



2016 QUARTER ONE

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS	1	CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS	36
1. Reader Advisories	2		
2. Our performance	3	Condensed Interim Consolidated Statements of Comprehensive Income	37
3. Selected Quarterly Financial Information	7	Condensed Interim Consolidated Statement of Financial Position	38
4. Outlook	8	Condensed Interim Consolidated Statements of Changes in Equity	39
5. Market	10	Condensed Interim Consolidated Statement of Cash Flows	40
6. Results of operations	13	Notes to the Condensed Interim Consolidated Financial Statements	41
7. Growth, acquisitions, relocations and real estate	18		
8. Liquidity and capital resources	21		
9. Outstanding shares	25		
10. Dividends	25	SHAREHOLDER INFORMATION	51
11. Free cash flow	26		
12. Critical accounting estimates and accounting policy developments	29		
13. Disclosure controls and internal controls over financial reporting	29		
14. Risk factors	29		
15. Forward looking statements	29		
16. Non-GAAP Measures	33		

About us

AutoCanada is one of Canada's largest multi-location automobile dealership groups, currently operating 53 dealerships, comprised of 60 franchises, (see "GROWTH, ACQUISITIONS, RELOCATIONS AND REAL ESTATE") in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick and Nova Scotia. In 2015, our dealerships sold approximately 62,800 vehicles and processed approximately 848,000 service and collision repair orders in our 912 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.



AutoCanada Inc.



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

■ For the three month period ended March 31, 2016

1. READER ADVISORIES

This Management's Discussion & Analysis ("MD&A") was prepared as of May 5, 2016 to assist readers in understanding AutoCanada Inc.'s (the "Company" or "AutoCanada") consolidated financial performance for the three month period ended March 31, 2016 and significant trends that may affect AutoCanada's future performance. The following discussion and analysis should be read in conjunction with the unaudited condensed interim consolidated financial statements and accompanying notes (the "Interim Consolidated Financial Statements") of AutoCanada as at and for the three month period ended March 31, 2016, the audited annual consolidated financial statements and accompanying notes (the "Consolidated Financial Statements") of AutoCanada as at and for the year ended December 31, 2015, and MD&A for the year ended December 31, 2015. Results are reported in Canadian dollars. Certain dollars have been rounded to the nearest thousand dollars, unless otherwise stated.

To provide more meaningful information, this MD&A typically refers to the operating results for the three month period ended March 31, 2016 of the Company, and compares these to the operating results of the Company for the three month period ended March 31, 2015. 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 prior to Q3 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.

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 2015 Annual Information Form, dated March 17, 2016, 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 MD&A.

2. OUR PERFORMANCE

Performance vs. the First Quarter of Prior Year

AutoCanada's higher sales, gross profits and net earnings in the first quarter of 2016 are a direct result of acquisitions made subsequent to the end of the first quarter of 2015. Lower same store sales and same store gross profits are a result of reduced economic activity, particularly in Alberta.

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 new vehicle, used vehicle, and parts, service and collision revenue streams and overall gross profit increased by 5.9% compared to the same period of 2015, as a result of acquisitions made subsequent to the first quarter of 2015. Same store gross profit decreased by 5.5% in the first quarter of 2016, as compared to the same period of 2015, which is due primarily to gross profit decreases in new vehicle retail, finance and insurance sales offset by increases in used vehicle retail and parts, service and collision.

New vehicle same store gross profit decreased by 9.3% and gross profit margin declined to 7.4% from 7.6%, as a result of tightening markets. Achievement of sales volume incentives in certain stores remains low and continues to weigh on new vehicle gross margins and gross profit margin. At this time, Management is unable to predict the level of future incentive rebates that will be provided by manufacturers.

Used vehicle retail same store gross profit has increased by 8.6%, while gross profit margin has declined 0.3% compared to the same period of 2015 due to a change in consumer patterns. Due to the difficult economy, consumers who would typically purchase new vehicles are instead buying nearly-new used vehicles which have higher gross margin than the average used vehicle.

Finance and insurance same store gross profit decreased by 20.0% while gross profit margin in this revenue stream decreased to 92.2% from 92.7% in the comparative period. The cause of the decrease in gross profit margin is due to consumers reducing their purchase of premium F&I products when buying a vehicle, as well as decreased commissions earned on financing. With lower interest rates on financing agreements, the commission earned is reduced. Lower consumer costs on financing agreements are used by manufacturers to drive new vehicle sales; this leads to higher vehicle sales, however the dealership is impacted by the corresponding lower commission revenue.

Parts, service and collision same store gross profit increased by 4.8% as a result of an increase in the number of repair orders completed during the period. Same store gross profit margin also increased by 5.9% over the comparative period due to an increase in higher margin repair orders. Management's focus on this area over the past twelve months continues to provide year-over-year growth and management continues to focus on the performance of non-same stores in this area to improve margins throughout the integration period.

The Company has been focused on integrating the dealerships acquired in the prior two years. Due to the increase of acquisition activity over the past two years, integration of individual dealerships has been a main focus in ensuring the new dealerships implement policies and procedures, as well as best practices which we believe are main drivers in delivering long term shareholder value. During 2016, 17 dealerships will become same store dealerships.

Performance vs. the Canadian New Vehicle Market

New light vehicle sales in Canada in the three month period ended March 31, 2016 were up 9.3% when compared to the same period in 2015. Sales of new vehicles in Alberta and British Columbia, our primary markets, were down by 7.1% and up by 9.3% during the three month period ended March 31, 2016, respectively. The Company's same store unit sales of new retail vehicles decreased by 17.8% during the three month period ended March 31,

2016 due to our same store concentration in Alberta. The Company's same store total revenue for the three month period ended March 31, 2016 in Alberta decreased by 20.5%, while British Columbia increased by 9.7%.

The first quarter of 2016 continued to be 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 continues to work 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, with continued focus on non-same stores to improve margins throughout the integration period.

The following table summarizes Canadian new light vehicle sales for the three month periods ended March 31, 2016 and March 31, 2015 by Province:

March Year to Date Canadian New Vehicle Sales by Province^{1,2}

	March Year to Date		Percent Change	Unit Change
	2016	2015		
British Columbia	48,000	43,916	9.3%	4,084
Alberta	48,865	52,605	(7.1)%	(3,740)
Saskatchewan	10,738	11,144	(3.6)%	(406)
Manitoba	11,639	11,313	2.9%	326
Ontario	162,287	141,752	14.5%	20,535
Quebec	93,592	84,621	10.6%	8,971
New Brunswick	9,128	7,607	20.0%	1,521
PEI	1,526	1,212	25.9%	314
Nova Scotia	10,836	8,724	24.2%	2,112
Newfoundland	6,285	5,679	10.7%	606
Total	402,896	368,573	9.3%	34,323

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 daily rentals.

The following table summarizes the number of same stores for the month ended March 31, 2016 by Province:

Number of Same Stores¹ by Province

	British Columbia	Alberta	Manitoba	Ontario	Atlantic	Total
Chrysler/FIAT	3	5	1	—	2	11
Hyundai	2	2	—	2	—	6
Volkswagen	3	1	1	—	—	5
Nissan/Infiniti	1	1	—	—	—	2
Audi	—	—	1	—	—	1
Mitsubishi	—	1	—	—	—	1
Subaru	—	1	—	—	—	1
Total	9	11	3	2	2	27

¹ Same store means the franchised automobile dealership has been owned for at least 2 full years since acquisition. The dealership is then included in the quarter thereafter, for same store analysis.

