair orders completed of 14,836 and an increase in the average gross profit per repair order completed of $7 or 3.6%.

Finance and insurance gross profit increased by $13.0 million or 24.1% for the year ended December 31, 2013 when compared to the prior year and can be attributed to an increase in the average gross profit per unit sold of $280 and an increase in units retailed of 2,484.

Operating expenses

Operating expenses increased by 26.4% or $39.4 million during the year ended December 31, 2013 as compared to the prior year. Since many operating expenses are variable in nature, management considers operating expenses as a percentage of gross profit to be a good indicator of expense control. Operating expenses as a percentage of gross profit decreased to 76.6% in 2013 from 78.3% in the prior year. Operating expenses consist of four major categories: employee costs, selling and administrative costs, facility lease costs and amortization.

Employee costs

During the year ended December 31, 2013, employee costs increased by $28.9 million to $121.9 million from $93.0 million in the prior year period. Employee costs as a percentage of gross profit increased to 49.5% in 2013 from 48.8% in 2012. Management attributes the increases primarily to an increase in commissions and incentives paid to salespeople based on achieving and exceeding sales targets.

Selling and administrative costs

During the year ended December 31, 2013, selling and administrative costs increased by $8.6 million or 21.5% primarily due to the dealership acquisitions completed during 2013. Selling and administrative expenses as a percentage of gross profit decreased to 19.7% from 21.0% in the same period of the prior year. This decrease is mainly due to less semi-variable costs such as advertising and other fixed costs as a percentage of gross profit.

Facility lease costs

During the year ended December 31, 2013, facility lease costs decreased by $0.2 million or 1.7% to $11.7 million from $11.9 million due to the purchase of the real estate properties during the fourth quarter of 2013, offset slightly by new acquisitions.

Amortization

During the year ended December 31, 2013, amortization increased by $2.0 million or 47.2% to $6.3 million from $4.3 million in the prior year due to the purchase of real estate properties throughout 2013, including buildings acquired in the Grande Prairie Volkswagen, St. James Audi and VW, and Eastern Chrysler dealership acquisitions, as well as the purchase of 11 properties in the fourth quarter of 2013.

Reversal of impairment of intangible assets

The Company has a number of franchise agreements for its individual dealerships which it classifies as intangible assets. These intangible assets are tested for impairment at least annually as they are considered to be indefinite-lived intangible assets. Under IFRS, previously recognized impairment charges, with the exception of impairment charges related to goodwill, may potentially be reversed if the circumstances causing the impairment have improved or are no longer present. If such circumstances change, a new recoverable amount should be calculated and all or part of the impairment charge should be reversed to the extent the recoverable amount exceeds carrying value. The Company performed its annual test for impairment of its cash generating units ("CGUs") in the fourth quarter of 2013. As a result of the tests performed, the Company determined that although the financial results improved in many of the Company's CGUs, in most cases, the value of its intangible assets had been fully recovered in 2011. Since impairments of intangible assets cannot be reversed to an amount greater than the intangible asset's original cost, the improved financial results of many of the Company's CGUs has very little impact on the value of the Company's intangible assets.

As a result of the tests performed, the Company recorded a net reversal of impairment of intangible assets in the amount of $0.7 million (2012 - $0.2 million).

Income from investments in associates

During the year ended December 31, 2013, the Company earned $2.2 million, including acquisition costs, as a result of its investments in Dealer Holdings Ltd. ("DHL") and Green Isle G Auto Holdings Inc. ("Green Isle"). In addition to the income from investments in associates, during the year, the Company also earned $0.2 million in management services revenue from subsidiaries of DHL. 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 results of its investments in associates during 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 year ended December 31, 2013, finance costs on our revolving floorplan facilities decreased by 20.4% to $7.4 million from $9.3 million in 2012, mainly due to the reduction in interest rates obtained on the changeover to Scotiabank in October of 2012 for financing of inventory. Finance costs on long term indebtedness increased by $0.05 million or 5.2% over the prior year due to additional mortgage debt acquired at the end of 2013 related to the real estate purchase, which was partially offset by the interest savings from a pooling agreement entered into in early 2013 whereby the Company may offset its cash balances against its revolving term facility in order to reduce the interest costs associated with this facility.

On September 30, 2013, the Company completed a syndicated floorplan credit facility with the Bank of Nova Scotia and the Canadian Imperial Bank of Commerce. As at December 31, 2013, our floorplan interest rate was calculated as Bankers' Acceptance Rate plus 1.15% (2.37%).

Some of our manufacturers provide non-refundable credits on the finance costs for our revolving floorplan facilities to offset the dealership's cost of inventory that, on average, effectively provide the dealerships with interest-free floorplan financing for the first 45 to 60 days of ownership of each financed vehicle. During the year ended December 31, 2013, the floorplan credits earned were $7.0 million (2012 - $6.1 million). Accounting standards require the floorplan credits to be accounted for as a reduction in the cost of new vehicle inventory and subsequently a reduction in the cost of sales as vehicles are sold.

The following table summarizes the net floorplan credits that were received in 2013.

(in thousands of dollars)	Q1 2013	Q2 2013	Q3 2013	Q4 2013	For the year ended December 31, 2013
Net floorplan credits	1,360	2,154	1,972	1,557	7,043

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:

	For the Year Ended	
(in thousands of dollars)	**December 31, 2013**	**December 31, 2012**
Floorplan financing	7,353	9,279
Floorplan credits earned	(7,043)	(6,072)
Net carrying cost of vehicle inventory	310	3,207

Income Taxes

For the year ended December 31, 2013, income tax expense increased by $5.1 million from $8.6 million to $13.7 million. As a result of the reversal of impairments of intangible assets, the Company recorded deferred tax expense in the amount of $0.2 million (2012 - $0.06 million) due to the revised temporary differences between the tax basis and carrying value of these assets.

As a result of its improved earnings over the past three years, the Company recorded $11.5 million in current tax expense in 2013, as compared to $5.8 million in fiscal 2012. As described in further detail below, the Company effectively maintains a one year deferral of its partnership income (income earned by wholly-owned dealerships). As such, the current income tax expense for 2013 is mainly calculated based on our dealerships' income from 2012. The income earned by our dealerships in fiscal 2013 will be substantially deferred until next year; however, as described in further detail below, the Company's current tax payable contains the second instalment payment of its tax deferral, expected to be fully repaid over the next 3 years.

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

In December 2011, legislation was passed implementing tax measures outlined in the 2011 budget (Bill C-13), which included the elimination of the ability of a corporation to defer income as a result of timing differences in the year-end of the corporation and of any partnership of which it is a partner, subject to transitional relief over five years. The Company estimates the following amounts to be recorded as current income tax payable over the next three 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)	**2014**	**2015**	**2016**
Increase to current tax payable	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 and income tax instalments for the anticipated current tax expense for the fiscal year.

Prior to 2012, the Company had not paid any corporate tax or instalments for corporate tax. In 2013, the Company paid $10.6 million of cash taxes, which relates to the fiscal 2012 taxation year and instalments 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, prior year levels of adjusted free cash flow will inherently be lowered by cash taxes in the future.

