AutoCanada

AutoCanada Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the three month period ended March 31, 2015

Table of Contents

About us

AutoCanada Inc. is one of Canada's largest multi-location automobile dealership groups, currently operating 48 dealerships, comprised of 56 franchises, (see "GROWTH, ACQUISITIONS, RELOCATIONS AND REAL ESTATE") in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick and Nova Scotia. In 2014, our dealerships sold approximately 57,000 vehicles and processed approximately 786,000 service and collision repair orders in our 822 service bays.

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.

1. READER ADVISORIES

This Management's Discussion & Analysis ("MD&A") was prepared as of May 7, 2015 to assist readers in understanding AutoCanada Inc.'s (the "Company" or "AutoCanada") consolidated financial performance for the three month period ended March 31, 2015 and significant trends that may affect AutoCanada's future performance. The following discussion and analysis should be read in conjunction with the unaudited condensed interim consolidated financial statements and accompanying notes (the "Interim Consolidated Financial Statements") of AutoCanada as at and for the three month period ended March 31, 2015, the audited annual consolidated financial statements and accompanying notes (the "Consolidated Financial Statements") of AutoCanada as at and for the year ended December 31, 2014, and management's discussion and analysis for the year ended December 31, 2014. Results are reported in Canadian dollars. Certain dollar amounts have been rounded to the nearest thousand dollars. References to notes are to the Notes of the Consolidated Financial Statements of the Company unless otherwise stated.

To provide more meaningful information, this MD&A typically refers to the operating results for the three month period ended March 31, 2015 of the Company, and compares these to the operating results of the Company for the three month period ended March 31, 2014. 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 March 31, 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".

Additional information regarding our Company, including our 2014 Annual Information From, dated March 19, 2015, is available on SEDAR at www.sedar.com and our website www.autocan.ca. Such additional information is not incorporated by reference herein, unless otherwise specified, and should not be deemed to be made part of this Management's Discussion and Analysis.

2. OUR PERFORMANCE

Performance vs. the First Quarter of Prior Year

AutoCanada's higher sales and gross profits in the first quarter of 2015 is a direct result of acquisitions made subsequent to the end of the first quarter of 2014. Lower earnings, same store sales and same store gross profits are a result of reduced economic activity, particularly in Western Canada, combined with other operating challenges. January and February were difficult months from a retail automotive sales perspective, March saw an increase in sales activity due to recovering consumer confidence.

Management typically uses gross profit and operating income as its most important measure of overall corporate performance. Overall revenues can vary significantly year over year as a result of fluctuations in sales mix, as well as fluctuations in lower margin fleet sales and used vehicle wholesale sales. As such, Management believes that gross profit is a better indicator of overall corporate performance. Overall gross profit increased by 67.0%, compared to the same period of 2014, as a result of acquisitions made subsequent to the first quarter of 2014.

Same store gross profit decreased by 8.5% in the first quarter of 2015, as compared to the same period of 2014, which was comprised of gross profit decreases across three of our business lines.

New vehicle same store gross profit decreased 18.7% as a result of both tightening markets, which lead to reduced margins, and lower achievement of sales volume incentives in some stores.

Used vehicle same store gross profit has decreased 15.2% as a result of reduced margins on wholesale sales. The gross profit achieved on wholesale used vehicles in the first quarter of 2014 was significantly higher than normal, the first quarter alone accounted for 54.0% of total gross profit for 2014. Used vehicle retail sales decreased by only 1.90% or 80 total vehicles.

Finance and insurance same store gross profit decreased by 8.7% which is consistent with the decrease in total vehicle sales.

Parts, service and collision same store gross profit increased by 3.6% as a result of an increase in the number of repair orders completed during the period. The increase in gross profit lags behind the increase in revenue of 8.5% as a result of a change in sales mix due to a 20.6% increase in warranty related revenue during the period. Warranty work, which earns a lower gross margin than non-warranty work, comprised 18.2% of all parts, service and collision revenue, up from 16.4% in the same period of 2014.

Many of our operating expenses are variable in nature, mainly consisting of employee costs. Our dealership employee pay structures are tied to meeting sales objectives, maintaining customer satisfaction indices, as well as improving gross profit and net income. A significant proportion of the Company's wages and salaries are variable based. Although variable in nature, typically there is a time lag between business contraction and staff reduction as dealerships will not want to lose their high performing variable paid employees and thus will not make a meaningful reduction to their compensation in the short term. The Company is currently evaluating its existing staffing levels. The Company regularly reviews the operating performance of its dealerships and utilizes the leverage of a large dealer group to reduce its overall operating expenses. The Company operates a centralized marketing department and information technology department, as well as a centralized administrative function, which provide services to the dealerships in order to leverage the size of the group as a means to lower the operating costs of the dealerships.

Performance vs. the Canadian New Vehicle Market

New light vehicle sales in Canada in the three month period ended March 31, 2015 were up 2.8% when compared to the same period in 2014. Sales of new light vehicles in Alberta and British Columbia, our primary markets, were down by 3.6% in Alberta and up by 11.2% in British Columbia. The Company's same store unit sales of new vehicles decreased by 11.5% during the three month period ended March 31, 2015. The first quarter of 2015 was a challenging period for the Canadian market as well as for the Company. Our concentration of dealerships located within Alberta caused our performance to fall below that of the Canadian average change in light vehicle sales. Furthermore, we own and operate franchises in Saskatchewan and the Maritimes, all of which have experienced quarter-over-quarter declines in sales growth of new vehicles.

The following table summarizes Canadian new light vehicle sales for the three month periods ended March 31, 2015 and March 31, 2014 by Province:

March Year to Date Canadian New Vehicle Sales by Province[1,2]

	March Year to Date		Percent	Unit
	2015	2014	Change	Change
British Columbia	43,916	39,480	11.2%	4,436
Alberta	52,605	54,547	(3.6)%	(1,942)
Saskatchewan	11,144	11,365	(1.9)%	(221)
Manitoba	11,313	10,785	4.9%	528
Ontario	141,752	139,818	1.4%	1,934
Quebec	84,621	77,396	9.3%	7,225
New Brunswick	7,607	7,476	1.8%	131
PEI	1,212	1,148	5.6%	64
Nova Scotia	8,724	10,235	(14.8)%	(1,511)
Newfoundland	5,679	6,142	(7.5)%	(463)
Total	368,573	358,392	2.8%	10,181

1 *DesRosiers Automotive Consultants Inc.*

2 *Readers are cautioned that the above table includes sales channels that the Company does not fully participate in such as fleet and daily rentals.*

