AUTOCANADA INC.

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

For the period ended March 31, 2014

READER ADVISORIES

The Management's Discussion & Analysis ("MD&A") was prepared as of May 8, 2014 to assist readers in understanding AutoCanada Inc.'s (the "Company" or "AutoCanada") consolidated financial performance for the three month period ended March 31, 2014 and significant trends that may affect AutoCanada's future performance. The following discussion and analysis should be read in conjunction with the unaudited consolidated financial statements and accompanying notes (the "Interim Consolidated Financial Statements") of AutoCanada as at and for the three month period ended March 31, 2014, 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, and management's discussion and analysis 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 ended March 31, 2014 of the Company, and compares these to the operating results of the Company for the three month period ended March 31, 2013. The Company has investments in six General Motors dealerships and accounts 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 6 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 three month periods ended March 31, 2014 and March 31, 2013.

Location of Dealerships	March 31, 2014			March 31, 2013		
	Number of Dealerships	Revenue	% of Total	Number of Dealerships	Revenue	% of Total
British Columbia	9	105,911	29 %	9	95,256	33 %
Alberta	11	177,712	49 %	10	131,013	46 %
Manitoba	3	26,452	7 %	1	4,592	2 %
Ontario	3	22,101	6 %	3	21,811	8 %
Other	2	32,088	9 %	2	31,379	11 %
Total	28	364,264	100 %	25	284,051	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	General Motors	2012
Duncan, British Columbia	Peter Baljet Chevrolet GMC Buick	General Motors	2013
Winnipeg, Manitoba	McNaught Cadillac Buick GMC	General Motors	2014
Prince Albert, Saskatchewan	Mann-Northway Auto Source	General Motors	2014
Saskatoon, Saskatchewan	Saskatoon Motor Products	General Motors	2014

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

New light vehicle sales in Canada in the three month period ended March 31, 2014 were up 0.9% when compared to the same period in 2013. Sales of new light vehicles in Alberta and British Columbia, our primary markets, were down by 0.6% and up by 0.9%, respectively. The Company's same store unit sales of new vehicles increased by 2.3% during the three month period ended March 31, 2014. The 2013 calendar year was a record year for new vehicles sales in the Canadian market, and we are pleased that the market continues to perform at such levels as evidenced by an increase in unit sales in the first quarter. The Company continues to outperform the overall market and we are very pleased to continue to keep pace with the growth in the overall market.

The following table summarizes Canadian new light vehicle sales for the three month period ended March 31, 2014 by Province:

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

	March Year to Date			
	2014	**2013**	**Percent Change**	**Unit Change**
British Columbia	39,480	39,122	0.9 %	358
Alberta	54,547	54,897	(0.6)%	(350)
Saskatchewan	11,365	11,595	(2.0)%	(230)
Manitoba	10,785	10,769	0.1 %	16
Ontario	139,818	128,249	9.0 %	11,569
Quebec	77,396	84,508	(8.4)%	(7,112)
New Brunswick	7,476	8,095	(7.6)%	(619)
PEI	1,148	1,213	(5.4)%	(65)
Nova Scotia	10,235	10,013	2.2 %	222
Newfoundland	6,142	6,751	(9.0)%	(609)
Total	358,392	355,212	0.9 %	3,180

[1] DesRosiers Automotive Consultants Inc.

Performance vs. the First Quarter of Prior Year

Management is very pleased with the performance of its dealerships in the first quarter of 2014. The Company improved its first quarter profit before tax by $2.1 million or 23.1% over the prior year quarter. The combination of earnings from acquisitions completed subsequent to the first quarter of 2013 and gains made in same store sales and gross profits have contributed to the increase in profitability.

Revenue from all dealerships increased by 28.2% in the first quarter due to double digit percentage increases in all four of our business lines - new vehicle sales, used vehicle sales, finance and insurance, and parts, service and collision repair. Same store revenues also increased by 13.0% during the first quarter of 2014 as compared to the prior year quarter.

The Company's new vehicle revenues improved by 24.2% in the first quarter of 2014, mainly due to acquisitions completed in 2013. Our same store new vehicle revenues increased by 10.6% mainly due to an increase in the average transaction price per vehicle sold, as well as a 2.3% increase in new vehicle units retailed during the quarter. Overall, we are pleased with the 2.3% increase in retail, given the inclement weather in the first three months of 2014; however, we wish to improve upon this number over the course of the year. The Company's new vehicle gross profit increased by 11.2% during the first quarter of 2014, mainly due to acquisitions completed during 2013. However, the gross margin percentage in our new vehicle department decreased by 80 basis points from 9.2% in the first quarter of 2013 to 8.4% in the first quarter of 2014. The new vehicle market was very competitive on a pricing basis in early 2014 which may have impacted our margins. As well, inclement weather in early 2014 caused some of the Company's dealerships to earn less volume incentives from manufacturers, which negatively impacted our overall gross margin percentage.

The first quarter of 2014 was an extremely strong quarter for used vehicle sales. The Company's used vehicle revenues increased by 37.2% in the first quarter of 2014 as compared to same period in the prior year. This increase was driven by a 30.8% increase in unit sales and an increase in the average transaction price of $1,399 per used vehicle retailed. Acquisitions completed in 2013 contributed to the increase; however, much of the increase relates to improvements in same store sales. AutoCanada's same store used vehicle sales increased by 21.3% in the first quarter of 2014. This increase can be mainly attributed to an increase in used vehicle retail volume of 14.1% and an increase in the average transaction price per used vehicle retailed of 6.4%. The Company has employed additional resources over the past 18 months to improve its used vehicle volumes and gross profits. The Company now has a number of inventory analysts that work with our dealerships to address appraisal, reconditioning, merchandising (both online and traditional), and pricing issues with the goal of improving our return on investment in used vehicle inventories. We believe that these efforts are beginning to materialize in the form of improved volumes and margins and we hope that the trend continues. The Company's used vehicle gross margins increased by 45.9% in the first quarter of 2014. Much of the increase in used vehicle gross profit can be attributed to same store sales gains. The Company's used vehicle gross profit on a same store basis improved by 34.1% due to improvements in volume and average gross profit per unit retailed. The Company's gross margin percentage in our used vehicle department improved by 40 basis points, quarter over quarter, and we are encouraged by the increase.