RESULTS FROM OPERATIONS

Fourth Quarter Operating Results

EBITDA for the three month period ended December 31, 2013 increased by 43.7% to $14.8 million, from $10.3 million when compared to the results of the Company for the same period in the prior year. The increase in EBITDA for the quarter can be mainly attributed to improvements in all four business streams.

The following table illustrates EBITDA for the three month period ended December 31, 2013, for the last three years of operations.

(in thousands of dollars) **Period from October 1, 2013 to December 31, 2013**	**2013**	**2012**	**2011**
Net comprehensive income	9,553	6,606	23,611
Impairment of intangible assets	(746)	(222)	(25,543)
Income tax	3,490	2,540	8,144
Amortization of property and equipment	2,069	1,118	1,106
Interest on long-term indebtedness	388	257	217
EBITDA	14,754	10,299	7,535

Adjusted pre-tax earnings increased by $3.4 million or 38.2% to $12.3 million in the fourth quarter of 2013 from $8.9 million in the prior year. Adjusted earnings increased by $2.3 million or 34.3% to $9.0 million in 2013 from $6.7 million in the prior year.

As previously noted, the Company performed its annual test for impairment or reversal of impairment over its intangible assets in the fourth quarter. As a result, the pre-tax earnings and net earnings of the Company (including reversals of impairment) increased in 2013 as compared to 2012.

Pre-tax earnings increased by $3.9 million or 42.9% to $13.0 million for the three month period ended December 31, 2013 from $9.1 million in the same period of the prior year. Net earnings increased by $3.0 million or 45.5% to a profit of $9.6 million in the fourth quarter of 2013 from a $6.6 million profit when compared to the prior year. Strong improvements in same store sales and gross profit, as well as the impact of recently completed acquisitions, contributed to the increase in net earnings. Income tax expense increased by $1.0 million to $3.5 million in the fourth quarter of 2013 from $2.5 million in the same period of 2012 due to the increase in pre-tax earnings.

Revenues

Revenues for the three months ended December 31, 2013 increased by $72.6 million or 27.8%, as compared to the same period of the prior year. This increase was mainly driven by increases in all four revenue streams. New vehicle sales increased by $38.1 million or 24.0% for the three month period ended December 31, 2013 to $197.1 million from $159.0 million in the same period of the prior year, mainly due to an increase in new vehicles sold of 953 or 21.0%. The various manufacturer incentives offered on new vehicles, combined with low interest rates, have made purchasing a new vehicle more affordable for our customers, which we believe to be a critical driver of new vehicle sales in the industry. Used vehicle sales increased by $17.9 million or 31.3% for the three month period ended December 31, 2013. The increase in new and used vehicle retail sales greatly contributed to the increase in finance and insurance revenue, which increased by $5.3 million or 35.5% in the three month period ended December 31, 2013. Parts, service and collision repair revenue increased by $11.3 million or 37.8% for the three month period ended December 31, 2013.

Revenues - Same Store Analysis

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

Same Store Revenue and Vehicles Sold

	For the Three Months Ended		
(in thousands of dollars)	**December 31, 2013**	**December 31, 2012**	**% Change**
Revenue Source			
New vehicles - retail	145,456	134,369	8.3 %
New vehicles - fleet	16,766	17,879	(6.2)%
New vehicles	162,222	152,248	6.6 %
Used vehicles - retail	45,249	43,930	3.0 %
Used vehicles - wholesale	16,322	10,925	49.4 %
Used vehicles	61,571	54,855	12.2 %
Finance, insurance and other	16,892	14,138	19.5 %
Subtotal	240,685	221,241	8.8 %
Parts, service and collision repair	31,302	28,597	9.5 %
Total	271,987	249,838	8.9 %
New retail vehicles sold	4,035	3,781	6.7 %
New fleet vehicles sold	515	547	(5.9)%
Used retail vehicles sold	2,071	2,091	(1.0)%
Total	6,621	6,419	3.1 %
Total vehicles retailed	6,106	5,872	4.0 %

Same store revenue increased by $22.1 million or 8.9% in the three month period ended December 31, 2013 when compared to the same period in 2012. New vehicle revenues increased by $10.0 million or 6.6% for the fourth quarter of 2013 over the prior year due to an increase in new vehicle sales of 222 units or 5.1% and an increase in the average revenue per new vehicle sold of $476 or 1.4%.

Same store used vehicle revenues increased by $6.7 million or 12.2% for the three month period ended December 31, 2013 over the same period in the prior year due to an increase in the average revenue per used vehicle sold of $3,497 or 13.3%, partially offset by a decrease in used vehicle sales of 20 units or 1.0%.

Same store parts, service and collision repair revenue increased by $2.7 million or 9.5% for the fourth quarter of 2013 compared to the prior period and was primarily a result of an increase in overall repair orders completed of 965 or 1.3% and a $31 or 8.0% increase in the average revenue per repair order completed.

Same store finance, insurance and other revenue increased by $2.8 million or 19.5% for the three month period ended December 31, 2013 over the same period in 2012. This was due to an increase in the average revenue per unit retailed of $359 or 14.9% and an increase in the number of new and used vehicles retailed of 234 units.

Gross Profit

Gross profit increased by $14.0 million or 28.9% for the three month period ended December 31, 2013 when compared to the same period in the prior year. As with revenues, gross profit increased due to increases across all four revenue streams. Gross profit on the sale of new vehicles increased by $2.8 million or 18.0% for the three month period ended December 31, 2013. The increase in new vehicle gross profit can be attributed to an increase in the number of new vehicles sold of 953 or 21.0%, partially offset by a decrease in average gross profit per new vehicle sold of $85 or 2.5%. During the three month period ended December 31, 2013, gross profit from used vehicles increased by $0.8 million or 22.4% over the same period in the prior year due to an increase in the number of used vehicles sold of 390 or 18.0% and an increase in the average gross profit per used vehicle sold of $62 or 3.7%. The Company's finance and insurance gross profit increased by $4.9 million or 35.5% during the fourth quarter of 2013. This increase can mainly be attributed to an increase in the total number of vehicles retailed of 1,340 or 21.8% and an increase in the average gross profit per unit retailed of $260 or 11.6%. Parts, service and collision repair gross profit increased by $5.4 million or 35.0% in the fourth quarter of 2013, due primarily to an increase in the number of repair orders completed of 17,957 or 23.0%.