Same Store Revenue and Vehicles Sold

	For the Three Months Ended		
(in thousands of dollars)	**March 31, 2015**	**March 31, 2014**	**% Change**
Revenue Source			
New vehicles – Retail	135,364	152,764	(11.4)%
New vehicles – Fleet	33,966	35,358	(3.9)%
New vehicles	169,330	188,122	(10.0)%
Used vehicles – Retail	57,889	56,319	2.8%
Used vehicles – Wholesale	23,129	18,282	26.5%
Used vehicles	81,018	74,601	8.6%
Finance, insurance and other	16,804	18,275	(8.0)%
Subtotal	267,152	280,998	(4.9)%
Parts, service and collision repair	34,790	32,057	8.5%
Total	301,942	313,055	(3.5)%
New retail vehicles sold	3,632	4,115	(11.7)%
New fleet vehicles sold	935	1,044	(10.4)%
Used retail vehicles sold	2,367	2,447	(3.3)%
Total	6,934	7,606	(8.8)%
Total vehicles retailed	5,999	6,562	(8.6)%

Same Store Gross Profit and Gross Profit Percentage

	For the Three Months Ended					
	Gross Profit			Gross Profit %		
(in thousands of dollars)	March 31, 2015,	March 31, 2014,	% Change	March 31, 2015,	March 31, 2014,	% Change
Revenue Source						
New vehicles – Retail	12,683	15,724	(19.3)%	9.4%	10.3%	(0.9)%
New vehicles – Fleet	114	19	500.0%	0.3%	0.1%	0.2%
New vehicles	12,797	15,743	(18.7)%	7.6%	8.4%	(0.8)%
Used vehicles – Retail	4,222	4,303	(1.9)%	7.3%	7.6%	(0.3)%
Used vehicles – Wholesale	16	695	(97.7)%	0.1%	3.8%	(3.7)%
Used vehicles	4,238	4,998	(15.2)%	5.2%	6.7%	(1.5)%
Finance, insurance and other	15,321	16,779	(8.7)%	91.2%	91.8%	(0.6)%
Subtotal	32,356	37,520	(13.8)%	12.1%	13.4%	(1.3)%
Parts, service and collision repair	16,940	16,346	3.6%	48.7%	51.0%	(2.3)%
Total	49,296	53,866	(8.5)%	16.3%	17.2%	(0.9)%

3. SELECTED QUARTERLY FINANCIAL INFORMATION

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

(in thousands of dollars, except Gross Profit %, Earnings per share, and Operating Data)	Q1 2015[1]	Q4 2014[1,8]	Q3 2014[1]	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Income Statement Data								
New vehicles	345,542	378,706	457,198	289,918	216,524	197,097	257,543	254,403
Used vehicles	163,243	148,579	158,779	102,025	85,969	75,137	85,975	77,113
Parts, service and collision repair	92,951	90,534	78,371	46,078	40,724	41,268	37,341	34,629
Finance, insurance and other	31,671	34,354	39,002	27,304	20,713	20,271	22,676	22,620
Revenue[7]	633,407	652,173	733,350	465,325	363,930	333,773	403,535	388,765
New vehicles	25,765	28,670	35,711	23,822	17,799	18,326	20,510	20,664
Used vehicles	8,354	7,807	9,637	6,506	5,551	4,450	6,242	5,795
Parts, service and collision repair	43,913	45,658	38,942	23,373	20,593	20,822	20,113	17,586
Finance, insurance and other	27,407	29,943	35,615	24,342	19,180	18,734	20,831	20,783
Gross profit[7]	105,439	112,078	119,905	78,043	63,123	62,332	67,696	64,828
Gross Profit %	16.6%	17.2%	16.4%	16.8%	17.3%	18.7%	16.8%	16.7%
Operating expenses	93,175	91,572	89,713	58,920	50,699	48,447	51,080	48,639
Operating expenses as a % of gross profit	88.4%	81.7%	74.8%	75.5%	80.3%	77.7%	75.5%	75.0%
Income from investments in associates	–	–	359	2,238	893	837	555	648
Net earnings attributable to AutoCanada shareholders[6]	4,969	14,240	17,765	12,831	8,296	9,553	10,968	10,823
EBITDA attributable to AutoCanada shareholders[2,6,7]	12,687	24,605	28,674	21,702	14,453	14,754	16,607	16,463
Basic earnings (loss) per share	0.20	0.60	0.74	0.59	0.38	0.44	0.51	0.53
Diluted earnings per share	0.20	0.59	0.74	0.59	0.38	0.44	0.51	0.53
Operating Data								
Vehicles (new and used) sold excluding GM	11,343	12,774	14,966	9,887	8,766	8,046	10,325	10,062
Vehicles (new and used) sold including GM[3]	13,824	15,415	18,079	12,414	9,945	9,209	11,405	11,399
New vehicles sold including GM[3]	8,933	10,570	12,821	8,658	6,570	6,090	8,023	8,246
New retail vehicles sold	7,393	8,907	10,686	5,980	4,773	4,932	5,986	5,487
New fleet vehicles sold	1,540	1,663	2,135	1,146	1,132	552	1,365	1,923
Used retail vehicles sold	4,891	4,845	5,258	2,761	2,861	2,562	2,974	2,652
Number of service & collision repair orders completed[4]	199,096	216,427	198,612	97,559	91,999	95,958	97,074	93,352
Absorption rate[2]	85%	85%	93%	92%	85%	90%	88%	90%
# of dealerships at period end[4]	48	48	45	34	28	28	29	27
# of same store dealerships	23	23	23	23	23	21	22	22
# of service bays at period end[4]	822	822	734	516	406	406	413	368
Same store revenue growth[5]	(3.5)%	10.9%	8.9%	4.1%	13.0%	8.9%	19.9%	26.2%
Same store gross profit growth[5]	(8.5)%	5.7%	11.4%	5.4%	8.1%	9.2%	18.5%	25.8%
Balance Sheet Data								
Cash and cash equivalents	66,351	72,462	64,559	91,622	41,541	35,113	37,940	35,058
Restricted cash	–	–	–	–	–	–	–	10,000
Trade and other receivables	104,753	92,138	115,074	85,837	69,747	57,771	62,105	69,656
Inventories	625,779	563,277	471,664	324,077	261,764	278,091	236,351	232,319
Revolving floorplan facilities	601,432	527,780	437,935	313,752	261,263	264,178	228,526	246,325

1 *In conjunction with the business combination under common control completed on July 11, 2014, the Selected Quarterly Financial Information for Q1 2015, Q3 2014 and Q4 2014 includes the consolidated results of the Company's GM stores from July 11, 2014. All Q1 2015, Q3 2014 and Q4 2014 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.*

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

3 *Until July 10, 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.*

4 *The results presented for all quarters prior to Q3 2014 do not include the GM stores and their associated service bays or repair orders.*

5 *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.*

6 *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 significant fluctuations in operating results from quarter to quarter.*

7 *Due to the impact of rounding throughout the interim periods, the aggregate quarterly results may not equal the annual total for the corresponding year.*

8 *Data presented for Q4, 2014 has been amended subsequent to initial presentation to correct an immaterial clerical error which impacted the computation of Q4 2014. The annual 2014 results are unchanged as previously presented.*

4. OUTLOOK

The outlook regarding vehicle sales in Canada is difficult to predict, especially with respect to new retail sales which manufacturers do not publicly disclose separately from fleet and rental sales. Canadian new light vehicle unit sales of all types are currently forecasted to increase by 0.2 percent in 2015 as compared to the prior year.