Same Store Revenue and Vehicles Sold

Revenue Source (in thousands of dollars)	For the Three Months Ended		
	March 31, 2016	March 31, 2015	% Change
New vehicles - Retail	143,165	152,816	(6.3)%
New vehicles - Fleet	33,896	37,544	(9.7)%
Total New vehicles	177,061	190,360	(7.0)%
Used vehicles - Retail	72,586	64,299	12.9%
Used vehicles - Wholesale	26,271	25,453	3.2%
Total Used vehicles	98,857	89,752	10.1%
Finance, insurance and other	14,705	18,275	(19.5)%
Subtotal	290,623	298,387	(2.6)%
Parts, service and collision repair	39,802	42,605	(6.6)%
Total	330,425	340,992	(3.1)%
New retail vehicles sold	3,353	4,080	(17.8)%
New fleet vehicles sold	825	1,047	(21.2)%
Used retail vehicles sold	2,468	2,650	(6.9)%
Total	6,646	7,777	(14.5)%
Total vehicles retained	5,821	6,730	(13.5)%

Same Store Gross Profit and Gross Profit Percentage

Revenue Source (in thousands of dollars)	For the Three Months Ended					
	Gross Profit			Gross Profit %		
	March 31, 2016	March 31, 2015	% Change	March 31, 2016	March 31, 2015	% Change
New vehicles - Retail	12,914	14,364	(10.1)%	9.0%	9.4%	(0.4)%
New vehicles - Fleet	270	167	61.7%	0.8%	0.4%	0.4%
Total New vehicles	13,184	14,531	(9.3)%	7.4%	7.6%	(0.2)%
Used vehicles - Retail	5,347	4,923	8.6%	7.4%	7.7%	(0.3)%
Used vehicles - Wholesale	275	79	248.1%	1.0%	0.3%	0.7%
Total Used vehicles	5,622	5,002	12.4%	5.7%	5.6%	0.1%
Finance, insurance and other	13,562	16,946	(20.0)%	92.2%	92.7%	(0.5)%
Subtotal	32,368	36,479	(11.3)%	11.1%	12.2%	(1.1)%
Parts, service and collision repair	21,498	20,512	4.8%	54.0%	48.1%	5.9%
Total	53,866	56,991	(5.5)%	16.3%	16.7%	(0.4)%

The following table summarizes same store total revenue for the three months ended March 31, 2016 by Province:

(in thousands of dollars)	For the Three Months Ended		
	March 31, 2016	March 31, 2015	% Change
British Columbia	125,149	114,095	9.7%
Alberta	125,376	157,631	(20.5)%
Manitoba	26,202	26,656	(1.7)%
Ontario	14,315	11,343	26.2%
Atlantic	39,383	31,267	26.0%
Total	330,425	340,992	(3.1)%

The following table summarizes same store gross profit for the three months ended March 31, 2016 by Province:

(in thousands of dollars)	For the Three Months Ended		
	March 31, 2016	March 31, 2015	% Change
British Columbia	17,392	17,853	(2.6)%
Alberta	23,547	27,769	(15.2)%
Manitoba	5,117	5,049	1.3%
Ontario	2,251	1,705	32.0%
Atlantic	5,559	4,615	20.5%
Total	53,866	56,991	(5.5)%

3. SELECTED QUARTERLY FINANCIAL INFORMATION

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

(in thousands of dollars, except Gross Profit %, Earnings per share, and Operating Data)	Q1 2016 ⁽¹⁾	Q4 2015 ⁽¹⁾	Q3 2015 ⁽¹⁾	Q2 2015 ⁽¹⁾	Q1 2015 ⁽¹⁾	Q4 2014 ^(1,6)	Q3 2014 ⁽¹⁾	Q2 2014
Income Statement Data								
New vehicles	363,181	368,242	471,018	483,435	345,542	379,094	456,810	289,918
Used vehicles	180,108	167,100	179,270	194,956	163,243	148,579	158,779	102,025
Parts, service and collision repair	94,721	102,220	93,139	99,304	92,951	91,225	77,680	46,078
Finance, insurance and other	28,862	34,752	37,778	39,182	31,671	36,355	37,267	27,038
Revenue	666,872	672,314	781,205	816,877	633,407	655,253	730,536	465,059
New vehicles	27,267	27,482	34,300	34,861	25,765	29,325	35,086	23,792
Used vehicles	10,420	10,326	10,949	11,000	8,354	7,808	9,637	6,505
Parts, service and collision repair	47,669	51,760	48,336	49,859	43,913	45,687	38,913	23,373
Finance, insurance and other	26,353	34,354	35,088	33,955	27,407	31,109	34,714	24,077
Gross profit	111,709	123,922	128,673	129,675	105,439	113,929	118,350	77,747
Gross Profit %	16.8%	18.4%	16.5%	15.9%	16.6%	17.4%	16.2%	16.7%
Operating expenses	96,047	101,310	100,824	100,568	93,175	90,283	90,695	59,227
Operating expenses as a % of gross profit	86.0%	81.8%	78.4%	77.6%	88.4%	79.2%	76.6%	76.2%
Income from investments in associates	—	—	—	—	—	—	359	2,238
Income from loan to associate	315	49	—	—	—	—	—	—
Impairment (recovery) of intangible assets and goodwill	—	18,757	—	—	—	(1,767)	—	—
Net earnings (loss) attributable to AutoCanada shareholders ⁽⁵⁾	7,272	(7,631)	11,690	13,523	4,969	14,240	17,765	12,831
EBITDA attributable to AutoCanada shareholders ^(2,5)	18,312	23,353	26,379	27,397	12,687	24,605	28,674	21,702
Basic earnings per share	0.27	(0.29)	0.48	0.56	0.20	0.60	0.74	0.59
Diluted earnings per share	0.27	(0.29)	0.47	0.56	0.20	0.59	0.74	0.59
Basic adjusted earnings per share	0.31	0.34	0.51	0.56	0.22	0.52	0.71	0.61
Dividends declared per share ¹	0.25	0.25	0.25	0.25	0.25	0.25	0.24	0.23
Operating Data								
Vehicles (new and used) sold excluding GM	10,728	12,345	13,092	14,723	11,343	12,774	14,966	9,887
Vehicles (new and used) sold including GM ⁽³⁾	13,301	14,150	17,086	17,739	13,824	15,415	18,079	12,414
New vehicles sold including GM ⁽³⁾	8,502	9,210	12,018	12,296	8,933	10,570	12,821	8,658
New retail vehicles sold	7,078	8,016	9,985	9,929	7,393	8,907	10,686	5,980
New fleet vehicles sold	1,424	1,194	2,033	2,367	1,540	1,663	2,135	1,146
Used retail vehicles sold	4,799	4,940	5,068	5,443	4,891	4,845	5,258	2,761
# of service and collision repair orders completed ⁽³⁾	209,194	230,772	202,692	215,142	199,096	216,427	198,612	97,559
Absorption rate ⁽²⁾	83%	93%	91%	94%	85%	85%	93%	92%
# of dealerships at period end	53	54	50	49	48	48	45	34
# of same store dealerships	27	28	26	24	23	23	23	23
# of service bays at period end	898	912	862	842	822	822	734	516
Same store revenue growth ⁽⁴⁾	(3.1)%	(12.1)%	(6.9)%	(2.8)%	(3.5)%	10.9%	8.9%	4.1%
Same store gross profit growth ⁽⁴⁾	(5.5)%	(14.3)%	(14.1)%	(11.0)%	(8.5)%	5.7%	11.4%	5.4%
Balance Sheet Data								
Cash and cash equivalents	72,878	62,274	77,071	77,676	66,351	72,462	64,559	91,622
Trade and other receivables	116,092	90,821	118,853	124,683	104,753	92,138	115,074	85,837
Inventories	628,641	596,542	581,258	620,837	625,779	563,277	471,664	324,077
Revolving floorplan facilities	600,578	548,322	550,857	607,694	601,432	527,780	437,935	313,752

- ¹ In conjunction with the business combination under common control completed on July 11, 2014, the Selected Quarterly Financial Information subsequent to July 11, 2014 includes the consolidated results of the Company's GM stores from July 11, 2014. All financial information subsequent to July 11, 2014 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 This number includes 100% of vehicles and service and collision repair orders sold by these dealerships in which we have less than 100% investment.
- ⁴ Same store revenue growth and 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. Same store growth is in comparison with the same quarter in the prior year.
- ⁵ 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.
- ⁶ 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 3.0% in 2016 as compared to the prior year as follows:

New Vehicle Sales Outlook by Province *

	1994 - 2005 (Average)	2006 - 2013 (Average)	2014	2015	2016F
Canada	1,446	1,618	1,851	1,898	1,955
Atlantic	102	121	137	140	140
Central	936	1,002	1,139	1,205	1,271
Quebec	366	410	420	444	470
Ontario	570	592	719	761	801
West	408	495	575	553	544
Manitoba	42	47	56	56	56
Saskatchewan	36	48	56	54	53
Alberta	166	227	269	236	220
British Columbia	164	173	194	207	215

* Includes cars and light trucks (units presented above are in thousands.) Source: Scotia Economics - Global Auto Report, April 8, 2016.