The Company's finance and insurance department also performed well during the quarter. Same store finance and insurance sales performed in line with our new and used retail volumes at a 7.2% increase quarter over quarter. Same store gross profit increase of 7.8% achieved in the finance and insurance department was also in line with the revenue increase. In 2013, the Company initiated finance and insurance product pricing caps at all of its dealerships. Management believes that by treating its customers fairly, it can not only retain more customers, but also have the ability to offer customers an expanded range of products which ultimately provides more value to our customers. We consider ourselves a leader in the industry in Canada by instituting such pricing caps and its negative impact on revenue and gross profit has been marginal.

We are very encouraged by the performance of our parts, service and collision repair departments. In the first quarter of 2014 we achieved double digit gains in both same store revenue and same store gross profit in this department. We consider this to be exceptional performance as, historically, gains made in this department on a same store basis are typically in the single digits. We believe that much of the increase can be attributed to improvement in new vehicle sales over the last few years, which has resulted in additional customers requiring warranty work as well as customer pay. In addition, the improvement in used vehicle sales has resulted in additional reconditioning work for our parts and service departments. Our dealerships continue to benefit from improvements in technology and process, as well as the increase in new customers generated over the past few years. Overall, same store sales improved by 12.8% and same store gross profit increased by 11.0% something we are very pleased to achieve.

Operating expenses increased by 24.8% during the first quarter of 2014 as compared to the same quarter in 2013. The increase in operating expenses for the quarter was mainly a result of acquisitions made in 2013 and increases in commission-based employee costs as a result of increased sales. The Company considers operating expenses as a percentage of gross profit to be a more suitable indicator of expense control. During the first quarter of 2014, our operating expenses as a percentage of gross profit increased to 79.4% from 78.9% in the first quarter of 2013. Employee costs as a percentage of gross profit increased from 51.1% in the first quarter of 2013 to 53.2% in 2014. We believe that a portion of the increase in employee costs as a percentage of gross profit can be attributed to the decrease in volume incentives achieved during the quarter, which generally do not impact sales commissions. A significant contributor to the increase in operating expenses as a percentage of gross profit during the quarter was a result of increased share-based compensation expense due to the significant increase in the share price of AutoCanada shares during the quarter. The Company's share price increased by $15.61 or 34% during the first quarter which resulted in approximately $0.6 million in additional share-based compensation expense on our cash-settled restricted share units and deferred share units as the liability associated with these units is valued at market value. The Company considers this expense to be non-cash in nature as we maintain a share purchase trust in which we purchase shares on the open market as these units are granted in order to reduce the cash flow risk associated with fluctuations in the share price.

The investments that the Company has made in General Motors dealerships continue to perform well as the income from our investments in these dealerships increased by $0.7 million during the first quarter. All of our General Motors dealerships are performing very well and have continued to improve each quarter.

The Company's finance costs increased during the quarter to $3.1 million from $2.2 million in the prior year quarter. This was a result of both an increase in the amount drawn on the Company's revolving term facility, as well as an increase in floorplan interest as a result of an overall increase in inventories during the period as compared to the prior year.

Overall, the Company is very pleased with its results for the first quarter of 2014 and continue to focus on improvement in all four of our departments.

SELECTED QUARTERLY FINANCIAL INFORMATION

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

(in thousands of dollars, except Operating Data and gross profit %)	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014
Income Statement Data								
New vehicles	186,560	190,065	159,026	174,279	254,261	257,222	197,097	216,524
Used vehicles	62,822	62,816	57,260	62,656	77,113	85,975	75,137	85,969
Parts, service and collision repair	28,915	28,488	29,920	29,515	34,456	37,104	41,267	40,724
Finance, insurance and other	16,139	16,775	14,928	17,601	22,555	22,530	20,272	21,047
Revenue	294,436	298,144	261,134	284,051	388,385	402,831	333,773	364,264
New vehicles	14,684	15,556	15,527	16,039	20,792	20,694	18,326	17,813
Used vehicles	4,238	4,004	3,637	3,789	5,794	6,240	4,450	5,551
Parts, service and collision	15,298	15,133	15,418	15,232	17,586	20,114	20,822	20,593
Finance and insurance	14,842	15,428	13,785	16,079	20,676	20,666	18,735	19,514
Gross profit	49,062	50,121	48,367	51,139	64,848	67,714	62,333	63,471
Gross Profit %	16.7 %	16.8 %	18.5 %	18.0 %	16.7 %	16.8 %	18.7 %	17.4 %
Operating expenses	37,659	38,361	37,739	40,353	48,639	51,080	48,447	50,400
Operating exp. as a % of gross profit	76.8 %	76.5 %	78.0 %	78.9 %	75.0 %	75.4 %	77.7 %	79.4 %
Finance costs - floorplan	2,622	2,745	1,859	1,675	1,888	1,903	1,887	1,965
Finance costs - long term debt	239	250	257	237	218	163	388	764
Reversal of impairment of intangibles	-	-	(222)	-	-	-	(746)	-
Income from investments in associates	83	130	255	201	648	555	836	893
Income tax	2,216	2,379	2,540	2,309	3,976	3,920	3,490	2,881
Net earnings (4)	6,712	6,806	6,606	6,822	10,823	10,968	9,553	8,296
EBITDA (1)(4)	10,195	10,575	10,299	10,557	16,532	16,626	14,754	14,453
Basic earnings (loss) per share	0.338	0.344	0.334	0.345	0.532	0.507	0.441	0.383
Diluted earnings per share	0.338	0.344	0.334	0.345	0.532	0.507	0.441	0.383
Operating Data								
Vehicles (new and used) sold	8,154	8,087	6,703	7,341	10,062	10,325	8,046	8,766
Vehicles (new and used) sold including GM (5)	8,557	8,783	7,378	8,123	11,399	11,405	9,209	9,945
New vehicles sold including GM (5)	5,964	6,178	4,956	5,665	8,246	8,023	6,090	6,570
New retail vehicles sold	4,400	4,410	3,982	4,118	5,487	5,986	4,932	4,773
New fleet vehicles sold	1,313	1,265	549	1,036	1,923	1,365	552	1,132
Used retail vehicles sold	2,441	2,412	2,172	2,187	2,652	2,974	2,562	2,861
Number of service & collision repair orders completed	78,104	78,944	78,001	77,977	93,352	97,074	95,958	91,999
Absorption rate (2)	81 %	89 %	89 %	85 %	82 %	90 %	90 %	85 %
# of wholly-owned dealerships at period end	24	24	24	25	27	29	28	28
# of wholly-owned same store dealerships (3)	21	21	22	22	22	22	21	23
# of service bays at period end	333	333	333	341	341	388	381	381
Same store revenue growth (3)	2.4 %	8.0 %	7.4 %	12.9 %	26.2 %	19.9 %	8.9 %	13.0 %
Same store gross profit growth (3)	7.1 %	7.9 %	11.9 %	16.9 %	25.8 %	18.5 %	9.2 %	8.1 %
Balance Sheet Data								
Cash and cash equivalents	51,198	54,255	34,471	41,991	35,058	38,034	35,113	41,541
Restricted cash	-	-	10,000	10,000	10,000	-	-	-
Trade and other receivables	52,126	54,148	47,993	64,719	69,714	62,098	57,662	69,747
Inventories	201,662	194,438	199,085	217,663	232,837	237,421	278,062	261,764
Revolving floorplan facilities	221,174	212,840	203,525	225,387	246,325	228,526	264,178	261,263