Gross Profit - Same Store Analysis

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

Same Store Gross Profit and Gross Profit Percentage

	For the Three Months Ended					
	Gross Profit			Gross Profit %		
(in thousands of dollars)	**December 31, 2013**	**December 31, 2012**	**% Change**	**December 31, 2013**	**December 31, 2012**	**Change**
Revenue Source						
New vehicles - Retail	14,425	14,418	- %	9.9 %	10.7 %	(0.8)%
New vehicles - Fleet	339	292	16.1 %	2.0 %	1.6 %	0.4 %
New vehicles	14,764	14,710	0.4 %	9.1 %	9.7 %	(0.6)%
Used vehicles - Retail	3,610	3,171	13.8 %	8.0 %	7.2 %	0.8 %
Used vehicles - Wholesale	439	448	(2.0)%	2.7 %	4.1 %	(1.4)%
Used vehicles	4,049	3,619	11.9 %	6.6 %	6.6 %	- %
Finance and insurance	15,489	13,050	18.7 %	91.7 %	92.3 %	(0.6)%
Subtotal	34,302	31,379	9.3 %	14.3 %	14.2 %	0.1 %
Parts, service and collision	16,087	14,757	9.0 %	51.4 %	51.6 %	(0.2)%
Total	50,389	46,136	9.2 %	18.5 %	18.5 %	- %

Same store gross profit increased by $4.3 million or 9.2% for the three month period ended December 31, 2013 when compared to the same period in the prior year. New vehicle gross profit increased by $0.05 million or 0.4% in the three month period ended December 31, 2013 when compared to 2012 as a result of an increase in new vehicle sales of 222 units or 5.1% and a decrease in the average gross profit per new vehicle sold of $154 or 4.5%.

Used vehicle gross profit increased by $0.4 million or 11.9% in the three month period ended December 31, 2013 over the prior year. This was due to an increase of $224 in the average gross profit per used vehicle retailed, partially offset by a decrease in the number of used vehicles sold of 20 units.

Parts, service and collision repair gross profit increased by $1.3 million or 9.0% in the three month period ended December 31, 2013 when compared to the same period in the prior year as a result of an increase in the number of repair orders completed of 965 and an increase in the average gross profit per repair order completed of $15 or 7.5%.

Finance and insurance gross profit increased by 18.7% or $2.4 million in the three month period ended December 31, 2013 when compared to the prior year as a result of an increase in the average gross profit per unit sold of $314 and an increase in units retailed of 234.

Operating expenses

Operating expenses increased by 28.4% or $10.7 million during the three month period ended December 31, 2013 as compared to the same period in the prior year. Since many operating expenses are variable in nature, management considers operating expenses as a percentage of gross profit to be a good indicator of expense control. Operating expenses as a percentage of gross profit decreased to 77.7% in the fourth quarter of 2013 from 78.0% in the same period of the prior year. Operating expenses consist of four major categories: employee costs, selling and administrative costs, facility lease costs and amortization.

Employee costs

During the three month period ended December 31, 2013, employee costs increased by $7.5 million to $30.5 million from $23.0 million in the prior year period. Employee costs as a percentage of gross profit for the quarter ended December 31, 2013 increased to 49.0% compared to 47.5% in the same period of the prior year. Employee costs as a percentage of gross profit for the same period in the prior year. Management attributes the increases mainly to an increase in commissions and incentives paid to salespeople based on achieving and exceeding sales targets.

Selling and administrative costs

During the three month period ended December 31, 2013, selling and administrative costs increased by $2.7 million or 25.3% primarily due to the acquisitions completed in 2013. Selling and administrative expenses as a percentage of gross profit decreased to 21.4% in the fourth quarter of 2013 from 22.0% in the comparable period of 2012. These decreases are 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 December 31, 2013, facility lease costs decreased by 16.7% to $2.5 million from $3.0 million primarily due to the real estate purchase completed in the last quarter of 2013.

Amortization

During the three month period ended December 31, 2013, amortization increased to $2.1 million from $1.1 million in the same period of the prior year. These increases are a result of the real estate purchase in the fourth quarter of 2013 and the dealership acquisitions that occurred during 2013.

Income from investments in associates

During the three month period ended December 31, 2013, the Company earned $0.8 million, as a result of its investments in Dealer Holdings Ltd. ("DHL") and Green Isle G Auto Holdings Inc. ("Green Isle"). In addition to the income from investments in associates, during the three months ended December 31, 2013, the Company also earned $0.05 million, in management services revenue from subsidiaries of DHL. 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.

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 December 31, 2013, finance costs on our revolving floorplan facilities remained constant at $1.9 million compared to the fourth quarter of 2012. Finance costs on long term indebtedness increased by $0.13 million in the fourth quarter of 2013 due to additional mortgage debt acquired at the end of 2013 related to real estate purchases, which was partially offset by the interest savings from a pooling agreement entered into in early 2013, whereby the Company may offset its cash balances against its revolving term facility in order to reduce the interest costs associated with this facility.

As previously noted, some of our manufacturers provide non-refundable credits on the finance costs for our revolving floorplan facilities to offset the dealership's cost of inventory that, on average, effectively provide the dealerships with interest-free floorplan financing for the first 45 to 60 days of ownership of each financed vehicle. During the three month period ended December 31, 2013, the floorplan credits earned were $1.6 million (2012 - $1.4 million). Accounting standards require the floorplan credits to be accounted for as a reduction in the cost of new vehicle inventory and subsequently a reduction in the cost of sales as vehicles are sold.

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

	For the Three Months Ended	
(in thousands of dollars)	**December 31, 2013**	**December 31, 2012**
Floorplan financing	1,887	1,859
Floorplan credits earned	(1,557)	(1,351)
Net carrying cost of vehicle inventory	330	508

Sensitivity

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

GROWTH, ACQUISITIONS, RELOCATIONS AND REAL ESTATE

The Company operates 33 franchised automotive dealerships, 28 of which are wholly owned, and 5 in which it has an investment with significant influence.

Acquisitions

Grande Prairie Volkswagen

On January 4, 2013, the Company purchased substantially all of the net operating and fixed assets of People's Automotive Ltd. ("Grande Prairie Volkswagen") for cash consideration of $2.0 million, 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 building for $1.8 million.

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 $22.8 million, which includes the land and building which the Company purchased for approximately $9.3 million. The acquisition was financed with cash from operations and the revolving term facility. Subsequent to year end, the Company refinanced approximately 65% of the land and building by way of the real estate debt facility with HSBC (see "*Credit Facilities*"). Each of the two franchises is equipped with a six car showroom and is located adjacent to each other on the property. 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.

Courtesy Chrysler Dodge

On July 1, 2013, the Company purchased substantially all of the operating and fixed assets (except real estate) of Courtesy Chrysler Dodge (1987) ("Courtesy Chrysler") located in Calgary, Alberta. Total cash consideration paid for Courtesy Chrysler was $17.2 million. The acquisition was financed with cash from operations and the revolving term facility. The acquisition has been accounted for using the acquisition method. The dealership operates out of three facilities with a total size of approximately 52,000 sq. ft., including a body shop, 27 service bays, and a 10 car showroom. The dealership has been in operation for over 45 years and in 2012 retailed 934 new and 561 used vehicles.

