AutoCanada

AutoCanada Inc.

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

For the three and six month periods ended June 30, 2015

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About us

AutoCanada is one of Canada's largest multi-location automobile dealership groups, currently operating 49 dealerships, comprised of 57 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 August 6, 2015 to assist readers in understanding AutoCanada Inc.'s (the "Company" or "AutoCanada") consolidated financial performance for the three month period and six month period ended June 30, 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 and six month period ended June 30, 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 and six month period ended June 30, 2015 of the Company, and compares these to the operating results of the Company for the three month period and six month period ended June 30, 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 June 30, 2014. On July 11, 2014, the Company completed a business combination under common control, resulting in the accounting consolidation of the results of its investments in associates using the predecessor values method. Management has provided comparative information and discussion of this business combination in "BUSINESS COMBINATION UNDER COMMON CONTROL."

This MD&A contains forward-looking statements. Please see the section "FORWARD-LOOKING STATEMENTS" for a discussion of the risks, uncertainties and assumptions used to develop our forward-looking information. This MD&A also makes reference to certain non-GAAP measures to assist users in assessing AutoCanada's performance. Non-GAAP measures do not have any standard meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. These measures are identified and described under the section "NON-GAAP MEASURES."

Additional information regarding our Company, including our 2014 Annual Information Form, 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 Second Quarter of Prior Year

AutoCanada's higher sales and gross profits in the second quarter of 2015 is a direct result of acquisitions made subsequent to the end of the second quarter of 2014. Lower net earnings, same store sales and same store gross profits are a result of reduced economic activity, particularly in Western Canada.

Management considers gross profit to be a key 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 key indicator of overall corporate performance. Gross profit increased in all revenue streams and overall gross profit increased by 66.8% compared to the same period of 2014, as a result of acquisitions made subsequent to the second quarter of 2014. Management believes this result demonstrates the Company's ability to effectively integrate dealership acquisitions.

Same store gross profit decreased by 11.0% in the second quarter of 2015, as compared to the same period of 2014, which is due primarily to gross profit decreases in new vehicle retail and finance and insurance sales. New vehicle same store gross profit decreased by 22.6% and gross profit margin declined to 7.1% from 8.5%, as a result of tightening markets coupled with an oversupply of inventory and lower achievement of sales volume incentives in certain stores.

Used vehicle retail same store gross profit has increased 5.5%, while gross profit margin has declined 0.7% compared to the same period of 2014 due to a more difficult retail sales environment, specifically in Western Canada and Alberta in particular. Finance and insurance same store gross profit decreased by 13.3% while gross profit margin in this revenue stream remained relatively consistent at 91.1% compared to 91.4% in the comparative period. The 13.3% decline in finance and insurance gross profit, while significant, is less than the percentage decline in new vehicle retail sales and evidences the Company's ability to retain this high margin business despite a challenging retail sales environment.

Parts, service and collision same store gross profit increased by 6.2% as a result of an increase in the number of repair orders completed during the period. Gross profit margin was increased by 0.8% over the comparative period due to an increase in higher margin repair orders.

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. 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 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 both of 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 six month period ended June 30, 2015 were up 2.8% when compared to the same period in 2014. Sales of new vehicles in Alberta and British Columbia, our primary markets, were down by 8.4% and up by 8.3%, respectively. The Company's same store unit sales of new vehicles decreased by 13.5% during the six month period ended June 30, 2015. The second quarter of 2015 was a challenging retail environment for the Alberta market as well as the Company. Our concentration of Alberta dealerships hindered the Company's new vehicle sales performance relative to the Canadian average change in light vehicle sales as reported by DesRosiers Automotive Consultants. Management, however, is working closely with its dealerships to ensure that they are adjusting their processes to best capitalize on all sales opportunities and is confident that progress is being made.

The following table summarizes Canadian new light vehicle sales for the six month periods ended June 30, 2015 and June 30, 2014 by Province:

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

	June Year to Date		Percent Change	Unit Change
	2015	**2014**		
British Columbia	102,124	94,263	8.3%	7,861
Alberta	117,716	128,466	(8.4)%	(10,750)
Saskatchewan	25,879	26,779	(3.4)%	(900)
Manitoba	26,196	26,521	(1.2)%	(325)
Ontario	372,745	355,630	4.8%	17,115
Quebec	220,344	208,136	5.9%	12,208
New Brunswick	21,001	20,660	1.7%	341
PEI	3,870	3,512	10.2%	358
Nova Scotia	26,505	26,894	(1.4)%	(389)
Newfoundland	17,059	17,233	(1.0)%	(174)
Total	933,439	908,094	2.8%	25,345

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

Revenue Source (in thousands of dollars)	For the Three Months Ended June 30, 2015	June 30, 2014	% Change	For the Six Months Ended June 30, 2015	June 30, 2014	% Change
New vehicles – Retail	173,743	202,231	(14.1)%	309,902	356,037	(13.0)%
New vehicles – Fleet	45,953	37,534	22.4%	79,919	72,892	9.6%
New vehicles	219,696	239,765	(8.4)%	389,821	428,929	(9.1)%
Used vehicles – Retail	70,007	60,738	15.3%	128,296	117,505	9.2%
Used vehicles – Wholesale	26,433	24,947	6.0%	49,660	43,261	14.8%
Used vehicles	96,440	85,685	12.6%	177,956	160,766	10.7%
Finance, insurance and other	19,702	22,624	(12.9)%	36,610	41,034	(10.8)%
Subtotal	335,838	348,074	(3.5)%	604,387	630,729	(4.2)%
Parts, service and collision repair	35,569	34,026	4.5%	70,797	66,552	6.4%
Total	371,407	382,100	(2.8)%	675,184	697,281	(3.2)%
New retail vehicles sold	4,640	5,442	(14.7)%	8,293	9,586	(13.5)%
New fleet vehicles sold	1,431	1,109	29.0%	2,366	2,153	9.9%
Used retail vehicles sold	2,604	2,614	(0.4)%	4,992	5,082	(1.8)%
Total	8,675	9,165	(5.3)%	15,651	16,821	(7.0)%
Total vehicles retailed	7,244	8,056	(10.1)%	13,285	14,668	(9.4)%