AutoCanada is satisfied with our first quarter results, in isolation and as an indication of our growth from the first quarter of 2015. Highlights of Q1, 2016 include:

- Net earnings attributable to AutoCanada shareholders, in the first quarter, has increased by 46%, from \$5.0 million in 2015 to \$7.3 million in 2016
- Free cash flow – 12 month trailing has increased by \$7.2 million to \$45.9 million from the fourth quarter of 2015
- Basic earnings per share has increased by \$0.07, from \$0.20 in Q1, 2015 to \$0.27 in Q1, 2016, exceeding consensus of \$0.26. Included in the \$0.27 was a gain on disposition of Newmarket Infiniti Nissan.
- Total vehicles (new and used) sold remained consistent at 13,301 during the first quarter of 2016 compared to 13,824 during the same period of 2015

During the quarter, Alberta industry new vehicle sales decreased by 7.1% over the same quarter in 2015, while national industry new vehicle sales were up 9.3%.

Given that the industry continues to be challenging in Western Canada, we are pleased with our financial metrics in Q1, 2016.

- Same store revenue was \$330.4 million, down 3.1% from \$341 million in Q1, 2015, and up from \$326.2 million in Q4, 2015
- Same store gross profit was \$53.9 million, down 5.5% from \$57.0 million in Q1, 2015
- Same store gross profit percentage was 16.7%, compared to 16.3% in Q1, 2015

The retail automotive industry is proven to provide consistent profitability in all market conditions, as all of our dealerships are profitable with the exception of one recently opened dealership. AutoCanada continues to have significant earnings potential and we have the ability to generate increased cash-flow when the economy improves in Western Canada where we have a heavy concentration of same stores.

In support of AutoCanada's continued growth, we have reduced the dividend, from \$0.25 to \$0.10 per quarter. This action will allow the Company to retain \$16.5 million annually that can be used to support growth and fund acquisitions. The current

economic conditions allows AutoCanada to be opportunistic in our due diligence around potential acquisitions. Our strategy is to acquire dealerships that provide accretive strong returns, focusing on large dealerships in major metropolitan markets. In addition to funding growth, the reduced dividend allows AutoCanada to further strengthen our balance sheet while also increasing liquidity.

Throughout the first quarter, and into the balance of 2016, Management continues to employ our five point strategy to deal with the current downward pressure we face in this economic environment:

- The Company continues to seek regional diversity through larger acquisitions in metropolitan markets. Management is pleased with the acquisition opportunities outside of Alberta and continues to explore and evaluate potential targets.
- The Company has directed resources to increase integration efforts for the dealerships recently acquired to support same store metric improvement year-over-year.

- The Company continues to manage the balance sheet as evidenced by the increase in free cash flow – 12 month trailing.
- The Company is rolling-out new sales process technologies to enhance the customer experience in each of our dealerships.
- The Company is reviewing all costs within the group to reduce or eliminate costs where possible. This focused effort on cost reduction is a project that began early in the first quarter and will continue throughout the calendar year. We have been able to decrease operating expenses as a percentage of gross profit from 88.4% in Q1, 2015 to 86.0% in Q1, 2016. Variable expenses have decreased by 3.3% compared to the first quarter of 2015.

Management is pleased with the progress made thus far on these strategies and we anticipate further success throughout 2016.

5. MARKET

The Company's geographical profile is illustrated below by number of dealerships and revenues by province for the three month periods ended March 31, 2016 and March 31, 2015.

Location of Dealerships	March 31, 2016					
	Number of Franchises ¹	Number of Dealerships ¹	Revenue	Revenue % of Total	Gross Profit	Gross Profit % of Total
British Columbia	13	11	147,478	22%	21,741	20%
Alberta	27	24	273,924	41%	50,670	45%
Saskatchewan	4	4	51,238	8%	9,378	8%
Manitoba	4	4	41,537	6%	7,923	7%
Ontario	6	6	47,317	7%	6,849	6%
Quebec	4	2	65,995	10%	9,589	9%
Atlantic	2	2	39,383	6%	5,559	5%
Total	60	53	666,872	100%	111,709	100%

Location of Dealerships	March 31, 2015					
	Number of Franchises ¹	Number of Dealerships ¹	Revenue	% of Total	Gross Profit	Gross Profit % of Total
British Columbia	12	10	124,922	20%	20,047	19%
Alberta	25	22	285,337	45%	49,463	47%
Saskatchewan	4	4	54,841	9%	9,202	9%
Manitoba	4	4	40,607	6%	7,641	7%
Ontario	5	4	31,345	5%	4,489	4%
Quebec	4	2	65,087	10%	9,982	10%
Other	2	2	31,268	5%	4,615	4%
Total	56	48	633,407	100%	105,439	100%

¹ "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	Year Opened or Acquired	Same Store ¹
Wholly-Owned Dealerships:				
Abbotsford, British Columbia	Abbotsford Volkswagen	Volkswagen	2011	Y
Chilliwack, British Columbia	Chilliwack Volkswagen	Volkswagen	2011	Y
Kelowna, British Columbia	Okanagan Chrysler Jeep Dodge FIAT	FIAT / Chrysler	2003	Y
Maple Ridge, British Columbia	Maple Ridge Chrysler Jeep Dodge FIAT	FIAT / Chrysler	2005	Y
Maple Ridge, British Columbia	Maple Ridge Volkswagen	Volkswagen	2008	Y
Prince George, British Columbia	Northland Chrysler Jeep Dodge	Chrysler	2002	Y
Prince George, British Columbia	Northland Hyundai	Hyundai	2005	Y
Prince George, British Columbia	Northland Nissan	Nissan	2007	Y
Victoria, British Columbia	Victoria Hyundai	Hyundai	2006	Y
Airdrie, Alberta	Airdrie Chrysler Jeep Dodge Ram	Chrysler	2015	Q3 2017
Calgary, Alberta	Courtesy Chrysler Dodge	Chrysler	2013	Y
Calgary, Alberta	Calgary Hyundai	Hyundai	2014	Q3 2016
Calgary, Alberta	Crowfoot Hyundai	Hyundai	2014	Q3 2016
Calgary, Alberta	Hyatt Mitsubishi	Mitsubishi	2014	Q3 2016
Calgary, Alberta	Northland Volkswagen	Volkswagen	2014	Q3 2016

Location	Operating Name	Franchise	Year Opened or Acquired	Same Store ¹
Calgary, Alberta	Fish Creek Nissan	Nissan	2014	Q4 2016
Calgary, Alberta	Hyatt Infiniti	Infiniti	2014	Q4 2016
Calgary, Alberta	Tower Chrysler Jeep Dodge Ram	Chrysler	2014	Q4 2016
Edmonton, Alberta	Crosstown Chrysler Jeep Dodge FIAT	FIAT / Chrysler	1994	Y
Edmonton, Alberta	Capital Chrysler Jeep Dodge FIAT	FIAT / Chrysler	2003	Y
Edmonton, Alberta	North Edmonton Kia	Kia	2014	Q4 2016
Grande Prairie, Alberta	Grande Prairie Chrysler Jeep Dodge FIAT	FIAT / Chrysler	1998	Y
Grande Prairie, Alberta	Grande Prairie Hyundai	Hyundai	2005	Y
Grande Prairie, Alberta	Grande Prairie Subaru	Subaru	1998	Y
Grande Prairie, Alberta	Grande Prairie Mitsubishi	Mitsubishi	2007	Y
Grande Prairie, Alberta	Grande Prairie Nissan	Nissan	2007	Y
Grande Prairie, Alberta	Grande Prairie Volkswagen	Volkswagen	2013	Y
Ponoka, Alberta	Ponoka Chrysler Jeep Dodge	Chrysler	1998	Y
Sherwood Park, Alberta	Sherwood Park Hyundai	Hyundai	2006	Y
Saskatoon, Saskatchewan	Dodge City Chrysler Jeep Dodge Ram	Chrysler	2014	Q3 2016
Winnipeg, Manitoba	Audi Winnipeg	Audi	2013	Y
Winnipeg, Manitoba	St. James Volkswagen	Volkswagen	2013	Y
Winnipeg, Manitoba	Eastern Chrysler Jeep Dodge	Chrysler	2013	Y
Cambridge, Ontario	Cambridge Hyundai	Hyundai	2008	Y
Mississauga, Ontario	401 Dixie Hyundai	Hyundai	2008	Y
Toronto, Ontario	Toronto Chrysler Jeep Dodge Ram	Chrysler	2014	Q1 2017
Moncton, New Brunswick	Moncton Chrysler Jeep Dodge	Chrysler	2001	Y
Dartmouth, Nova Scotia	Dartmouth Chrysler Jeep Dodge	Chrysler	2006	Y
Equity Investments:				
Duncan, British Columbia	Island Chevrolet Buick GMC	General Motors	2013	Q4 2016
Kelowna, British Columbia	Don Folk Chevrolet	General Motors	2015	Q4 2017
Edmonton, Alberta	Lakewood Chevrolet	General Motors	2014	Q4 2016
Sherwood Park, Alberta	Sherwood Park Chevrolet	General Motors	2012	Q4 2016
Sherwood Park, Alberta	Sherwood Buick GMC	General Motors	2012	Q4 2016
Spruce Grove, Alberta	Grove Dodge Chrysler Jeep	Chrysler	2015	Q1 2018
North Battleford, Saskatchewan	Bridges Chevrolet Buick GMC	General Motors	2014	Q1 2017
Prince Albert, Saskatchewan	Mann-Northway Auto Source	General Motors	2014	Q4 2016
Saskatoon, Saskatchewan	Saskatoon Motor Products	General Motors	2014	Q4 2016
Winnipeg, Manitoba	McNaught Cadillac Buick GMC	General Motors	2014	Q4 2016
Laval, Quebec	BMW Laval and MINI Laval	BMW / MINI	2014	Q1 2017
Montreal, Quebec	BMW Canbec and MINI Mont Royal	BMW / MINI	2014	Q3 2016
Ottawa, Ontario	Hunt Club Nissan	Nissan	2015	Q1 2018
Ottawa, Ontario	417 Nissan	Nissan	2015	Q1 2018
Ottawa, Ontario	417 Infiniti	Infiniti	2015	Q1 2018
Dealership Loan Financing:				
Whitby, Ontario	Whitby Honda ²	Honda	2015	N/A
Edmonton, Alberta	Southview Acura ^{2,3}	Acura	2016	N/A