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

First Quarter Operating Results

EBITDA for the three month period ended March 31, 2014 increased by 36.8% to $14.5 million, from $10.6 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 Company also purchased a number of properties in late 2013 which have contributed to the increase in EBITDA. As noted previously, the Company's EBITDA was negatively impacted by $0.6 million as a result of an increase in share-based compensation due to a 34% increase in the Company's share price during the quarter. Adjusted EBITDA for the quarter ended March 31, 2014 increased by $4.3 million or 40.2% from $10.7 million to $15.0 million when compared to the results of the Company for the same quarter in the prior year.

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

(in thousands of dollars) **Period from January 1, 2014 to March 31, 2014**	**2014**	**2013**	**2012**
Net earnings	8,296	6,822	4,112
Income tax	2,881	2,309	1,441
Depreciation of property and equipment	2,512	1,189	1,025
Interest on long-term indebtedness	764	237	214
EBITDA	14,453	10,557	6,792
Add back:			
Share-based compensation attributed to changes in share price	565	139	50
Adjusted EBITDA	**15,018**	**10,696**	**6,842**

Pre-tax earnings increased by $2.1 million or 23.1% to $11.2 million for the three month period ended March 31, 2014 from $9.1 million in the same period of the prior year. Net earnings increased by $1.5 million or 22.1% to a profit of $8.3 million in the first quarter of 2014 from a $6.8 million profit when compared to the prior year. Improvements in same store sales and gross profit, as well as the impact of acquisitions completed after the first quarter of 2013, contributed to the increase in net earnings. Income tax expense increased by $0.6 million to $2.9 million in the first quarter of 2014 from $2.3 million in the same period of 2013 due to the increase in pre-tax earnings.

Adjusted net earnings increased by $1.8 million or 26.1% to $8.7 million for the three month period ended March 31, 2014 from $6.9 million in the same period of the prior year.

The following table reconciles net earnings to adjusted net earnings for the quarters ended March 31:

(in thousands of dollars)	**2014**	**2013**	**2012**
Net earnings	8,296	6,822	4,112
Add back:			
Share-based compensation attributed to changes in share price, net of tax	419	103	37
Adjusted net earnings	8,715	6,925	4,149
Weighted average number of shares	21,686	19,802	19,881
Adjusted net earnings per share	0.40	0.35	0.21

Revenues

Revenues for the three month period ended March 31, 2014 increased by $80.2 million or 28.2% 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 $42.2 million or 24.2% for the three month period ended March 31, 2014 to $216.5 million from $174.3 million in the same period of the prior year, mainly due to an increase in new vehicles sold of 14.6%. 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 $23.3 million or 37.2% for the three month period ended March 31, 2014. The increase in new and used vehicle retail sales greatly contributed to the increase in finance and insurance revenue, which increased by $3.4 million or 19.3% in the three month period ended March 31, 2014. Parts, service and collision repair revenue increased by $11.2 million or 37.9% for the three month period ended March 31, 2014.

Revenues - Same Store Analysis

The following table summarizes the results for the three month period ended March 31, 2014 on a same store basis by revenue source and compares these results to the same period in 2013.

Same Store Revenue and Vehicles Sold

	For the Three Months Ended		
(in thousands of dollars)	**March 31, 2014**	**March 31, 2013**	**% Change**
Revenue Source			
New vehicles - retail	152,764	140,819	8.5 %
New vehicles - fleet	35,358	29,336	20.5 %
New vehicles	188,122	170,155	10.6 %
Used vehicles - retail	56,319	46,318	21.6 %
Used vehicles - wholesale	18,282	15,170	20.5 %
Used vehicles	74,601	61,488	21.3 %
Finance, insurance and other	18,275	17,041	7.2 %
Subtotal	280,998	248,684	13.0 %
Parts, service and collision repair	32,057	28,430	12.8 %
Total	313,055	277,114	13.0 %
New retail vehicles sold	4,115	4,018	2.4 %
New fleet vehicles sold	1,044	1,027	1.7 %
Used retail vehicles sold	2,447	2,145	14.1 %
Total	7,606	7,190	5.8 %
Total vehicles retailed	6,562	6,163	6.5 %

Same store revenue increased by $35.9 million or 13.0% in the three month period ended March 31, 2014 when compared to the same period in 2013. New vehicle revenues increased by $18.0 million or 10.6% for the first quarter of 2014 over the prior year due to an increase in new vehicle sales of 114 units or 2.3% and an increase in the average revenue per new vehicle sold of $2,738 or 8.1%.

Same store used vehicle revenues increased by $13.1 million or 21.3% for the three month period ended March 31, 2014 over the same period in the prior year due to an increase in used vehicle sales of 302 units or 14.1% and an increase in the average revenue per used vehicle sold of $1,821 or 6.4%.

Same store parts, service and collision repair revenue increased by $3.6 million or 12.8% for the first quarter of 2014 compared to the prior period and was primarily a result of an increase in overall repair orders completed of 1,160 or 1.5% and an $43 or 11.4% increase in the average revenue per repair order completed.

Same store finance, insurance and other revenue increased by $1.2 million or 7.2% for the three month period ended March 31, 2014 over the same period in 2013. This was due to an increase in the average revenue per unit retailed of $20 or 0.7% and an increase in the number of new and used vehicles retailed of 399 units.