Eastern Chrysler Dodge Jeep Ram

On September 9, 2013, the Company purchased all of the net operating assets and real estate of Eastern Chrysler Plymouth Inc. ("Eastern Chrysler"), located in Winnipeg, Manitoba for total cash consideration of $21.9 million, which includes the land and building purchased for $6.5 million. Included in the total consideration was $5.7 million relating to a rental and lease vehicle portfolio. The Company expects to be able to finance this portfolio in the future. Subsequent to year end, the Company refinanced approximately 65% of the land and building by way of the real estate debt facility with HSBC (see "*Credit Facilities*"). The acquisition was financed using cash from operations and the revolving term facility. The acquisition has been accounted for using the acquisition method. The dealership operates out of a single facility with a total building size of approximately 42,500 square feet, including a service department consisting of 18 service bays, a body shop consisting of 20 service bays, and a six car showroom. The dealership has been in operation for over 66 years and in 2012 retailed 660 new vehicles and 470 used vehicles.

Dealership Investments

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

On March 1, 2013, the Company invested a total of $7.1 million 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 has accounted for its investment in GIA under the equity method. There are no guarantees to GIA or significant relationships other than those disclosed in note 16 of the consolidated annual financial statements of the Company for the year ended December 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 for which it is compensated.

Investment in Prairie Auto Holdings Ltd. ("PAH")

On March 7, 2014, the Company invested a total of $32.5 million and issued 205,000 shares of ACI to acquire an 82.353% non-voting equity interest in Prairie Auto Holdings Ltd. (“PAH”). PAH is an entity formed between a subsidiary of AutoCanada and Mr. Priestner which on March 7, 2014 acquired an 85% equity interest in the shares of Saskatoon Motor Products (“SMP"), a Chevrolet dealership in Saskatoon, Saskatchewan and Mann-Northway Auto Source (“MNAS”), a Chevrolet, GMC, Buick and Cadillac dealership in Prince Albert, Saskatchewan. The remaining 15% equity interest in the two dealerships is held by Mr. Robert Mann, our Dealer Partner at the two stores who currently operates the stores. To comply with GM Canada’s approval, Mr. Priestner is required to have 100% voting control of PAH. The investment in PAH was reviewed and approved by the independent members of AutoCanada’s Board of Directors.

Although the Company holds no voting rights in PAH, the Company exercises significant influence by virtue of its ability to appoint one member of the board of directors of PAH and the ability to participate in financial and operating policy decisions of PAH. 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 will account for its investment in PAH under the equity method. There are no guarantees to PAH or significant relationships other than those disclosed in Note 34 of the audited annual consolidated financial statements of the Company for the year ended December 31, 2013.

Although Mr. Priestner controls PAH, the unanimous shareholder agreement contains certain protective rights for AutoCanada’s investment in PAH including prohibiting Mr. Priestner, or related parties of Mr. Priestner, from entering into contracts with PAH 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 PAH, if any of the protective clauses in the agreement are breached, AutoCanada has the ability to exit from its shareholdings and require PAH or Mr. Priestner to pay AutoCanada for its shares based on the valuation of the shares by an independent chartered business valuator.

Integration of New Dealerships and Investments

Over the past year, the Company has acquired a number of dealerships and has been dedicating resources to ensure a successful integration of its newly acquired dealerships. Management believes that it takes a minimum of two full years in order to successfully integrate a store and achieve its anticipated performance objectives.

Our Grande Prairie Volkswagen dealership has integrated very well into the organization and is exceeding our expectations in its performance. Operating under our Grande Prairie platform, our dealership management team has improved sales in all departments and profitability is very good. We are very pleased with the performance of the dealership.

The Company's newly acquired St. James Volkswagen and St. James Audi dealerships have also been performing well. This dealership was the Company's first dealership in Winnipeg, Manitoba. Operating under a new platform, we believe the dealership will take some time to achieve our planned performance objectives; however, we are very excited to purchase these dealerships and add the Audi brand to group. The dealership management team has performed very well and we believe the dealerships have significant future potential.

Courtesy Chrysler Jeep Dodge Ram was acquired on July 1, 2013 and has been performing above our expectations. Calgary, Alberta represents another new market for the Company and since acquiring this dealership, we are very excited to continue to operate and grow in this market. The dealership management team at Courtesy has improved sales in all departments and profitability has exceeded our expectations. We are very encouraged by the success we have had at this dealership and the success of the dealership management team.

Our Eastern Chrysler Jeep Dodge Ram dealership has also been performing well since it was acquired on September 9, 2013. This dealership represents our third dealership purchase in Winnipeg, Manitoba and we are excited to continue to build a platform in this region. The dealership management team has increased sales in all departments and has integrated very well in a short period of time. The dealership has a significant amount of future potential and we believe it will provide good long term returns for the Company.

The Company is also very pleased with the integration of its General Motors dealership investments. Over the past two years the Company has invested in three General Motors dealerships. The Company's investment in Dealer Holdings Ltd. ("DHL"), in which it has an indirect 31% equity ownership in both Sherwood Park Chevrolet and Sherwood Buick GMC has performed very well. Both dealerships have improved in new vehicle market share and profitability. Sherwood Park Chevrolet is now one of the country's highest performing dealerships and Sherwood Buick GMC is regularly in the top 25 General Motors dealerships in the country for new vehicle sales volumes. Management is very pleased with the success of these investments and believes that General Motors dealerships in Canada will continue to perform well in the future.

The Company is also very satisfied with its investment in Green Isle G Auto Holdings Inc. ("GIA"). Since our initial investment in GIA on March 1, 2013, the dealership has grown to be one of the top performing General Motors dealerships in British Columbia. Management believes that this dealership will continue to perform well and is likely to achieve great returns for its investors.

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 a minimum of two years in order to meet our expected performance objectives. As a result, we expect to incur additional selling and administrative costs in the future in order to successfully integrate new dealerships under our model. The dealership acquisitions that we have made in 2013 have been performing very well and management is very pleased with the progress made.

Dealership Open Points

In 2012, the Company announced that it had signed a letter of intent with Kia Canada Inc. which awarded AutoCanada an open point dealership in Edmonton, Alberta. Since this time, AutoCanada was able to purchase an appropriate facility and have begun renovations to the dealership facility in early 2014. The Company expects to open the new dealership on August 1, 2014. Management is very excited to open and operate its first Kia dealership in its home market of Edmonton. The Company expects to incur approximately $1.5 million in renovations to the building prior to its grand opening.

In February of 2014, the Company announced that it had been awarded the right to a Volkswagen open point dealership in Sherwood Park, Alberta, a community adjacent to Edmonton, Alberta. The Company intends to construct an approximately 45,000 square foot facility in Sherwood Park, designed to Volkswagen Canada image standards, with construction anticipated to be completed in the first quarter of 2016. The open point has a planning potential of 800 new vehicles annually which the Company anticipates achieving in two to three years of operation. The Company currently estimates the cost of construction to be approximately $14.6 million for land and building, of which it expects to finance approximately 70% by way of construction financing. The costs of dealership open points described above have not been included in the costs described below in the Company's Capital Plan.

