# AUTOCANADA INC.

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

For the period ended September 30, 2014

## READER ADVISORIES

The Management's Discussion & Analysis ("MD&A") was prepared as of November 6, 2014 to assist readers in understanding AutoCanada Inc.'s (the "Company" or "AutoCanada") consolidated financial performance for the three month period and nine month period ended September 30, 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 and nine month period ended September 30, 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 and nine month period ended September 30, 2014 of the Company, and compares these to the operating results of the Company for the three month period and nine month period ended September 30, 2013. Until July 11, 2014, the Company had investments in associates comprised of six General Motors dealerships, and accounted for the investments utilizing the equity method, whereby the operating results of these investments were included in one line item on the statement of comprehensive income known as *Income from investments in associates*. As a result, the Company did not incorporate the consolidated results of its investments in associates in its discussion and analysis as at June 30, 2014. On July 11, 2014, the Company completed a business combination under common control, resulting in the accounting consolidation of the results of its investments in associates using the predecessor values method. Management has provided comparative information and discussion of this business combination in "BUSINESS COMBINATION UNDER COMMON CONTROL."

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. 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 AutoCanada is located at 200 - 15505 Yellowhead Trail, Edmonton, Alberta, T5V 1E5. AutoCanada 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 46 franchised dealerships (see "GROWTH, ACQUISITIONS, RELOCATIONS AND REAL ESTATE") in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, 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 406 service bays during that time.

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

The Company's geographical profile is illustrated below by number of dealerships and revenues by province for the three month periods ended September 30, 2014 and September 30, 2013.

| Location of Dealerships (in thousands of dollars) | September 30, 2014 | | | September 30, 2013 | | |
|---|---|---|---|---|---|---|
| | Number of Dealerships | Revenue | % of Total | Number of Dealerships | Revenue | % of Total |
| British Columbia | 10 | 145,525 | 20 % | 9 | 113,835 | 28 % |
| Alberta | 22 | 362,262 | 49 % | 11 | 187,627 | 47 % |
| Saskatchewan | 3 | 62,123 | 8 % | - | - | - % |
| Manitoba | 4 | 51,418 | 7 % | 4 | 24,000 | 6 % |
| Ontario | 3 | 27,367 | 4 % | 3 | 31,531 | 8 % |
| All other | 3 | 84,655 | 12 % | 2 | 45,836 | 11 % |
| **Total** | 45 | 733,350 | 100 % | 29 | 402,829 | 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 Jeep Dodge Ram | Chrysler | 2013 |
| Calgary, Alberta | Calgary Hyundai | Hyundai | 2014 |
| Calgary, Alberta | Crowfoot Hyundai | Hyundai | 2014 |
| Calgary, Alberta | Hyatt Mitsubishi | Mitsubishi | 2014 |
| Calgary, Alberta | Northland Volkswagen | Volkswagen | 2014 |
| Calgary, Alberta | Fish Creek Nissan | Nissan | 2014 |
| Calgary, Alberta | Hyatt Infiniti | Infiniti | 2014 |
| Calgary, Alberta | Tower Chrysler Jeep Dodge Ram | Chrysler | 2014 |
| Edmonton, Alberta | Crosstown Chrysler Jeep Dodge Ram FIAT | Chrysler | 1994 |
| Edmonton, Alberta | Capital Chrysler Jeep Dodge Ram FIAT | Chrysler | 2003 |
| Edmonton, Alberta | North Edmonton Kia | Kia | 2014 |
| 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 Ram | 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 Ram 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 Ram | 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 |

| Location of Dealerships | Operating Name | Franchise | Year Opened or Acquired |
|---|---|---|---|
| Cambridge, Ontario | Cambridge Hyundai | Hyundai | 2008 |
| Mississauga, Ontario | 401/Dixie Hyundai | Hyundai | 2008 |
| Newmarket, Ontario | Newmarket Infiniti Nissan | Nissan / Infiniti | 2008 |
| Toronto, Ontario | Toronto Chrysler Jeep Dodge Ram | Chrysler | 2014 |
| Montreal, Quebec | BMW Canbec and MINI Mont Royal | BMW / MINI | 2014 |
| Saskatoon, Saskatchewan | Dodge City Chrysler Jeep Dodge RAM | Chrysler | 2014 |
| **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 |
| Edmonton, Alberta | Lakewood Chevrolet | 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 and the common control business combination have also caused substantial fluctuations in operating results from quarter to quarter.

**Dealer Support Services**

During the period ended September 30, 2014, the Company re-organized the corporate head office to form *Dealer Support Services* ("DSS") in order to provide dedicated advice and support to our dealerships. The aim of DSS is to enable our people, and the Company strongly believes in the power of the group to provide synergies among administrative functions including marketing, information technology, inventory management, and legal regulatory compliance. DSS is organized into departments that align with the needs and requirements of our dealerships and is aimed at building a strong platform of dealerships towards long-term profitability.

Central to the structure is the Dealer Support Services Commitment, where we *treat everyone with respect and dignity, and ask ourselves, for all that we do:*

- *Does it improve Dealership Customer Satisfaction?*
- *Does it improve Dealership operations?*
- *Does it make our Dealership employee's jobs easier?*
- *Does it improve Regulatory Compliance?*
- *Does it strengthen Financial partnerships?*
- *Does it strengthen our OEM partnerships?*

As part of the reorganization into DSS, the Company enhanced the senior leadership team to further support the growing number of dealerships owned and managed by AutoCanada. Additions to the team included financial expertise to enhance treasury management, investor relations and capital markets and provide oversight to a growing portfolio of real estate assets. The Company also added a general counsel department to provide assistance with acquisitions, human resources and motor vehicle regulatory matters.

A significant and vitally important focus of any reporting issuer is on regulatory compliance. For AutoCanada this includes compliance and communications with various securities commissions and motor vehicles regulatory councils. We take our responsibilities seriously in these areas and compliance with all legislation is sacrosanct within our organization. We have specialists dedicated to ensuring the Company's adherence to regulations and our team is continually expanding. During the period ended September 30, 2014, we added staff in the areas of marketing, finance and accounting and motor vehicle sales all of whom are intimately familiar with relevant legislation.

*Management Realignment*

In response to the rapid growth of the Company, and the addition of dealerships and manufacturer partners, the Company announced effective 1 January 2015, the following:

- Pat Priestner's five year employment agreement expiring 31 May 2019, has been amended to focus Mr. Priestner's time and attention on the key drivers of long-term shareholder value including strategic initiatives, acquisitions, Manufacturer and Dealer relations, in the capacity of Executive Chair;
- Tom Orysiuk shall become Chief Executive Officer in addition to President, with a focus on assisting the Executive Chair with strategy, Manufacturer and Dealer relations, and shall be responsible for overall operational direction and performance;
- Steve Rose shall become Chief Operating Officer, assisting the President and CEO with a focus on operational direction and execution; and,
- Erin Oor shall become VP Corporate Development and Administration, with a focus on corporate development initiatives and oversight of certain administrative aspects of the business, and to continue with his general counsel duties pending appointment of his replacement in such regard.

Having grown to 46 dealerships and 12 manufacturer partners from the original 16 and 3, respectively, the Company determined that a realignment of senior management duties was an appropriate step to take in order to best assure continued above average dealership operational performance while simultaneously executing a growth plan.

These changes formalize the evolution of the management team which began earlier this year with the appointment of Erin Oor as General Counsel and VP Administration in June, 2014, Chris Burrows as Vice-President & Chief Financial Officer in September 2014, and Jeff Christie, formerly VP Finance, as VP Operations, in September 2014, and which has culminated in the further appointments noted and which management believes shall drive long term shareholder value.

## OUR PERFORMANCE

***Performance vs. the Canadian New Vehicle Market***

New light vehicle sales in Canada in the three month period ended September 30, 2014 were up 10.6% when compared to the same period in 2013. Sales of new light vehicles in Alberta and British Columbia, our primary markets, increased by 11.9% and 10.7%, respectively. The Company's same store unit sales of new vehicles increased by 1.5% during the three month period ended September 30, 2014, mainly due to a decrease in low margin new fleet unit sales (corporate sales) of 7.1%, slightly offset by an increase in new vehicle retail unit sales of 3.7%. The industry sales results noted above do not segregate between fleet sales and retail sales, thus management is pleased with the 3.7% increase in same store new vehicle retail unit sales for the quarter which resulted in strong gains in same store new vehicle gross profit for the quarter.

The following table summarizes Canadian new light vehicle sales for the nine month period ended September 30, 2014 by Province:

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

| | September Year to Date | | | |
|---|---|---|---|---|
| | **2014** | **2013** | **Percent Change** | **Unit Change** |
| British Columbia | 146,647 | 138,594 | 5.8 % | 8,053 |
| Alberta | 204,339 | 196,233 | 4.1 % | 8,106 |
| Saskatchewan | 43,281 | 43,937 | (1.5)% | (656) |
| Manitoba | 43,230 | 42,407 | 1.9 % | 823 |
| Ontario | 551,509 | 497,439 | 10.9 % | 54,070 |
| Quebec | 327,344 | 324,653 | 0.8 % | 2,691 |
| New Brunswick | 32,935 | 32,125 | 2.5 % | 810 |
| PEI | 5,810 | 5,901 | (1.5)% | (91) |
| Nova Scotia | 41,774 | 41,157 | 1.5 % | 617 |
| Newfoundland | 27,699 | 28,310 | (2.2)% | (611) |
| **Total** | 1,424,568 | 1,350,756 | 5.5 % | 73,812 |

[1] DesRosiers Automotive Consultants Inc.

***Performance vs. the Third Quarter of Prior Year***

The strong results achieved in the third quarter of 2014 are indicative of the recent increase in acquisition activity. During the quarter, the Company completed its purchase of the Hyatt Group of Dealerships located in Calgary, Alberta, our largest acquisition to date. The Company also continued to execute upon its acquisition guidance of 8 to 10 additional dealership acquisitions by May 31, 2015 with the purchase of Tower Chrysler Jeep Dodge Ram, a high volume dealership in Calgary, Alberta, as well as its investment in Lakewood Chevrolet, a storied and highly profitable Chevrolet dealership located in our home market of Edmonton, Alberta. Although recently acquired, the dealerships acquired during the quarter are integrating very well into the regional platforms and early financial results of the dealerships are in line with our expectations. During the quarter, the Company also opened the North Edmonton Kia location, a previously announced open point dealership. The Company expects to incur operating losses at this dealership over the first year as the dealership grows its customer base and in particular its parts and service business. Subsequent to quarter end, the Company also completed the purchase of Toronto Chrysler Jeep Dodge Ram, a dealership located in metropolitan Toronto, Ontario. As a result of this purchase, the Company maintains its current guidance to complete an additional 5 to 7 dealerships by May 31, 2015.