New Vehicle Sales Outlook by Province*

	1994 - 2005 (Average)	2006 - 2012 (Average)	2013	2014	2015F
Canada	**1,446**	**1,600**	**1,745**	**1,851**	**1,855**
Atlantic	**102**	**120**	**135**	**137**	**137**
Central	**936**	**994**	**1,061**	**1,139**	**1,149**
Quebec	366	409	415	420	423
Ontario	570	585	646	719	726
West	**408**	**486**	**549**	**575**	**569**
Manitoba	42	45	54	56	56
Saskatchewan	36	46	58	56	55
Alberta	166	223	257	269	263
British Columbia	164	172	180	194	195

* *Includes cars and light trucks (units presented above are in thousands). Source: Scotia Economics – Global AutoReport, April 10, 2015.*

The Company is pleased that although March and April of this year were not as strong as the comparable months in 2014 they were significantly stronger than our results of January and February of 2015 when compared to the same months in 2014. We are cautiously optimistic that the challenges in Q2, 2015 will be less than the early months of the first quarter. The Company notes that sales volumes within Ontario are flat throughout 2015 while its dealerships in Quebec are now entering their prime Spring and Summer selling periods and thus should return to historical levels of performance.

The decline in parts, service & collision gross margin is expected to recover in the remainder of 2015. The decline in the quarter was due to increased new vehicle sales levels over the last three years.

Regarding acquisitions, with the diversification in terms of manufacturer partners, and strong balance sheet, the Company is well positioned to continue to patiently seek out and acquire quality acquisitions at reasonable multiples which will provide sustainable, long term shareholder value. In August, 2014, the Company provided updated guidance of eight to ten dealership acquisitions by May 31, 2015. Since that date the Company has acquired six dealerships, including the recent announcement of Airdrie Chrysler. Currently the Company is in various stages of discussion with several acquisition targets and we expect to be in a position to announce two acquisitions within the next 45 days. Management is pleased with the volume and quality of potential acquisitions currently in the pipeline. The Company further expects to acquire an additional four to six dealerships by May, 2016.

5. MARKET

The Company's geographical profile is illustrated below by number of dealerships and revenues by province for the three month periods ended March 31, 2015 and March 31, 2014.

	March 31, 2015				March 31, 2014[1]			
Location of Dealerships	**Number of Franchises**	**Number of Dealerships**	**Revenue**	**% of Total**	**Number of Franchises**	**Number of Dealerships**	**Revenue**	**% of Total**
British Columbia	12	10	124,922	20%	11	9	105,906	29%
Alberta	25	22	285,337	45%	14	11	177,654	49%
Saskatchewan	4	4	54,841	9%	–	–	–	–
Manitoba	4	4	40,607	6%	3	3	26,181	7%
Ontario	5	4	31,345	5%	4	3	22,101	6%
Other	6	4	96,355	15%	2	2	32,088	9%
Total	56	48	633,407	100%	34	28	363,930	100%

[1] *The results of five GM stores operated by the Company during Q1 2014 have not been consolidated or included in the number of dealerships, as the stores were accounted for as investments in associates as at March 31, 2014. Commencing July 11, 2014, General Motors dealerships have been consolidated for accounting purposes and have been included in the total number of dealerships at March 31, 2015.*

[2] *"Dealerships" refers to each physical storefront while "Franchises" refers to each separate franchise agreement.*

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	**Operating Name**	**Franchise(s)**	**Year Opened or Acquired**
Wholly-Owned Dealerships:			
Abbotsford, British Columbia	Abbotsford Volkswagen	Volkswagen	2011
Chilliwack, British Columbia	Chilliwack Volkswagen	Volkswagen	2011
Kelowna, British Columbia	Okanagan Chrysler Jeep Dodge FIAT	FIAT / Chrysler	2003
Maple Ridge, British Columbia	Maple Ridge Chrysler Jeep Dodge FIAT	FIAT / Chrysler	2005
Maple Ridge, British Columbia	Maple Ridge Volkswagen	Volkswagen	2008
Prince George, British Columbia	Northland Chrysler Jeep Dodge	Chrysler	2002
Prince George, British Columbia	Northland Hyundai	Hyundai	2005
Prince George, British Columbia	Northland Nissan	Nissan	2007
Victoria, British Columbia	Victoria Hyundai	Hyundai	2006
Calgary, Alberta	Courtesy Chrysler Dodge	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 FIAT	FIAT / Chrysler	1994
Edmonton, Alberta	Capital Chrysler Jeep Dodge FIAT	FIAT / Chrysler	2003
Edmonton, Alberta	North Edmonton Kia	Kia	2014
Grande Prairie, Alberta	Grande Prairie Chrysler Jeep Dodge FIAT	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

Location	Operating Name	Franchise(s)	Year Opened or Acquired
Grande Prairie, Alberta	Grande Prairie Nissan	Nissan	2007
Grande Prairie, Alberta	Grande Prairie Volkswagen	Volkswagen	2013
Ponoka, Alberta	Ponoka Chrysler Jeep Dodge	Chrysler	1998
Sherwood Park, Alberta	Sherwood Park Hyundai	Hyundai	2006
Saskatoon, Saskatchewan	Dodge City Chrysler Jeep Dodge RAM	Chrysler	2014
Winnipeg, Manitoba	St. James Audi	Audi	2013
Winnipeg, Manitoba	St. James Volkswagen	Volkswagen	2013
Winnipeg, Manitoba	Eastern Chrysler Jeep Dodge	Chrysler	2014
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
Moncton, New Brunswick	Moncton Chrysler Jeep Dodge	Chrysler	2001
Dartmouth, Nova Scotia	Dartmouth Chrysler Jeep Dodge	Chrysler	2006
Dealership Investments:			
Duncan, British Columbia	Island Chevrolet Buick GMC	General Motors	2013
Edmonton, Alberta	Lakewood Chevrolet	General Motors	2014
Sherwood Park, Alberta	Sherwood Park Chevrolet	General Motors	2012
Sherwood Park, Alberta	Sherwood Buick GMC	General Motors	2012
North Battleford, Saskatchewan	Bridges Chevrolet Buick GMC	General Motors	2014
Prince Albert, Saskatchewan	Mann-Northway Auto Source	General Motors	2014
Saskatoon, Saskatchewan	Saskatoon Motor Products	General Motors	2014
Winnipeg, Manitoba	McNaught Cadillac Buick GMC	General Motors	2014
Laval, Quebec	BMW Laval and MINI Laval	BMW / MINI	2014
Montreal, Quebec	BMW Canbec and MINI Mont Royal	BMW / MINI	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 also cause substantial fluctuations in our operating results from quarter to quarter.

6. RESULTS FROM OPERATIONS

The following section outlines specific factors that affected the results of our operations in the first quarter of 2015 and should be read in conjunction with our interim consolidated financial statements for the quarter ended March 31, 2015.