Disposition of Dealerships

On December 1, 2013, the Company sold the operating assets of its Thompson Chrysler Jeep Dodge Ram dealership located in Thompson, Manitoba for total cash proceeds of $1.4 million. Due to the remote location of the dealership and relatively low sales volume of the dealership, the Company determined it was not able to efficiently dedicate sufficient resources to help the dealership achieve its potential. The dealership was relatively small and through nine months ended September 30, 2013 represented less than 1% of the Company's overall sales. The dealership operations have been removed from same store sales comparisons.

Future Acquisition Opportunities

The Company is very pleased with the continued exceptional performance of its manufacturer partners. Management and the Company have great relationships with our current manufacturer partners and believe that if we can continue to perform well, we can build upon our current brand portfolios and hopefully gain the acceptance of other new manufacturers over time.

The Company continues to experience a greater than usual number of expressions of interest in acquisitions than in the past as a result of an increase in prospective sellers and our expanded brand portfolio. The Company continues to provide guidance on its acquisition outlook as noted in the Company's outlook, located further in this document.

Management believes that the Company has a structure in place that is scalable to allow for the increase in acquisition activity; however the Company does expect to incur some additional administrative and legal costs as the Company adds additional dealerships.

Equity Offering

During the quarter ended June 30, 2013, the Company completed a public offering of common shares. The Company issued 1,840,000 common shares from treasury at a price of $25.00 per share for net proceeds of $43.8 million after deducting $2.2 million of transaction costs from gross proceeds of the offering. The equity offering allowed the Company to reduce its revolving term facility, which provided the Company with further liquidity for dealership acquisitions completed in the third quarter.

Land Sale

On July 26, 2013, the Company sold a piece of land that was previously held for future dealership operations for proceeds of $3.2 million. The Company previously purchased the land in a bid for an open point opportunity which it was unsuccessful in obtaining. The Company is pleased to have sold the land for the same amount that it had been purchased resulting in no gain or loss on the sale.

Capital Plan

During the fourth quarter of 2013, Management updated its capital plan.

Dealership Relocations

Management estimates the total capital requirements of dealership relocations to be approximately $53.3 million with expected completion by the end of fiscal 2016. 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 approximately $16.5 million, the majority of which would be incurred in fiscal 2014 as typically the land purchases associated with dealership relocations are not financed, however construction costs are typically financed throughout the term of the construction project.

Current Dealership Expansion Needs

The Company has identified approximately $8.0 million in capital costs that it may incur in order to expand three of its current locations. Of these costs, Management believes it can finance approximately $4.0 million utilizing capital lease and its non-revolving term facility. The remainder of these costs will be financed through a combination of revolver debt and cash from operations.

Open Point Opportunities

Management regularly reviews potential open point opportunities. If successful in being awarded these opportunities, Management would estimate additional capital costs in order to construct suitable facilities for open points. If awarded in the future, Management will provide additional cost estimates and timing of construction. In order to be successful in some opportunities, Management may be required to secure appropriate land for the potential open points, in which case, additional land purchase costs may be incurred over the next two years.

Current relocation of dealerships

Relocation of Northland Chrysler Jeep Dodge and Northland Nissan

In the second quarter of 2013, the Company completed the purchase of land in Prince George, British Columbia for approximately $5.2 million which it will use to relocate its Northland Chrysler Jeep Dodge Ram dealership. The expected total project cost including land is $18 million of which it expects to finance $12.5 million using mortgage 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 Ram dealerships in the country. As a result, the dealership requires a larger facility to service its expanding customer base over the long term by adding additional service bays and a larger lot for the display of inventory and used inventory. We began construction of the new facility in the fourth quarter of 2013 with expected completion in late 2014 or early 2015.

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 early 2015 and will cost approximately $1.0 million to reimage the building.

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

In November of 2013, the Company purchased eleven dealership real estate properties from CanadaOne Auto Group (see "RELATED PARTY TRANSACTIONS") for a total purchase price of $57.8 million, plus transaction costs and taxes. The purchase was financed with the Company' non-revolving term facility and revolving operating facility with HSBC (see "*Credit Facilities*"). The Company had previously been leasing the properties and decided to purchase the properties as a means to better control the properties and achieve cash flow savings. The purchase of the real estate also had no impact on general repairs and maintenance expense, insurance or property taxes associated with the buildings as the Company was responsible for these expenses under its previous lease agreements.

The transaction was reviewed and evaluated by a special committee created by the Board of Directors known as the Real Estate Committee. The Real Estate Committee, which was comprised of independent members of the Board of Directors, were directly responsible for the review and evaluation of the potential real estate purchase and directly negotiated with CanadaOne Auto Group (a related party) as to the terms of the purchase agreement.

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. Due to the significant increase in acquisition activity, the Company completed an equity offering during the second quarter in order to replenish its capital in order to capitalize on future dealership acquisition opportunities. Management believes that under a high growth scenario, cash generated from operating activities may not be sufficient to meet future capital needs. As such, the Company may be required to seek additional capital in the form of debt or equity if significant growth opportunities continue to arise.

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 December 31, 2013 is as follows:

- The Company has approximately $48.8 million in working capital. At December 31, 2013, the Company's aggregate net manufacturer working capital requirements were $42.0 million. As such, the Company has approximately $6.8 million in cash available for growth expenditures.
- The Company has drawn $40.1 million on its $50.0 million revolving term facility. The Company has also obtained a $20.0 million acquisition facility to be used to finance future dealership acquisitions. The Company has drawn $35.3 million on its $60.0 million non-revolving term facility to be used for real estate purposes. As a result, the Company has approximately $29.9 million available for future acquisitions and $24.7 million available for future real estate purchases.
- 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 $10.6 million as a result of such initiatives.

As a result of the above initiatives, the Company currently has approximately $52.3 million in available liquidity for acquisitions and capital needs and $24.7 million for future real estate needs, 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 it 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 (including changes in non-cash working capital) of the Company for the year ended December 31, 2013 was $38.0 million (cash provided by operating activities of $48.0 million less net decrease in non-cash working capital of $10.0 million) compared to $21.1 million (cash provided by operating activities of $33.5 million less net decrease in non-cash working capital of $12.4 million) in the same period of the prior year.

Cash flow from operating activities (including changes in non-cash working capital) of the Company for the three month period ended December 31, 2013 was $9.7 million (cash provided by operating activities of $12.9 million less net decrease in non-cash working capital of $3.2 million) compared to $1.8 million (cash provided by operating activities of $9.5 million less net decrease in non-cash working capital of $7.7 million) in the same period of the prior year.

Cash Flow from Investing Activities

For the year ended December 31, 2013, cash flow from investing activities of the Company was a net outflow of $124.0 million as compared to a net outflow of $30.9 million in the same period of the prior year. During 2013, the Company completed $65.4 million in business acquisitions and purchased $67.1 million of real estate, property and equipment. The Company also sold a piece of land for proceeds of $3.2 million and received proceeds of $1.4 million from the divestiture of Thompson Chrysler. In negotiation of its credit facilities, the Company was also able to remove a $10 million restriction of its cash in its revolving floorplan facilities.