The three dealership acquisitions and one open point during the quarter were funded with proceeds from the Company's previous debt and equity offering as well as operating cash flow. The Company maintains a significant amount of working capital and liquidity through its $200 million revolving term facility, which Management believes is sufficient to execute upon its acquisition guidance.

With respect to the automotive retail market in Canada, new vehicle sales have continued to perform at record levels as a result of an improved economy and lower financing costs which, in turn, have made new vehicles more affordable to the consumer. Improvements in technology and fuel economy have also contributed to the higher level of sales as customers benefit both in safety and lower operating costs by purchasing a new vehicle.

As a result of acquisitions completed over the last 12 months, modest same store sales gains, and the previously noted consolidation of its General Motors dealerships, the Company has realized a significant improvement in revenue and earnings growth. Revenues during the quarter increased by $330.5 million or 82.0% over the third quarter of 2013 to $733.4 million. After adjusting to remove the incremental revenues recognized due to the consolidation of the GM dealerships, revenues increased by $182.5 million on a quarter over quarter basis. The significant increase in revenues resulted in an increase in net income of $8.9 million or 80.8% over the same quarter of the prior year, resulting in a $6.8 million increase in earnings attributable to AutoCanada shareholders or a 61.8% increase over the prior year quarter.

Same store revenue, excluding the revenues related to the General Motors dealerships, for the third quarter of 2014 increased by 8.9% or $31.6 million to $384.8 million as compared to $353.2 million in the comparable quarter of 2013. The increase in same store revenue is a result of increases in same store revenue for all four of our business lines. The common control business combination of the General Motors dealerships has been excluded from same store revenue and gross profit analysis as the accounting combination has been treated as an acquisition of stores effective July 11, 2014. Consequently, the results of the General Motors dealerships acquired pursuant to the common control business combination will be included in same store analyses commencing in July 2016.

Same store gross profit for the third quarter of 2014 increased by 11.4% or $6.7 million to $65.3 million as compared to $58.7 million in the comparable quarter of 2013. The increase in same store gross profit is mainly attributable to strong increases in new vehicle gross profit and finance and insurance gross profit, partially offset by decreases in same store used vehicle gross profit and relatively flat parts, service and collision repair gross profit. Overall gross margins were negatively impacted by an increase in used vehicle wholesale revenue, which consists of trade-ins we receive from new vehicle sales in which we ultimately decide to wholesale through the auction as opposed to retailing. Our parts, service and collision repair business also experienced a decrease in gross margin percentage as a result of an increase in wholesale parts sales, which consist of sales of parts to other dealerships and independent service shops. The wholesale parts business typically achieves a lower gross margin percentage and as such can negatively impact margins during a period of higher wholesale activity. A more detailed discussion of same store operating results for the quarter is included in a later section in this document titled, "Results from Operations – Third Quarter Operating Results".

Due to the significant fluctuations in revenue as a result of corporate fleet sales, used vehicle wholesale revenue, and wholesale parts revenue, the Company utilizes gross profit as a top line measure in its analysis of operating margins. Operating expenses as a percentage of gross profit for the third quarter of 2014 remained in line with our expectations at 74.8% as compared to 75.4% for same quarter of the prior year. Pre-tax operating margin as a percentage of gross profit for the third quarter of 2014 decreased to 21.1% as compared to 21.9% in the third quarter of 2013. This decrease is mainly due to an increase in finance costs related to the Company's 5.625% senior unsecured notes which were issued in May of 2014. Although the increase in financing costs lowered the Company's overall pre-tax operating margin, the issuance of debt as opposed to additional equity minimized potential dilution of earnings per share which resulted in a strong increase in earnings per share of $0.23 per share or 45.4% to $0.737 per share as compared to $0.507 per share in the third quarter of 2013.

Overall, the Company is very pleased with its results for the third quarter of 2014 as Management continues to focus on improving same store operations and integrating new acquisitions.

## 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.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Income Statement Data** | | | | | | | | |
| New vehicles | 159,026 | 174,279 | 254,261 | 257,222 | 197,097 | 216,524 | 289,946 | 457,198 |
| Used vehicles | 57,260 | 62,656 | 77,113 | 85,975 | 75,137 | 85,968 | 102,025 | 158,779 |
| Parts, service and collision repair | 29,920 | 29,515 | 34,456 | 37,100 | 41,250 | 40,717 | 45,423 | 78,371 |
| Finance, insurance and other | 14,931 | 17,604 | 22,557 | 22,532 | 20,271 | 21,134 | 26,382 | 39,002 |
| **Revenue** | 261,137 | 284,054 | 388,387 | 402,829 | 333,755 | 364,343 | 463,776 | 733,350 |
| New vehicles | 15,527 | 16,039 | 20,792 | 20,694 | 18,326 | 17,813 | 23,825 | 35,711 |
| Used vehicles | 3,637 | 3,789 | 5,794 | 6,240 | 4,450 | 5,550 | 6,506 | 9,637 |
| Parts, service and collision repair | 15,418 | 15,232 | 17,586 | 20,115 | 20,822 | 20,593 | 23,373 | 38,942 |
| Finance, insurance and other | 13,788 | 16,082 | 20,678 | 20,669 | 18,738 | 19,517 | 24,340 | 35,615 |
| **Gross profit** | 48,370 | 51,142 | 64,850 | 67,718 | 62,336 | 63,473 | 78,044 | 119,905 |
| Gross Profit % | 18.5 % | 18.0 % | 16.7 % | 16.8 % | 18.7 % | 17.4 % | 16.8 % | 16.4 % |
| Operating expenses | 37,739 | 40,353 | 48,639 | 51,080 | 48,447 | 50,402 | 58,920 | 89,713 |
| Operating exp. as a % of gross profit | 78.0 % | 78.9 % | 75.0 % | 75.4 % | 77.7 % | 79.4 % | 75.5 % | 74.8 % |
| Finance costs - floorplan | 1,859 | 1,675 | 1,888 | 1,903 | 1,887 | 1,965 | 2,146 | 3,003 |
| Finance costs - long term debt | 257 | 237 | 218 | 163 | 388 | 764 | 1,844 | 2,646 |
| Reversal of impairment of intangibles | (222) | - | - | - | (746) | - | - | - |
| Income from investments in associates | 255 | 201 | 648 | 555 | 836 | 893 | 2,238 | 359 |
| Income tax | 2,540 | 2,309 | 3,976 | 3,920 | 3,490 | 2,881 | 4,477 | 5,524 |
| Net earnings attributable AutoCanada shareholders (3) | 6,606 | 6,822 | 10,822 | 10,969 | 9,552 | 8,296 | 12,830 | 17,765 |
| EBITDA (1)(3) | 10,299 | 10,557 | 16,532 | 16,626 | 14,754 | 14,453 | 21,702 | 28,674 |
| Basic earnings per share | 0.334 | 0.345 | 0.532 | 0.507 | 0.441 | 0.383 | 0.588 | 0.737 |
| Diluted earnings per share | 0.334 | 0.345 | 0.532 | 0.507 | 0.441 | 0.383 | 0.588 | 0.737 |
| **Operating Data** | | | | | | | | |
| Vehicles (new and used) sold, excluding GM | 6,703 | 7,341 | 10,062 | 10,325 | 8,046 | 8,766 | 9,887 | 14,966 |
| Vehicles (new and used) sold including GM (4) | 7,378 | 8,123 | 11,399 | 11,405 | 9,209 | 9,945 | 12,414 | 18,079 |
| New vehicles sold including GM (4) | 4,956 | 5,665 | 8,246 | 8,023 | 6,090 | 6,570 | 8,658 | 12,821 |
| New retail vehicles sold | 3,982 | 4,118 | 5,487 | 5,986 | 4,932 | 4,773 | 5,980 | 10,686 |
| New fleet vehicles sold | 549 | 1,036 | 1,923 | 1,365 | 552 | 1,132 | 1,146 | 2,135 |
| Used retail vehicles sold | 2,172 | 2,187 | 2,652 | 2,974 | 2,562 | 2,861 | 2,761 | 5,258 |
| Number of service & collision repair orders completed | 78,001 | 77,977 | 93,352 | 97,074 | 95,958 | 91,999 | 97,559 | 198,612 |
| Absorption rate (1) | 89 % | 85 % | 82 % | 90 % | 90 % | 85 % | 92 % | 93 % |
| # of dealerships at period end | 24 | 25 | 27 | 29 | 28 | 28 | 34 | 45 |
| # of same store dealerships (2) | 22 | 22 | 22 | 22 | 21 | 23 | 23 | 23 |
| # of service bays at period end | 333 | 341 | 368 | 413 | 406 | 406 | 516 | 734 |
| Same store revenue growth (2) | 7.4 % | 12.9 % | 26.2 % | 19.9 % | 8.9 % | 13.0 % | 4.1 % | 8.9 % |
| Same store gross profit growth (3) | 11.9 % | 16.9 % | 25.8 % | 18.5 % | 9.2 % | 8.1 % | 5.4 % | 11.4 % |
| **Balance Sheet Data** | | | | | | | | |
| Cash and cash equivalents | 34,471 | 41,991 | 35,058 | 37,940 | 35,113 | 41,541 | 91,622 | 64,559 |
| Restricted cash | 10,000 | 10,000 | 10,000 | - | - | - | - | - |
| Trade and other receivables | 47,944 | 57,144 | 69,136 | 62,105 | 57,771 | 69,422 | 85,266 | 115,074 |
| Inventories | 199,085 | 217,663 | 232,837 | 236,351 | 278,091 | 261,768 | 324,077 | 471,664 |
| Revolving floorplan facilities | 203,525 | 225,387 | 246,325 | 228,526 | 264,178 | 261,263 | 313,752 | 437,935 |

* In conjunction with the business combination under common control completed on July 11, 2014, the Selected Quarterly Financial Information for Q3 2014 includes the consolidated results of the Company's GM stores. All financial information includes 100% of the results of the GM stores, except for Net earnings, EBITDA, and EPS amounts, which are presented net of non-controlling interests.

1 EBITDA and absorption rate have been calculated as described under "NON-GAAP MEASURES".

2 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, excluding the GM stores, as these stores have been treated as acquisitions as at July 11, 2014.

3 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.

4 Until June 30, 2014, the Company had investments in General Motors dealerships that were not consolidated. In Q3 2014, these GM dealerships were consolidated. This number includes 100% of vehicles sold by these dealerships in which we have less than 100% investment.