¹ Same store means the franchised automobile dealership has been owned for at least 2 full years since acquisition.

The dealership is then included in the quarter thereafter, for same store analysis.

² See "GROWTH, ACQUISITIONS, RELOCATIONS AND REAL ESTATE" for more information related to this dealership loan financing arrangement.

³ On May 1, 2016, the Company provided financing for Southview Acura in Edmonton, Alberta.

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.

Management realignment

Effective April 1, 2016, Steven Landry was appointed Chief Executive Officer, and Tom Orysiuk shall continue as President. In addition, effective May 6, 2016, Pat Priestner shall assume the role of non-executive Chair of the Board of Directors, which he shall hold with a target retirement date at the Annual General Meeting in May 2017.

Steven Landry was most recently the Chief Development Officer for ATCO Ltd & Canadian Utilities Limited in Calgary, and previously the Managing Director & Chief Operating Officer for ATCO Australia. Prior to that, Steven Landry spent

27 years at the Chrysler Group where he held various global and executive positions including: Chief Executive Officer and President of DaimlerChrysler Canada, President of Chrysler Europe and Executive Vice President of North America at Chrysler LLC. Steven holds an MBA from Michigan State University and a Bachelor's Degree in Business from Saint Mary's University in Halifax, Nova Scotia.

Steve Rose, Chief Operating Officer, shall retire from his position effective September 30, 2016. Christopher Burrows, Chief Financial Officer and Erin Oor, Vice-President, Corporate Development & Administration, continue in their current positions.

6. RESULTS OF OPERATIONS

First Quarter Operating Results

EBITDA attributable to AutoCanada shareholders for the three month period ended March 31, 2016 increased by \$5.6 million or 44.3% to \$18.3 million, from \$12.7 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 Q1 2015.

Adjusted EBITDA attributable to AutoCanada shareholders for the quarter ended March 31, 2016 increased by \$6.8 million or 52.4% from \$12.9 million to \$19.7 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 March 31, for the last three years of operations:

(in thousands of dollars)	2016	2015	2014
Period from January 1 to March 31			
Net earnings attributable to AutoCanada shareholders	7,272	4,969	8,296
Income taxes	2,477	1,707	2,881
Depreciation of property and equipment	4,687	3,932	2,512
Interest on long-term indebtedness	3,876	2,079	764
EBITDA attributable to AutoCanada shareholders¹	18,312	12,687	14,453
Add back:			
Share-based compensation attributed to changes in share price	59	(330)	565
Revaluation of redemption liabilities ²	1,262	323	–
Unrealized loss on embedded derivative	20	214	–
Adjusted EBITDA attributable to AutoCanada shareholders¹	19,653	12,894	15,018

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

² Redemption liabilities relate to put options held by certain non-controlling interests and are measured at fair value. Adjustments to fair value are recognized as income or expense through profit and loss.

Pre-tax earnings attributable to AutoCanada shareholders increased by \$3.0 million or 46.0% to \$9.7 million for the three month period ended March 31, 2016 from \$6.7 million in the same period of the prior year.

tax expense attributable to AutoCanada shareholders increased by \$0.8 million to \$2.5 million in the first quarter of 2016 from \$1.7 million in the same period of 2015.

Net earnings attributable to AutoCanada shareholders increased by \$2.3 million or 46.3% to \$7.3 million in the first quarter of 2016 from \$5.0 million when compared to the prior year. Income

Adjusted net earnings attributable to AutoCanada shareholders increased by \$3.3 million or 63.4% to \$8.6 million in 2016 from \$5.3 million in the prior year.

The following table reconciles net earnings to adjusted net earnings for the three month period ended March 31:

(in thousands of dollars)	2016	2015	2014
Net earnings attributable to AutoCanada shareholders	7,272	4,969	8,296
Add back:			
Share-based compensation attributed to changes in share price, net of tax	43	(245)	419
Revaluation of redemption liabilities ²	1,262	323	–
Unrealized loss on embedded derivative	20	214	–
Adjusted net earnings attributable to AutoCanada shareholders¹	8,597	5,261	8,715
Weighted average number of shares - Basic	27,362,440	24,409,574	21,685,876
Weighted average number of shares - Diluted	27,427,695	24,520,694	21,685,876
Adjusted net earnings per share attributable to AutoCanada shareholders - Basic¹	0.31	0.22	0.40
Adjusted net earnings per share attributable to AutoCanada shareholders - Diluted¹	0.31	0.21	0.40

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

² Redemption liabilities relate to put options held by certain non-controlling interests and are measured at fair value. Adjustments to fair value are recognized as income or expense through profit and loss.

Revenues

Revenues for the three month period ended March 31, 2016 increased by \$33.5 million or 5.3% as compared to the same period of the prior year. This increase was driven by increases in new vehicle, used vehicle, and parts, service and collision revenue streams as a result of acquisitions since Q1 2015. New vehicle sales increased by \$17.7 million or 5.1% for the three month period ended March 31, 2016 to \$363.2 million from \$345.5 million in the same period of the prior year. Used vehicle sales increased by \$16.9 million or 10.3% for the three month period ended March 31, 2016 compared to the same period of the prior year. Finance and insurance revenue decreased by \$2.8 million or 8.9% in the three month period ended March 31, 2016 compared to the same period of the prior year. This decrease is driven by reduced commissions earned on financing products. Parts, service and collision repair revenue increased by \$1.8 million or 1.9% for the three month period ended March 31, 2016 compared to the same period of the prior year.

Revenues - Same Store Analysis

Same store revenue decreased by \$10.6 million or 3.1% in the three month period ended March 31, 2016 when compared to the same period in 2015. Same store new vehicle revenues decreased by

\$13.3 million or 7.0% for the first quarter of 2016 over the prior year due to a decrease in new vehicle sales of 949 units or 18.5% offset by an increase in the average revenue per new vehicle sold of \$5,250 or 14.1%.

Same store used vehicle revenues increased by \$9.1 million or 10.1% for the three month period ended March 31, 2016 over the same period in the prior year due to an increase in the average revenue per used vehicle sold of \$6,186 or 18.3% offset by a decrease in used vehicle sales of 182 units or 6.9%.

Same store parts, service and collision repair revenue decreased by \$2.8 million or 6.6% for the first quarter of 2016 compared to the prior period and was primarily a result of an increase in overall repair orders completed of 4,885 offset by a \$53 or 11.4% decrease in the average revenue per repair order completed.

Same store finance, insurance and other revenue decreased by \$3.6 million or 19.5% for the three month period ended March 31, 2016 over the same period in 2015. This was due to a decrease in the average revenue per unit retailed of \$189 or 7.0% and a decrease in the number of new and used vehicles retailed, that had finance and insurance related products, of 909 units.