Gross Profit

Gross profit increased by $12.3 million or 24.1% for the three month period ended March 31, 2014 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 $1.8 million or 11.2% for the three month period ended March 31, 2014. The increase in new vehicle gross profit can be attributed to an increase in the number of new vehicles sold of 751 or 14.6%, slightly offset by a decrease in the average profit per new vehicle sold of $129 or 4.1%. During the three month period ended March 31, 2014, gross profit from used vehicles increased by $1.7 million or 45.9% over the same period in the prior year due to increases in the number of used vehicles sold of 674 or 30.8% and the average gross profit per used vehicle sold of $208 or 12.0%. The Company's finance and insurance gross profit increased by $3.4 million or 21.1% during the first quarter of 2014. This increase can mainly be attributed to increases in the total number of vehicles retailed of 1,329 or 21.1%. Parts, service and collision repair gross profit increased by $5.4 million or 35.3% in the first quarter of 2014, due primarily to increases in the number of repair orders completed of 14,022 or 18.0% and the average profit per repair order completed of $29 or 14.9%.

Gross Profit - Same Store Analysis

The following table summarizes the results for the three month period ended March 31, 2014, on a same store basis by revenue source, and compares these results to the same period in 2013.

Same Store Gross Profit and Gross Profit Percentage

	For the Three Months Ended					
	Gross Profit			Gross Profit %		
(in thousands of dollars)	March 31, 2014	March 31, 2013	% Change	March 31, 2014	March 31, 2013	Change
Revenue Source						
New vehicles - Retail	15,724	15,522	1.3 %	10.3 %	11.0 %	(0.7)%
New vehicles - Fleet	19	120	(84.2)%	0.1 %	0.4 %	(0.3)%
New vehicles	15,743	15,642	0.6 %	8.4 %	9.2 %	(0.8)%
Used vehicles - Retail	4,303	3,375	27.5 %	7.6 %	7.3 %	0.3 %
Used vehicles - Wholesale	695	351	98.0 %	3.8 %	2.3 %	1.5 %
Used vehicles	4,998	3,726	34.1 %	6.7 %	6.1 %	0.6 %
Finance and insurance	16,779	15,566	7.8 %	91.8 %	91.3 %	0.5 %
Subtotal	37,520	34,934	7.4 %	13.4 %	14.0 %	(0.6)%
Parts, service and collision	16,346	14,730	11.0 %	51.0 %	51.8 %	(0.8)%
Total	53,866	49,664	8.5 %	17.2 %	17.9 %	(0.7)%

Same store gross profit increased by $4.2 million or 8.5% for the three month period ended March 31, 2014 when compared to the same period in the prior year. New vehicle gross profit increased by $0.1 million or 0.6% in the three month period ended March 31, 2014 when compared to 2013 as a result of an increase in new vehicle sales of 114 units or 2.3% and an decrease in the average gross profit per new vehicle sold of $49 or 1.6%.

Used vehicle gross profit increased by $1.3 million or 34.1% in the three month period ended March 31, 2014 over the prior year. This was due to increases of $305 or 17.6% in the average gross profit per used vehicle retailed and an increase in the number of used vehicles sold of 302 units.

Parts, service and collision repair gross profit increased by $1.6 million or 11.0% in the three month period ended March 31, 2014 when compared to the same period in the prior year as a result of an increase in the number of repair orders completed of 1,160 and an increase in the average gross profit per repair order completed of $18 or 9.2%.

Finance and insurance gross profit increased by 7.8% or $1.2 million in the three month period ended March 31, 2014 when compared to the prior year as a result of an increase in the average gross profit per unit sold of $31 and an increase in units retailed of 399.

Operating expenses

Operating expenses increased by 24.8% or $10.0 million during the three month period ended March 31, 2014 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 increased to 79.4% in the first quarter of 2014 from 78.9% 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 March 31, 2014, employee costs increased by $7.6 million to $33.7 million from $26.1 million in the prior year period. Employee costs as a percentage of gross profit increased to 53.2% compared to 51.1% in the same period of the prior year. Management attributes the increases mainly to a decrease in new vehicle gross margins due to increased pricing competition in the marketplace and less volume incentives achieved in the first quarter of 2014 as compared to 2013.

Selling and administrative costs

During the three month period ended March 31, 2014, selling and administrative costs increased by $2.2 million or 21.9% primarily due to the three dealership acquisitions completed subsequent to the first quarter of 2013. Selling and administrative expenses as a percentage of gross profit decreased to 19.4% in the first quarter of 2014 from 19.7% in the comparable period of 2013. 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 March 31, 2014, facility lease costs decreased by 37.7% to $1.9 million from $3.0 million primarily due to the purchase of the eleven previously leased real estate properties during the last quarter of 2013.

Amortization

During the three month period ended March 31, 2014, amortization increased to $2.5 million from $1.2 million in the same period of the prior year. The increase in amortization can be primarily attributed to the purchase of the eleven real estate properties in the fourth quarter of 2013.

Income from investments in associates

During the three month period ended March 31, 2014, the Company earned $0.9 million as a result of its investments in Dealer Holdings Ltd. ("DHL") and Green Isle G Auto Holdings Inc. ("Green Isle"). On March 10, 2014, the Company invested in Prairie Auto Holdings Ltd. ("PAH") which subsequently invested in Saskatoon Motor Products Ltd., a Chevrolet dealership in Saskatoon, Saskatchewan and Mann-Northway Auto Source, a Chevrolet, Buick, GMC, Cadillac dealership in Prince Albert, Saskatchewan. The investments made results in an indirect equity interest of 70%. The earnings from the two dealerships included in the first quarter of 2014 were marginal due to acquisition costs and transition to AutoCanada's accounting policies. In addition to the income from investments in associates, during the three month period ended March 31, 2014, the Company also earned $0.09 million in management services revenue from subsidiaries of DHL and Green Isle. 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 dealerships are not wholly-owned by AutoCanada, the Company charges a management services fee in order to recover the costs of resources provided. Management is very pleased with the financial results of its investments in associates for the first quarter of 2014.

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

Finance costs

The Company incurs finance costs on its revolving floorplan facilities, long term indebtedness and banking arrangements. During the three month period ended March 31, 2014, finance costs on our revolving floorplan facilities increased by 17.6% to $2.0 million from $1.7 million in the first quarter of 2013, mainly due to increased inventory as a result of the acquisitions of St. James Audi and VW, Courtesy Chrysler, and Eastern Chrysler subsequent to the first quarter of 2013. Finance costs on long term indebtedness increased by $0.53 million in the first quarter of 2014 due to the increase in long-term debt related to the purchase of the real estate properties in the fourth quarter of 2013.