For the three month period ended December 31, 2013, cash flow from investing activities of the Company was a net outflow of $57.8 million as compared to a net outflow of $13.1 million in the same period of the prior year. In the fourth quarter of 2013, the Company purchased approximately $59.7 million of real estate, property and equipment and received proceeds of $1.4 million from the divestiture of Thompson Chrysler.

Cash Flow from Financing Activities

For the year ended December 31, 2013, cash flow from financing activities was a net inflow of $86.6 million as compared to a net outflow of $9.3 million in the same period of 2012. The increase was due to the proceeds from issuance of treasury shares of $43.8 million and the increase in long-term indebtedness primarily as a result of the debt related to the real estate purchase of $35.0 million and additional amounts drawn on the revolving term facility.

For the three month period ended December 31, 2013, cash flow from financing activities was a net inflow of $45.2 million as compared to a net outflow of $8.4 million in the same period of 2012. The increase was primarily due to increased proceeds from long-term debt related to the real estate transaction of $35.0 million and additional draws on the revolving term facility.

Economic Dependence

As stated in Note 7 of the annual consolidated financial statements for the period ended December 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 7 of the consolidated annual financial statements.

Credit Facilities and Floor Plan Financing

Credit Facilities

On November 5, 2013, in conjunction with the signing of the real estate asset purchase agreement with COAG, the Company announced that it has entered into a syndicated Credit Agreement with HSBC Bank Canada ("HSBC") and Alberta Treasury Branches ("ATB"), with HSBC acting as administrative agent to the Credit Agreement. The Credit Agreement provides the Company with the following facilities:

- a $50.0 million revolving operating facility that may be used for ongoing working capital and general corporate purposes, including acquisitions;
- a $20.0 million revolving acquisition facility that may be used for the acquisition of auto dealerships and associated real estate; and

- a $60.0 million non-revolving term facility that may be used to purchase owner occupied real estate, refinance existing real estate and to fund construction costs of new dealerships.

Fees and interest on borrowings under the credit facility are subject to a pricing grid whereby the pricing level is determined by the funded debt to EBITDA ratio. Funded debt is defined in the agreement as all indebtedness, as determined in accordance with GAAP, including indebtedness for borrowed money, interest bearing liabilities, indebtedness secured by purchase money security interests, capital lease obligations, securities having attributes substantially similar to debt and contingent obligations including letters of credits, but excluding floor plan debt and subordinated obligations. EBITDA is defined as net income before interest, depreciation, taxes, non-cash charges and any extraordinary/unusual non-recurring items. For business acquisitions or divestitures completed in the immediately preceding 12-month period, EBITDA will be calculated as if the acquisition or divestiture had occurred for the previous full four fiscal quarters. As at December 31, 2013, the Company is in the fourth of five tiers of the pricing grid, with the fourth tier providing the second lowest rate of interest under the credit facility. The non-revolving term facility bears interest at HSBC's prime rate plus 1.00% (4.00% at December 31, 2013) or Banker's Acceptance Rate plus 2.00% (3.32% at December 31, 2013). Amounts drawn on the HSBC Revolver as at December 31, 2013 are due on June 30, 2015 and may be extended annually for an additional 365 days at the request of the Company and upon approval by HSBC. The syndicated HSBC Credit Facilities' maturity dates are the second anniversary of the initial drawdowns. The HSBC Revolver is collateralized by all of the present and future assets of the subsidiaries of AutoCanada Inc. As part of a priority agreement signed by HSBC, Scotiabank, VCCI, and the Company, the collateral for the HSBC Credit Facilities excludes all new, used and demonstrator inventory financed with the Scotiabank and VCCI revolving floorplan facilities.

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

During 2013, the Company signed a renewal letter from HSBC with respect to its HSBC Term Loan. The HSBC Term Loan has been extended to June 30, 2014, which if not renewed at the time will become payable on June 30, 2015. The security, covenants, fees, interest rates and other terms remain consistent with the current HSBC Term Loan. The HSBC Term Loan bears interest at HSBC’s Prime Rate plus 1.75% (4.75% at December 31, 2013). Repayments are based on a 20 year amortization of the original loan amount; consisting of fixed monthly principal repayments of $15 plus applicable interest. The HSBC Term Loan requires maintenance of certain financial covenants and is collateralized by a first fixed charge in the amount of $3.5 million registered over the Newmarket Infiniti Nissan Property. In February 2014, the HSBC Term loan was refinanced with the HSBC non-revolving term facility.

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

The Bank of Montreal (“BMO”) provided the Company with a non-revolving demand loan (the “BMO Demand Loan”) which was used to purchase the Cambridge Hyundai facility located in Cambridge, Ontario in 2008. The BMO Demand Loan bears interest at BMO’s Prime Rate plus 0.50% (3.50% at December 31, 2013). The BMO Demand Loan requires maintenance of certain financial covenants and is collateralized by a general security agreement consisting of a first fixed charge in the amount of $3.5 million registered over the Cambridge Hyundai property.

Revolving Floorplan Facilities

During the quarter ended September 30, 2013, the Company completed a $350.0 million syndicated floorplan credit facility (the "Facility") with the Bank of Nova Scotia ("Scotiabank") and the Canadian Imperial Bank of Commerce ("CIBC") with Scotiabank serving as administrative agent to the Facility. The Facility can be expanded to $450.0 million in total availability upon credit approval of the syndicate of lenders. The Facility bears a rate of Bankers' Acceptance plus 1.15% (2.37% as at December 31, 2013) per annum. The financial covenants and repayment terms of the Facility remain consistent with the Company's previous floorplan facility with Scotiabank. As a result of the new agreement, the Company is no longer required to maintain a restricted cash balance of $10.0 million.

The facility has been provided to 22 of the 33 dealerships in which AutoCanada operates. The terms and conditions of the facility apply only to the collective group of 22 dealerships which are to be funded (the “Borrowers”). With respect to financial covenants, the Borrowers are required to maintain the following covenants:

i) The ratio of consolidated current assets to current liabilities of the Borrowers is to be maintained at all times at 1.1:1 or better;

ii) Consolidated Tangible Net Worth of the Borrowers is to be maintained in excess of $40 million at all times; and

iii) The ratio of Consolidated Debt to Tangible Net Worth of the Borrowers is not to exceed 7.5:1.

VW Credit Canada Inc. provides revolving floorplan facilities ("VCCI facilities") to finance new and used vehicles for the Company's Volkswagen and Audi dealerships. The VCCI facilities bear interest at the Royal Bank of Canada ("RBC") prime rate for new vehicles and RBC prime rate plus 0.25-1.00% for used vehicles (RBC prime rate = 3.00% at December 31, 2013). The maximum amount of financing provided by the VCCI facilities is $30.7 million. The VCCI facilities are collateralized by all of the dealerships' assets financed by VCCI and all cash and other collateral in the possession of VCCI and a general security agreement from the Company's Volkswagen and Audi dealerships. The individual notes payable of the VCCI facilities are due when the related vehicle is sold, as outlined in the agreement with VW Credit Canada, Inc.

The VCCI Facilities require maintenance of financial covenants which require all dealerships to maintain minimum cash and equity balances. At December 31, 2013 the financial covenants had been met.