Same Store Gross Profit and Gross Profit Percentage

	For the Three Months Ended					
	Gross Profit			Gross Profit %		
Revenue Source (in thousands of dollars)	June 30, 2015	June 30, 2014	% Change	June 30, 2015	June 30, 2014	% Change
New vehicles – Retail	15,467	20,048	(22.9)%	8.9%	9.9%	(1.0)%
New vehicles – Fleet	218	220	(0.9)%	0.5%	0.6%	(0.1)%
New vehicles	15,685	20,268	(22.6)%	7.1%	8.5%	(1.4)%
Used vehicles – Retail	4,718	4,470	5.5%	6.7%	7.4%	(0.7)%
Used vehicles – Wholesale	62	1,166	(94.7)%	0.2%	4.7%	(4.5)%
Used vehicles	4,780	5,636	(15.2)%	5.0%	6.6%	(1.6)%
Finance, insurance and other	17,942	20,684	(13.3)%	91.1%	91.4%	(0.3)%
Subtotal	38,407	46,588	(17.6)%	11.4%	13.4%	(2.0)%
Parts, service and collision repair	18,994	17,890	6.2%	53.4%	52.6%	0.8%
Total	57,401	64,478	(11.0)%	15.5%	16.9%	(1.4)%

Revenue Source (in thousands of dollars)	For the Six Months Ended					
	Gross Profit			Gross Profit %		
	June 30, 2015	June 30, 2014	% Change	June 30, 2015	June 30, 2014	% Change
New vehicles – Retail	28,232	35,837	(21.2)%	9.1%	10.1%	(1.0)%
New vehicles – Fleet	332	239	38.9%	0.4%	0.3%	0.1%
New vehicles	28,564	36,076	(20.8)%	7.3%	8.4%	(1.1)%
Used vehicles – Retail	9,004	8,815	2.1%	7.0%	7.5%	(0.5)%
Used vehicles – Wholesale	67	1,847	(96.4)%	0.1%	4.3%	(4.2)%
Used vehicles	9,071	10,662	(14.9)%	5.1%	6.6%	(1.5)%
Finance, insurance and other	33,350	37,580	(11.3)%	91.1%	91.6%	(0.5)%
Subtotal	70,985	84,318	(15.8)%	11.7%	13.4%	(1.7)%
Parts, service and collision repair	36,158	34,493	4.8%	51.1%	51.8%	(0.7)%
Total	107,143	118,811	(9.8)%	15.9%	17.0%	(1.1)%

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)	Q2 2015[1]	Q1 2015[1]	Q4 2014[1,8]	Q3 2014[1]	Q2 2014	Q1 2014	Q4 2013	Q3 2013
Income Statement Data								
New vehicles	483,435	345,542	378,706	457,198	289,918	216,524	197,097	257,543
Used vehicles	194,956	163,243	148,579	158,779	102,025	85,969	75,137	85,975
Parts, service and collision repair	99,304	92,951	90,534	78,371	46,078	40,724	41,268	37,341
Finance, insurance and other	39,182	31,671	34,620	39,002	27,038	20,713	20,271	22,676
Revenue[7]	816,877	633,407	652,439	733,350	465,059	363,930	333,773	403,535
New vehicles	34,861	25,765	28,700	35,711	23,792	17,799	18,326	20,510
Used vehicles	11,000	8,354	7,808	9,637	6,505	5,551	4,450	6,242
Parts, service and collision repair	49,859	43,913	45,658	38,942	23,373	20,593	20,822	20,113
Finance, insurance and other	33,955	27,407	30,208	35,615	24,077	19,180	18,734	20,831
Gross profit[7]	129,675	105,439	112,374	119,905	77,747	63,123	62,332	67,696
Gross Profit %	15.9%	16.6%	17.2%	16.4%	16.7%	17.3%	18.7%	16.8%
Operating expenses	100,568	93,175	91,265	89,713	59,227	50,699	48,447	51,080
Operating expenses as a % of gross profit	77.6%	88.4%	81.2%	74.8%	76.2%	80.3%	77.7%	75.5%
Income from investments in associates	–	–	–	359	2,238	893	837	555
Net earnings attributable to AutoCanada shareholders[6]	13,523	4,969	14,240	17,765	12,831	8,296	9,553	10,968
EBITDA attributable to AutoCanada shareholders[2,6,7]	27,397	12,687	24,605	28,674	21,702	14,453	14,754	16,607
Basic earnings per share	0.56	0.20	0.60	0.74	0.59	0.38	0.44	0.51
Diluted earnings per share	0.56	0.20	0.59	0.74	0.59	0.38	0.44	0.51
Operating Data								
Vehicles (new and used) sold excluding GM	14,723	11,343	12,774	14,966	9,887	8,766	8,046	10,325
Vehicles (new and used) sold including GM[3]	17,739	13,824	15,415	18,079	12,414	9,945	9,209	11,405
New vehicles sold including GM[3]	12,296	8,933	10,570	12,821	8,658	6,570	6,090	8,023
New retail vehicles sold	9,929	7,393	8,907	10,686	5,980	4,773	4,932	5,986
New fleet vehicles sold	2,367	1,540	1,663	2,135	1,146	1,132	552	1,365
Used retail vehicles sold	5,443	4,891	4,845	5,258	2,761	2,861	2,562	2,974
# of service & collision repair orders completed[4]	215,142	199,096	216,427	198,612	97,559	91,999	95,958	97,074
Absorption rate[2]	94%	85%	85%	93%	92%	85%	90%	88%
# of dealerships at period end[4]	49	48	48	45	34	28	28	29
# of same store dealerships	24	23	23	23	23	23	21	22
# of service bays at period end[4]	842	822	822	734	516	406	406	413
Same store revenue growth[5]	(2.8)%	(3.5)%	10.9%	8.9%	4.1%	13.0%	8.9%	19.9%
Same store gross profit growth[5]	(11.0)%	(8.5)%	5.7%	11.4%	5.4%	8.1%	9.2%	18.5%
Balance Sheet Data								
Cash and cash equivalents	77,676	66,351	72,462	64,559	91,622	41,541	35,113	37,970
Trade receivables	124,683	104,753	92,138	115,074	85,837	69,747	57,771	62,105
Inventories	620,837	625,779	563,277	471,664	324,077	261,764	278,091	236,351
Revolving floorplan facilities	607,694	601,432	527,780	437,935	313,752	261,263	264,178	228,526