Income Taxes

Income tax expense for the three month period ended March 31, 2014 increased by $0.6 million to $2.9 million from $2.3 million in 2013.

During the first quarter of 2014, the Company paid $7.3 million of cash taxes which relates to the fiscal 2013 taxation year and installments toward the 2014 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.

Sensitivity

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

Floorplan costs net of manufacturer interest credits

Some of our manufacturers provide non-refundable credits on the finance costs for our revolving floorplan facilities to offset the dealership's cost of inventory that, on average, effectively provide the dealerships with interest-free floorplan financing for the first 45 to 60 days of ownership of each financed vehicle. During the three month period ended March 31, 2014, the floorplan credits earned were $2,020 (2013 - $1,360). 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)	**March 31, 2014**	**March 31, 2013**
Floorplan financing	1,965	1,675
Floorplan credits earned	(2,020)	(1,360)
Net carrying cost of vehicle inventory	(55)	315

GROWTH, ACQUISITIONS, RELOCATIONS AND REAL ESTATE

The Company operates 34 franchised automotive dealerships, 28 of which are wholly owned, and 6 in which it has an investment with significant influence.

Growth

On April 29, 2014, the Company announced that it signed a purchase agreement for a dealer group, as well as purchase agreements for additional unrelated dealerships outside of the dealer group. In total, the Company executed purchase agreements for eight dealerships, which the Company expects to close at various times within the next 90 days. All such agreements are in different stages of progress with respect to due diligence, and all are subject to manufacturer approval, which is anticipated but not assured.

With respect to such dealerships, the estimated aggregate results in 2013 were as follows:

- Total revenues of $422 million
- Total new vehicles retailed of 5,936
- Total used vehicles retailed of 3,538
- Total service bays of 126

The purchase multiples are consistent with recent acquisition activity. The Company has a number of financing alternatives available and anticipates financing these acquisitions through either debt or the issuance of equity or a combination thereof.

Dealership Investments

Investment in Waverley BG Holdings Inc. ("WBG")

On April 1, 2014, the Company invested a total of $10.1 million to acquire an 80.0% participating, non-voting common share interest in Waverley BG Holdings Inc. ("WBG"). WBG is an entity formed between a subsidiary of AutoCanada and Mr. Priestner which, on April 1, 2014, acquired 100% of the operating assets of McNaught Buick Cadillac GMC ("McNaught") in Winnipeg, Manitoba. To comply with

GM Canada’s approval, Mr. Priestner is required to have 100% voting control of WBG. The investment in WBG was reviewed and approved by the independent members of AutoCanada’s Board of Directors.

The dealership is subject to financial covenants as part of its borrowing arrangements that may restrict its ability to transfer funds to WBG if the payment of such funds resulted in a breach of covenants. McNaught is also subject to minimum working capital requirements imposed by GM Canada, which may restrict the dealership's ability to transfer funds to WBG if minimum working capital requirements are not met.

Although the Company holds no voting rights in WBG, the Company exercises significant influence by virtue of its ability to appoint one member of the board of directors of WBG and the ability to participate in financial and operating policy decisions of WBG. 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 WBG under the equity method. There are no guarantees to WBG or significant relationships other than those disclosed in Note 23 of the condensed interim consolidated financial statements of the Company for the period ended March 31, 2014.

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

Investment in Prairie Auto Holdings Ltd. (“PAH”)

On March 10, 2014, the Company invested a total of $41.7 million consisting of $32.6 million in cash and issued 205,000 shares of ACI (at a value of $9.1 million) 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 10, 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. As a result of its investment, the Company owns a 70% indirect interest in the two dealerships.

The dealerships are subject to financial covenants as part of their borrowing arrangements that may restrict their ability to transfer funds to PAH if the payment of such funds resulted in a breach of covenants. SMP and MNAS are also subject to minimum working capital requirements imposed by GM Canada, which may restrict the dealerships' ability to transfer funds to PAH if minimum working capital requirements are not met. 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 has accounted for its investment in PAH under the equity method. There are no guarantees to PAH or significant relationships other than those disclosed in Note 11 of the condensed interim consolidated financial statements of the Company for the period ended March 31, 2014.

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 having 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.

Purchase of existing facility

On April 3, 2014, the Company purchased the existing Chilliwack Volkswagen facility that was formerly leased from a third party. The purchase price of the land and building was $1,773.

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 began renovations to the

dealership facility in early 2014. The Company expects to open the new dealership in August of 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.

Dealership Relocations

Relocation of Northland Chrysler Jeep Dodge and Northland Nissan

The Company is currently in the process of relocating its Northland Chrysler Jeep Dodge Ram dealership. The expected total project cost including land is $18 million. 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.

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.

The investments in dealerships that we made in 2014 are fairly recent. As a result, there is very little tangible evidence of our progress made with respect to integration of these investments other than that we are very pleased with the reception we have had from the staff at these dealerships. The Company intends to provide further insight into the integration of these investments in future quarterly reports.

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.

Capital Plan

In addition to dealership open points and dealership relocations described above, the Company maintains a capital plan for contemplated future capital projects. Details of the capital plan are described below:

Dealership Relocations

Management estimates the total capital requirements of planned dealership relocations to be approximately $53.4 million with expected completion by the end of fiscal 2016.

Current Dealership Expansion Needs

The Company has identified approximately $4.1 million in capital costs that it may incur in order to expand or renovate five of its current locations.

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.

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 believes that it is highly likely to require additional capital in the form of additional debt, issuance of equity, or a combination thereof. The Company continues to evaluate its options in order to determine the optimal form of financing in order to execute upon its current acquisition opportunities.

The Company's analysis of its available capital based on the balance sheet at March 31, 2014 and the amended Credit Agreement described under "Credit Facilities and Floor Plan Financing" below is as follows:

- The Company has drawn $49.5 million on its $70.0 million revolving term facility. As such, the Company has approximately $20.5 million available on its revolving term facility.
- The Company has drawn $20.0 million on its $30.0 million acquisition facility to be used to finance future dealership acquisitions, leaving $10.0 million available on its acquisition facility.
- The Company has drawn $49.1 million on its $90.0 million non-revolving term facility to be used for real estate purchases. As such, the Company has approximately $40.9 million available on this facility 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 has $4.0 million in land and buildings that are currently not financed. As such, the Company has $2.6 million in available liquidity if it were to refinance this real estate.