Gross Profit

Gross profit increased by \$6.3 million or 5.9% for the three month period ended March 31, 2016 when compared to the same period in the prior year. As with revenues, gross profit increased due to increases across new vehicle, used vehicle, and parts, service and collision revenue streams as a result of acquisitions since Q1 2015. Gross profit on the sale of new vehicles increased by \$1.5 million or 5.8% for the three month period ended March 31, 2016. The increase in new vehicle gross profit for the three month period ended March 31, 2016 can be attributed to an increase in the average gross profit per new vehicle sold of \$323 or 11.2% offset by a decrease in the number of new vehicles sold of 431 or 4.8%. Used vehicle gross profit increased by \$2.1 million or 24.7% for the three month period ended March 31, 2016. The Company's finance and insurance gross profit decreased by \$1.1 million or 3.8% during the first quarter of 2016. This decrease can mainly be attributed to decreases in the total number of vehicles retailed of 407 or 3.3% ended March 31, 2016. Parts, service and collision repair gross profit increased by \$3.8 million or 8.6% in the first quarter of 2016.

Gross Profit - Same Store Analysis

Same store gross profit decreased by \$3.1 million or 5.5% for the three month period ended March 31, 2016 when compared to the same period in the prior year. New vehicle gross profit decreased by \$1.3 million or 9.3% in the three month period ended March 31, 2016 when compared to 2015 as a result of a decrease in new vehicle sales of 949 units or 18.5% offset by an increase in the average gross profit per new vehicle sold of \$322 or 11.4%.

Used vehicle gross profit increased by \$0.6 million or 12.4% in the three month period ended March 31, 2016 over the prior year. This was due to an increase in the average gross profit per used vehicle retailed of \$391 or 20.7% offset by a decrease in the number of used vehicles sold of 182 units.

Parts, service and collision repair gross profit increased by \$1.0 million or 4.8% in the three month period ended March 31, 2016 when compared to the same period in the prior year as a result of an increase in the number of repair orders completed of 4,885 offset by a decrease in the average gross profit per repair order completed of \$1 or 0.4%.

Finance and insurance gross profit decreased by \$3.4 million or 20.0% in the three month period ended March 31, 2016 when compared to the prior year as a result of a decrease in the average gross profit per unit sold of \$188 and a decrease in units retailed that had finance and insurance related products of 909 units.

Operating expenses

Operating expenses consist of four major categories: employee costs, administrative costs, facility lease costs and depreciation of property and equipment. A significant portion of the Company's operating costs are employee costs which are largely variable in nature. There is a balance between reducing staffing levels as a result of business contraction, and maintaining high-performing staff. Due to the competitive nature of the retail automotive industry, additional measures are employed to ensure that the high performing staff are maintained during downtimes, as a result any decrease in gross profit may not be met with a matched decrease in 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.

The following tables summarize operating expenses as a percentage of gross profit. When evaluated, operating expenses are broken into their fixed and variable components. Fixed expenses are costs that do not fluctuate with changes in sales volume while variable expenses are costs that vary depending on sales volume.

	Three month period ended March 31, 2016	Three month period ended March 31, 2015	Change
Employee costs	52.9%	54.9%	(2.0)%
Administrative costs – Variable	18.2%	19.5%	(1.3)%
Total variable expenses	71.1%	74.4%	(3.3)%
Administrative Costs – Fixed	5.2%	5.3%	(0.1)%
Facility lease costs	5.3%	4.8%	0.5%
Depreciation of property and equipment	4.4%	3.9%	0.5%
Total fixed expenses	14.9%	14.0%	0.9%
Total operating expenses	86.0%	88.4%	(2.4)%

Operating expenses increased by 3.1% or \$2.9 million during the three month period ended March 31, 2016 as compared to the same period in the prior year. Since many operating expenses are variable in nature, Management considers operating expenses as a percentage of gross profit to be a good indicator of expense control. Operating expenses as a percentage of gross profit decreased to 86.0% in the first quarter of 2016 from 88.4% in the same period of the prior year due to the impact of the variable portion of these expenses. As a percentage of gross profit, the variable portion of operating expenses has decreased from 74.4% to 71.1% while the fixed portion has increased slightly from 14.0% to 14.9% due to increased facility costs.

The increase in the fixed portion of operating expenses is due to the growth of the Company since the first quarter of 2015, resulting in an increase in facility lease costs, depreciation of property and equipment, and the fixed portion of administrative costs. While the fixed costs would typically remain steady as a percentage of gross profit, the slowdown in the economy in the current year has caused this to rise. As the economy, and gross profit, improves, the fixed costs as a percentage of gross profit are also expected to improve.

As evidenced by the variable costs as a percentage of gross profit, Management continues to be

successful in controlling operating costs for the Company and have been able to show improvement over the prior year as a result of integration efforts of new dealerships.

Employee costs

During the three month period ended March 31, 2016, employee costs increased by \$1.2 million to \$59.1 million from \$57.9 million in the prior year period. Employee costs as a percentage of gross profit stayed consistent compared to the same period of the prior year. Employee costs as a percentage of gross profit for the three month period ended March 31, 2016 decreased to 52.9% from 54.9% for the same period in the prior year. Our dealership employee pay structures are tied to meeting sales objectives, maintaining customer satisfaction indices, as well as improving gross profit and net income.

Administrative costs

During the three month period ended March 31, 2016, administrative costs stayed consistent at \$26.0 million. The variable portion of administrative costs as a percentage of gross profit decreased to 18.2% in the first quarter from 19.5% in the comparable period of 2015. The fixed portion of administrative costs as a percentage of gross profit decreased to 5.2% in the first quarter from 5.3% in the comparable period of 2015.

Facility lease costs

During the three month period ended March 31, 2016, facility lease costs increased by 16.4% to \$5.9 million from \$5.1 million, primarily due to the acquisitions completed since Q1 2015 as they are fully represented in the expenses during the current period. Facility lease costs are 5.3% of gross profit for the three month period (2015 - 4.8%) ended March 31.

Depreciation of property and equipment

During the three month period ended March 31, 2016, depreciation of property and equipment increased to \$5.0 million from \$4.2 million in the same period of the prior year. The increase in depreciation of property and equipment can be primarily attributed to the acquisitions completed since Q1 2015 as they are fully represented in the expenses during the current period. Depreciation expense makes up 4.4% of gross profit for the three month period (2015 - 3.9%) ended March 31.

Income Taxes

Income tax expense for the three month period ended March 31, 2016 increased by \$1.1 million to \$3.1 million from \$2.0 million in 2015.

During the first quarter of 2016, the Company paid \$6.3 million of cash taxes which relates to the fiscal 2015 taxation year and installments toward the 2016 taxation year. The payment of cash taxes will have an impact on adjusted free cash flow.

Finance costs

The Company incurs finance costs on its revolving floorplan facilities, long term indebtedness and banking arrangements. During the three month

period ended March 31, 2016, finance costs on our revolving floorplan facilities decreased by 15.4% to \$3.0 million from \$3.6 million in the first quarter of 2015, mainly due to increased inventory as a result of the acquisitions completed since Q1 2015 as they are fully represented in the expenses during the current period. Finance costs on long term indebtedness increased by \$1.8 million in the first quarter of 2016 due to the increase in the Company's revolving term facility for acquisitions completed since Q1 2015 as they are fully represented in the expenses during the current period.

During the quarter ended March 31, 2016, the net income of certain dealerships exceeded the quarterly net income from the comparative quarter, resulting in an increase in cumulative net income for the purposes of revaluing the redemption liabilities. Consequently, a \$1,262 increase to the fair value was recorded on the balance sheet with a corresponding expense charged to financing costs in the first quarter.

Some of our manufacturers provide non-refundable credits on the finance costs for our revolving floorplan facilities to offset the dealership's cost of inventory that, on average, effectively provide the dealerships with interest-free floorplan financing for the first 45 to 60 days of ownership of each financed vehicle. During the three month period ended March 31, 2016, the floorplan credits earned were \$3,274 (2015 - \$3,305). 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:

(in thousands of dollars)	For the Three Months Ended	
	March 31, 2016	March 31, 2015
Floorplan financing	3,030	3,581
Floorplan credits earned	(3,274)	(3,305)
Net carrying cost of vehicle inventory	(244)	276

7. GROWTH, ACQUISITIONS, RELOCATIONS AND REAL ESTATE

The Company operates 53 automotive dealerships (60 franchises) comprised of 38 dealerships (43 franchises) which are wholly owned, as well as investments in nine General Motors dealerships (nine franchises), two BMW dealerships (four franchises), one Chrysler dealership (one franchise), and three Nissan dealerships (three franchises), which the Company controls and consolidates for accounting purposes.

Growth

Due to the economic slowdown that has occurred in Alberta, 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 manufacturer partners and believe that if we can continue to perform well, we can build upon our current brand portfolios and gain the acceptance of other new manufacturers over time.