1 *In conjunction with the business combination under common control completed on July 11, 2014, the Selected Quarterly Financial Information for Q3 2014, Q4 2014, Q1 2015, and Q2 2015 includes the consolidated results of the Company's GM stores from July 11, 2014. All Q3 2014, Q4 2014, Q1 2015, and Q2 2015 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 new retail vehicle sales in Canada is difficult to predict as manufacturers do not publicly disclose fleet and rental sales separately. Total Canadian new light vehicle unit sales of all types are currently forecasted to increase by 0.2% in 2015 as compared to the prior year as follows:

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**	**1,152**
Quebec	366	409	415	420	426
Ontario	570	585	646	719	726
West	**408**	**486**	**549**	**575**	**566**
Manitoba	42	45	54	56	56
Saskatchewan	36	46	58	56	54
Alberta	166	223	257	269	257
British Columbia	164	172	180	194	199

* *Includes cars and light trucks (units presented above are in thousands.) Source: Scotia Economics—Global Auto Report, June 30, 2015.*

Main drivers of AutoCanada's business are retail consumer credit access, commercial automotive financing, employment rates and consumer confidence. Despite the economic situation in Alberta, the Company has not seen significant adverse changes in the availability of either consumer credit or to commercial automotive financing. Employment rates have declined but remain at acceptable levels throughout Alberta. However, consumer confidence continues to challenge the retail sector, especially for high priced retail goods including housing and vehicles and the Company believes that current West Texas Intermediate crude prices have negatively impacted consumer confidence and further reductions to employee base or capital spending in the oil & gas sector could potentially impact the Company. Consequently the economic climate in Alberta continues to be a challenging environment.

As noted previously, the reduced sales volumes experienced in the first quarter of 2015 lead to an accumulation of new vehicle inventories. The accumulation of new vehicle inventory was directly correlated to the slowdown in sales throughput combined with the delivery of orders placed in late fiscal 2014. Excess inventories have negatively impacted the Company in the first half of 2015 due to heightened competition to clear out additional vehicle inventories leading to reduced gross margins and increased floorplan interest financing costs until new vehicle inventories are rightsized. This accumulation of new vehicle inventory is not expected to be a concern from a valuation perspective.

The Company remains well positioned to continue acquiring dealerships and consolidating the retail automotive industry. We have diversified in terms of manufacturer partners and geographic locations, and have a strong balance sheet with which to continue acquisitions. Previously, the Company provided guidance to the effect that it would add two dealerships by June 2015 and an additional four to six by May of 2016. Although a number of due diligence and related issues in respect of certain acquisitions have taken longer than anticipated, management is confident that it shall meet its aggregate guidance of six to eight dealerships by May 2016. Furthermore, after closing several financing transactions in fiscal 2014, the Company has sufficient capital to execute on our acquisition strategy, capital expenditure requirements and adequate liquidity to continue to fund its cash dividend.

5. MARKET

The Company's geographical profile is illustrated below by number of dealerships and revenues by province for the three month periods ended June 30, 2015 and June 30, 2014.

Location of Dealerships	June 30, 2015 Number of Franchises	June 30, 2015 Number of Dealerships	June 30, 2015 Revenue	June 30, 2015 % of Total	June 30, 2014[1] Number of Franchises	June 30, 2014[1] Number of Dealerships	June 30, 2014[1] Revenue	June 30, 2014[1] % of Total
British Columbia	12	10	151,781	19%	9	9	135,172	29%
Alberta	26	23	349,165	43%	15	15	212,869	46%
Saskatchewan	4	4	66,550	8%	–	–	–	–%
Manitoba	4	4	49,337	6%	3	3	35,950	8%
Ontario	5	4	42,824	5%	4	3	28,234	6%
Quebec	4	2	105,419	13%	–	–	–	–%
Other	2	2	51,801	6%	5	4	53,100	11%
Total	57	49	816,877	100%	36	34	465,325	100%

1 *The results of six GM stores operated by the Company during Q2 2014 have not been consolidated or included in the number of dealerships, as the stores were accounted for as investments in associates as at June 30, 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 June 30, 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
Airdrie, Alberta	Airdrie Chrysler Jeep Dodge Ram	Chrysler	2015
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

Location	Operating Name	Franchise(s)	Year Opened or Acquired
Grande Prairie, Alberta	Grande Prairie Mitsubishi	Mitsubishi	2007
Grande Prairie, Alberta	Grande Prairie Nissan	Nissan	2007
Grande Prairie, Alberta	Grande Prairie Volkswagen	Volkswagen	2013
Ponoka, Alberta	Ponoka Chrysler Jeep Dodge	Chrysler	1998
Sherwood Park, Alberta	Sherwood Park Hyundai	Hyundai	2006
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 and the common control business combination may have also caused substantial fluctuations in operating results from quarter to quarter.

6. RESULTS OF OPERATIONS

The following section outlines specific factors that affected the results of our operations in the second quarter of 2015 and should be read in conjunction with our interim consolidated financial statements for the quarter ended June 30, 2015.

Second Quarter Operating Results

EBITDA attributable to AutoCanada shareholders for the three month period ended June 30, 2015 increased by $5.7 million or 26.3% to $27.4 million, from $21.7 million when compared to the results of the Company for the same period in the prior year. The increase in EBITDA attributable to AutoCanada shareholders for the quarter can be mainly attributed to the increase in number of dealerships due to acquisitions since Q2 2014. Adjusted EBITDA attributable to AutoCanada shareholders for the quarter ended June 30, 2015 increased by $5.4 million or 24.2% from $22.3 million to $27.7 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 period ended June 30, for the last three years of operations:

(in thousands of dollars)	2015	2014	2013
Period from April 1 to June 30			
Net earnings attributable to AutoCanada shareholders	13,523	12,831	10,823
Income taxes	5,534	4,477	3,976
Depreciation of property and equipment	4,230	2,550	1,490
Interest on long-term indebtedness	4,110	1,844	218
EBITDA attributable to AutoCanada shareholders[1]	27,397	21,702	16,507
Add back:			
Share-based compensation attributed to changes in share price	133	591	212
Revaluation of redemption liabilities	336	–	–
Unrealized loss on embedded derivative	(167)	–	–
Adjusted EBITDA attributable to AutoCanada shareholders[1]	**27,699**	**22,293**	**16,719**

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

Pre-tax earnings attributable to AutoCanada shareholders increased by $1.8 million or 10.4% to $19.1 million for the three month period ended June 30, 2015 from $17.3 million in the same period of the prior year. Net earnings attributable to AutoCanada shareholders increased by $0.7 million or 5.5% to $13.5 million in the second quarter of 2015 from a $12.8 million when compared to the prior year. Income tax expense attributable to AutoCanada shareholders increased by $1.0 million to $5.5 million in the second quarter of 2015 from $4.5 million in the same period of 2014 due to the increase in pre-tax earnings.