As a result of the above initiatives, the Company currently has approximately $38.1 million in available liquidity, not including future retained cash from operations that it may deploy for growth expenditures including acquisitions. The Company also currently has $40.9 million in available liquidity for future real estate purchases.

Cash Flow from Operating Activities

Cash flow from operating activities (including changes in non-cash working capital) of the Company for the three month period ended March 31, 2014 was $8.9 million (cash provided by operating activities of $8.0 million plus net increase in non-cash working capital of $0.9 million) compared to $6.1 million (cash provided by operating activities of $5.5 million plus net increase in non-cash working capital of $0.6 million) in the same period of the prior year.

Cash Flow from Investing Activities

For the three month period ended March 31, 2014, cash flow from investing activities of the Company was a net outflow of $37.9 million as compared to a net outflow of $11.4 million in the same period of the prior year. In the first quarter of 2014, the Company paid approximately $32.6 million in cash consideration to acquire its investment in SMP and MNAS and purchased land and a building for expanded dealership operations for $4.1 million.

Cash Flow from Financing Activities

For the three month period ended March 31, 2014, cash flow from financing activities was a net inflow of $35.5 million as compared to $12.8 million in the same period of 2013. The increase was primarily due to the $20.0 million draw on its acquisition facility during the first quarter of 2014 which was used to finance acquisitions.

Economic Dependence

As stated in Note 5 of the condensed interim consolidated financial statements for the period ended March 31, 2014, the Company has significant commercial and economic dependence on Chrysler Canada. As a result, the Company is subject to significant risk in the event of the financial distress of Chrysler Canada, one of our major vehicle manufacturers and parts suppliers. Details of this relationship and balances of assets with Chrysler Canada are described in Note 5 of the condensed interim consolidated financial statements.

Credit Facilities and Floor Plan Financing

Other than as described below, there have been no changes to credit facilities or our floorplan financing facilities as described in the annual management discussion and analysis for the year ended December 31, 2013, which is available on SEDAR (www.sedar.com).

On April 23, 2014, the Company announced that it had increased its existing syndicated floorplan facility ("Floorplan Facility") with The Bank of Nova Scotia ("Scotiabank") and The Canadian Imperial Bank of Commerce ("CIBC") by $200.0 million, bringing total availability to $550.0 million. All significant terms and conditions of the previous facility remain unchanged. The Facility bears a rate of Bankers' Acceptance plus 1.15% (2.37% as at March 31, 2014) per annum.

On April 3, 2014, the Company announced that it increased its existing syndicated credit agreement ("Credit Agreement") by $60.0 million, bringing total availability to $190.0 million. The Credit Agreement now includes HSBC Bank Canada ("HSBC"), Alberta Treasury Branches ("ATB"), and Royal Bank of Canada ("RBC"), with HSBC acting as administrative agent to the Credit Agreement. The Credit Agreement now provides the Company with the following facilities:

- a $70.0 million revolving operating facility that may be used for ongoing working capital and general corporate purposes, including acquisitions;
- a $30.0 million revolving acquisition facility that may be used for the acquisition of auto dealerships and associated real estate; and
- a $90.0 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.

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 March 31, 2014:

Financial Covenant	Requirement	Actual Calculation
HSBC Syndicated Credit Agreement:		
Funded Debt to EBITDA	Shall not exceed 2.25:1.00	1.61
Adjusted debt to EBITDAR	Shall not exceed 4.50:1.00	2.82
Debt Service Coverage Ratio	Shall not be less than 1.20	2.34
Tangible Net Worth	Shall not drop below $60 million	$88.6 million
Scotiabank:		
Current Ratio	Shall not be less than 1.10	1.13
Tangible Net Worth	Shall not be less than $40 million	$60.2 million
Debt to Tangible Net Worth	Shall not exceed 7.50	4.75

As at March 31, 2014, 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 21 of the annual audited consolidated financial statements for the year ended December 31, 2013. There have been no significant changes to the nature of the Company's financial instruments since that time.

Growth vs. Non-Growth Capital Expenditures

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

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

(in thousands of dollars)	January 1, 2014 to March 31, 2014	January 1, 2013 to March 31, 2013
Leasehold improvements	89	114
Machinery and equipment	176	103
Furniture and fixtures	57	53
Computer equipment	151	281
Company & lease vehicles	165	22
	638	573

Amounts relating to the expansion of sales and service capacity are considered growth expenditures. Growth expenditures are discretionary, represent cash outlays intended to provide additional future cash flows and are expected to provide benefit in future periods. During the three month period ended March 31, 2014, growth capital expenditures of $4.7 million were incurred. These expenditures related primarily to land and a building that were purchased for expanded dealership operations during the first quarter of 2014 for $4.1 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)	January 1, 2014 to March 31, 2014	January 1, 2013 to March 31, 2013
Purchase of property and equipment from the Statement of Cash Flows	5,335	2,390
Less: Amounts related to the expansion of sales and service capacity	(4,697)	(1,817)
Purchase of non-growth property and equipment	638	573

Repairs and maintenance expenditures are expensed as incurred and have been deducted from earnings for the period. Repairs and maintenance expense incurred during the three month period ended March 31, 2014, were $0.9 million (2013 - $0.6 million).

Planned Capital Expenditures

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

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

Contractual Obligations

The Company has operating lease commitments, with varying terms through 2029, to lease premises and equipment used for business purposes.