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

Financial Covenants

The Company is required by its debt agreements to comply with several financial covenants. The following is a summary of the Company's actual performance against its financial covenants as at December 31, 2013:

Financial Covenants	Requirement	Actual Calculation
HSBC Facility:		
Funded Debt to EBITDA	Shall not exceed 2.25:1.00	1.17
Adjusted debt to EBITDAR	Shall not exceed 4.50:1.00	2.51
Debt Service Coverage Ratio	Shall not be less than 1.20	2.47
Tangible Net Worth	Shall not drop below $60 million	$117.4 million
Scotiabank:		
Current Ratio	Shall not be less than 1.10	1.14
Tangible Net Worth	Shall not be less than $40 million	$64.6 million
Debt to Tangible Net Worth	Shall not exceed 7.50	4.40

The Scotiabank covenants above are based on consolidated financial statements of the dealerships that are financed directly by Scotiabank. As a result, the actual performance to covenant does not reflect the actual performance to covenant of AutoCanada.

As at December 31, 2013, the Company is in compliance with all of its financial covenants.

Financial Instruments

Details of the Company's financial instruments, including risks and uncertainties are included in Note 22 of the annual audited consolidated financial statements for the year ended December 31, 2013.

Growth vs. Non-Growth Capital Expenditures

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

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

(in thousands of dollars)	October 1, 2013 to December 31, 2013	January 1, 2013 to December 31, 2013
Leasehold improvements	216	802
Machinery and equipment	339	1,003
Furniture and fixtures	13	125
Computer equipment	217	880
Company & lease vehicles	178	348
	963	3,158

Amounts relating to the expansion of sales and service capacity are considered growth expenditures. Growth expenditures are discretionary, represent cash outlays intended to provide additional future cash flows and are expected to provide benefit in future periods. During the year ended December 31, 2013, growth capital expenditures of $63.9 million were incurred. These expenditures related primarily to land that was purchased for future dealership operations during the second quarter of 2013 for $5.2 million and the real estate purchased completed in the last quarter of 2013 for $58.7 million. Dealership relocations are included as growth expenditures if they contribute to the expansion of sales and service capacity of the dealership.

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

(in thousands of dollars)	**October 1, 2013 to December 31, 2013**	**January 1, 2013 to December 31, 2013**
Purchase of property and equipment from the Statement of Cash Flows	59,646	67,105
Less: Amounts related to the expansion of sales and service capacity	(58,683)	(63,947)
Purchase of non-growth property and equipment	963	3,158

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 months and year ended December 31, 2013, were $0.8 million and $2.8 million (2012 - $0.5 million and $2.2 million), respectively.

Planned Capital Expenditures

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

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

(in thousands of dollars)	**$**
2014	6,442
2015	6,086
2016	5,973
2017	5,192
2018	5,285
Thereafter	51,729
Total	80,707

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 22 – 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, 2013 and December 31, 2012, as well as unaudited balances of the Company at September 30, 2013, June 30, 2013, March 31, 2013, September 30, 2012, June 30, 2012, and March 31, 2012:

(in thousands of dollars)	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
Cash and cash equivalents	35,113	47,940	45,058	51,975	34,472	54,255	51,198	53,403
Trade and other receivables	57,771	62,105	69,136	57,144	47,944	54,148	52,042	51,364
Inventories	278,091	237,460	232,878	217,707	199,119	194,472	201,692	156,262
Assets	619,078	530,737	504,449	454,852	410,362	420,080	414,033	361,224
Revolving floorplan facilities	264,178	228,526	246,325	225,387	203,525	212,840	221,174	178,145
Non-current debt and lease obligations	83,580	33,647	8,744	40,340	23,937	26,039	23,027	20,071

Net Working Capital

The automobile manufacturers represented by the Company require the Company to maintain net working capital for each individual dealership. At December 31, 2013, the aggregate of net working capital requirements was approximately $42.0 million. At December 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 December 31, 2013, the Company had aggregate working capital of approximately $48.8 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 required the VW and Audi 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 31 of the annual consolidated financial statements of the Company for the period ended December 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 reviews the financial results periodically to determine whether a dividend shall be paid based on a number of factors.

The following table summarizes the dividends declared by the Company in 2013 (in thousands of dollars):

Record date	Payment date	Declared $	Paid $
February 28, 2013	March 15, 2013	3,579	3,579
May 31, 2013	June 17, 2013	3,777	3,777
August 30, 2013	September 16, 2013	4,344	4,344
November 29, 2013	December 16, 2013	4,561	4,561

On February 14, 2014, the Board declared a quarterly eligible dividend of $0.22 per common share on AutoCanada's outstanding Class A common shares, payable on March 17, 2014 to shareholders of record at the close of business on February 28, 2014. The quarterly eligible dividend of $0.22 represents an annual dividend rate of $0.88 per share. The next scheduled dividend review will be in May 2014.

As per the terms of the HSBC facility, we are restricted from declaring dividends and distributing cash if we are in breach of 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, and 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 dollars, except unit and per unit amounts)	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013
Cash provided by operating activities	3,520	6,569	9,235	1,748	6,125	14,391	7,787	9,674
Deduct:								
Purchase of property and equipment	(361)	(410)	(511)	(858)	(590)	(905)	(647)	(1,319)
Free cash flow (1)	3,159	6,159	8,724	890	5,535	13,486	7,140	8,355
Weighted average shares outstanding at end of period	19,880,930	19,876,139	19,804,014	19,802,947	19,802,048	20,346,713	21,638,882	21,638,433
Free cash flow per share	0.159	0.310	0.441	0.045	0.280	0.663	0.330	0.386
Free cash flow - 12 month trailing	26,996	28,474	27,042	18,932	21,308	28,635	27,051	34,516
Weighted average shares outstanding at end of year	-	-	-	19,840,802	-	-	-	20,868,726
Free cash flow per share - 12 month trailing	-	-	-	0.954	-	-	-	1.654

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

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

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

The following table summarizes the net increase (decrease) in cash due to changes in non-cash working capital for the years ended December 31, 2013 and December 31, 2012:

(in thousands of dollars)	January 1, 2013 to December 31, 2013	January 1, 2012 to December 31, 2012
Trade and other receivables	(7,092)	(5,496)
Inventories	(43,205)	(63,105)
Prepaid expenses	88	18
Trade and other payables	11,023	3,311
Lease vehicle repurchase obligations	144	171
Revolving floorplan facilities	29,074	52,709
	(9,968)	(12,392)

Adjusted Free Cash Flow

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

(in thousands of dollars, except unit and per unit amounts)	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013
Cash provided by operating activities before changes in non-cash working capital	4,391	9,609	10,029	9,435	5,564	14,258	15,234	12,894
Deduct:								
Purchase of non-growth property and equipment	(361)	(366)	(511)	(457)	(573)	(892)	(608)	(963)
Adjusted free cash flow (1)	4,030	9,243	9,518	8,978	4,991	13,366	14,626	11,931
Weighted average shares outstanding at end of period	19,880,930	19,876,139	19,804,014	19,802,947	19,802,048	20,346,713	21,638,882	21,638,433
Adjusted free cash flow per share	0.203	0.465	0.481	0.453	0.252	0.657	0.676	0.551
Adjusted free cash flow - 12 month trailing	28,096	28,453	30,183	31,769	32,730	36,853	41,961	44,914
Weighted average shares outstanding at end of year	-	-	-	19,840,802	-	-	-	20,868,726
Adjusted free cash flow per share - 12 month trailing	-	-	-	1.601	-	-	-	2.152

[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 year ending December 31, 2013, the Company paid approximately $10.6 million in corporate income taxes and tax installments. Accordingly, this reduced our adjusted free cash flow by this amount. The Company expects the payment of corporate income taxes to have a more significant negative affect on free cash flow and adjusted free cash flow. See "RESULTS FROM OPERATIONS – Annual Operating Results – Income Taxes" for further detail regarding the impact of corporate income taxes on cash flow.