Adjusted net earnings attributable to AutoCanada shareholders increased by $0.4 million or 2.3% to $13.6 million in 2015 from $13.3 million in the prior year.

The following table reconciles net earnings to adjusted net earnings for the three month period ended June 30:

(in thousands of dollars)	2015	2014	2013
Net earnings attributable to AutoCanada shareholders	13,523	12,831	10,823
Add back:			
Share-based compensation attributed to changes in share price, net of tax	98	438	157
Adjusted net earnings attributable to AutoCanada shareholders[1]	13,621	13,269	10,980
Weighted average number of shares - Basic	24,424,598	21,832,777	20,346,713
Weighted average number of shares - Diluted	24,486,877	21,832,777	20,346,713
Adjusted net earnings per share attributable to AutoCanada shareholders - Basic[1]	0.56	0.61	0.54
Adjusted net earnings per share attributable to AutoCanada shareholders - Diluted[1]	0.56	0.61	0.54

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

Year to Date Operating Results

EBITDA attributable to AutoCanada shareholders for the six month period ended June 30, 2015 increased by 10.8% to 40.1 million, from 36.2 million when compared to the results of the Company for the same period in the prior year. The increase in EBITDA attributable to AutoCanada shareholders for the period can be mainly attributed to the increase in number of dealerships due to acquisitions since Q2 2014.

The following table illustrates EBITDA and adjusted EBITDA attributable to AutoCanada shareholders for the six month period ended June 30, for the last three years of operations:

(in thousands of dollars)	2015	2014	2013
Period from January 1 to June 30			
Net earnings attributable to AutoCanada shareholders	18,492	21,125	17,645
Income taxes	7,243	7,358	6,285
Depreciation of property and equipment	8,163	5,061	2,679
Interest on long-term indebtedness	6,189	2,608	456
EBITDA attributable to AutoCanada shareholders[1]	40,087	36,152	27,065
Add back:			
Share-based compensation attributed to changes in share price	(197)	1,156	351
Revaluation of redemption liabilities	659	–	–
Unrealized loss on embedded derivative	47	–	–
Adjusted EBITDA attributable to AutoCanada shareholders[1]	**40,596**	**37,308**	**27,416**

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

For the six month period ended June 30, 2015, pre-tax earnings attributable to AutoCanada shareholders decreased by $2.8 million or 9.8% to $25.7 million from $28.5 million in the same period of the prior year. Net earnings attributable to AutoCanada shareholders decreased by $2.6 million or 12.3% to $18.5 million in the six month period ended June 30, 2015 from a $21.1 million when compared to the prior year. Income tax expense attributable to AutoCanada shareholders decreased by $0.2 million to $7.2 million in the six month period ended June 30, 2015 from $7.4 million in the same period of 2014.

Adjusted net earnings attributable to AutoCanada shareholders decreased by $3.7 million or 16.8% to $18.3 million in 2015 from $22.0 million in the prior year.

The following table reconciles net earnings to adjusted net earnings for the six month period ended June 30:

(in thousands of dollars)	2015	2014	2013
Net earnings attributable to AutoCanada shareholders	18,492	21,125	17,645
Add back:			
Share-based compensation attributed to changes in share price, net of tax	(147)	857	260
Adjusted net earnings attributable to AutoCanada shareholders[1]	18,345	21,982	17,905
Weighted average number of shares - Basic	24,417,128	21,759,732	20,075,885
Weighted average number of shares - Diluted	24,489,827	21,759,732	20,075,885
Adjusted net earnings per share attributable to AutoCanada shareholders - Basic[1]	0.75	1.01	0.89
Adjusted net earnings per share attributable to AutoCanada shareholders - Diluted[1]	0.75	1.01	0.89

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

Revenues

Revenues for the three month period and the six month period ended June 30, 2015 increased by $351.8 million and $621.3 million or 75.6% and 74.9% respectively as compared to the same periods of the prior year. This increase was driven by increases in all four revenue streams as a result of acquisitions since Q2 2014. New vehicle sales increased by $193.5 million or 66.7% for the three month period ended June 30, 2015 to $483.4 million from $289.9 million in the same period of the prior year, mainly due to an increase in new vehicle sales of 74.9% compared to the same period of the prior year. New vehicle sales increased by $322.6 million or 63.7% for the six month period ended June 30, 2015 to $829.0 million from $506.4 million in the same period of the prior year. Used vehicle sales increased by $92.9 million or 91.1% for the three month period ended June 30, 2015. Used vehicle sales for the six month period ended June 30, 2015 increased by $170.2 million or 90.5% when compared to the same period in the prior year. Finance and insurance revenue increased by $12.1 million or 44.8% and $23.1 million or 48.4% in the three month period and the six month period ended June 30, 2015 respectively. This increase is driven by the increase in new and used vehicle sales. Parts, service and collision repair revenue increased by $53.2 million or 115.5% and $105.5 million or 121.5% for the three month period and the six month period ended June 30, 2015 respectively.

Revenues - Same Store Analysis

Same store revenue decreased by $10.7 million or 2.8% in the three month period ended, and decreased by $22.1 million or 3.2% in the six month period ended June 30, 2015 when compared to the same period in 2014. New vehicle revenues decreased by $20.1 million or 8.4% for the second quarter of 2015 over the prior year due to a decrease in new vehicle sales of 480 units or 7.3% and a decrease in the average revenue per new vehicle sold of $412 or 1.1%. Same store new vehicle revenues decreased by $39.1 million or 9.1% for the six month period ended June 30, 2015 over the same period in the prior year due to a decrease in new vehicle sales of 1,080 units or 9.2% offset by an increase in the average revenue per new vehicle sold of $33 or 0.1%.