**BUSINESS COMBINATION UNDER COMMON CONTROL**

On July 11, 2014, the Company completed a business combination under common control, resulting in the consolidation of the financial results of the Company's investments in associates as further described in notes 4 and 12 to the third quarter financial statements. The Company has provided a reconciliation of its consolidated Statement of Comprehensive Income for the three and nine month periods ended September 30, 2014 to its financial results had the results from its investments in associates not been consolidated as at September 30, 2014.

| (in thousands of dollars) | Three month period ended September 30, 2014 (including GM) | Effects of GM Consolidation | Three month period ended September 30, 2014 (excluding GM) |
|---|---|---|---|
| Revenue | 733,350 | (147,979) | 585,371 |
| Cost of sales | (613,445) | 123,799 | (489,646) |
| **Gross Profit** | 119,905 | (24,180) | 95,725 |
| Operating expenses | (89,713) | 18,378 | (71,335) |
| **Operating income before other income (expenses)** | 30,192 | (5,802) | 24,390 |
| Gain (loss) on disposal of assets, net | (1) | (3) | (4) |
| Income from investments in associates | 359 | 2,644 | 3,003 |
| **Operating profit** | 30,550 | (3,161) | 27,389 |
| Finance costs | (6,007) | 573 | (5,434) |
| Finance income | 808 | (67) | 741 |
| **Net income for the period before taxation** | 25,351 | (2,655) | 22,696 |
| Income tax | 5,524 | 593 | 4,931 |
| **Net and comprehensive income for the period** | 19,827 | (2,062) | 17,765 |
| **Net and comprehensive income attributable to:** | | | |
| AutoCanada shareholders | 17,765 | - | 17,765 |
| Non-controlling interests | 2,062 | (2,062) | - |
| | 19,827 | (2,062) | 17,765 |
| **Earnings per share** | | | |
| Basic | 0.737 | - | 0.737 |
| Diluted | 0.737 | - | 0.737 |
| **Weighted average shares** | | | |
| Basic | 24,103,670 | - | 24,103,670 |
| Diluted | 24,103,670 | - | 24,103,670 |

| **(in thousands of dollars)** | **Nine month period ended September 30, 2014 (including GM)** | **Effects of GM Consolidation** | **Nine month period ended September 30, 2014 (excluding GM)** |
|---|---|---|---|
| Revenue | 1,561,471 | (147,979) | 1,413,492 |
| Cost of sales | (1,300,050) | 123,799 | (1,176,251) |
| **Gross Profit** | 261,421 | (24,180) | 237,241 |
| Operating expenses | (199,035) | 18,378 | (180,657) |
| **Operating income before other income (expenses)** | 62,386 | (5,802) | 56,584 |
| Gain (loss) on disposal of assets, net | 36 | (3) | 33 |
| Income from investments in associates | 3,490 | 2,644 | 6,134 |
| **Operating profit** | 65,912 | (3,161) | 62,751 |
| Finance costs | (13,509) | 573 | (12,936) |
| Finance income | 1,431 | (67) | 1,364 |
| **Net income for the period before taxation** | 53,834 | (2,655) | 51,179 |
| Income tax | 12,882 | 593 | 12,289 |
| **Net and comprehensive income for the period** | 40,952 | (2,062) | 38,890 |
| **Net and comprehensive income attributable to:** | | | |
| AutoCanada shareholders | 38,890 | - | 38,890 |
| Non-controlling interests | 2,062 | (2,062) | - |
| | 40,952 | (2,062) | 38,890 |
| **Earnings per share** | | | |
| Basic | 1.725 | - | 1.725 |
| Diluted | 1.725 | - | 1.725 |
| **Weighted average shares** | | | |
| Basic | 22,549,631 | - | 22,549,631 |
| Diluted | 22,549,631 | - | 22,549,631 |

The Company has provided a reconciliation of the Statement of Financial Position as at December 31, 2013 assuming the GM stores had been consolidated at that date.

| (in thousands of dollars) | December 31, 2013 (without GM) | Effects of GM Consolidation | December 31, 2013 (with GM) |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 35,113 | 5,183 | 40,296 |
| Trade and other receivables | 57,771 | 10,450 | 68,221 |
| Inventories | 278,091 | 41,792 | 319,883 |
| Other current assets | 1,603 | 242 | 1,845 |
| | 372,578 | 57,667 | 430,245 |
| Property and equipment | 122,915 | 5,703 | 128,618 |
| Investments in associates | 13,131 | (13,131) | - |
| Intangible assets | 96,985 | 13,608 | 110,593 |
| Goodwill | 6,672 | 1,999 | 8,671 |
| Other long-term assets | 6,797 | 14 | 6,811 |
| Finance lease receivables | - | 6,509 | 6,509 |
| **Total assets** | 619,078 | 72,369 | 691,447 |
| **Liabilities** | | | |
| Trade and other payables | 50,428 | 13,401 | 63,829 |
| Revolving floorplan facilities | 264,178 | 41,895 | 306,073 |
| Current tax payable | 4,906 | (701) | 4,205 |
| Current lease obligations | 1,398 | - | 1,398 |
| Current indebtedness | 2,866 | - | 2,866 |
| | 323,776 | 54,595 | 378,371 |
| Long-term indebtedness | 83,580 | 4,703 | 88,283 |
| Long-term lease obligations | - | 19 | 19 |
| Deferred income tax | 21,480 | 1,137 | 22,617 |
| **Total liabilities** | 428,836 | 60,454 | 489,290 |
| **Equity** | | | |
| AutoCanada shareholders | 190,242 | 194 | 190,436 |
| Non-controlling interests | - | 11,721 | 11,721 |
| **Total equity** | 190,242 | 11,915 | 202,157 |
| **Total liabilities and equity** | 619,078 | 72,369 | 691,447 |

## RESULTS FROM OPERATIONS

### Third Quarter Operating Results

EBITDA for the three month period ended September 30, 2014 increased by 72.9% to $28.7 million, from $16.6 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 revenue improvements in all four business streams and additional EBITDA from the thirteen acquired dealerships in the last twelve months. The Company also purchased a number of properties in late 2013 that have contributed to the increase in EBITDA. The Company's EBITDA was positively impacted by $0.9 million, included in share-based compensation, as a result of a 31.1% decrease in the Company's share price during the quarter. Adjusted EBITDA for the quarter ended September 30, 2014 increased by 63.5% to $27.8 million from $17.0 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 period ended September 30, 2014, for the last three years of operations.

| (in thousands of dollars)<br>Period from July 1 to September 30 | 2014 (a) | 2013 | 2012 |
|---|---|---|---|
| Net earnings attributable to AutoCanada shareholders | 17,765 | 10,969 | 6,806 |
| Income tax | 4,806 | 3,920 | 2,379 |
| Depreciation of property and equipment | 3,831 | 1,599 | 1,140 |
| Interest on long-term indebtedness | 2,272 | 163 | 250 |
| **EBITDA** | 28,674 | 16,651 | 10,575 |
| Add back: | | | |
| Share-based compensation attributed to changes in share price | (916) | 323 | 71 |
| **Adjusted EBITDA** | 27,758 | 16,974 | 10,646 |

(a) The amounts presented in this column are amounts attributable to AutoCanada shareholders only.

Pre-tax earnings attributable to AutoCanada shareholders increased by $7.7 million or 51.7% to $22.6 million for the three month period ended September 30, 2014 from $14.9 million in the same period of the prior year. Net earnings attributable to AutoCanada shareholders increased by $6.8 million or 61.8% to a profit of $17.8 million in the third quarter of 2014 from a $11.0 million profit when compared to the prior year. Modest improvements in same store sales and gross profit, as well as the impact of recently completed acquisitions, contributed to the increase in net earnings attributable to AutoCanada shareholders. Income tax expense attributable to AutoCanada shareholders increased by $0.9 million to $4.8 million in the third quarter of 2014 from $3.9 million in the same period of 2013 due to the increase in pre-tax earnings attributable to AutoCanada shareholders.

Adjusted net earnings attributable to AutoCanada shareholders for the quarter ended September 30, 2014 increased by $5.9 million or 52.7% to $17.1 million in 2014 from $11.2 million in the prior year.

The following table reconciles net earnings attributable to AutoCanada shareholders to adjusted net earnings attributable to AutoCanada shareholders for the three month periods ended September 30:

| (in thousands of dollars except share and per share amounts) | 2014 (a) | 2013 | 2012 |
|---|---|---|---|
| Net earnings attributable to AutoCanada shareholders | 17,765 | 10,969 | 6,806 |
| Add back: | | | |
| Share-based compensation attributed to changes in share price, net of tax | (679) | 239 | 53 |
| **Adjusted net earnings** | 17,086 | 11,208 | 6,859 |
| Weighted average number of shares | 24,103,670 | 21,638,882 | 19,804,014 |
| Adjusted net earnings per share | 0.709 | 0.518 | 0.346 |

(a) The amounts presented in this column are amounts attributable to AutoCanada shareholders only.

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

| **(in thousands of dollars)**<br>**Period from January 1 to September 30** | **2014 (a)** | **2013** | **2012** |
|---|---|---|---|
| Net earnings attributable to AutoCanada shareholders | 38,890 | 28,614 | 17,630 |
| Income tax | 12,164 | 10,205 | 6,036 |
| Depreciation of property and equipment | 8,893 | 4,278 | 3,193 |
| Interest on long-term indebtedness | 4,880 | 619 | 703 |
| **EBITDA** | 64,827 | 43,716 | 27,562 |
| Add back: | | | |
| Share-based compensation attributed to changes in share price | 240 | 674 | 138 |
| **Adjusted EBITDA** | 65,067 | 44,390 | 27,700 |

(a) The amounts presented in this column are amounts attributable to AutoCanada shareholders only.

Pre-tax earnings attributable to AutoCanada shareholders for the nine month period ended September 30, 2014 increased by $12.3 million or 31.7% to $51.1 million from $38.8 million in 2013. Net earnings attributable to AutoCanada shareholders increased by $10.3 million or 36.0% to a profit of $38.9 million in the nine month period ended September 30, 2014 from a $28.6 million profit when compared to the prior year. Income tax expense attributable to AutoCanada shareholders increased by $2.0 million to $12.2 million in the nine month period ended September 30, 2014 from $10.2 million in the same period of 2013.

Adjusted net earnings attributable to AutoCanada shareholders for the nine month period ended September 30, 2014 increased by $10.0 million or 34.4% to $39.1 million in 2014 from $29.1 million in the prior year.