First Quarter Operating Results

EBITDA attributable to AutoCanada shareholders for the three month period ended March 31, 2015 decreased by 12.4% to $12.7 million, from $14.5 million when compared to the results for the same period in the prior year. The decrease in EBITDA attributable to AutoCanada shareholders for the quarter can be mainly attributed to the general slowdown of the economy in Alberta, inclement weather in the Maritimes, increased seasonality in our Quebec dealerships, and losses incurred during the first year of operations at our Kia Open Point. As discussed in the December 31, 2014 management's discussion and analysis, the Company's variable operating costs have not aligned with gross profit. Management believes that should the period of reduced economic activity continue it will be able to take full advantage of the Company's variable cost structure. Adjusted EBITDA attributable to AutoCanada shareholders for the quarter ended March 31, 2015 decreased by $2.1 million or 14.1% from $15.0 million to $12.9 million when compared to the results of the Company for the same quarter in the prior year.

The following table illustrates EBITDA, and adjusted EBITDA, attributable to AutoCanada shareholders for the three month periods ended March 31, for the last three years of operations:

(in thousands of dollars)	2015	2014	2013
Period from January 1 to March 31			
Net earnings attributable to AutoCanada shareholders	4,969	8,296	6,822
Income tax	1,707	2,881	2,309
Depreciation of property and equipment	3,932	2,512	1,189
Interest on long-term indebtedness	2,079	764	237
EBITDA attributable to AutoCanada shareholders	12,687	14,453	10,557
Add back:			
Share-based compensation attributed to changes in share price	(330)	565	139
Revaluation of redemption liabilities	323	–	–
Unrealized loss on embedded derivative	214	–	–
Adjusted EBITDA attributable to AutoCanada shareholders	**12,894**	**15,018**	**10,696**

Pre-tax earnings attributable to AutoCanada shareholders decreased by $4.5 million or 40.2% to $6.7 million for the three month period ended March 31, 2015 from $11.2 million in the same period of the prior year. Net earnings attributable to AutoCanada shareholders decreased by $3.3 million or 39.8% to $5.0 million in the first quarter of 2015 from $8.3 million when compared to the prior year. This decrease is due to increased operating expenses which exceed the increase in gross profit. Income tax expense attributable to AutoCanada shareholders decreased by $1.2 million to $1.7 million in the first quarter of 2015 from $2.9 million in the same period of 2014 due to the decrease in pre-tax earnings.

Adjusted net earnings attributable to AutoCanada shareholders decreased by $3.4 million or 39.6% to $5.3 million for the three month period ended March 31, 2015 from $8.7 million in the same period of the prior year.

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

(in thousands of dollars)	2015	2014	2013
Net earnings attributable to AutoCanada shareholders	4,969	8,296	6,822
Add back:			
Share-based compensation attributed to changes in share price, net of tax	(245)	419	103
Revaluation of redemption liabilities	323	–	–
Unrealized loss on embedded derivative	214	–	–
Adjusted net earnings attributable to AutoCanada Shareholders	5,261	8,715	6,925
Weighted average number of shares - Basic	24,409,574	21,685,876	19,802,048
Weighted average number of shares - Diluted	24,520,694	21,685,876	19,802,048
Adjusted net earnings per share attributable to AutoCanada shareholders - Basic	0.22	0.40	0.35
Adjusted net earnings per share attributable to AutoCanada shareholders - Diluted	0.21	0.40	0.35

Revenues

Revenues for the three month period ended March 31, 2015 increased by $269.5 million or 74.1% as compared to the same period of the prior year. This increase was mainly driven by increases in all four revenue streams as a result of acquisitions since Q1 2014. New vehicle sales increased by $129.0 million or 59.6% for the three month period ended March 31, 2015 to $345.5 million from $216.5 million in the same period of the prior year, mainly due to an increase in new vehicles units sold of 51.3%. 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 $77.3 million or 89.9% for the three month period ended March 31, 2015. The increase in new and used vehicle retail sales greatly contributed to the increase in finance and insurance revenue, which increased by $11.0 million or 53.1% in the three month period ended March 31, 2015. Parts, service and collision repair revenue increased by $52.2 million or 128.2% for the three month period ended March 31, 2015.

Revenues - Same Store Analysis

Same store revenue decreased by $11.1 million or 3.5% in the three month period ended March 31, 2015 when compared to the same period in 2014.

New vehicle revenues decreased by $18.8 million or 10.0% for the first quarter of 2015 over the prior year due to an decrease in new vehicle sales of 592 units or 11.5% and an increase in the average revenue per new vehicle sold of $612 or 1.7%. The proportionate mix between car and truck sales has not changed.

Same store used vehicle revenues increased by $6.4 million or 8.6% for the three month period ended March 31, 2015 over the same period in the prior year.

Same store parts, service and collision repair revenue increased by $2.7 million or 8.5% for the first quarter of 2015 compared to the prior period and was primarily a result of an increase in overall repair orders completed of 3,040 or 4.0% and an $18 or 4.3% increase in the average revenue per repair order completed. During the quarter the proportion of warranty claims as a percentage of total parts, service and collision repair orders has increased due to increased vehicle sales levels over the last three years.

Same store finance, insurance and other revenue decreased by $1.5 million or 8.0% for the three month period ended March 31, 2015 over the same period in 2014. This was due to an increase in the average revenue per unit retailed of $17 or 0.6% and a decrease in the number of new and used vehicles retailed of 563 units.

Gross Profit

Gross profit increased by $42.3 million or 67.0% for the three month period ended March 31, 2015 when compared to the same period in the prior year. As with revenues, gross profit increased due to increases across all four revenue streams as a result of acquisitions since Q1, 2014. Gross profit on the sale of new vehicles increased by $8.0 million or 44.9% for the three month period ended March 31, 2015. The increase in new vehicle gross profit can be attributed to an increase in the number of new vehicles sold of 3,028 or 51.3%, slightly offset by a decrease in the average gross profit per new vehicle sold of $130 or 4.3%. During the three month period ended March 31, 2015, gross profit from used vehicles increased by $2.8 million or 50.5% over the same period in the prior year due to increases in the number of used vehicles sold of 2,030 or 71.0%, offset by a decrease in the average gross profit per used vehicle sold of $232 or 12.0%. The Company's finance and insurance gross profit increased by $8.2 million or 42.8% during the first quarter of 2015. This increase can mainly be attributed to increases in the total number of vehicles retailed of 4,650 or 60.9%. Parts, service and collision repair gross profit increased by $23.3 million or 112.9% in the first quarter of 2015, due primarily to increases in the number of repair orders completed of 107,097 or 116.4%, offset by a decrease in the average profit per repair order completed of $3 or 1.5%.

Gross Profit - Same Store Analysis

Same store gross profit decreased by $4.6 million or 8.5% for the three month period ended March 31, 2015 when compared to the same period in the prior year. New vehicle gross profit decreased by $2.9 million or 18.7% in the three month period ended March 31, 2015 when compared to 2014 as a result of an decrease in new vehicle sales of 592 units or 11.5% and a decrease in the average gross profit per new vehicle sold of $302 or 7.9%.