Same store used vehicle revenues increased by $10.8 million or 12.6% for the three month period ended June 30, 2015 over the same period in the prior year due to an increase in the average revenue per used vehicle sold of $4,256 or 13.0% offset by a decrease in used vehicle sales of 10 units or 0.4%. For the six month period ended June 30, 2015, used vehicle revenues increased by $17.2 million or 10.7% due to an increase in the average revenue per used vehicle sold of $4,014 or 12.7% offset by a decrease in used vehicle sales of 90 units or 1.8%.

Same store parts, service and collision repair revenue increased by $1.5 million or 4.5% for the second quarter of 2015 compared to the prior period and was primarily a result of an increase in overall repair orders completed of 2,292 and a $7 or 1.8% increase in the average revenue per repair order completed. For the six month period ended June 30, 2015, parts, service and collision repair revenue increased by $4.2 million or 6.4%, mainly due to an increase in the number of overall repair orders completed of 5,103 and a $13 or 3.2% increase in the average revenue per repair order completed.

Same store finance, insurance and other revenue decreased by $2.9 million or 12.9% for the three month period ended June 30, 2015 over the same period in 2014. This was due to a decrease in the average revenue per unit retailed of $89 or 3.2% and a decrease in the number of new and used vehicles retailed, that had finance and insurance products, of 812 units. For the six month period ended June 30, 2015, same store finance, insurance and other revenue decreased by $4.4 million or 10.8% over the same period in 2014 mainly due to a decrease in the average revenue per unit retailed of $42 or 1.5% and a decrease in the number of new and used vehicles retailed, that had finance and insurance products, of 1,383 units.

Gross Profit

Gross profit increased by $51.9 million and $94.2 million, or 66.8% and 66.9% respectively, for the three month period and the six month period ended June 30, 2015 when compared to the same periods in the prior year. As with revenues, gross profit increased due to increases across all four revenue streams as a result of acquisitions since Q2 2014. Gross profit on the sale of new vehicles increased by $11.1 million and $19.0 million, or 46.7% and 45.7% respectively, for the three month period and the six month period ended June 30, 2015. The increase in new vehicle gross profit can be attributed to an increase in the number of new vehicles sold of 5,170 or 72.6%, slightly offset by a decrease in the average gross profit per new vehicle sold of $504 or 15.1% for the three month period ended June 30, 2015, and an increase in number of vehicles sold by 8,198 or 62.9% partially offset by a decrease in the average gross profit per new vehicle sold of $336 or 10.8% for the six month period ended June 30, 2015. Used vehicle gross profit increased by $4.5 million or 69.2% for the three month period ended June 30, 2015. Used vehicle gross profit for the six month period ended June 30, 2015 increased by $7.3 million or 60.6% when compared to the same period in the prior year. The Company's finance and insurance gross profit increased by $9.9 million or 41.1% during the second quarter of 2015. Finance and insurance gross profit increased by $18.1 million or 41.8% during the six month period ended June 30, 2015. This increase can mainly be attributed to increases in the total number of vehicles retailed of 6,631 or 75.9% during the three month ended, and 11,281 or 68.9% for the six month period ended June 30, 2015. Parts, service and collision repair gross profit increased by $26.5 million or 113.4% in the second quarter of 2015. Parts, service and collision repair gross profit increased by $49.8 million or 113.3% during the six month period ended June 30, 2015.

Gross Profit - Same Store Analysis

Same store gross profit decreased by $7.1 million or 11.0% and $11.7 million or 9.8% for the three month period and the six month period ended June 30, 2015 respectively when compared to the same period in the prior year. New vehicle gross profit decreased by $4.6 million or 22.6% in the three month period ended June 30, 2015 when compared to 2014 as a result of a decrease in new vehicle sales of 480 units or 7.3% and a decrease in the average gross profit per new vehicle sold of $510 or 16.5%. For the six month period ended June 30, 2015, new vehicle gross profit decreased by $7.5 million or 20.8% which can be mainly attributed to a decrease in new vehicle sales of 1,080 units or 9.2% and decrease in the average gross profit per new vehicle sold of $393 or 12.8%.

Used vehicle gross profit decreased by $0.9 million or 15.2% in the three month period ended June 30, 2015 over the prior year. This was due to a decrease in the average gross profit per used vehicle retailed of $320 or 14.8% and a decrease in the number of used vehicles sold of 10 units. For the six month period ended June 30, 2015, same store used vehicle gross profits decreased by $1.6 million or 15.0% which was mainly due to a decrease in the average gross profit per vehicle retailed of $281 or 13.4% and a decrease in the number of vehicles retailed of 90 units.

Parts, service and collision repair gross profit increased by $1.1 million or 6.2% in the three month period ended June 30, 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 2,292 and an increase in the average gross profit per repair order completed of $7 or 3.4%. For the six month period ended June 30, 2015, parts, service and collision repair gross profit increased by $1.7 million or 4.8% which can be mainly attributed to an increase in the number of repair orders completed of 5,103 and an increase in the average gross profit per repair order completed of $3 or 1.4%.

Finance and insurance gross profit decreased by $2.7 million or 13.3% in the three month period ended June 30, 2015 when compared to the prior year as a result of a decrease in the average gross profit per unit sold of $91 and a decrease in units retailed, which had finance and insurance related products, of 812. For the six month period ended June 30, 2015, finance and insurance gross profit decreased by $4.2 million or 11.3% and can be attributed to a decrease in the average gross profit per unit sold of $52 and a decrease in units retailed of 1,383.

Operating expenses

Operating expenses increased by 69.7% or $41.3 million during the three month period ended June 30, 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 77.6% in the second quarter of 2015 from 75.5% 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. For the six month period ended June 30, 2015, operating expenses as a percentage of gross profit increased to 82.4% from 78.0% in the same period of the prior year. Operating expenses consist of four major categories: employee costs, selling and administrative costs, facility lease costs and amortization.