The following table reconciles net earnings attributable to AutoCanada shareholders to adjusted net earnings attributable to AutoCanada shareholders for the nine month periods ended September 30:

| **(in thousands of dollars except share and per share amounts)** | **2014 (a)** | **2013** | **2012** |
|---|---|---|---|
| **Net earnings attributable to AutoCanada shareholders** | 38,890 | 28,614 | 17,630 |
| Add back: | | | |
| Share-based compensation attributed to changes in share price, net of tax | 178 | 499 | 102 |
| **Adjusted net earnings** | 39,068 | 29,113 | 17,732 |
| Weighted average number of shares | 22,549,631 | 20,606,391 | 19,853,694 |
| Adjusted net earnings per share | 1.733 | 1.413 | 0.893 |

(a) The amounts presented in this column are amounts attributable to AutoCanada shareholders only.

## Revenues

As noted earlier, the Company completed a business combination under common control, resulting in the accounting consolidation of its investments in the General Motors stores. Revenues for the three and nine month periods ended September 30, 2014 increased by $330.5 million and $486.2 million or 82.0% and 45.2%, respectively, as compared to the same period of the prior year. This increase was mainly driven by the addition of 4 and 13 dealerships, respectively, as well as the accounting consolidation of the General Motors dealerships. New vehicle sales increased by $200.0 million or 77.8% for the three month period ended September 30, 2014 to $457.2 million from $257.2 million in the same period of the prior year, mainly due to an increase in new vehicles sold of 74.4%. 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 $72.8 million or 84.7% for the three month period ended September 30, 2014. Used vehicle sales for the nine month period ended September 30, 2014 increased by $121.0 million or 53.6% when compared to the same period in the prior year. The increase in new and used vehicle retail sales greatly contributed to the increase in finance and insurance revenue, which increased by $16.5 million or 73.2% and $23.8 million or 38.0% in the three month period and the nine month period ended September 30, 2014, respectively. Parts, service and collision repair revenue increased by $41.3 million or 111.3% and $63.4 million or 62.7% for the three and nine month periods ended September 30, 2014, respectively.

Total revenues excluding the results of the General Motors dealerships for the three and nine month periods ended September 30, 2014 increased by $182.5 million and $338.2 million or 45.3% and 31.5%, respectively, as compared to the same period of the prior year. This increase was mainly driven by increases in all four revenue streams from 13 new stores added during the nine month period ended September 30, 2014. Excluding GM, new vehicle sales increased by $109.2 million or 42.4% for the three month period ended September 30, 2014 to $366.4 million from $257.2 million in the same period of the prior year, which is consistent with the increase in new vehicles sold of 48.8%. Used vehicle sales increased by $40.9 million or 47.6% for the three month period ended September 30, 2014. Used vehicle sales for the nine month period ended September 30, 2014 increased by $89.2 million or 39.5% when compared to the same period in the prior year. The increase in new and used vehicle retail sales greatly contributed to the increase in finance and insurance revenue, which increased by $8.4 million or 37.4% and $15.8 million or 25.2% in the three month period and the nine month period ended September 30, 2014, respectively. Parts, service and collision repair revenue increased by $24.0 million or 64.8% and $46.2 million or 45.7% for the three and nine month periods ended September 30, 2014, respectively.

*Revenues - Same Store Analysis*

The following table summarizes the results for the three month period and the nine month period ended September 30, 2014 on a same store basis by revenue source and compares these results to the same periods in 2013.

**Same Store Revenue and Vehicles Sold**

| | For the Three Months Ended | | | For the Nine Months Ended | | |
|---|---|---|---|---|---|---|
| **(in thousands of dollars)** | **September 30, 2014** | **September 30, 2013** | **% Change** | **September 30, 2014** | **September 30, 2013** | **% Change** |
| **Revenue Source** | | | | | | |
| New vehicles - retail | 202,321 | 187,603 | 7.8 % | 555,321 | 513,202 | 8.2 % |
| New vehicles - fleet | 37,333 | 38,203 | (2.3)% | 110,225 | 122,240 | (9.8)% |
| **New vehicles** | 239,654 | 225,806 | 6.1 % | 665,546 | 635,442 | 4.7 % |
| Used vehicles - retail | 58,599 | 56,646 | 3.4 % | 175,101 | 157,729 | 11.0 % |
| Used vehicles - wholesale | 30,612 | 20,176 | 51.7 % | 73,769 | 52,930 | 39.4 % |
| **Used vehicles** | 89,211 | 76,822 | 16.1 % | 248,870 | 210,659 | 18.1 % |
| Finance, insurance and other | 22,286 | 19,959 | 11.7 % | 62,987 | 58,113 | 8.4 % |
| **Subtotal** | 351,151 | 322,587 | 8.9 % | 977,403 | 904,214 | 8.1 % |
| Parts, service and collision repair | 33,631 | 30,601 | 9.9 % | 99,227 | 90,027 | 10.2 % |
| **Total** | 384,782 | 353,188 | 8.9 % | 1,076,630 | 994,241 | 8.3 % |
| | | | | | | |
| New retail vehicles sold | 5,417 | 5,223 | 3.7 % | 14,922 | 14,400 | 3.6 % |
| New fleet vehicles sold | 1,215 | 1,308 | (7.1)% | 3,368 | 4,241 | (20.6)% |
| Used retail vehicles sold | 2,523 | 2,614 | (3.5)% | 7,559 | 7,280 | 3.8 % |
| **Total** | 9,155 | 9,145 | 0.1 % | 25,849 | 25,921 | (0.3)% |
| Total vehicles retailed | 7,940 | 7,837 | 1.3 % | 22,481 | 21,680 | 3.7 % |

Same store revenue increased by $31.6 million or 8.9% in the three month period ended September 30, 2014 when compared to the same period in 2013. New vehicle revenues increased by $13.8 million or 6.1% for the third quarter of 2014 over the prior year due to an increase in new vehicle sales of 101 units or 1.5% and an increase in the average revenue per new vehicle sold of $1,562 or 4.5%. Same store new vehicle revenues increased by $30.1 million or 4.7% for the nine month period ended September 30, 2014 over the same period in the prior year due to an decrease in new vehicle sales of 351 units or 1.9% and an increase in the average revenue per new vehicle sold of $2,300 or 6.7%. As previously noted, fluctuations in low margin corporate fleet sales can significantly impact same store new vehicle sales, with relatively low impact on same store new vehicle gross profits. As such, Management's primary focus in the new vehicle department is on new vehicle retail sales as opposed to fleet sales. Management is pleased with the same store gains made in new vehicle retail sales during the quarter.

Same store used vehicle revenues increased by $12.4 million or 16.1% for the three month period ended September 30, 2014 over the same period in the prior year due to an decrease in used vehicle sales of 91 units or 3.5% and an increase in the average revenue per used vehicle sold of $5,970 or 20.3%. For the nine month period ended September 30, 2014, used vehicle revenues increased by $38.2 million or 18.1% due to an increase in used vehicle sales of 279 units or 3.8% and an increase in the average revenue per used vehicle sold of $3,987 or 13.8%. The average revenue per used vehicle sold is a result of an increase in used vehicle wholesale revenue. During the process of selling a new vehicle to a customer, in many cases, the Company will purchase the customer's current vehicle (referred to as a "trade-in"). Once purchased, the Company will assess whether to recondition the trade-in for resale in its used vehicle department, or send the vehicle directly to wholesale auction. Typically, the Company will only retail vehicles less than five years old due to the difficulty in obtaining appropriate financing for customers. As a result of increased new vehicle sales volumes, the Company purchased an increased number of trade-ins which increased wholesale used vehicle revenues. Used vehicle wholesale gross margins are typically very low, as discussed elsewhere in this document.

Same store parts, service and collision repair revenue increased by $3.0 million or 9.9% for the third quarter of 2014 compared to the prior period and was primarily a result of an increase in overall repair orders completed of 6,550 or 7.9% and a $7 or 1.9% increase in the average revenue per repair order completed. For the nine month period ended September 30, 2014, parts, service and collision repair revenue increased by $9.2 million or 10.2%, mainly due to an increase in overall repair orders completed of 6,757 and a $26 or 7.1%

increase in the average revenue per repair order completed.

Same store finance, insurance and other revenue increased by $2.3 million or 11.7% for the three month period ended September 30, 2014 over the same period in 2013. This was due to an increase in the average revenue per unit retailed of $260 or 10.2% and an increase in the number of new and used vehicles retailed of 103 units. For the nine month period ended September 30, 2014, same store finance, insurance and other revenue increased by $4.9 million or 8.4% over the same period in 2013 mainly due to an increase in the average revenue per unit retailed of $121 or 4.5% and an increase in the number of new and used vehicles retailed of 801 units.

The business combination under common control of the General Motors dealerships have been consolidated for accounting purposes and have been treated as acquisitions as of July 11, 2014. Consequently the General Motors dealerships have not been included in same store analysis.

**Gross Profit**

Gross profit increased by $52.2 million and $77.7 million, or 77.1% and 42.3% respectively, for the three month period and the nine month period ended September 30, 2014 when compared to the same periods 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 $15.0 million or 72.5% for the three month period ended September 30, 2014. The increase in new vehicle gross profit can be attributed to increases in the number of new vehicles sold of 5,470 or 74.4%, slightly offset by a decrease in the average profit per new vehicle sold of $30 or 1.1%. During the three month period ended September 30, 2014, gross profit from used vehicles increased by $3.4 million or 54.5% over the same period in the prior year due to increases in the number of used vehicles sold of 2,284 or 76.8%, slightly offset by a decrease in the average gross profit per used vehicle sold of $265 or 12.6%. The Company's finance and insurance gross profit increased by $14.9 million or 72.1% during the third quarter of 2014. This increase can mainly be attributed to increases in the total number of vehicles retailed of 6,984 or 77.9%, slightly offset by a decrease in the average gross profit per unit retailed of $73 or 3.2%. Parts, service and collision repair gross profit increased by $18.8 million or 93.3% in the third quarter of 2014, due primarily to the increase in the number of repair orders completed of 101,538 or 104.6%, which was partially offset by a decrease in the gross profit per repair order completed of $11 or 5.3%.