Used vehicle gross profit decreased by $0.8 million or 15.2% in the three month period ended March 31, 2015 over the prior year. This was due to increases of $252 or 12.3% in the average gross profit per used vehicle retailed and a decrease in the number of used vehicles sold of 80 units.

Parts, service and collision repair gross profit increased by $0.6 million or 3.6% in the three month period ended March 31, 2015 when compared to the same period in the prior year as a result of an increase in the number of repair orders completed of 3,040 with no change in the average gross profit per repair order. The increase in gross profit lags behind the increase in revenue of 8.5% as a result of the proportionate increase in warranty work. Warranty work earns a lower gross margin than non-warranty work and thus leads to a lower gross margin percentage.

Finance and insurance gross profit decreased by 8.7% or $1.5 million in the three month period ended March 31, 2015 when compared to the prior year as a result of a decrease in the average gross profit per unit sold of $3 and a decrease in units retailed of 563.

Operating expenses

Operating expenses increased by 83.8% or $42.5 million during the three month period ended March 31, 2015 as compared to the same period in the prior year. Since many operating expenses are variable in nature, management considers operating expenses as a percentage of gross profit to be a good indicator of expense control. Operating expenses as a percentage of gross profit increased to 88.4% in the first quarter of 2015 from 80.3% in the same period of the prior year due to a time lag that exists between business contraction and a coinciding decrease in fixed and variable operating expenses. Operating expenses consist of four major categories: employee costs, selling and administrative costs, facility lease costs and amortization.

Employee costs

During the three month period ended March 31, 2015, employee costs increased by $24.2 million to $57.9 million from $33.7 million in the prior year period. Employee costs as a percentage of gross profit increased to 54.9% compared to 53.5% in the same period of the prior year.

Selling and administrative costs

During the three month period ended March 31, 2015, selling and administrative costs increased by $13.7 million or 110.5% primarily due to 20 dealership acquisitions and combinations completed subsequent to the first quarter of 2014. Selling and administrative expenses as a percentage of gross profit increased to 24.7% in the first quarter of 2015 from 19.6% in the comparable period of 2014.

Facility lease costs

During the three month period ended March 31, 2015, facility lease costs increased by 147.6% to $5.1 million from $2.1 million primarily due to the 20 dealership acquisitions and combinations completed subsequent to the first quarter of 2014.

Depreciation

During the three month period ended March 31, 2015, depreciation increased to $4.2 million from $2.5 million in the same period of the prior year. The increase in depreciation can be primarily attributed to the 20 dealership acquisitions and combinations completed subsequent to the first quarter of 2014.

Income Taxes

Income tax expense for the three month period ended March 31, 2015 decreased by $0.9 million to $2.0 million from $2.9 million in the same period of 2014.

During the first quarter of 2015, the Company paid $17.0 million of cash taxes which relates to the fiscal 2014 taxation year and installments toward the 2015 taxation year. The payment of cash taxes will have an impact on adjusted free cash flow.

Finance costs

The Company incurs finance costs on its revolving floorplan facilities, long term indebtedness and banking arrangements. During the three month period ended March 31, 2015, finance costs on our revolving floorplan facilities increased by 80.0% to $3.6 million from $2.0 million in the first quarter of 2014, mainly due to inventory increasing from $262 million to $626 million as a result of the 20 dealership acquisitions and combinations completed subsequent to the first quarter of 2014. Finance costs on long term indebtedness increased by $1.3 million in the first quarter of 2015 due to the issuance of $150 million of senior unsecured notes during Q2 2014.

Some of our manufacturers provide non-refundable credits on the finance costs for our revolving floorplan facilities to offset the dealership's cost of inventory that, on average, effectively provide the dealerships with interest-free floorplan financing for the first 45 to 60 days of ownership of each financed vehicle. During the three month period ended March 31, 2015, the floorplan credits earned were $3,305 (2014 - $2,020). Accounting standards require the floorplan credits to be accounted for as a reduction in the cost of new vehicle inventory and subsequently a reduction in the cost of sales as vehicles are sold.

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

	For the Three Months Ended	
(in thousands of dollars)	**March 31, 2015**	**March 31, 2014**
Floorplan financing	3,581	1,965
Floorplan credits earned	(3,305)	(2,020)
Net carrying cost of vehicle inventory	276	(55)

7. GROWTH, ACQUISITIONS, RELOCATIONS AND REAL ESTATE

The Company operates 48 automotive dealerships (56 franchises), comprised of 38 dealerships (44 franchises) which are wholly owned, as well as eight General Motors dealerships (eight franchises) and two BMW dealerships (four franchises) which the Company controls and consolidates for accounting purposes.

Growth

On April 15, 2015, the Company announced that it had reached agreement to purchase the operating assets of North Hill Motors (1975) Ltd. ("Airdrie Chrysler"), which operates a Chrysler Dodge Jeep Ram dealership located in Airdrie, Alberta. The acquisition has been approved and is expected to close by May 11, 2015. Terms of the transaction have not been finalized as of the financial statement release date. In 2014, the dealership retailed 935 new vehicles and 704 used vehicles.

In August, 2014, the Company provided guidance of eight to ten dealership acquisitions by May 31, 2015. Since that date the Company has acquired six dealerships. Currently the Company is in discussion with several acquisition targets at many different stages of the acquisition process, including some awaiting approval by the manufacturer. We expect at least two acquisitions to be announced in the next 45 days. Management is pleased with the volume and quality of potential acquisitions currently in the pipeline.

Integration of New Dealerships and Investments

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 2014 are presently being integrated into their respective platforms and within the Company. Notwithstanding the current economic reality in Alberta, and specifically Calgary, the newly acquired dealerships are currently meeting Management's expectations with respect to sales and financial performance and the Company's integration team at Dealer Support Services continues to work with newly acquired dealerships on sales process, marketing initiatives, and other important aspects associated with a successful integration.

There is very little tangible evidence of progress made with respect to integration of investments in dealerships we made in the third and fourth quarter of 2014. The Company intends to provide 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.

Dealership Open Points

Volkswagen – Sherwood Park, Alberta

In February 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.

Nissan – 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.

North Edmonton Kia

During the third quarter of 2014, the Company opened its North Edmonton Kia Open Point dealership. 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.

North Winnipeg Kia

In March 2015, the Company announced that it has signed a Letter of Intent with Kia Canada Inc. ("Kia") which, subject to the completion of requirements contained in the Letter of Intent, will award AutoCanada an Open Point Kia dealership in North Winnipeg, Manitoba. AutoCanada intends to operate the dealership out of a new facility, designed to Kia image standards, with construction anticipated to commence in late Q4, 2015 or Q1, 2016.