Employee costs

During the three month period ended June 30, 2015, employee costs increased by $24.9 million to $63.9 million from $39.0 million in the prior year period. Employee costs as a percentage of gross profit decreased to 49.3% compared to 50.2% in the same period of the prior year. Employee costs as a percentage of gross profit for the six month period ended June 30, 2015 increased to 51.8% from 51.6% for the same period in the prior year. Management attributes the increases mainly to an increase in commissions and incentives paid to salespeople based on achieving and exceeding sales targets.

Selling and administrative costs

During the three month period ended June 30, 2015, selling and administrative costs increased by $14.5 million or 82.2% primarily due to 14 dealership acquisitions and combinations completed subsequent to the second quarter of 2014. Selling and administrative expenses as a percentage of gross profit increased to 24.8% in the second quarter of 2015 from 22.7% in the comparable period of 2014. For the six month period ended June 30, 2015, selling and administrative costs as a percentage of gross profit increased to 26.9% from 22.8% in the same period of the prior year. During the six month period ended June 30, 2015, the Company incurred $0.1 million in professional fees related to acquisitions compared to $1.1 million for the same period in 2014. These costs will vary based on the number of acquisitions completed each period.

Facility lease costs

During the three month period ended June 30, 2015, facility lease costs increased by 122% to $5.1 million from $2.3 million. For the six month period ended June 30, 2015 the Company's facility lease costs have increased by 131.5%, primarily due to the 14 dealership acquisitions and combinations completed subsequent to the second quarter of 2014. Finance lease costs are 3.9% of gross profit for the three month period (2014 - 3.0%) and 4.3% for the six month period ended June 30 (2014 - 3.1%).

Depreciation

During the three month period ended June 30, 2015, amortization increased to $4.5 million from $2.6 million in the same period of the prior year. For the six month period ended June 30, 2015, amortization increased to $8.6 million from $5.1 million in the same period of the prior year. The increase in depreciation can be primarily attributed to the 14 dealership acquisitions and combinations completed subsequent to the second quarter of 2014. Depreciation expense make up 3.4% of gross profit for the three month period (2014 - 3.3%) and 3.7% for the six month period ended June 30 (2014 - 3.6%).

Income Taxes

Income tax expense for the three month period ended June 30, 2015 increased by $1.9 million to $6.4 million from $4.5 million in 2014. For the six month period ended June 30, 2015, income tax expense increased by $0.9 million from $7.4 million to $8.3 million.

During the first two quarters of 2015, the Company paid $21.5 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.

The increase in income tax expense is mainly due to the 2% increase in the corporate tax rate for the province of Alberta from 10% to 12%. While the rate increase was not effective until July 1, 2015, this has impacted the second quarter as all income for the year will be taxed an annual rate upon filing the annual corporate income tax return. The increase in tax rate has negatively impacted basic and diluted earnings per share in the second quarter by $0.03, from $0.59 to $0.56.

Finance costs

The Company incurs finance costs on its revolving floorplan facilities, long term indebtedness and banking arrangements. During the three month period ended June 30, 2015, finance costs on our revolving floorplan facilities increased by 66.7% to $3.5 million from $2.1 million in the second quarter of 2014, mainly due to increased inventory as a result of the acquisitions completed subsequent to the second quarter of 2014. Finance costs on long term indebtedness increased by $2.3 million in the second quarter of 2015 due to the increase in the Company's revolving term facility and the offering of $150 million of senior unsecured notes midway through 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 and the six month period ended June 30, 2015, the floorplan credits earned were $4,301 (2014 - $2,447) and $7,606 (2014 - $4,467), respectively. Accounting standards require the floorplan credits to be accounted for as a reduction in the cost of new vehicle inventory and subsequently a reduction in the cost of sales as vehicles are sold.

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

	For the Three Months Ended		For the Six Months Ended	
(in thousands of dollars)	**June 30, 2015**	**June 30, 2014**	**June 30, 2015**	**June 30, 2014**
Floorplan financing	3,500	2,146	7,081	4,111
Floorplan credits earned	(4,301)	(2,447)	(7,606)	(4,467)
Net carrying cost of vehicle inventory	(801)	(301)	(525)	(356)

7. GROWTH, ACQUISITIONS, RELOCATIONS AND REAL ESTATE

The Company operates 49 automotive dealerships (57 franchises) comprised of 39 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 May 11, 2015, the Company purchased substantially all of the operating and fixed assets of North Hill Motors (1975) Ltd. ("Airdrie Chrysler"), in Airdrie, Alberta, for total cash consideration of $21,595 and contingent consideration with a fair value of $3,608. The acquisition was financed by drawing on the Company's revolving term facility. In 2014, the dealership retailed 935 new vehicles and 704 used vehicles.

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.

The dealerships acquired in 2014 and 2015 are presently being integrated into their respective platforms and within the Company. Management continues to work diligently on the integration of those dealerships acquired in 2014 and 2015 and, notwithstanding the additional challenges caused by the changed economic circumstances in Alberta which has resulted in some changes in integration scheduling and format, is very satisfied with the progress being made.

The investments in dealerships that we made in the third and fourth quarters of 2014, as well as the second quarter of 2015 are fairly recent. As a result, we are still relatively early in the process of integrating these investments. The Company intends to provide further insight into the integration of these investments in future quarterly reports.

We will continue to dedicate significant resources to newly acquired dealerships in order to successfully integrate acquisitions in an efficient manner. As a result, we expect to incur additional selling and administrative costs in the future in order to successfully integrate new dealerships into 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. As expected, the Company has incurred 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. 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 Alberta and Saskatchewan, 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 $147.9 million by the beginning of fiscal 2017, $81.3 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 $29.5 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 2017 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 June 30, 2015 is as follows:

- The Company had drawn $105.0 million on its $200.0 million revolving term facility.

As a result of the above, as at June 30, 2015, the Company currently has approximately $95.0 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 June 30, 2015 was $21.0 million (cash provided by operating activities of $22.4 million less negative net change in non-cash working capital of $1.4 million) compared to $10.9 million (cash provided by operating activities of $16.5 million less negative net change in non-cash working capital of $5.6 million) in the same period of the prior year.