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

(in thousands of dollars)	$
2014	4,811
2015	6,086
2016	5,973
2017	5,192
2018	5,285
Thereafter	51,729
Total	79,076

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

Financial Position

The following table shows selected audited balances of the Company (in thousands) for December 31, 2013 and December 31, 2012, as well as unaudited balances of the Company at March 31, 2014, September 30, 2013, June 30, 2013, March 31, 2013, September 30, 2012, and June 30, 2012:

(in thousands of dollars)	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012
Cash and cash equivalents	41,541	35,113	38,034	45,058	51,991	44,471	54,255	51,198
Trade and other receivables	69,747	57,662	62,098	69,714	64,719	47,993	54,148	52,126
Inventories	261,764	278,062	237,421	232,837	217,663	199,085	194,438	201,662
Assets	667,016	618,940	530,791	504,359	454,824	410,376	420,046	414,003
Revolving floorplan facilities	261,263	264,178	228,526	246,325	225,387	203,525	212,840	221,174
Non-current debt and lease obligations	123,811	83,580	33,647	8,744	40,340	23,937	26,039	23,027

Net Working Capital

The automobile manufacturers represented by the Company require the Company to maintain net working capital for each individual dealership. At March 31, 2014, the aggregate of net working capital requirements was approximately $41.7 million. At March 31, 2014, all working capital requirements had been met by each dealership. The working capital requirements imposed by the automobile manufacturers' may limit our ability to fund capital expenditures, acquisitions, dividends, or other commitments in the future if sufficient funds are not generated by the Company. Net working capital, as defined by automobile manufacturers, may not reflect net working capital as determined using GAAP measures. As a result, it is possible that the Company may meet automobile manufacturers' net working capital requirements without having sufficient aggregate working capital using GAAP measures. The Company defines net working capital amounts as current assets less current liabilities as presented in the interim consolidated financial statements. At March 31, 2014, the Company had aggregate working capital of approximately $39.5 million. During the quarter, the Company recorded approximately $17.0 million in current tax payable to be paid over the remainder of 2014 and early 2015, which explains why the Company's working capital as at March 31, 2014 is below aggregate working capital requirements.

The net working capital requirements above restrict the Company's ability to transfer funds up from its subsidiaries, as each subsidiary dealership is required to be appropriately capitalized as explained above. In addition, our VCCI Facilities require the VW 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 19 of the condensed interim consolidated financial statements of the Company for the period ended March 31, 2014 summarize the transactions between the Company and its related parties. These transactions are prepayments of rent, rents paid to companies with common ownership, management and directors and management fees.

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 and Green Isle 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 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 believes that, as a result of the support provided, the dealerships have improved in sales volumes and profitability since being acquired by DHL and Green Isle. 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 2014 (in thousands of dollars):

Record date	Payment date	Declared $	Paid $
February 28, 2014	March 17, 2014	4,760	4,760

On May 8, 2014, the Board declared a quarterly eligible dividend of $0.23 per common share on AutoCanada's outstanding Class A common shares, payable on June 16, 2014 to shareholders of record at the close of business on May 30, 2014. The quarterly eligible dividend of $0.23 represents an annual dividend rate of $0.92 per share.

As per the terms of the HSBC syndicated Credit Agreement, 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)	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014
Cash provided by operating activities	6,569	9,235	1,748	6,125	14,391	7,787	9,674	8,850
Deduct:								
Purchase of property and equipment	(410)	(511)	(858)	(590)	(905)	(647)	(1,319)	(1,069)
Free cash flow (1)	6,159	8,724	890	5,535	13,486	7,140	8,355	7,781
Weighted average shares outstanding at end of period	19,876,139	19,804,014	19,802,947	19,802,048	20,346,713	21,638,882	21,638,433	21,685,876
Free cash flow per share	0.310	0.441	0.045	0.280	0.663	0.330	0.386	0.359
Free cash flow - 12 month trailing	28,474	27,042	18,932	21,308	28,635	27,051	34,516	36,762

[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 cut-offs occur.

The following table summarizes the net increase in cash due to changes in non-cash working capital for the three month periods ended March 31, 2014 and March 31, 2013:

(in thousands of dollars)	January 1, 2014 to March 31, 2014	January 1, 2013 to March 31, 2013
Trade and other receivables	(12,085)	(9,682)
Inventories	15,334	(16,586)
Prepaid expenses	(902)	(269)
Trade and other payables	1,122	5,490
Lease vehicle repurchase obligations	312	(257)
Revolving floorplan facilities	(2,915)	21,862
	866	558

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)	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014
Cash provided by operating activities before changes in non-cash working capital	9,609	10,029	9,435	5,564	14,258	15,234	12,894	7,984
Deduct:								
Purchase of non-growth property and equipment	(366)	(511)	(457)	(573)	(892)	(608)	(963)	(638)
Adjusted free cash flow (1)	9,243	9,518	8,978	4,991	13,366	14,626	11,931	7,346
Weighted average shares outstanding at end of period	19,876,139	19,804,014	19,802,947	19,802,048	20,346,713	21,638,882	21,638,433	21,685,876
Adjusted free cash flow per share	0.465	0.481	0.453	0.252	0.657	0.676	0.551	0.339
Free cash flow - 12 month trailing	28,453	30,183	31,769	32,730	36,853	41,961	44,914	47,269

[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 three month period ending March 31, 2014, the Company paid approximately $7.3 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.

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)	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014
EBITDA (1)	10,195	10,575	10,299	10,557	16,532	16,626	14,754	14,453
Deduct:								
Depreciation of property and equipment	(1,028)	(1,140)	(1,118)	(1,189)	(1,490)	(1,599)	(2,069)	(2,512)
EBIT (1)	9,167	9,435	9,181	9,368	15,042	15,027	12,685	11,941
Average long-term debt	25,276	30,390	31,007	36,293	28,871	25,725	62,959	108,120
Average shareholder's equity	116,050	119,380	122,877	126,188	152,983	181,576	187,652	196,608
Average capital employed (1)	141,326	149,770	153,884	162,481	181,854	207,301	250,611	304,728
Return on capital employed (1)	6.5 %	6.3 %	6.0 %	5.8 %	8.3 %	7.2 %	5.1 %	3.9 %
Comparative adjustment (2)	(15,376)	(15,376)	(15,542)	(15,542)	(15,542)	(15,542)	(15,951)	(15,951)
Adjusted average capital employed (2)	125,950	134,394	138,342	146,939	166,312	191,759	234,864	288,777
Adjusted return on capital employed (2)	7.3 %	7.0 %	6.6 %	6.4 %	9.0 %	7.8 %	5.4 %	4.1 %
Adjusted return on capital employed - 12 month trailing				27.6 %				25.1 %

[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.

Adjusted return on capital employed decreased in the first quarter of 2014 as compared to the prior year due to a significant draw on the Company's revolving term facility and acquisition facility in order to invest in Prairie Auto Holdings Ltd. which purchased an interest in two General Motors dealerships during the quarter. Management notes that we expect adjusted return on capital to be lower than historical due to the Company's continued investments in dealership real estate. Real estate typically achieves a lower rate of return than operating dealership investments due to the nature of the asset. However, in most cases, the Company achieves significant cash flow savings as a result of owning real estate as opposed to leasing. Management also believes that investment in real estate gives the Company greater control over the future of its dealerships and generally prefers to own its facilities over leasing them.