Future Acquisition Opportunities

Due to the economic slowdown occurring in the West, and Alberta in particular, Management anticipates that there will continue to be attractive buying opportunities, further enhancing long term shareholder value, however, Management is not yet seeing a change in acquisition multiples. Additionally, the Company shall continue to seek opportunities elsewhere in Canada, where appropriate, so as to provide continued diversity. The Company is in a position to patiently pursue its acquisition strategy thereby maximizing its ability to take advantage of anticipated buying opportunities that times of economic uncertainty generally provide, Management and the Company have excellent relationships with our current manufacturer partners and believe that if we can continue to perform well, we can build upon our current brand portfolios and hopefully gain the acceptance of other new manufacturers over time.

Capital Plan

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 $119.2 million by the beginning of fiscal 2017, $67.8 million of this amount is expected to be financed. 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 $34.7 million in capital costs that it may incur in order to expand or renovate various current locations by the beginning of fiscal 2019, $12.3 million of this amount is expected to be financed. The Company is required by its Manufacturers to undertake periodic imaging upgrades to its facilities. Included above are the estimated costs and timing related to the re-imaging requirements by Hyundai Canada. The Company expects 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. The Company estimates approximately $26.9 million in capital costs that it may incur by the end of fiscal 2016 related to currently awarded Open Points, $11.7 million of this amount is expected to be financed. 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.

8. 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 of 2014 in order to replenish its capital and execute on acquisitions. 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 March 31, 2015 is as follows:

- The Company had drawn $62.9 million on its $200.0 million revolving term facility.

As a result of the above, as at March 31, 2015, the Company currently has approximately $137.1 million in readily available liquidity, not including future retained cash from operations, that it may deploy for growth expenditures including acquisitions.

Cash Flow from Operating Activities

Cash flow from operating activities (including changes in non-cash working capital) of the Company for the three month period ended March 31, 2015 was $(0.8) million (cash used by operating activities of $5.2 million less net increase in non-cash working capital of $4.4 million) compared to $7.6 million (cash provided by operating activities of $6.7 million less net increase in non-cash working capital of $0.9 million) in the same period of the prior year.

Cash Flow from Investing Activities

For the three month period ended March 31, 2015, cash used in investing activities of the Company was a net outflow of $25.2 million as compared to $36.6 million in the same period of 2014. The decrease was primarily due to $32.6 million used for investments in associates during the same period of 2014, offset by an additional $20.0 million purchase of property and equipment in the current period.

Cash Flow from Financing Activities

For the three month period ended March 31, 2015, cash flow from financing activities was a net inflow of $20.0 million as compared to $35.5 million in the same period of 2014. The decrease was primarily due to $32.6 million used for investments in associates during the same period of 2014, offset by an additional $20.0 million draw on the Company's acquisition facility during the first quarter of 2014 which was used to finance acquisitions.

Credit Facilities and Floor Plan Financing

There have been no changes to credit facilities or our floorplan financing facilities as described in the annual management's discussion and analysis for the year ended December 31, 2014.

Key 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 as at March 31, 2015:

Financial Covenant	Requirement	Actual Calculation
Syndicated Revolver:		
Senior Secured Leverage Ratio	Shall not exceed 2.00	0.83
Adjusted Total Leverage Ratio	Shall not exceed 4.50	4.16
Fixed Charge Coverage Ratio	Shall not be less than 1.20	2.28
Current Ratio	Shall not be less than 1.05	1.11
Syndicated Floorplan:		
Current Ratio	Shall not be less than 1.10	1.11
Tangible Net Worth	Shall not be less than $40 million	$82.5 million
Debt to Tangible Net Worth	Shall not exceed 7.50	5.50

The covenants above are based on consolidated financial statements of the dealerships that are financed directly by the lender. As a result, the actual performance of the covenant does not reflect the actual performance of AutoCanada. The Company is required to comply with other covenants under the terms of its remaining credit agreements.

As at March 31, 2015, the Company is in compliance with all of its key financial covenants.

Financial Instruments

Details of the Company's financial instruments, including risks and uncertainties are included in Note 23 of the annual audited consolidated financial statements for the year ended December 31, 2014. There have been no significant changes to the nature of the Company's financial instruments since that time.

Growth vs. Non-Growth Capital Expenditures

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

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

(in thousands of dollars)	January 1, 2015 to March 31, 2015	January 1, 2014 to March 31, 2014
Leasehold improvements	965	89
Machinery and equipment	419	176
Furniture and fixtures	412	57
Computer hardware	398	151
Company & lease vehicles	5	165
	2,199	638

Amounts relating to the expansion of sales and service capacity are considered growth expenditures. Growth expenditures are discretionary, represent cash outlays intended to provide additional future cash flows and are expected to provide benefit in future periods. During the three month period ended March 31, 2015, growth capital expenditures of $23.1 million were incurred. These expenditures related primarily to purchases of land and the construction of a building, which is being constructed for a dealership relocation, during the first quarter of 2015 for $22.9 million. Dealership relocations are included as growth expenditures if they contribute to the expansion of sales and service capacity of the dealership.

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

(in thousands of dollars)	January 1, 2015 to March 31, 2015	January 1, 2014 to March 31, 2014
Purchase of property and equipment from the Statement of Cash Flows	25,279	5,335
Less: Amounts related to the expansion of sales and service capacity	(23,080)	(4,697)
Purchase of non-growth property and equipment	2,199	638

Repairs and maintenance expenditures are expensed as incurred and have been deducted from earnings for the period. Repairs and maintenance expense incurred during the three month period ended March 31, 2015, were $1.6 million (2014 – $0.9 million).

Planned Capital Expenditures

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

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

Financial Position

The following table shows selected audited balances of the Company (in thousands) for December 31, 2014 and December 31, 2013, as well as unaudited balances of the Company at March 31, 2015, September 30, 2014, June 30, 2014, March 31, 2014, September 30, 2013, and June 30, 2013:

(in thousands of dollars)	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013
Cash and cash equivalents	66,351	72,462	64,559	91,622	41,541	35,113	37,940	45,058
Trade and other receivables	104,753	92,138	115,074	85,837	69,747	57,771	62,105	69,656
Inventories	625,779	563,277	471,664	324,077	261,764	278,091	236,351	232,319
Assets	1,449,213	1,354,755	1,211,527	910,715	667,016	619,078	530,406	504,374
Revolving floorplan facilities	601,432	527,780	437,935	313,752	261,263	264,178	228,526	246,325
Non-current debt and lease obligations	241,929	223,009	179,447	294,289	123,811	83,580	33,647	8,744

Net Working Capital

The automobile manufacturers represented by the Company require the Company to maintain net working capital for each individual dealership. At March 31, 2015, the aggregate of net working capital requirements was approximately $83.2 million. At March 31, 2015, all working capital requirements had been met by each dealership. The working capital requirements imposed by the automobile manufacturers' may limit our ability to fund capital expenditures, acquisitions, dividends, or other commitments in the future if sufficient funds are not generated by the Company. Net working capital, as defined by automobile manufacturers, may not reflect net working capital as determined using GAAP measures. As a result, it is possible that the Company may meet automobile manufacturers' net working capital requirements without having sufficient aggregate working capital using GAAP measures. The Company defines net working capital amounts as current assets less current liabilities as presented in the interim consolidated financial statements. At March 31, 2015, the Company had aggregate working capital of approximately $77.7 million. During the quarter, the Company recorded approximately $15.0 million in current tax payable to be paid over the remainder of 2015 and early 2016, which explains why the Company's working capital as at March 31, 2015 is below aggregate working capital requirements. This is not expected to have an impact on our aggregate working capital requirements in future quarters of 2015.