Dealership divestiture

On February 25, 2016, the Company sold substantially all of the operating and fixed assets, including the land and facilities, of Newmarket Infiniti Nissan, located in Newmarket, Ontario for cash consideration. Net proceeds of \$10,077 resulted in a pre-tax gain on divestiture of \$3,206.

Dealership Loan Financing

On May 1, 2016, the Company made a second loan, for \$2,835 to PPH Holdings Ltd ("PPH"). The

Company holds no ownership interest in PPH, which is a company controlled, and formed, by Mr. Patrick Priestner ("Priestner"). The Company has no participation in the equity of PPH or Southview Acura. PPH's principal place of business is Alberta, Canada. Although the Company holds no voting rights in PPH, the Company exercises significant influence by virtue of the existence of its loan and the provision of essential technical information required for operations, as well as through the relationship with Priestner, as AutoCanada's Executive Chair. However, the Company does not have the power to make or block key decisions under the terms of the underlying agreements. As a result, the Company accounts for its loan to PPH under the effective interest method and it is carried at amortized cost.

Integration of New Dealerships and Investments

Since April 1, 2015, the Company has acquired six 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 are integrating well into their respective platforms and within the Company. It is expected that these dealerships will be fully integrated in 2016. The dealerships acquired in 2015 are still fairly new and are being integrated into their respective platforms and within the Company. Management continues to work diligently on the integration of these dealerships and is very satisfied with the progress being made.

The investments in dealerships that we made in the third and fourth quarters of 2015 are very recent. As a result, we are still relatively early in the process of integrating these investments.

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 fourth 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 construction is expected to begin late 2016 with anticipated opening in late 2017. The dealership will be constructed by a third party and subsequently leased by the Company.

North Winnipeg Kia

In March 2015, the Company announced that it has signed a Letter of Intent with Kia Canada Inc. ("Kia") which, subject to the completion of requirements contained in the Letter of Intent, will award AutoCanada an Open Point Kia dealership in North Winnipeg, Manitoba. AutoCanada intends to operate the dealership out of a new facility, designed to Kia image standards, with construction anticipated to commence in early 2017.

Nissan – Ottawa, Ontario

On November 1, 2015, as part of the purchase of Hunt Club Nissan, the Company acquired the exclusive right to build and operate a Nissan motor vehicle franchise on a designated property in southwest Ottawa. AutoCanada intends to operate the dealership out of a new facility, designed to Nissan image standards, with construction anticipated to commence in second quarter of 2016 and anticipated opening in early 2017.

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 \$133.0 million by the second quarter of fiscal 2019, \$83.5 million of which is 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 \$35.1 million in capital costs that it may incur in order to expand or renovate various current locations by the end of fiscal 2019, \$13.0 million of which is 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 \$18.0 million in capital costs that it may incur by the end of fiscal 2017 related to currently awarded Open Points, \$5.4 million of which is 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.

The following summarizes the capital plan for contemplated future capital projects as at March 31, 2016:

(in millions of dollars)	2016	2017	2018	2019	Total
Same Store					
Dealership Relocations	22.9	56.3	16.5	–	95.7
Current Dealership Expansion and Imaging Requirements	2.2	4.8	5.2	7.8	20.0
Capital Plan	25.1	61.1	21.7	7.8	115.7
Expected to be financed	14.1	39.8	13.3	–	67.2
Non Same Store					
Dealership Relocations	–	12.0	11.3	14.0	37.3
Current Dealership Expansion and Imaging Requirements	10.4	4.7	–	–	15.1
Open Point Opportunities	9.6	8.4	–	–	18.0
Capital Plan	20.0	25.1	11.3	14.0	70.4
Expected to be financed	12.1	8.4	7.9	6.3	34.7
Total Capital Plan	45.1	86.2	33.0	21.8	186.1
Total Expected to be financed	26.2	48.2	21.2	6.3	101.9

Notwithstanding the capital plan laid out above, expected capital expenditures are subject to deferral due to issues in obtaining permits, construction delays, changes in reimaging requirements or other delays that are normal to the construction process. The above is considered to be a guide for when the Company expects to perform capital expenditures, however, significant deferral may occur in the future. Management closely monitors the capital plan and adjusts as

appropriate based on Company performance, Manufacturer requirements, expected economic conditions, and individual dealership needs. Management performs a robust analysis on all future expenditures prior to the allocation of funds. Timing of dealership relocations is determined based on the dealership's current performance, the market, and expected return on invested capital. It is expected that a dealership relocation will result in improved performance and increased profitability.

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 paying dividends to Shareholders. We have historically met these requirements by using cash generated from operating activities and through short term and long term indebtedness.

The Company maintains working capital in excess of manufacturer requirements which may be used for capital expenditures. The Company's analysis of its available capital based on the balance sheet at March 31, 2016 is as follows:

- The Company had drawn \$111.0 million on its \$250.0 million revolving term facility.

As a result of the above, as at March 31, 2016, the Company currently has approximately \$139.0 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 March 31, 2016 was \$6.8 million (cash provided by

operating activities of \$8.7 million less negative net change in non-cash working capital of \$1.9 million) compared to \$(0.8) million (cash used by operating activities of \$5.2 million less net increase in non-cash working capital of \$4.4 million) in the same period of the prior year.

Cash Flow from Investing Activities

For the three month period ended March 31, 2016, cash flow from investing activities of the Company was a net inflow of \$2.2 million as compared to a net outflow of \$25.2 million in the same period of the prior year. The change was primarily due to the proceeds on divestiture of Newmarket Infiniti Nissan and substantial reduction in capital expenditures.

Cash Flow from Financing Activities

For the three month period ended March 31, 2016, cash flow from financing activities was a net outflow of \$1.6 million as compared to a net inflow of \$20.0 million in the same period of 2015. The change was primarily due to reduced usage of long-term indebtedness, \$37.0 million compared to \$63.7 million in Q1 2015.

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 managements' discussion and analysis for the year ended December 31, 2015.

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 March 31, 2016:

Financial Covenant	Requirement	Q1 2016 Actual Calculation	Q4 2015 Actual Calculation
Syndicated Revolver:			
Senior Secured Leverage Ratio	Shall not exceed 2.75	1.42	1.38
Adjusted Total Leverage Ratio	Shall not exceed 5.00	4.19	4.09
Fixed Charge Coverage Ratio	Shall not be less than 1.20	1.99	1.72
Current Ratio	Shall not be less than 1.05	1.15	1.18
Syndicated Floorplan:			
Current Ratio	Shall not be less than 1.10	1.15	1.15
Tangible Net Worth	Shall not be less than \$40 million	\$90.6 million	\$89.4 million
Debt to Tangible Net Worth	Shall not exceed 7.50	4.95	4.67

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 reported performance of AutoCanada. The Company is required to comply with other covenants under the terms of its remaining credit agreements. The Company stress tests all covenants on a monthly and quarterly basis and notes that a significant drop in performance would be necessary to breach the covenants.

As at March 31, 2016, 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 25 of the annual audited consolidated

financial statements for the year ended December 31, 2015. 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)	January 1, 2016 to March 31, 2016	January 1, 2015 to March 31, 2015
Leasehold improvements	1,980	965
Machinery and equipment	338	419
Furniture and fixtures	225	412
Computer equipment	176	398
Company & lease vehicles	–	5
	2,719	2,199

Amounts relating to the expansion of sales and service capacity are considered growth expenditures. Growth expenditures are discretionary, represent cash outlays intended to provide additional future cash flows and are expected to provide benefit in future periods. During the three month period ended March 31, 2016, growth capital expenditures of \$4.1 million

were incurred. These expenditures related primarily to land and buildings that were purchased for future dealership operations during the first quarter of 2016. Dealership relocations are included as growth expenditures since they contribute to the expansion of sales and service capacity of the dealership.

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

(in thousands of dollars)	January 1, 2016 to March 31, 2016	January 1, 2015 to March 31, 2015
Purchase of property and equipment from the Statement of Cash Flows	6,864	25,279
Less: Amounts related to the expansion of sales and service capacity	(4,145)	(23,080)
Purchase of non-growth property and equipment	2,719	2,199

Repairs and maintenance expenditures are expensed as incurred and have been deducted from earnings for the period. Repairs and maintenance expense incurred during the three month period ended March 31, 2016, was \$1.6 million (2015 - \$1.6 million).

Planned Capital Expenditures

Our capital expenditures consist primarily of leasehold improvements, the purchase of furniture and fixtures, machinery and equipment, service

vehicles, computer hardware and computer software. Management expects that our annual capital expenditures will increase in the future, as a function of increases in the number of locations requiring maintenance capital expenditures, the cost of opening new locations and increased spending on information systems.