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 March 31, 2014. 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.

Change in accounting policies

The Company has adopted the following interpretation, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions:

- IFRIC 21, *Levies* - This interpretation requires the Company to consider certain government imposed payments, or levies, such as property tax, to determine whether the obligating event requiring recognition of a liability arises at a point in time, or over a period of time. The adoption of IFRIC 21 did not require any current or retrospective adjustments as at January 1, 2014.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended March 31, 2014, there were no changes in the Company's disclosure controls or internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

OUTLOOK

The outlook regarding vehicle sales in Canada is difficult to predict. According to industry analysts, new light vehicle unit sales in Canada are expected to increase by 2.6 percent in 2014 as compared to the prior year.

New Vehicle Sales Outlook by Province *

	1994 - 2005 (Average)	2006 - 2011 (Average)	2012	2013	2014F
Canada	**1,446**	**1,589**	**1,677**	**1,745**	**1,760**
Atlantic	**102**	**119**	**126**	**135**	**136**
Central	**936**	**997**	**1,034**	**1,061**	**1,066**
Quebec	366	408	416	415	416
Ontario	570	589	618	646	650
West	**408**	**473**	**517**	**549**	**558**
Manitoba	42	47	50	54	55
Saskatchewan	36	50	55	58	59
Alberta	166	218	239	257	262
British Columbia	164	158	173	180	182

* Includes cars and light trucks

Source: Scotia Economics - Global Auto Report, March 20, 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.

As noted in our annual report, it has become apparent to Management that the Canadian dealership 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 for large, more profitable, premium dealerships.

As previously noted above, the Company announced that it had signed a purchase agreement for a dealer group, as well as purchase agreements for additional unrelated dealerships outside of the dealer group. All such agreements are in different stages of progress with respect to due diligence, and all are subject to Manufacturer approval which is anticipated, but is not assured. Management is very pleased to have signed a purchase agreement for a dealer group, which inherently increases the acquisition guidance announced in our 2013 annual report.

Our previous guidance, as at March 20, 2014, included in the addition of ten to twelve dealerships over the coming 24 months. Since that guidance was announced, we have completed one acquisition and announced the signing of a purchase agreement for a dealer group as well as purchase agreements for additional unrelated dealerships outside of the dealer group. In total, the Company has executed purchase agreements for eight dealerships that we would expect to close by August 1, 2014. As a result, management has increased its guidance to one dealer group and nine to eleven additional dealerships by March 31, 2016. Additional dealer groups added during this period would further add to the guidance. It shall be noted that all acquisitions included in the guidance are subject to manufacturer approval.

The Board of Directors of AutoCanada reviewed its dividend policy during its May meeting. In keeping with the current dividend strategy and remaining committed to providing shareholders with appropriate dividend growth, the Board of Directors have declared an increase to the quarterly dividend rate for the thirteenth consecutive quarter to $0.23 per share, or $0.92 per share on an annualized basis.

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 RISK FACTORS

In addition to risk factors described in the 2013 Annual Information Form dated March 20, 2014 (available on the SEDAR website at www.sedar.com), the Company believes that although likely not material to current operations; additional risk should be attributed to the impact of hail storms on the Company's financial results. The Company currently operates its dealerships in areas of Canada which are subject to hail, some more prone than others (known as red-zones). Insurance providers have indicated to the Company and the industry as a whole that dealerships which operate in so called red-zones will be subject to higher premiums, deductibles, and aggregates (maximum dollar amount the Company is required to pay in the event of a claim). The Company's dealerships currently operating in red-zones have had their deductibles per unit of inventory increased to $2,500 per unit with aggregate limits per incident of $500,000. The increases in deductibles and aggregates for our dealerships currently operating in red-zones have exposed the Company to greater financial liability in the event of a hail storm. The Company currently operates five of its thirty-four dealerships in red-zones; therefore the exposure is currently limited. However, if the Company continues to expand through acquisitions of dealerships in red-zones it will be subject to greater financial risk. Insurance providers have also indicated that aggregate limits may continue to rise in the future, therefore there is potential for further financial risk if aggregates and deductibles continue to rise or become unavailable in the market. The Company continues to investigate how it might best address this risk as it continues to grow and expand its operations in red-zones.

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 impact of income taxes on future cash flow;
- 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;

- 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;
- estimates and expectations regarding the potential real estate purchase;
- 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;
- beliefs, expectations, and the effects of less frequent dividend reviews;
- 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.

Adjusted EBITDA

Adjusted EBITDA is an indicator of a company's operating performance and ability to incur and service debt prior to recognizing the portion of share-based compensation related to changes in the share price and its impact on the Company's cash-settled portions of its share-based compensation programs. The Company considers this expense to be non-cash in nature as we maintain a share purchase trust in which we purchase shares on the open market as these units are granted to reduce the cash flow risk associated with fluctuations in the share price. Share-based compensation, a component of employee remuneration, can vary significantly with changes in the price of the Company's common shares. The Company believes adjusted EBITDA provides improved continuity with respect to the comparison of our operating results over a period of time.

Adjusted net earnings and Adjusted net earnings per share

Adjusted net earnings and adjusted net earnings per share are measures of our profitability. Adjusted net earnings is calculated by adding back the after-tax effect of impairment or reversals of impairment of intangible assets, impairments of goodwill, and the portion of share-based compensation related to changes in the share price and its impact on the Company's cash-settled portions of its share-based compensation programs. The Company considers this expense to be non-cash in nature as we maintain a share purchase trust in which we purchase shares on the open market as these units are granted to reduce the cash flow risk associated with fluctuations in the share price. Share-based compensation, a component of employee remuneration, can vary significantly with changes in the price of the Company's common shares. Adding back these amounts to net earnings allows management to assess the net earnings of the Company from ongoing operations. Adjusted net earnings per share is calculated by dividing adjusted net earnings by the weighted-average number of shares outstanding.

EBIT

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

Free Cash Flow

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

Adjusted Free Cash Flow

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

Absorption Rate

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

Average Capital Employed

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

Adjusted Average Capital Employed

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

Return on Capital Employed

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

Adjusted Return on Capital Employed

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

Cautionary Note Regarding Non-GAAP Measures

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