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

Off Balance Sheet Arangements

The Company has operating lease commitments, with varying terms through 2037, to lease premises and equipment used for business purposes. The Company leases the majority of the lands and buildings used in its franchised automobile dealership operations from related parties and other third parties.

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

(in thousands of dollars)	$
2015	12,550
2016	16,401
2017	15,104
2018	12,605
2019	10,596
Thereafter	107,235
Total	174,491

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.

Related Party Transactions

Note 20 of the interim consolidated financial statements of the Company for the period ended March 31, 2015 summarize the transactions between the Company and its related parties.

Administrative support fees

The Company currently earns administrative support fees from companies controlled by the Executive Chairman 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.

Related party transactions are measured based on the proportionate allocation of actual costs incurred multiplied by the number of resources and/or hours provided to or used by the related party. There are no ongoing or continuing obligations of the Company to provide these services or for the related parties to utilize these services.

9. 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 14 and 15 of the annual audited consolidated financial statements for the year ended December 31, 2014. The Company has provided a reconciliation below of its consolidated Statement of Comprehensive Income for the three month period ended March 31, 2015 to its financial results had the results from its investments in associates not been consolidated as at March 31, 2015.

(in thousands of dollars)	For the three months ended March 31, 2015 (Including GM)	Effects of GM Consolidation	For the three months ended March 31, 2015 (excluding GM)
Revenue	633,407	(119,257)	514,150
Cost of sales	(527,968)	98,769	(429,199)
Gross Profit	105,439	(20,488)	84,951
Operating expenses	(93,175)	16,892	(76,283)
Operating income before other income (expenses)	12,264	(3,596)	8,668
Lease and other income, net	1,928	(969)	959
(Loss) gain on disposal of assets, net	(11)	(8)	(19)
Income from investments in associates	–	2,000	2,000
Operating Profit	14,181	(2,573)	11,608
Finance costs	(6,986)	942	(6,044)
Finance income	444	374	818
Net income for the period before taxation	7,639	(1,257)	6,382
Income tax	1,959	(454)	1,505
Net and comprehensive income for the period	5,680	(803)	4,877
Net and comprehensive income attributable to:			
AutoCanada shareholders	4,969	–	4,969
Non-controlling interests	711	(803)	(92)
	5,680	(803)	4,877
Earnings per share			
Basic	0.20	–	0.20
Diluted	0.20	–	0.20
Weighted average shares			
Basic	24,409,574	–	24,409,574
Diluted	24,520,694	–	24,520,694

10. OUTSTANDING SHARES

As at March 31, 2015, the Company had 24,509,683 common shares outstanding. Basic and diluted weighted average number of shares outstanding for the period ended March 31, 2015 were 24,409,574 and 24,520,694, respectively. As at March 31, 2015, the value of the shares held in trust was $3.3 million (2013 – $1.3 million) which was comprised of 100,643 in shares with a nil aggregate cost. As at May 7, 2015, there were 24,509,683 shares issued and outstanding.

11. DIVIDENDS

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 2015 (in thousands of dollars):

Record date	Payment date	Per Share $	Total $
February 28, 2015	March 16, 2015	0.25	6,102

On May 7, 2015, the Board declared a quarterly eligible dividend of $0.25 per common share on AutoCanada's outstanding shares, payable on June 15, 2015 to shareholders of record at the close of business on May 31, 2015. 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, we are restricted from declaring dividends and distributing cash if we are in breach of financial covenants or our available margin and facility limits or if such dividend would result in a breach of our covenants or our available margin and facility limits. At this time, the Company is well within its covenants.

12. FREE CASH FLOW

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

(in thousands of dollars, except unit and per unit amounts)	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Cash provided by operating activities	(810)	42,276	9,093	10,918	8,850	9,674	7,787	14,391
Deduct:								
Purchase of property and equipment	(2,352)	(2,454)	(2,834)	(1,057)	(1,069)	(1,319)	(647)	(905)
Free cash flow[1]	(3,162)	39,822	6,259	9,861	7,781	8,355	7,140	13,486
Weighted average shares outstanding at end of period	24,409,574	24,410,169	24,103,670	21,832,777	21,685,876	21,638,433	21,638,882	20,346,713
Free cash flow per share	(0.130)	1.631	0.260	0.452	0.359	0.386	0.330	0.663
Free cash flow – 12 month trailing	52,780	63,723	32,256	33,137	36,762	34,516	28,635	21,308

1 *This financial measure is 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, finance lease receivables, other current assets, trade and other payables, vehicle repurchase obligations 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 three month periods ended March 31, 2015 and March 31, 2014.

(in thousands of dollars)	January 1, 2015 to March 31, 2015	January 1, 2014 to March 31, 2014
Trade and other receivables	(12,615)	(12,085)
Inventories	(63,296)	15,334
Finance lease receivables	583	–
Other current assets	(4,278)	(902)
Trade and other payables	10,156	1,122
Vehicle repurchase obligations	209	312
Revolving floorplan facilities	73,652	(2,915)
	4,411	866

Adjusted Free Cash Flow

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

(in thousands of dollars, except unit and per unit amounts)	**Q1 2015**	**Q4 2014**	**Q3 2014**	**Q2 2014**	**Q1 2014**	**Q4 2013**	**Q3 2013**	**Q2 2013**
Cash provided by operating activities before changes in non-cash working capital	(5,221)	19,125	23,192	16,497	7,984	12,894	15,234	14,258
Deduct:								
Purchase of non-growth property and equipment	(2,199)	(2,003)	(1,079)	(996)	(638)	(963)	(608)	(892)
Adjusted free cash flow[1]	(7,420)	17,122	22,113	15,501	7,346	11,931	14,626	13,366
Weighted average shares outstanding at end of period	24,409,574	24,410,169	24,103,670	21,832,777	21,685,876	21,638,433	21,638,882	20,346,713
Adjusted free cash flow per share	(0.304)	0.701	0.917	0.710	0.339	0.551	0.676	0.657
Adjusted free cash flow - 12 month trailing	47,316	62,082	56,891	49,404	47,269	44,914	41,961	36,853

1 *This financial measure is identified and defined under the section "NON-GAAP MEASURES".*

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

In the three month period ending March 31, 2015, the Company paid approximately $17.0 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 - Income Taxes for further detail regarding the impact of corporate income taxes on cash flow.