Total gross profit excluding the results of the General Motors dealerships increased by $28.0 million and $53.5 million, or 41.4% and 29.1% respectively, for the three month period and the nine month period ended September 30, 2014 when compared to the same periods in the prior year. As with revenues, gross profit increased due to increases across all four revenue streams. Excluding GM, gross profit on the sale of new vehicles increased by $8.5 million or 41.1% for the three month period ended September 30, 2014. The increase in new vehicle gross profit can be attributed to increases in the number of new vehicles sold of 3,421 or 46.5%, slightly offset by a decrease in the average profit per new vehicle sold of $104 or 3.7%. During the three month period ended September 30, 2014, gross profit excluding the GM stores from used vehicles increased by $1.0 million or 17.0% over the same period in the prior year due to increases in the number of used vehicles sold of 1,220 or 41.0%, slightly offset by a decrease in the average gross profit per used vehicle sold of $357 or 17.0%. The Company's finance and insurance gross profit excluding GM increased by $7.7 million or 37.1% during the third quarter of 2014. This increase can mainly be attributed to increases in the total number of vehicles retailed of 4,140 or 46.2%, slightly offset by a decrease in the average gross profit per unit retailed of $144 or 6.2%. Excluding GM, parts, service and collision repair gross profit increased by $10.8 million or 53.5% in the third quarter of 2014, due primarily to the increase in the number of repair orders completed of 60,494 or 62.3%, which was partially offset by a decrease in the gross profit per repair order completed of $11 or 5.3%.

*Gross Profit - Same Store Analysis*

The following table summarizes the results for the three month period and the nine month period ended September 30, 2014, on a same store basis by revenue source, and compares these results to the same periods in 2013.

**Same Store Gross Profit and Gross Profit Percentage**

| | For the Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | Gross Profit | | | Gross Profit % | | |
| **(in thousands of dollars)** | **September 30, 2014** | **September 30, 2013** | **% Change** | **September 30, 2014** | **September 30, 2013** | **Change** |
| **Revenue Source** | | | | | | |
| New vehicles - Retail | 21,623 | 17,922 | 20.7 % | 10.7 % | 9.6 % | 1.1 % |
| New vehicles - Fleet | 350 | 309 | 13.3 % | 0.9 % | 0.8 % | 0.1 % |
| **New vehicles** | 21,973 | 18,231 | 20.5 % | 9.2 % | 8.1 % | 1.1 % |
| Used vehicles - Retail | 3,916 | 4,221 | (7.2)% | 6.7 % | 7.5 % | (0.8)% |
| Used vehicles - Wholesale | 540 | 1,156 | (53.3)% | 1.8 % | 5.7 % | (3.9)% |
| **Used vehicles** | 4,456 | 5,377 | (17.1)% | 5.0 % | 7.0 % | (2.0)% |
| Finance, insurance and other | 20,444 | 18,192 | 12.4 % | 91.7 % | 91.1 % | 0.6 % |
| **Subtotal** | 46,873 | 41,800 | 12.1 % | 13.3 % | 13.0 % | 0.3 % |
| Parts, service and collision repair | 18,476 | 16,887 | 9.4 % | 54.9 % | 55.2 % | (0.3)% |
| **Total** | 65,349 | 58,687 | 11.4 % | 17.0 % | 16.6 % | 0.4 % |

| | For the Nine Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | Gross Profit | | | Gross Profit % | | |
| **(in thousands of dollars)** | **September 30, 2014** | **September 30, 2013** | **% Change** | **September 30, 2014** | **September 30, 2013** | **Change** |
| **Revenue Source** | | | | | | |
| New vehicles - Retail | 57,205 | 52,791 | 8.4 % | 10.3 % | 10.3 % | - % |
| New vehicles - Fleet | 589 | 832 | (29.2)% | 0.5 % | 0.7 % | (0.2)% |
| **New vehicles** | 57,794 | 53,623 | 7.8 % | 8.7 % | 8.4 % | 0.3 % |
| Used vehicles - Retail | 12,636 | 12,291 | 2.8 % | 7.2 % | 7.8 % | (0.6)% |
| Used vehicles - Wholesale | 2,407 | 2,383 | 1.0 % | 3.3 % | 4.5 % | (1.2)% |
| **Used vehicles** | 15,043 | 14,674 | 2.5 % | 6.0 % | 7.0 % | (1.0)% |
| Finance, insurance and other | 57,733 | 53,114 | 8.7 % | 91.7 % | 91.4 % | 0.3 % |
| **Subtotal** | 130,570 | 121,411 | 7.5 % | 13.4 % | 13.4 % | - % |
| Parts, service and collision repair | 52,467 | 47,470 | 10.5 % | 52.9 % | 52.7 % | 0.2 % |
| **Total** | 183,037 | 168,881 | 8.4 % | 17.0 % | 17.0 % | - % |

Same store gross profit increased by $6.7 million or 11.4% and $14.2 million or 8.4% for the three month period and the nine month period ended September 30, 2014 respectively when compared to the same period in the prior year. New vehicle gross profit increased by $3.7 million or 20.5% in the three month period ended September 30, 2014 when compared to 2013 as a result of an increase in new vehicle sales of 101 units or 1.5% and an increase in the average gross profit per new vehicle sold of $522 or 18.7%. For the nine month period ended September 30, 2014, new vehicle gross profit increased by $4.2 million or 7.8% which can be mainly attributed to an decrease in new vehicle sales of 351 units or 1.9% and an increase in the average gross profit per new vehicle sold of $283 or 9.8%.

Used vehicle gross profit decreased by $0.9 million or 17.1% in the three month period ended September 30, 2014 over the prior year. This was due to decreases of $291 in the average gross profit per used vehicle retailed and in the number of used vehicles sold of 91 units. For the nine month period ended September 30, 2014, same store used vehicle gross profits increased by $0.4 million or 2.5% which was mainly due to an decrease in the average gross profit per vehicle retailed of $26 or 1.3% and an increase in the number of vehicles retailed of 279 units.

Parts, service and collision repair gross profit increased by $1.6 million or 9.4% in the three month period ended September 30, 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 6,550 and an increase in the average gross profit per repair order completed of $2 or 1.0%. For the nine month period ended September 30, 2014, parts, service and collision repair gross profit increased by $5.0 million or 10.5% which can be mainly attributed to an increase in the number of repair orders completed of 6,757 and an increase in the average gross profit per repair order completed of $16 or 8.2%.

Finance and insurance gross profit increased by 12.4% or $2.3 million in the three month period ended September 30, 2014 when compared to the prior year as a result of an increase in the average gross profit per unit sold of $254 and an increase in units retailed of 103. For the nine month period ended September 30, 2014, finance and insurance gross profit increased by $4.6 million or 8.7% and can be attributed to an increase in the average gross profit per unit sold of $118 and an increase in units retailed of 801.

**Operating expenses**

Operating expenses increased by 75.6% or $38.6 million, including $18.0 million from the General Motors dealerships, during the three month period ended September 30, 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 decreased to 74.8% in the third quarter of 2014 from 75.4% in the same period of the prior year. For the nine month period ended September 30, 2014, operating expenses as a percentage of gross profit decreased to 76.1% from 76.2% in the same period of the prior year. Operating expenses consist of four major categories: employee costs, selling and administrative costs, facility lease costs and amortization.

*Employee costs*

During the three month period ended September 30, 2014, employee costs increased by $24.5 million to $57.9 million, including $11.1 million from the General Motors dealerships, from $33.4 million in the prior year period. Employee costs as a percentage of gross profit decreased to 48.3% compared to 49.3% in the same period of the prior year. Employee costs as a percentage of gross profit for the nine month period ended September 30, 2014 increased to 50.0% from 49.7% for the same period in the prior year.

*Selling and administrative costs*

During the three month period ended September 30, 2014, selling and administrative costs increased by $10.3 million, including $5.8 million from the General Motors dealerships, or 79.8% primarily due to the dealership acquisitions completed during the last twelve months. Selling and administrative expenses as a percentage of gross profit increased to 19.3% in the third quarter of 2014 from 19.0% in the comparable period of 2013. For the nine month period ended September 30, 2014, selling and administrative costs as a percentage of gross profit increased to 19.4% from 19.2% in the same period of the prior year.

*Facility lease costs*

During the three month period ended September 30, 2014, facility lease costs increased by 39.4% to $4.6 million from $3.3 million. Of the $1.3 million increase, $1.1 million can be attributed to the General Motors dealerships. For the nine month period ended September 30, 2014 the Company's facility lease costs have decreased by 6.8%. The increase for the quarter is largely due to the dealerships acquired since the third quarter of the prior year. As the Company acquired a number of properties in late 2013, overall facility lease costs for the nine month period have decreased.

*Amortization*

During the three month period ended September 30, 2014, amortization increased to $4.1 million from $1.6 million in the same period of the prior year. The GM stores account for $0.6 million of the increase in amortization. For the nine month period ended September 30, 2014, amortization increased to $9.2 million from $4.3 million in the prior year. These increases are a result of the dealership acquisitions that occurred during the last twelve months and an increase in the number of real estate properties owned by the Company.

**Income from investments in associates**

During the period up to July 11, 2014, the Company earned $0.4 million from its investment in associates which consisted of the General Motors dealerships. Effective July 11, 2014, the Company completed a business acquisition under common control which resulted in the consolidation of financial results of these stores for accounting purposes. Consequently, the full results of operations after July 11, 2014 have been combined with the revenues and expenses of the Company. In order to assist with understanding the discrete impacts of the business combination, the Company has provided reconciliations removing the impact of consolidation of the General Motors stores for the three month period and nine month period ended September 30, 2014. We have also presented a reconciliation of the Statement of Financial Position as at December 31, 2013 adding the effects of the General Motors consolidation as if the acquisition had been in effect for the 2013 fiscal year-end.

See BUSINESS COMBINATION UNDER COMMON CONTROL 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 September 30, 2014, finance costs on our revolving floorplan facilities increased by 57.9% to $3.0 million from $1.9 million in the third quarter of 2013, mainly due to increased inventory levels as a result of the acquisitions completed in the last twelve months. Finance costs from the GM dealerships accounted for $0.6 million of the $1.1 million increase. Finance costs on long term indebtedness increased by $2.5 million in the third quarter of 2014 due to the offering of $150 million of senior unsecured notes in May of 2014.

**Income Taxes**

Income tax expense for the three month period ended September 30, 2014 increased by $1.6 million to $5.5 million from $3.9 million in 2013. For the nine month period ended September 30, 2014, income tax expense increased by $2.7 million from $10.2 million to $12.9 million.

During the first three quarters of 2014, the Company paid $13.4 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 due to a lower tax rate in the period resulting from a tax recovery related to the combination of entities under common control, and as a result, prior year levels of adjusted free cash flow will inherently be lowered by cash taxes in the future.