Cash Flow from Investing Activities

For the three month period ended June 30, 2015, cash flow from investing activities of the Company was a net outflow of $43.8 million as compared to a net outflow of $123.6 million in the same period of the prior year. The decrease was primarily due to cash used for business acquisitions in Q2 2015 of $21.6 million compared to $108.5 million used for business acquisitions that occurred in Q2 2014 .

Cash Flow from Financing Activities

For the three month period ended June 30, 2015, cash flow from financing activities was a net inflow of $35.0 million as compared to $162.7 million in the same period of 2014. The decrease was primarily due to proceeds from senior unsecured notes of $146 million that occurred in Q2 2014.

Credit Facilities and Floor Plan Financing

There have been no significant changes to credit facilities or our floorplan financing facilities since 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 financial covenants as at June 30, 2015:

Financial Covenant	Requirement	Actual Calculation
Syndicated Revolver:		
Senior Secured Leverage Ratio	Shall not exceed 2.00	1.26
Adjusted Total Leverage Ratio[1]	Shall not exceed 4.50	4.49
Fixed Charge Coverage Ratio	Shall not be less than 1.20	2.07
Current Ratio	Shall not be less than 1.05	1.13
Syndicated Floorplan:		
Current Ratio	Shall not be less than 1.10	1.14
Tangible Net Worth	Shall not be less than $40 million	$90.9 million
Debt to Tangible Net Worth	Shall not exceed 7.50	4.88

[1] *Under the standard terms and conditions of the syndicated revolver facility the Adjusted Total Leverage Ratio may be increased to 4.75, if required, for two consecutive quarterly periods.*

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 against the covenant does not necessarily 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 June 30, 2015, the Company is in compliance with all of its financial covenants.

Financial Instruments

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

Growth vs. Non-Growth Capital Expenditures

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

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

(in thousands of dollars)	April 1, 2015 to June 30, 2015	January 1, 2015 to June 30, 2015
Leasehold improvements	1,742	2,707
Machinery and equipment	749	1,168
Furniture and fixtures	245	657
Computer equipment	450	847
Company & lease vehicles	13	19
	3,199	5,398

Amounts relating to the expansion of sales and service capacity are considered growth expenditures. Growth expenditures are discretionary, represent cash outlays intended to provide additional future cash flows and are expected to provide benefit in future periods. During the three month period and the six month period ended June 30, 2015 growth capital expenditures of $15.0 million and $15.1 million were incurred, respectively. These expenditures related primarily to land that was purchased for future dealership operations during the first quarter of 2015 for $22.9 million, and $15.0 million for the second quarter. 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)	April 1, 2015 to June 30, 2015	January 1, 2015 to June 30, 2015
Purchase of property and equipment from the Statement of Cash Flows	18,184	43,463
Less: Amounts related to the expansion of sales and service capacity	(14,985)	(38,065)
Purchase of non-growth property and equipment	3,199	5,398

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 and the six month period ended June 30, 2015, were $1.4 million and $3.0 million (2014 – $0.7 million and $1.6 million), respectively.

Planned Capital Expenditures

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

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

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 June 30, 2015, March 31, 2015, September 30, 2014, June 30, 2014, March 31, 2014, and September 30, 2013:

(in thousands of dollars)	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013
Cash and cash equivalents	77,676	66,351	72,462	64,559	91,662	41,541	35,113	37,940
Trade and other receivables	124,683	104,753	92,138	115,074	85,837	69,747	57,771	62,105
Inventories	620,837	625,779	563,277	471,664	324,077	261,764	278,091	236,351
Assets	1,517,978	1,449,213	1,354,755	1,211,527	910,715	667,016	619,078	530,406
Revolving floorplan facilities	607,694	601,432	527,780	437,935	313,752	261,263	264,178	228,526
Non-current debt and lease obligations	287,202	241,929	223,009	179,447	294,289	123,811	83,580	33,647

Net Working Capital

The automobile manufacturers represented by the Company require the Company to maintain net working capital for each individual dealership. At June 30, 2015, the aggregate of net working capital requirements was approximately $89.8 million. At June 30, 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 June 30, 2015, the Company had aggregate working capital of approximately $96.2 million.

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

Off Balance Sheet Arrangements

The Company has 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	8,900
2016	17,726
2017	16,437
2018	13,946
2019	11,948
Thereafter	117,153
Total	186,110

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 of the Company's annual consolidated financial statements.

Related Party Transactions

Note 22 of the condensed interim consolidated financial statements of the Company for the period ended June 30, 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 and six month periods ended June 30, 2015 to its financial results had the results from its investments in associates not been consolidated as at June 30, 2015.

(in thousands of dollars)	For the three months ended June 30, 2015 (Including GM)	Effects of GM Consolidation	For the three months ended June 30, 2015 (excluding GM)
Revenue	816,877	(148,471)	668,406
Cost of sales	(687,202)	122,366	(564,836)
Gross Profit	129,675	(26,105)	103,570
Operating expenses	(100,568)	19,019	(81,549)
Operating income before other income (expenses)	29,107	(7,086)	22,021
Lease and other income, net	1,260	(359)	901
(Loss) gain on disposal of assets, net	(23)	52	29
Income from investments in associates	–	3,304	3,304
Operating Profit	30,344	(4,089)	26,255
Finance costs	(8,710)	1,055	(7,655)
Finance income	512	19	531
Net income for the period before taxation	22,146	(3,015)	19,131
Income taxes	6,356	(1,083)	5,273
Net and comprehensive income for the period	15,790	(1,932)	13,858
Net and comprehensive income attributable to:			
AutoCanada shareholders	13,523	–	13,523
Non-controlling interests	2,267	(1,932)	335
	15,790	(1,932)	13,858
Earnings per share			
Basic	0.56	–	0.56
Diluted	0.56	–	0.56
Weighted average shares			
Basic	24,424,598	–	24,424,598
Diluted	24,486,877	–	24,486,877