Adjusted Return on Capital Employed

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

(in thousands of dollars, except unit and per unit amounts)	**Q1 2015**	**Q4 2014**	**Q3 2014**	**Q2 2014**	**Q1 2014**	**Q4 2013**	**Q3 2013**	**Q2 2013**
EBITDA(1,2)	13,890	26,043	31,895	21,702	14,453	14,754	16,626	16,532
Deduct:								
Depreciation of property and equipment	(4,160)	(4,423)	(4,139)	(2,550)	(2,512)	(2,069)	(1,599)	(1,490)
EBIT(1,2)	9,730	21,620	27,756	19,152	11,941	12,685	15,027	15,042
Average long-term debt	242,450	208,465	244,105	214,438	108,120	62,959	25,725	28,871
Average shareholder's equity	436,262	440,513	326,410	205,613	196,608	187,652	181,576	152,983
Average capital employed(1)	678,712	648,978	570,515	420,051	304,728	250,611	207,301	181,854
Return on capital	1.4%	3.3%	4.9%	4.6%	3.9%	5.1%	7.2%	8.3%
Comparative adjustment(3)	(17,264)	(17,264)	(15,951)	(15,951)	(15,951)	(15,951)	(15,542)	(15,542)
Adjusted average capital employed(1)	661,448	632,369	554,564	404,100	288,777	234,864	191,759	166,312
Adjusted return on capital employed(1)	1.5%	3.4%	5.0%	4.7%	4.1%	5.4%	7.8%	9.0%
Adjusted return on capital employed – 12 month trailing	16.5%	18.6%	19.2%	20.6%	25.1%	27.9%	29.7%	29.4%

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

2 *EBITDA and EBIT used in the calculation of Adjusted Return on Capital Employed is calculated using the financial results including non-controlling interests.*

3 *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.

13. CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICY DEVELOPMENTS

A complete listing of critical accounting policies, estimates, judgments and measurement uncertainty can be found in Notes 3 & 5 of the annual consolidated financial statements for the year ended December 31, 2014; there has been no significant change in our critical accounting policies, estimates, judgments and measurement uncertainty in Q1 2015.

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are not yet effective for the period ended March 31, 2015. A listing of the standards issued which are applicable to the Company can be found in Note 4 of the annual consolidated financial statements for the year ended December 31, 2014. No new standards or amendments were adopted for the period ended March 31, 2015.

14. DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended March 31, 2015, 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.

15. 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 2014 Annual Information Form dated March 19, 2015 available on the SEDAR website at www.sedar.com.

16. 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", "plan", "seek", "may", "intend", "likely", "will", "believe" and similar expressions are not historical facts and are forward-looking and may involve estimates and assumptions and are subject to risks, uncertainties and other factors some of which are beyond our control and difficult to predict. Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. Therefore, any such forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this document.

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

- the belief that, as the Company continues to grow, operating expenses as a percentage of gross profit should continue to improve as the Company achieves greater economies of scale;
- the impact of income taxes on future cash flow;
- the impact of an increase or decrease of one new retail vehicle sold on estimated free cash flow;
- expectations to 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;
- expectations to incur additional selling, general, and administrative costs in the future to facilitate the growth anticipated by the Company due to increased acquisition activity;
- estimates, intentions, and expectations regarding the capital plan, potential relocation of certain dealerships, dealership expansion needs, and Open Point opportunities;
- our belief that relocation of certain dealerships may provide incremental long-term earnings growth and better align some of our dealerships with the growth expectations of our manufacturer partners;
- the impact of dealership real estate relocations and purchases and its impact on liquidity, financial performance and the Company's capital requirements;
- our belief that under a high growth scenario, cash from operating activities may not be sufficient to meet future capital needs and the potential need to seek additional capital in the form of debt or equity;
- our belief that our available liquidity is sufficient to complete our current capital expenditure commitments and to execute on additional dealership acquisitions;
- the impact of a significant decline in sales as a result of the inability to procure adequate supply of vehicles and/or lower consumer demand on cash flows from operations and our ability to fund capital expenditures;
- our expectation to incur annual non-growth capital expenditures in an amount approximating our amortization of property and equipment reported in each period;
- our expectation that growth expenditures will provide additional future cash flows and future benefit;

- our expectation to increase annual capital expenditures and the reasons for this expected increase;
- the impact of working capital requirements and its impact on future liquidity;
- the belief that a restriction from declaring dividends is not likely in the foreseeable future;
- our belief that free cash flow can fluctuate significantly and the impact of these fluctuations on our operations and performance;
- our belief that maintenance capital expenditures should be funded by cash flow provided by operating activities;
- our potential use of Adjusted Return on Capital Employed as a measure for comparison and analysis;
- guidance with respect to future acquisition and Open Point opportunities;
- our assumption on the amount of time it may take for an acquisition or Open Point to achieve normal operating results;
- expectations and estimates regarding income taxes and their effect on cash flow and dividends;
- assumptions over non-GAAP measures and their impact on the Company;
- management's assumptions and expectations over the future economic and general outlook;
- the impact of economic stress on our compensation costs;
- belief that the recession experienced during fiscal 2008 and 2009 should not be used as a proxy to forecast an impact in 2015;
- the impact of economic uncertainty on the Company's acquisition opportunities;
- the impact of seasonality on financial performance;
- outlook regarding vehicle sales in Canada in 2015;
- the impact of the decline in the exchange rate of the Canadian dollar to the US dollar;
- expectations to incur operating losses over the first year of operations at North Edmonton Kia and the reasons for this;
- expectations to continue to drive higher volume over the coming months at North Edmonton Kia;
- expectations of capital costs related to currently awarded Open Points;
- expectations that re-imaging will attract more customers to its dealerships;
- our belief that improvements in technology and process in its parts and service departments will continue to produce results;
- estimates regarding additional legal and administration expense for each acquisition; and
- the impact on the Company as a result of the lower oil prices and any related expectations.

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;

- no significant construction delays that may adversely affect the timing of dealership relocations and renovations;
- 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;
- stability of general domestic economic, market, and business conditions;
- assumptions regarding other automobile manufacturer agreements; and
- assumptions regarding provincial government regulations in jurisdictions in which we do not operate.

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;
- levels of unemployment in our markets and other macroeconomic factors;
- 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; and
- the ability to obtain automotive manufacturers' approval for acquisitions.

The Company's most recent 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.

17. NON-GAAP MEASURES

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

EBITDA

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

Adjusted EBITDA

Adjusted EBITDA is an indicator of a company's operating performance and ability to incur and service debt. 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 revaluation of redemption liabilities, and the unrealized gain or loss on embedded derivatives are added back to EBITDA to get to adjusted EBITDA. The Company considers share-based compensation related to changes in the share price 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 revaluation of redemption liabilities, as well as the unrealized gain or loss on embedded derivatives, are also non-cash in nature. 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, the revaluation of redemption liabilities, the unrealized gain or loss on embedded derivatives, 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.

Adjusted pre-tax earnings

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

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

Adjusted Free Cash Flow

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

Absorption Rate

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

Average Capital Employed

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

Adjusted Average Capital Employed

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

Return on Capital Employed

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

Adjusted Return on Capital Employed

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

Cautionary Note Regarding Non-GAAP Measures

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

AutoCanada Inc.

200 - 15505 Yellowhead Trail NW
Edmonton, AB T5V 1E5

autocan.ca