**Sensitivity**

Based on our historical financial data, management estimates that an increase or decrease of one new retail vehicle sold (and the associated finance and insurance income on the sale) would have resulted in a corresponding increase or decrease in our estimated free cash flow of approximately $1,500 - $2,000. 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 and the nine month period ended September 30, 2014, the floorplan credits earned were $3,920 (2013 - $1,972) and $8,387 (2013 - $5,486), respectively. Accounting standards require the floorplan credits to be accounted for as a reduction in the cost of new vehicle inventory and subsequently a reduction in the cost of sales as vehicles are sold.

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

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|---|---|---|---|
| **(in thousands of dollars)** | **September 30, 2014** | **September 30, 2013** | **September 30, 2014** | **September 30, 2013** |
| Floorplan financing | 3,003 | 1,903 | 7,115 | 5,466 |
| Floorplan credits earned | (3,920) | (1,972) | (8,387) | (5,486) |
| **Net carrying cost of vehicle inventory** | (917) | (69) | (1,272) | (20) |

## GROWTH, ACQUISITIONS, RELOCATIONS AND REAL ESTATE

The Company operates 46 franchised automotive dealerships, 39 of which are wholly owned, and 7 General Motors dealerships in which the Company controls and consolidates for accounting purposes.

### *Acquisitions*

To date, the Company has acquired 14 dealerships in 2014, four of which were investments in General Motors dealerships. All wholly-owned acquisitions have been accounted for using the acquisition method. Acquisitions completed during this period are as follows:

*Saskatoon Motor Products and Mann-Northway Auto Source*

On March 10, 2014, the Company invested a total of $41.7 million consisting of $32.6 million in cash and the issuance of 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, the Company's 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. 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. As previously noted in this document, the Company has accounted for its investment in PAH as a business combination under common control and has consolidated the financial results of the dealerships beginning July 11, 2014.

*McNaught Buick Cadillac GMC*

On April 1, 2014, the Company invested a total of $11.3 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. As previously noted in this document, the Company has accounted for its investment in PAH as a business combination under common control and has consolidated the financial results of the dealership beginning July 11, 2014.

*BMW Canbec and MINI Mont Royal*

On June 1 2014, the Company purchased the shares of Automobile Canbec Inc. ("BMW Canbec"), which owns and operates a BMW dealership and a MINI dealership, both located in Montreal, Quebec, for cash consideration of $27.0 million. The acquisition was funded by drawing on the Company's revolving term facility. The purchase of this business is the Company's first BMW/MINI franchise and first dealership in Quebec.

*Dodge City Chrysler Jeep Dodge Ram*

On June 16, 2014, the Company purchased substantially all of the operating and fixed assets of Dodge City Auto 1984 Ltd., in Saskatoon, Saskatchewan, for total cash consideration of $34.2 million. The acquisition was financed by drawing on the Company's revolving term facility. Included in the purchase price is an in-house lease portfolio of approximately $6.0 million which the Company has the ability to finance in the future. The purchase of this business complements the Company's other Chrysler dealerships and further expands its presence in Saskatoon, Saskatchewan.

*Hyatt Group of Dealerships*

Between the period of June 23, 2014 and July 1, 2014, the Company purchased all of the operating and fixed assets of 678938 Alberta Ltd. ("Calgary Hyundai"), 1446691 Alberta Ltd. ("Crowfoot Hyundai"), 998699 Alberta Ltd. ("Hyatt Mitsubishi"), 588338 Alberta Ltd. ("Northland Volkswagen"), 969642 Alberta Ltd. (“Fish Creek Nissan”), and 1791109 Alberta Ltd. (“Hyatt Infiniti”), herein referred to as (the "Hyatt Group"), located in Calgary, Alberta, for total cash consideration of $91.4 million. The initial purchase price of the Hyatt Group was financed by drawing on the Company’s revolving term facility. In addition, the Company issued 18,753 common shares at a deemed price of $79.99 per share (for total consideration of $1.5 million) on July 1, 2014 as consideration for the purchase of the exclusive right to build and operate a Nissan motor vehicle dealership on a designated property in southeast Calgary. The purchase of the Hyatt Group complements the Company’s other existing and open point brands and expands its presence in Calgary, Alberta.

*Tower Chrysler Jeep Dodge Ram*

On August 18, 2014, the Company purchased substantially all of the operating and fixed assets of Tower Chrysler Plymouth Ltd., located in Calgary, Alberta, for total cash consideration of $20.4 million. The acquisition was financed with excess working capital and cash from operations. The purchase of this business complements the Company’s other Chrysler dealerships and further expands its presence in Calgary, Alberta.

*Lakewood Chevrolet*

On September 2, 2014, the Company purchased a 75% non-voting equity interest in the shares of Lakewood Chevrolet (“Lakewood”), a Chevrolet dealership located in Edmonton, Alberta, for total cash consideration of $19.8 million. The acquisition was financed by drawing on the Company’s revolving term facility. In accordance with the terms of the ownership structure for General Motors dealerships approved by GM Canada, the Company purchased a 75% non-voting equity interest, with Mr. Pat Priestner, CEO of AutoCanada, being named Dealer Operator, personally holding a 15% equity interest and voting control of the dealership. The remaining 10% equity interest is held by the dealership's General Manager. The investment in Lakewood was reviewed and approved by the independent members of AutoCanada’s Board of Directors. The Company has accounted for its investment in Lakewood as a business combination and has consolidated the financial results of the dealership.

*Toronto Chrysler Jeep Dodge Ram*

On October 20, 2014, the Company purchased substantially all of the operating and fixed assets of Toronto Dodge Chrysler Ltd., located in Toronto, Ontario, for total cash consideration of $2.2 million. The acquisition was financed with cash from operations. The purchase of this business complements the Company’s existing Chrysler dealerships and further expands its presence in the Greater Toronto Area.

*BMW Laval and MINI Laval*

On November 5, 2014, the Company announced that it obtained approval from BMW Canada Inc. to purchase an 85% interest in the assets (including land and building) of Auto Boulevard St. Martin Inc. ("Auto Boulevard"), which owns and operates BMW Laval and MINI Laval, two dealerships located in Laval, Quebec. The remaining 15% interest will be retained by Mr. Carmine D'Argenio, the current majority owner of Auto Boulevard. The expected closing date of the transaction is November 27, 2014.

***Dealership Open Points***

*North Edmonton Kia*

During the third quarter of 2014, the Company opened its North Edmonton Kia open point dealership. The dealership is performing well, however the Company expects to incur operating losses over the first year of operations as the dealership builds its customer base and, in particular, its service customer base. Management is very pleased to have opened its first Kia dealership and expects the dealership to continue to drive higher volume over the coming months.

*Volkswagen dealership – Sherwood Park, Alberta*

In February of 2014, the Company announced that it had been awarded the right to a Volkswagen open point dealership in Sherwood Park, 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 Volkswagen 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.

*Nissan dealership – Calgary, Alberta*

On July 1, 2014, as part of the Company's purchase of the Hyatt Group, the Company acquired the exclusive right to build and operate a Nissan dealership on a designated property in southeast Calgary. The purchase price for transfer of the right was $1.5 million, which was satisfied by the issuance of 18,753 common shares of AutoCanada at a deemed price of $79.99. The dealership will begin construction in 2015 with anticipated opening in 2016. The dealership will be constructed by a third party and subsequently leased by the Company.

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 to be 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 including additional service bays and a larger lot for the display of inventory and used inventory. Construction of the new facility has commenced and is expected to be completed in mid to late 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 2016 at a cost of approximately $2.0 million to reimage and renovate the building.

*Relocation of Chilliwack Volkswagen*

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 $1.8 million. The Company intends to construct a new building on the property at an anticipated cost of $4.5 million. The dealership will continue to operate out of its current facility, which will be demolished upon completion of the new facility.

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.

***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 additional potential planned dealership relocations to be approximately $105.4 million by the end of fiscal 2017 to be financed through a combination of available cash flow and debt financing. As noted above, the Company expects dealership relocations to provide long term earnings sustainability and result in significant improvements in revenues and overall profitability. Management continually updates its capital plan and as such the estimates provided may vary as delays occur or projects are added or removed.

*Current Dealership Expansion and Imaging Requirements*

The Company has identified approximately $11.5 million in capital costs that it may incur in order to expand or renovate eight of its current locations by the end of fiscal 2017. The Company is required by its Manufacturers to undertake periodic imaging upgrades to its facilities. At present the Company is aware of proposed new re-imaging requirements by Hyundai Canada, however, the timing and extent of these requirements is uncertain. The Company would expect re-imaging to attract more customers to its dealerships.

*Open Point Opportunities*

Management regularly reviews potential open point opportunities. If successful in being awarded these opportunities, Management would then 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 in the future.

***Integration of New Dealerships***

Over the past year, the Company has opened and acquired a number of dealerships and has been dedicating resources to ensure a successful integration of its newly acquired dealerships.As noted in our same store analysis, experience has shown that it takes a minimum of two full years in order to successfully integrate a store and achieve its anticipated performance objectives; however, the Company endeavours to reduce this integration time.

The dealerships acquired in the first six months of 2014 appear to be integrating well into their respective platforms and the Company. The newly acquired dealerships are currently meeting Management's expectations with respect to sales and financial performance and the Company's integration team at DSS continues to work with newly acquired dealerships on sales process, marketing initiatives, and other important aspects associated with a successful integration.

The investments in dealerships that we made in the third quarter are fairly recent. As a result, there is very little tangible evidence of our progress made with respect to integration of these investments. 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 a result, we expect to incur additional selling and administrative costs in the future in order to successfully integrate new dealerships under our model.

## LIQUIDITY AND CAPITAL RESOURCES

Our principal uses of funds are for capital expenditures, repayment of debt, funding the future growth of the Company and dividends to Shareholders. We have historically met these requirements by using cash generated from operating activities and through short term and long term indebtedness. Due to the significant increase in acquisition activity, the Company completed an offering of senior unsecured notes during the second quarter in order to replenish its capital and execute on acquisitions during the quarter. On July 11, 2014, the Company also completed an equity offering which was used to pay down its revolving credit facility and replenish its capital in order to execute on future acquisitions.

The Company maintains working capital in excess of manufacturer requirements which may be used for capital expenditures. The Company's analysis of its available capital based on the balance sheet at September 30, 2014 is as follows:

- The Company has approximately $110.8 million in working capital. At September 30, 2014, the Company's aggregate net manufacturer working capital requirements were $75.9 million. As such, the Company has approximately $34.9 million in cash available for growth expenditures.
- The Company has drawn $19.3 million on its $200.0 million revolving term facility, leaving approximately $180.7 million available for further growth expenditures.