Adjusted Return on Capital Employed

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

(in thousands of dollars, except unit and per unit amounts)	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013
EBITDA (1)	6,792	10,195	10,575	10,299	10,557	16,532	16,626	14,754
Deduct:								
Amortization of property and equipment	(1,025)	(1,028)	(1,140)	(1,118)	(1,189)	(1,489)	(1,599)	(2,069)
EBIT (1)	5,767	9,167	9,435	9,181	9,368	15,043	15,027	12,685
Average long-term debt	23,873	25,276	30,390	31,007	36,293	28,871	25,725	62,959
Average shareholder's equity	113,794	116,050	119,380	122,877	126,188	152,983	181,576	187,652
Average capital employed (1)	137,667	141,326	149,770	153,884	162,481	181,854	207,301	250,611
Return on capital employed (1)	4.2 %	6.5 %	6.3 %	6.0 %	5.8 %	8.3 %	7.2 %	5.1 %
Comparative adjustment (1)	(15,376)	(15,376)	(15,376)	(15,542)	(15,542)	(15,542)	(15,542)	(15,951)
Adjusted average capital employed (2)	122,290	125,950	134,394	138,425	146,939	166,312	191,759	234,864
Adjusted return on capital employed (2)	4.7 %	7.3 %	7.0 %	6.6 %	6.4 %	9.0 %	7.8 %	5.4 %
Adjusted return on capital employed - 12 month trailing				25.9 %				26.1 %

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

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

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

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICY DEVELOPMENTS

A complete listing of critical accounting policies, estimates, judgments and measurement uncertainty can be found in Note 3 of the annual consolidated financial statements for the year ended December 31, 2013.

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 December 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. In November 2013, this standard was indefinitely deferred by the IASB and the effective date is not yet known.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls & Procedures

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

As of December 31, 2013, the Company's management, with participation of the CEO and CFO, evaluated the effectiveness of the design and operation of its disclosure controls and procedures, as defined in National Instrument 52-109 of the Canadian Securities Administrators, and have concluded that the Company's disclosure controls and procedures are effective.

Internal Controls over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal controls over financial reporting. These controls include policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2013, based on the framework established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2013.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting during the year ended December 31, 2013.

OUTLOOK

The outlook regarding vehicle sales in Canada is difficult to predict. New light vehicle unit sales in Canada are expected to increase by 0.9 percent in 2014 as compared to the prior year.

New Vehicle Sales Outlook by Province *

	1994 - 2005 (Average)	2006 - 2011 (Average)	2010	2011	2012	2013	2014F
Canada	**1,446**	**1,587**	**1,557**	**1,589**	**1,677**	**1,745**	**1,760**
Atlantic	**102**	**119**	**122**	**119**	**126**	**135**	**136**
Central	**936**	**987**	**990**	**997**	**1,034**	**1,061**	**1,066**
Quebec	366	408	414	408	416	415	416
Ontario	570	579	576	589	618	646	650
West	**408**	**481**	**445**	**473**	**517**	**549**	**558**
Manitoba	42	45	44	47	50	54	55
Saskatchewan	36	45	46	50	55	58	59
Alberta	166	220	200	218	239	257	262
British Columbia	164	171	155	158	173	180	182

* Includes cars and light trucks

Source: Scotia Economics - Global Auto Report, March 7, 2014

The Canadian new vehicle market continues to perform well. New vehicle sales in Canada performed at record levels in 2013 and are continuing at a strong pace in 2014. Management believes that at the expected Canadian auto sales levels above 1.7 million units, the Company is well positioned for strong performance as new vehicle sales typically drive sales of other higher margin opportunities such as parts and service, as well as, finance and insurance revenues.

Over the past 15 months, it has become apparent to Management that the Canadian dealer succession issue which industry analysts have been forecasting over the past number of years is beginning to materialize. As such, the Company has experienced a significant increase in the number of interested sellers of auto dealerships in Canada and has noticed that many of these opportunities are large, more profitable premium dealerships. In recognition of this increased activity, Management is raising its guidance to ten to twelve dealership acquisitions over the coming 24 months. Should the Company be able to acquire a larger group, this would increase the guidance.

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. The Company has raised its dividend for twelve consecutive quarters.

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 2013 Annual Information Form dated March 20, 2014 available on the SEDAR website at www.sedar.com.

Additional Information

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

FORWARD LOOKING STATEMENTS

Certain statements contained in management's discussion and analysis are forward-looking 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 belief that, as the Company continues to grow, operating expenses as a percentage of gross profit should continue to improve as the Company achieves greater economies of scale;
- the impact of income taxes on future cash flow;
- the impact of an increase or decrease of one new retail vehicle sold on estimated free cash flow;
- expectations to finance the rental and lease vehicle portfolio related to the Eastern Chrysler acquisition;
- 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;
- the belief that, if the Company can continue to perform well, it will be able to build upon its current brand portfolios and hopefully gain the acceptance of other new manufacturers over time;
- 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 capital plan, potential relocation of certain dealerships, dealership expansion needs, and open point opportunities;
- our belief that relocation of certain dealerships may provide incremental long-term earnings growth and better align some of our dealerships with the growth expectations of our manufacturer partners;
- the impact of dealership real estate relocations and purchases and its impact on liquidity, financial performance and the Company's capital requirements;
- our belief that under a high growth scenario, cash from operating activities may not be sufficient to meet future capital needs and the potential need to seek additional capital in the form of debt or equity;
- our belief that our available liquidity is sufficient to complete our current capital expenditure commitments and to execute on additional dealership acquisitions;
- the impact of a significant decline in sales as a result of the inability to procure adequate supply of vehicles and/or lower consumer demand on cash flows from operations and our ability to fund capital expenditures;
- our expectation to incur annual non-growth capital expenditures in an amount approximating our amortization of property and equipment reported in each period;
- our expectation that growth expenditures will provide additional future cash flows and future benefit;
- 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;
- 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; and
- 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.

Adjusted pre-tax earnings

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

Adjusted net earnings

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

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.