(in thousands of dollars)	For the six months ended June 30, 2015 (Including GM)	Effects of GM Consolidation	For the six months ended June 30, 2015 (Excluding GM)
Revenue	1,450,284	(269,402)	1,180,882
Cost of sales	(1,215,170)	222,894	(992,276)
Gross Profit	235,114	(46,508)	188,606
Operating expenses	(193,743)	35,906	(157,837)
Operating income before other income (expenses)	41,371	10,602	30,769
Lease and other income, net	3,188	(1,068)	2,120
(Loss) gain on disposal of assets, net	(34)	44	10
Income from investments in associates	–	5,304	5,304
Operating Profit	44,525	(6,322)	38,203
Finance costs	(15,696)	2,017	(13,679)
Finance income	956	32	988
Net income for the period before taxation	29,785	(4,273)	25,512
Income taxes	8,315	(1,537)	6,778
Net and comprehensive income for the period	21,470	(2,736)	18,734
Net and comprehensive income attributable to:			
AutoCanada shareholders	18,492	–	18,492
Non-controlling interests	2,978	(2,736)	242
	21,470	(2,736)	18,734
Earnings per share			
Basic	0.76	–	0.76
Diluted	0.76	–	0.76
Weighted average shares			
Basic	24,417,128	–	24,417,128
Diluted	24,489,827	–	24,489,827

10. OUTSTANDING SHARES

As at June 30, 2015, the Company had 24,509,683 common shares outstanding. Basic and diluted weighted average number of shares outstanding for the three month period ended June 30, 2015 were 24,424,598 and 24,486,877, respectively. As at June 30, 2015, the value of the shares held in trust was $2.3 million (2014 – $3.3 million) which was comprised of 69,521 in shares with a nil aggregate cost. As at August 6, 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:

Record date	Payment date	Per Share $	Total $
February 28, 2015	March 16, 2015	0.25	6,102
May 31, 2015	June 15, 2015	0.25	6,111
		0.50	12,213

On August 6, 2015, the Board declared a quarterly eligible dividend of $0.25 per common share on AutoCanada's outstanding shares, payable on September 15, 2015 to shareholders of record at the close of business on August 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 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)	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013
Cash provided by operating activities	21,004	(810)	42,276	9,093	10,918	8,850	9,674	7,787
Deduct:								
Purchase of property and equipment	(3,228)	(2,352)	(2,454)	(2,834)	(1,057)	(1,069)	(1,319)	(647)
Free cash flow[1]	17,776	(3,162)	39,822	6,259	9,861	7,781	8,355	7,140
Weighted average shares outstanding at end of period	24,424,598	24,409,574	24,410,169	24,103,670	21,832,777	21,685,876	21,638,433	21,638,882
Free cash flow per share	0.73	(0.13)	1.63	0.26	0.45	0.36	0.39	0.33
Free cash flow – 12 month trailing	60,695	52,780	63,723	32,256	33,137	36,762	34,516	28,635

[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 six month periods ended June 30, 2015 and June 30, 2014.

(in thousands of dollars)	January 1, 2015 to June 30, 2015	January 1, 2014 to June 30, 2014
Trade and other receivables	(32,232)	(20,579)
Inventories	(37,965)	22,417
Finance lease receivables	(652)	–
Other current assets	(5,726)	(2,372)
Trade and other payables	17,104	9,430
Vehicle repurchase obligations	258	1,961
Revolving floorplan facilities	62,242	(15,569)
	3,029	(4,712)

Adjusted Free Cash Flow

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

(in thousands of dollars, except unit and per unit amounts)	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013
Cash provided by operating activities before changes in non-cash working capital	22,386	(5,221)	19,125	23,192	16,497	7,984	12,894	15,234
Deduct:								
Purchase of non-growth property and equipment	(3,199)	(2,199)	(2,003)	(1,079)	(996)	(638)	(963)	(608)
Adjusted free cash flow[1]	19,187	(7,420)	17,122	22,113	15,501	7,346	11,931	14,626
Weighted average shares outstanding at end of period	24,424,598	24,409,574	24,410,169	24,103,670	21,832,777	21,685,876	21,638,433	21,638,882
Adjusted free cash flow per share	0.79	(0.30)	0.70	0.92	0.71	0.34	0.55	0.68
Adjusted free cash flow – 12 month trailing	51,002	47,316	62,082	56,891	49,404	47,269	44,914	41,961

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 six month period ending June 30, 2015, the Company paid approximately $21.5 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)	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013
EBITDA[1,2]	30,730	13,890	26,043	31,895	21,702	14,453	14,754	16,626
Deduct:								
Depreciation of property and equipment	(4,461)	(4,160)	(4,423)	(4,139)	(2,550)	(2,512)	(2,069)	(1,599)
EBIT[1,2]	26,269	9,730	21,620	27,756	19,152	11,941	12,685	15,027
Average long-term debt	279,343	242,450	208,465	244,105	214,438	108,120	62,959	25,725
Average shareholder's equity	439,711	436,262	440,513	326,410	205,613	196,608	187,652	181,576
Average capital employed[1]	719,054	678,712	648,978	570,515	420,051	304,728	250,611	207,301
Return on capital	3.7%	1.4%	3.3%	4.9%	4.6%	3.9%	5.1%	7.2%
Comparative adjustment[3]	(17,264)	(17,264)	(17,264)	(15,951)	(15,951)	(15,951)	(15,951)	(15,542)
Adjusted average capital employed[1]	701,790	661,448	632,369	554,564	404,100	288,777	234,864	191,759
Adjusted return on capital employed[1]	3.7%	1.5%	3.4%	5.0%	4.7%	4.1%	5.4%	7.8%
Adjusted return on capital employed - 12 month trailing	14.2%	16.5%	18.6%	19.2%	20.6%	25.1%	27.9%	29.7%

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. The decrease in adjusted return on capital employed – 12 months is caused by the volume of acquisitions over the past two years, compounded by the reduced economic activity in the first two quarters of 2015. Management expects this measure to return to normal as the economy improves and the acquisitions are further integrated.

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 Q2 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 June 30, 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 June 30, 2015.

14. DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended June 30, 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 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 increasingly positive 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.

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

Adjusted Free Cash Flow

Adjusted free cash flow is a measure used by management to evaluate its performance. Free cash flow is considered relevant because it provides an indication of how much cash generated by operations before changes in non-cash working capital is available after deducting expenditures for non-growth capital assets. It shall be noted that although we consider this measure to be adjusted free cash flow, financial and non-financial covenants in our credit facilities and dealer agreements may restrict cash from being available for distributions, reinvestment 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.

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