As a result of the above initiatives, the Company currently has approximately $215.6 million in available liquidity, not including future retained cash from operations, that it may deploy for growth expenditures including acquisitions.

*Senior unsecured notes offering*

On May 22, 2014, the Company announced that it completed a private offering of $150.0 million aggregate principal amount of 5.625% senior unsecured notes due May 25, 2021 (the "Notes"). The Notes were issued at par. AutoCanada used the proceeds of the Notes offering to repay all of the outstanding indebtedness under its revolving credit facility and for general corporate purposes. As a result of the Notes offering, the Company extended the maturity profile of $150 million of its long-term debt from 2015 to the year 2021 and moved from a floating rate secured debt structure to a fixed rate unsecured debt structure. The Notes contain certain redemption options whereby the Company can redeem all or part of the Notes at set prices from proceeds of equity offerings or on the dates specified in the Notes. In addition, the Note holders have the right to require the Company to redeem the Notes or a portion thereof, at set redemption prices in the event of change in control or in the event certain asset sale proceeds are not re-invested in the time and manner specified in the Notes. These options include some embedded derivatives which are measured at fair value. In addition, the Notes contain non-financial covenants that restrict, subject to certain thresholds, some of the Company's activities, including the Company's ability to dispose of assets, incur additional debt, pay dividends, create liens, make investments and engage in specified transactions with affiliates. The Notes also contain customary events of default, including defaults based on events of bankruptcy and insolvency, non-payment of interest or fees when due, subject to specified grace periods, breach of covenants, change in control and material inaccuracy of representations and warranties. As of September 30, 2014, the Company was in compliance with all of its covenants pursuant to the Notes.

*Equity offering*

On July 11, 2014, the Company issued 2,565,000 common shares (11.7% of the total share capital issued) as part of a public offering of shares. The common shares issued have the same rights as all other common shares in issue. The shares were issued for gross proceeds of $200.1 million ($78 per share) and related transaction costs amounted to $8.8 million for net proceeds of $191.3 million.

**Cash Flow from Operating Activities**

Cash flow from operating activities (including changes in non-cash working capital) of the Company for the three month period ended September 30, 2014 was $9.1 million (cash provided by operating activities of $23.2 million less net decrease in non-cash working capital of $14.1 million) compared to $7.8 million (cash provided by operating activities of $17.4 million less net decrease in non-cash working capital of $9.6 million) in the same period of the prior year.

**Cash Flow from Investing Activities**

For the three month period ended September 30, 2014, cash flow from investing activities of the Company was a net outflow of $101.4 million as compared to a net outflow of $25.8 million in the same period of the prior year, mainly due to the business acquisitions and purchases of property, plant, and equipment completed during the quarter.

**Cash Flow from Financing Activities**

For the three month period ended September 30, 2014, cash flow from financing activities was a net inflow of $64.3 million as compared to $20.9 million in the same period of 2013 due to proceeds from the issuance of common shares, partially offset by repayments of long-term debt.

**Credit Facilities and Floor Plan Financing**

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

In conjunction with the combination of entities under common control completed on July 11, 2014, the Company consolidated the financial results of its investments in associates. The Royal Bank of Canada (“RBC”) provides floorplan financing for new and used vehicles for five of the Company’s General Motors dealerships (the “RBC Facilities”). The RBC Facilities bear interest rates of RBC’s Cost of Funds Rate (1.889% as at September 30, 2014) plus 0.0-1.35% and provide a maximum amount of financing of $98.8 million. The RBC Facilities are collateralized by the new, used, and demo inventory financed by RBC and a general security agreement from the Company’s GM dealerships financed by RBC.

In conjunction with the combination of entities under common control completed on July 11, 2014, the Company consolidated the financial results of its investments in associates. Scotiabank provides floorplan financing for new and used vehicles for two of the Company’s General Motors dealerships (the “Scotiabank Facilities”). The Scotiabank Facilities bear interest rates of Scotia Fixed Flooring Rate (1.35% at September 30, 2014) plus 0.93-1.70% and provide a maximum amount of financing of $32.4 million. The Scotiabank Facilities are collateralized by the new, used, and demo inventory financed by Scotiabank and a general security agreement from the Company’s GM dealerships financed by Scotiabank.

RBC provides financing for the lease vehicles of two of the Company’s GM dealerships (the “RBC lease financing”). The RBC lease financing bear interest rates of RBC's CF Rate (1.889% at September 30, 2014) and provide a maximum amount of financing of $11.0 million repayable over the terms of the contract in varying amounts of principal. The RBC lease financing are collateralized by the lease vehicles under the related lease agreements.

On June 2, 2014, in conjunction with the purchase of BMW Canbec, the Company signed an Inventory Financing and Security Agreement (the "BMW facility") with BMW Financial Services Canada ("BMW Financial"), a division of BMW Canada Inc, to finance new and used vehicles for the Company's BMW and MINI dealerships. The BMW facility has a current advance limit of $40.7 million. The BMW facility bears a variable interest rate of prime minus 0.40% per 360-day annum (2.60% at September 30, 2014). The BMW facility is collateralized by the dealerships' movable and immovable property. The agreement requires the Company to maintain a certain working capital ratio which was maintained throughout the period.

On May 22, 2014, the Company amended the existing credit agreement (the "Credit Agreement") with 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 provides the Company with a $200.0 million revolving operating facility that may be used for general corporate purposes, including repayment of existing indebtedness, funding working capital requirements, capital expenditures, and

financing acquisitions. Fees and interest on borrowings under the Credit Agreement are subject to a pricing grid whereby the pricing level is determined by the leverage ratio. As at September 30, 2014, the Company is in the first of five tiers of the pricing grid, with the first tier providing interest rates of HSBC's prime rate plus 2.00% (5.00% at September 30, 2014). Amounts drawn under the Credit Agreement as at September 30, 2014 are due May 22, 2018 and may be extended annually for an additional 364 days at the request of the Company and upon approval by the lenders.

VW Credit Canada Inc. provides the Company with a mortgage (the "VCCI Mortgage"), which bears a floating rate of interest per annum equal to the Royal Bank of Canada's prime rate plus 0.50% (3.50% at September 30, 2014). The VCCI Mortgage is repayable with fifty-nine equal blended monthly payments of $0.08 million amortized over a twenty year period with term expiring in April 2019. The VCCI Mortgage has certain reporting requirements and financial covenants and is collateralized by a general security agreement consisting of a first fixed charge over the property. At September 30, 2014, the carrying amount of the property was $1.8 million.

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 Floorplan Facility bears a rate of Bankers' Acceptance plus 1.15% (2.37% as at September 30, 2014) per annum.

**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 key financial covenants from its significant syndicates as at September 30, 2014:

| Financial Covenant | Requirement | Actual Calculation |
|---|---|---|
| **HSBC Syndicated Credit Agreement:** | | |
| Senior Secured Leverage Ratio | Shall not exceed 2.25 | 0.28 |
| Adjusted Total Leverage Ratio | Shall not exceed 4.75 | 3.11 |
| Fixed Charge Coverage Ratio | Shall not be less than 1.20 | 4.65 |
| Current Ratio | Shall not be less than 1.05 | 1.17 |
| **Scotiabank:** | | |
| Current Ratio | Shall not be less than 1.10 | 1.15 |
| Tangible Net Worth | Shall not be less than $40 million | $87.7 million |
| Debt to Tangible Net Worth | Shall not exceed 7.50 | 4.28 |

As at September 30, 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 Company’s financial instruments since that time.

**Growth vs. Non-Growth Capital Expenditures**

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

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

| (in thousands of dollars) | July 1, 2014 to September 30, 2014 | January 1, 2014 to September 30, 2014 |
|---|---|---|
| Leasehold improvements | 174 | 526 |
| Machinery and equipment | 454 | 1,048 |
| Furniture and fixtures | 130 | 380 |
| Computer equipment | 302 | 616 |
| Company & lease vehicles | 19 | 208 |
| | 1,079 | 2,778 |

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 and the nine month period ended September 30, 2014, growth capital expenditures of $3.3 million and $10.6 million were incurred. These expenditures related primarily to land and buildings that were purchased for future dealership operations during the first three quarters of 2014 for $11.9 million ($5.0 million during the third quarter of 2014). Dealership relocations are included as growth expenditures if they contribute to the expansion of sales and service capacity of the dealership.

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

| (in thousands of dollars) | July 1, 2014 to September 30, 2014 | January 1, 2014 to September 30, 2014 |
|---|---|---|
| Purchase of property and equipment from the Statement of Cash Flows | 4,331 | 13,368 |
| Less: Amounts related to the expansion of sales and service capacity | (3,252) | (10,590) |
| **Purchase of non-growth property and equipment** | 1,079 | 2,778 |

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 and nine month periods ended September 30, 2014, were $0.8 million and $2.4 million (2013 - $0.7 million and $2.0 million), respectively.

**Planned Capital Expenditures**

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

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

**Contractual Obligations**

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

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

| (in thousands of dollars) | $ |
|---|---|
| 2014 | 4,196 |
| 2015 | 16,549 |
| 2016 | 16,154 |
| 2017 | 14,977 |
| 2018 | 13,428 |
| Thereafter | 159,449 |
| **Total** | 224,753 |

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 September 30, 2014, June 30, 2014, March 31, 2014, September 30, 2013, June 30, 2013, and March 31, 2013:

| (in thousands of dollars) | September 30, 2014 | June 30, 2014 | March 31, 2014 | December 31, 2013 | September 30, 2013 | June 30, 2013 | March 31, 2013 | December 31, 2012 |
|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 64,559 | 101,622 | 51,541 | 35,113 | 38,034 | 35,058 | 41,991 | 34,471 |
| Trade and other receivables | 115,074 | 85,266 | 69,422 | 57,771 | 62,105 | 69,136 | 57,144 | 47,944 |
| Inventories | 471,664 | 324,077 | 261,768 | 278,091 | 237,421 | 232,837 | 217,663 | 199,085 |
| Assets | 1,211,527 | 910,715 | 667,020 | 619,078 | 530,791 | 504,408 | 454,824 | 410,376 |
| Revolving floorplan facilities | 437,935 | 313,752 | 261,263 | 264,178 | 228,526 | 246,325 | 225,387 | 203,525 |
| Non-current debt and lease obligations | 179,447 | 294,289 | 123,811 | 83,580 | 33,647 | 8,744 | 40,340 | 23,937 |

### Net Working Capital

The automobile manufacturers represented by the Company require the Company to maintain net working capital for each individual dealership. At September 30, 2014, the aggregate of net working capital requirements was approximately $75.9 million. At September 30, 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 September 30, 2014, the Company had aggregate working capital of approximately $110.8 million.

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

### Off Balance Sheet Arrangements

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

### Related Party Transactions

Note 24 of the condensed interim consolidated financial statements of the Company for the period ended September 30, 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.

## 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 |
| May 30, 2014 | June 16, 2014 | 5,022 | 5,022 |
| August 29, 2014 | September 15, 2014 | 5,882 | 5,882 |

On November 6, 2014, the Board declared a quarterly eligible dividend of $0.25 per common share on AutoCanada's outstanding Class A common shares, payable on December 15, 2014 to shareholders of record at the close of business on November 28, 2014. The quarterly eligible dividend of $0.25 represents an annual dividend rate of $1.00 per share.

As per the terms of the HSBC facility, the Company is restricted from declaring dividends and distributing cash if it is in breach of financial covenants or available margin and facility limits or if such dividend would result in a breach of covenants or available margin and facility limits. At this time, the Company is well within its covenants.

### 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 share and per share amounts) | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 | Q1 2014 | Q2 2014 | Q3 2014 |
|---|---|---|---|---|---|---|---|---|
| Cash provided by operating activities | 1,748 | 6,125 | 14,391 | 7,787 | 9,674 | 8,850 | 10,918 | 9,093 |
| **Deduct:** | | | | | | | | |
| Purchase of property and equipment | (858) | (590) | (905) | (647) | (1,319) | (1,069) | (1,057) | (2,834) |
| **Free cash flow** (1) | 890 | 5,535 | 13,486 | 7,140 | 8,355 | 7,781 | 9,861 | 6,259 |
| Weighted average shares outstanding at end of period | 19,802,947 | 19,802,048 | 20,346,713 | 21,638,882 | 21,638,433 | 21,685,876 | 21,832,777 | 24,103,670 |
| **Free cash flow per share** | 0.045 | 0.280 | 0.663 | 0.330 | 0.386 | 0.359 | 0.452 | 0.260 |
| **Free cash flow - 12 month trailing** | - | - | - | 27,051 | - | - | - | 32,256 |

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

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

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

The following table summarizes the net increase (decrease) in cash due to changes in non-cash working capital for the nine month periods ended September 30, 2014 and September 30, 2013:

| (in thousands of dollars) | January 1, 2014 to September 30, 2014 | January 1, 2013 to September 30, 2013 |
|---|---|---|
| Trade and other receivables | (29,529) | (11,310) |
| Inventories | 3,303 | 1,294 |
| Prepaid expenses | (4,271) | (569) |
| Finance lease receivables | (2,578) | - |
| Trade and other payables | 22,233 | 13,160 |
| Income taxes payable | 4,312 | 3,043 |
| Lease vehicle repurchase obligations | 1,838 | 351 |
| Revolving floorplan facilities | (7,049) | (9,674) |
| | (11,741) | (3,705) |

**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 share and per share amounts) | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 | Q1 2014 | Q2 2014 | Q3 2014 |
|---|---|---|---|---|---|---|---|---|
| Cash provided by operating activities before changes in non-cash working capital | 9,435 | 5,564 | 14,258 | 17,409 | 12,894 | 7,984 | 16,497 | 23,192 |
| **Deduct:** | | | | | | | | |
| Purchase of non-growth property and equipment | (457) | (573) | (892) | (608) | (963) | (638) | (996) | (1,079) |
| **Adjusted free cash flow** (1) | 8,978 | 4,991 | 13,366 | 16,801 | 11,931 | 7,346 | 15,501 | 22,113 |
| Weighted average shares outstanding at end of period | 19,802,947 | 19,802,048 | 20,346,713 | 21,638,882 | 21,638,433 | 21,685,876 | 21,832,777 | 24,103,670 |
| **Adjusted free cash flow per share** | 0.453 | 0.252 | 0.657 | 0.776 | 0.551 | 0.339 | 0.710 | 0.917 |
| **Free cash flow - 12 month trailing** | 31,769 | 32,730 | 36,853 | 44,136 | 47,089 | 49,444 | 51,579 | 56,891 |

[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 nine month period ending September 30, 2014, the Company paid approximately $13.4 million in corporate income taxes and tax installments. Accordingly, this reduced our adjusted free cash flow by this amount. The Company expects the payment of corporate income taxes to have a more significant negative affect on free cash flow and adjusted free cash flow. See "RESULTS FROM OPERATIONS – Third Quarter Operating Results – Income Taxes" for further detail regarding the impact of corporate income taxes on cash flow.

### Adjusted Return on Capital Employed

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

| (in thousands of dollars, except share and per share amounts) | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 | Q1 2014 | Q2 2014 | Q3 2014 |
|---|---|---|---|---|---|---|---|---|
| **EBITDA** (1) | 10,299 | 10,557 | 16,507 | 16,626 | 14,754 | 14,453 | 21,702 | 31,895 |
| **Deduct:** | | | | | | | | |
| Depreciation of property and equipment | (1,118) | (1,189) | (1,490) | (1,599) | (2,068) | (2,511) | (2,550) | (4,139) |
| **EBIT** (1) | 9,181 | 9,368 | 15,017 | 15,027 | 12,686 | 11,942 | 19,152 | 27,756 |
| Average long-term debt | 31,007 | 36,293 | 28,871 | 25,725 | 62,959 | 108,120 | 214,438 | 244,105 |
| Average shareholder's equity | 122,877 | 126,188 | 152,983 | 181,576 | 187,652 | 196,608 | 205,613 | 326,410 |
| **Average capital employed** (1) | 153,884 | 162,481 | 181,854 | 207,301 | 250,611 | 304,728 | 420,051 | 570,515 |
| **Return on capital employed** (1) | 6.0 % | 5.8 % | 8.3 % | 7.2 % | 5.1 % | 3.9 % | 4.6 % | 4.9 % |
| Comparative adjustment (2) | (15,376) | (15,542) | (15,542) | (15,542) | (15,951) | (15,951) | (15,951) | (15,951) |
| **Adjusted average capital employed** (2) | 138,508 | 146,939 | 166,312 | 191,759 | 234,660 | 288,777 | 404,100 | 554,564 |
| **Adjusted return on capital employed** (2) | 6.6 % | 6.4 % | 9.0 % | 7.8 % | 5.4 % | 4.1 % | 4.7 % | 5.0 % |
| **Adjusted return on capital employed - 12 month trailing** | | | | 29.8 % | | | | 19.2 % |

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

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

## CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICY DEVELOPMENTS

A complete listing of critical accounting policies, estimates, judgments and measurement uncertainty can be found in Note 3 of the annual consolidated financial statements for the year ended December 31, 2013 and Note 4 of the unaudited interim consolidated financial statements for the period ended September 30, 2014.

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 September 30, 2014. The standards impacted that are applicable to the Company are as follows:

- IFRS 15, *Revenue from Contracts with Customers* - in May 2014, the IASB issued IFRS 15, which supersedes IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single model to determine how and when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of its revenue recognition criteria. IFRS 15 is to be applied prospectively and is effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. The Company is in the process of evaluating the impact that IFRS 15 may have on the financial statements.

## DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended September 30, 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. 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** | **1,587** | **1,677** | **1,745** | **1,790** |
| **Atlantic** | **102** | **119** | **126** | **135** | **136** |
| **Central** | **936** | **987** | **1,034** | **1,061** | **1,094** |
| Quebec | 366 | 408 | 416 | 415 | 405 |
| Ontario | 570 | 579 | 618 | 646 | 689 |
| **West** | **408** | **481** | **517** | **549** | **560** |
| Manitoba | 42 | 45 | 50 | 54 | 55 |
| Saskatchewan | 36 | 45 | 55 | 58 | 58 |
| Alberta | 166 | 220 | 239 | 257 | 263 |
| British Columbia | 164 | 171 | 173 | 180 | 184 |

* Includes cars and light trucks

Source: Scotia Economics - Global Auto Report, September 24, 2014

The Canadian new vehicle market continues to perform at record levels and is on pace for a record year 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 a result of the significant increase in interested sellers, the Company raised its acquisition guidance in a news release issued on June 5, 2014. Management maintains its previous acquisition guidance and is confident that, in addition to acquisitions completed to date, it shall add 5 to 7 additional dealerships by May 31, 2015.

The Board of Directors of AutoCanada reviewed its dividend policy during its November 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 fifteenth consecutive quarter to $0.25 per share, or $1.00 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 the 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 that are subject to hail with some areas, known as red-zones, more prone than others. Insurance providers have indicated to the Company and the industry as a whole that dealerships operating in these 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 and, in some cases, no aggregate limit. 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 twelve of its forty-six dealerships in red-zones; therefore, the exposure is currently limited. However, if the Company continues to expand through acquisitions 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, thereby increasing the 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 belief that, as the Company continues to grow, operating expenses as a percentage of gross profit should continue to improve as the Company achieves greater economies of scale;
- the impact of income taxes on future cash flow;
- expectations and future plans regarding our current and other potential GM acquisitions;
- expectations to incur operating losses at North Edmonton Kia over the first year as the dealership grows its customer base and parts and service business;
- expectations of North Edmonton Kia to drive higher volume over the coming months;
- additional risk regarding the impact of hail storms on the Company's financial results;
- expectations of acquisitions to take a minimum of two years in order to meet our expected performance objectives;
- expectations to incur additional selling and administrative costs in the future to successfully integrate new dealerships;
- the belief that, if the Company can continue to perform well, it will be able to build upon its current brand portfolios and hopefully gain the acceptance of other new manufacturers over time;
- commitments regarding future investments in additional GM dealerships;
- commitments by the Company's CEO to continue to personally invest in GM dealerships to facilitate the Company's intention to grow its portfolio of GM dealerships;
- expectations to incur additional selling, general, and administrative costs in the future to facilitate the growth anticipated by the Company due to increased acquisition activity;

- estimates, intentions, and expectations regarding the capital plan, potential relocation of certain dealerships, dealership expansion needs, and open point opportunities;
- our belief that relocation of certain dealerships may provide incremental long-term earnings growth and better align some of our dealerships with the growth expectations of our manufacturer partners;
- the impact of dealership real estate relocations and purchases and its impact on liquidity, financial performance and the Company's capital requirements;
- 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, all from which amounts attributable to non-controlling interests are removed.

*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 attributable to non-controlling interests.

*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, Adjusted EBITDA, Adjusted net earnings, Adjusted net earnings per share, 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, Adjusted EBITDA, Adjusted net earnings, Adjusted net earnings per share, 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, Adjusted EBITDA, Adjusted net earnings, Adjusted net earnings per share, 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.