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

Financial Position

The following table shows selected audited balances of the Company (in thousands) for December 31, 2015 and December 31, 2014, as well as unaudited balances of the Company at March 31, 2016, September 30, 2015, June 30, 2015, March 31, 2015, September 30, 2014 and June 30, 2014:

(in thousands of dollars)	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014
Cash and cash equivalents	72,878	62,274	77,071	77,676	66,351	72,462	64,559	91,662
Trade and other receivables	116,092	90,821	118,853	124,683	104,753	92,138	115,074	85,837
Inventories	628,641	596,542	581,258	620,837	625,779	563,277	471,664	324,077
Assets	1,578,225	1,532,182	1,508,028	1,517,978	1,449,213	1,354,755	1,211,527	910,715
Revolving floorplan facilities	600,578	548,322	550,857	607,694	601,432	527,780	437,935	313,752
Non-current debt and lease obligations	293,273	285,759	313,703	287,202	241,929	223,009	179,447	294,289

Net Working Capital

The automobile manufacturers represented by the Company require the Company to maintain net working capital for each individual dealership. At March 31, 2016, the aggregate of net working capital requirements was approximately \$92.6 million. At March 31, 2016, all working capital requirements had been met by each dealership. The working capital requirements imposed by the automobile manufacturers' may limit our ability to fund capital expenditures, acquisitions, dividends, or other commitments in the future if sufficient funds are not generated by the Company. Net working capital, as defined by automobile manufacturers, may not reflect net working capital as determined using GAAP measures. As a result, it is possible that the Company may meet automobile manufacturers' net working capital requirements without having sufficient aggregate working capital using GAAP measures. The Company

defines net working capital amounts as current assets less current liabilities as presented in the interim consolidated financial statements. At March 31, 2016, the Company had aggregate working capital of approximately \$107.4 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 our Volkswagen and Audi dealerships to maintain minimum cash and equity, which also restricts our ability to transfer funds up.

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)	\$
Reminder of 2016	15,009
2017	18,723
2018	16,232
2019	14,233
2020	12,279
Thereafter	134,015
Total	210,491

Information regarding our contractual obligations with respect to long-term debt, capital lease obligations and other long-term obligations is included in the Liquidity Risk section of Note 25 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 March 31, 2016 summarizes 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 Chair 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.

Loan to related parties

The Company structured the loan to PPH with the associated terms and conditions in order to satisfy the requirements of the manufacturer. It is the Company's belief that this loan investment will provide future opportunities to finance further acquisitions thereby acquiring additional revenue and income streams from this manufacturer.

9. OUTSTANDING SHARES

As at March 31, 2016, the Company had 27,459,683 common shares outstanding. Basic and diluted weighted average number of shares outstanding for the three month period ended March 31, 2016

were 27,362,440 and 27,427,695, respectively. As at March 31, 2016, the value of the shares held in trust was \$3.6 million (2015 - \$3.3 million) which was comprised of 133,093 (2015 - 100,643) in shares with a nil aggregate cost (2015 - nil). As at May 5, 2016, there were 27,459,683 shares issued and outstanding.

10. 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 2016:

Record date	Payment date	Per Share \$	Total \$
February 29, 2016	March 15, 2016	0.25	6,840
May 5, 2016	June 15, 2016	0.10	2,735

In light of the continued economic uncertainty that exists in Canada, the reduction in the dividend from \$0.25 to \$0.10 allows AutoCanada to maintain our policy of returning a portion of funds from operations to shareholders while also retaining sufficient capital for acquisitions and growth projects. A reduction in the dividend also allows us to continue effectively employ our five point strategy implemented to deal with the current downward pressure.

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. The Company is currently within its covenants.

11. FREE CASH FLOW

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

(in thousands of dollars, except unit and per unit amounts)	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Cash provided by operating activities	6,831	12,420	20,139	21,004	(810)	42,276	9,093	10,918
Deduct:								
Purchase of property and equipment	(2,786)	(3,354)	(5,144)	(3,228)	(2,352)	(2,454)	(2,834)	(1,057)
Free cash flow¹	4,045	9,066	14,995	17,776	(3,162)	39,822	6,259	9,861
Weighted average shares outstanding at end of period	27,362,440	25,016,637	24,440,080	24,424,598	24,409,574	24,410,169	24,103,670	21,832,777
Free cash flow per share	0.15	0.36	0.61	0.73	(0.13)	1.63	0.26	0.45
Free cash flow - 12 month trailing	45,882	38,675	69,431	60,695	52,780	63,723	32,256	33,137

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

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

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

The following table summarizes the net increase (decrease) in cash due to changes in non-cash working capital for the three month periods ended March 31, 2016 and March 31, 2015.

(in thousands of dollars)	January 1, 2016 to March 31, 2016	January 1, 2015 to March 31, 2015
Trade and other receivables	(25,254)	(12,615)
Inventories	(32,601)	(63,296)
Finance lease receivables	(600)	583
Other current assets	(2,030)	(4,278)
Trade and other payables	6,438	10,156
Vehicle repurchase obligations	(132)	209
Revolving floorplan facilities	52,256	73,652
	(1,923)	4,411

Adjusted Free Cash Flow

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

(in thousands of dollars, except unit and per unit amounts)	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Cash provided by operating activities before changes in non-cash working capital	8,754	11,242	23,082	22,386	(5,221)	19,125	23,192	16,497
Deduct:								
Purchase of non-growth property and equipment	(2,719)	(3,164)	(4,131)	(3,199)	(2,199)	(2,003)	(1,079)	(996)
Adjusted free cash flow¹	6,035	8,078	18,951	19,187	(7,420)	17,122	22,113	15,501
Weighted average shares outstanding at end of period	27,362,440	25,016,637	24,440,080	24,424,598	24,409,574	24,410,169	24,103,670	21,832,777
Adjusted free cash flow per share	0.22	0.32	0.78	0.79	(0.30)	0.70	0.92	0.71
Adjusted free cash flow - 12 month trailing	52,251	38,796	47,840	51,002	47,316	62,082	56,891	49,404

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

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

expenditure, repayment of debt, funding the future growth of the Company and dividends to Shareholders.

In the three month period ending March 31, 2016, the Company paid approximately \$6.3 million in corporate income taxes and tax installments. Accordingly, this reduced our adjusted free cash flow by this amount. The Company expects the payment of corporate income taxes to have a more significant negative affect on free cash flow and adjusted free cash flow. See "RESULTS FROM OPERATIONS - Income Taxes" for further detail regarding the impact of corporate income taxes on cash flow.

Adjusted Return on Capital Employed

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

(in thousands of dollars, except unit and per unit amounts)	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
EBITDA ^{1,2}	21,010	23,524	29,487	30,730	13,890	26,043	31,895	21,702
Deduct:								
Depreciation of property and equipment	(4,954)	(5,176)	(5,063)	(4,461)	(4,160)	(4,423)	(4,139)	(2,550)
EBIT^{1,2}	16,056	18,348	24,424	26,269	9,730	21,620	27,756	19,152
Average long-term debt	300,520	312,471	314,443	277,571	239,251	204,514	240,799	211,903
Average shareholder's equity	510,595	481,112	447,774	439,711	436,262	440,513	326,410	205,613
Average capital employed¹	811,115	793,583	762,217	717,282	675,513	645,027	567,209	417,516
Return on capital	2.0%	2.3%	3.2%	3.7%	1.4%	3.4%	4.9%	4.6%
Comparative adjustment ³	(13,191)	(13,191)	(17,264)	(17,264)	(17,264)	(17,264)	(15,951)	(15,951)
Adjusted average capital employed¹	797,924	778,354	744,953	700,018	658,249	628,418	551,258	401,565
Adjusted return on capital employed¹	2.0%	2.4%	3.3%	3.8%	1.5%	3.4%	5.0%	4.8%
Adjusted return on capital employed - 12 month trailing	11.7%	11.2%	12.7%	15.5%	16.5%	18.6%	19.3%	20.7%

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 is expected to 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 month trailing over the past two years results from the increase in land and facility ownership, compounded by the reduced economic activity in 2015. Management expects this measure to return to normal as the economy improves and acquisitions are further integrated.

12. 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 and 5 of the annual consolidated financial statements for the year ended December 31, 2015; there has been no significant change in our critical accounting policies, estimates, judgments and measurement uncertainty in Q1 2016.

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are not yet effective for the period ended March 31, 2016. 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, 2015. No new standards or amendments were adopted for the period ended March 31, 2016.

13. DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended March 31, 2016, 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.

14. 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 2015 Annual Information Form dated March 17, 2016 available on the SEDAR website at www.sedar.com.

15. FORWARD LOOKING STATEMENTS

Certain statements contained in the MD&A 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", "believes", "shall" 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 the MD&A 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 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;
- 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 2016;
- 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 2016;
- the impact of the decline in the exchange rate of the Canadian dollar to the US dollar;
- 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.

16. 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 these expenses to be 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 these expenses to be non-cash in nature. Adding back these amounts to net earnings allows Management to assess the net earnings of the Company from ongoing operations. Adjusted net earnings per share is calculated by dividing adjusted net earnings by the weighted-average number of shares outstanding.

EBIT

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

Free Cash Flow

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

Adjusted Free Cash Flow

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

Absorption Rate

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

Average Capital Employed

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

Adjusted Average Capital Employed

Adjusted average capital employed is a measure used by Management to determine the amount of capital invested in AutoCanada and is used in the measure of Adjusted Return on Capital Employed

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

Return on Capital Employed

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

Adjusted Return on Capital Employed

Adjusted return on capital employed is a measure used by Management to evaluate the profitability of our invested capital. As a corporation, management of AutoCanada may use this measure

to compare potential acquisitions and other capital investments against our internally computed cost of capital to determine whether the investment shall create value for our shareholders.

Management may also use this measure to look at past acquisitions, capital investments and the Company as a whole in order to ensure shareholder value is being achieved by these capital investments. Adjusted return on capital employed is calculated as EBIT (defined above) divided by Adjusted Average Capital Employed (defined above).

Cautionary Note Regarding Non-GAAP Measures

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



AutoCanada Inc.



Condensed Interim Consolidated Financial Statements (Unaudited)

■ March 31, 2016

(expressed in thousands of Canadian dollars except share and per share amounts)

AutoCanada Inc.

Condensed Interim Consolidated Statements of Comprehensive Income

(Unaudited)

(in thousands of Canadian dollars except for share and per share amounts)

	Three month period ended March 31, 2016 \$	Three month period ended March 31, 2015 \$
Revenue (Note 5)	666,872	633,407
Cost of sales (Note 6)	(555,163)	(527,968)
Gross profit	111,709	105,439
Operating expenses (Note 7)	(96,047)	(93,175)
Operating profit before other income (expense)	15,662	12,264
Lease and other income, net	1,159	1,928
Gain (loss) on disposal of assets, net	3,347	(11)
Income from loan to associate (Note 22)	315	–
Operating profit	20,483	14,181
Finance costs (Note 8)	(8,801)	(6,986)
Finance income (Note 8)	486	444
Net income for the period before taxation	12,168	7,639
Income taxes (Note 9)	3,116	1,959
Net and comprehensive income for the period	9,052	5,680
Net and comprehensive income for the period attributable to:		
AutoCanada shareholders	7,272	4,969
Non-controlling interests	1,780	711
	9,052	5,680
Net earnings per share attributable to AutoCanada shareholders		
Basic	0.27	0.20
Diluted	0.27	0.20
Weighted average shares		
Basic	27,362,440	24,409,574
Diluted	27,427,695	24,520,694

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Approved on behalf of the Company:



Gordon R. Barefoot, Lead Director



Barry L. James, Director

AutoCanada Inc.

Condensed Interim Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

	March 31, 2016 (Unaudited) \$	December 31, 2015 \$
ASSETS		
Current assets		
Cash and cash equivalents (Note 11)	72,878	62,274
Trade and other receivables (Note 12)	116,092	90,821
Inventories (Note 13)	628,641	596,542
Current tax recoverable	1,278	6,920
Current portion of finance lease receivables (Note 14)	3,804	4,012
Other current assets	6,703	4,760
Assets held for sale (Note 16)	5,050	27,482
	834,446	792,811
Restricted cash (Note 11)	6,304	6,288
Property and equipment (Note 15)	280,947	278,385
Loan to associate	9,518	8,470
Long-term portion of finance lease receivables (Note 14)	7,354	6,546
Other long-term assets	7,052	7,078
Intangible assets	399,648	399,648
Goodwill	32,956	32,956
	1,578,225	1,532,182
LIABILITIES		
Current liabilities		
Bank indebtedness (Note 11)	4,096	898
Trade and other payables (Note 17)	91,377	86,284
Revolving floorplan facilities (Note 18)	600,578	548,322
Vehicle repurchase obligations	1,714	1,846
Current indebtedness (Note 18)	10,523	11,484
Current portion of redemption liabilities (Note 8)	18,786	6,338
Liabilities held for sale	—	14,493
	727,074	669,665
Long-term indebtedness (Note 18)	293,273	285,759
Deferred income tax	17,013	25,838
Redemption liabilities (Note 8)	29,705	40,891
	1,067,065	1,022,153
EQUITY		
Attributable to AutoCanada shareholders	451,296	451,945
Attributable to Non-controlling interests	59,864	58,084
	1,578,225	1,532,182

Commitments (Note 19)

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

AutoCanada Inc.

Condensed Interim Consolidated Statements of Changes in Equity

(Unaudited)

(in thousands of Canadian dollars)

	Attributable to AutoCanada shareholders				Non-controlling interests	Total Equity
	Share capital \$	Contributed surplus \$	Accumulated deficit \$	Total capital \$	\$	\$
Balance, January 1, 2016	508,237	4,286	(60,578)	451,945	58,084	510,029
Net and comprehensive income	–	–	7,272	7,272	1,780	9,052
Dividends declared on common shares (Note 21)	–	–	(6,840)	(6,840)	–	(6,840)
Treasury shares acquired (Note 21)	(1,257)	–	–	(1,257)	–	(1,257)
Share-based compensation	–	176	–	176	–	176
Balance, March 31, 2016	506,980	4,462	(60,146)	451,296	59,864	511,160

	Attributable to AutoCanada shareholders				Non-controlling interests	Total Equity
	Share capital \$	Contributed surplus \$	Accumulated deficit \$	Total capital \$	\$	\$
Balance, January 1, 2015	434,572	4,721	(57,865)	381,428	55,028	436,456
Net and comprehensive income	–	–	4,969	4,969	711	5,680
Dividends declared on common shares (Note 21)	–	–	(6,102)	(6,102)	–	(6,102)
Deferred tax on share issuance costs (Note 21)	(109)	–	–	(109)	–	(109)
Treasury shares acquired (Note 21)	(25)	–	–	(25)	–	(25)
Share-based compensation	–	168	–	168	–	168
Balance, March 31, 2015	434,438	4,889	(58,998)	380,329	55,739	436,068

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

AutoCanada Inc.

Condensed Interim Consolidated Statements of Cash Flows

(Unaudited)

(in thousands of Canadian dollars)

	Three month period ended March 31, 2016	Three month period ended March 31, 2015
Cash provided by (used in):		
Operating activities		
Net and comprehensive income	9,052	5,680
Income taxes (Note 9)	3,116	1,959
Amortization of prepaid rent	113	113
Depreciation of property and equipment (Note 7)	4,954	4,160
(Gain) loss on disposal of assets	(3,347)	11
Share-based compensation - equity-settled	176	168
Share-based compensation - cash-settled	(326)	(888)
Income taxes paid	(6,299)	(16,961)
Revaluation of redemption liabilities (Note 8)	1,262	323
Revaluation of contingent consideration	33	–
Unrealized loss on embedded derivative (Note 8)	20	214
Net change in non-cash working capital (Note 23)	(1,923)	4,411
	6,831	(810)
Investing activities		
Purchases of property and equipment (Note 15)	(6,864)	(25,279)
Proceeds on sale of property and equipment	22	32
Loan to associate	(1,048)	–
Proceeds on divestiture of dealership (Note 10)	10,077	–
Additions to restricted cash	(16)	–
	2,171	(25,247)
Financing activities		
Proceeds from long-term indebtedness	36,979	63,691
Repayment of long-term indebtedness	(30,478)	(37,611)
Common shares repurchased (Note 21)	(1,257)	(25)
Dividends paid (Note 21)	(6,840)	(6,102)
	(1,596)	19,953
Increase (decrease) in cash	7,406	(6,104)
Cash and cash equivalents at beginning of period	61,376	70,281
Cash and cash equivalents at end of period (Note 11)	68,782	64,177

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

AutoCanada Inc.

Notes to the Condensed Interim Consolidated Financial Statements For the Period Ended March 31, 2016

(Unaudited)

(in thousands of Canadian dollars except for share and per share amounts)

1 General Information

AutoCanada Inc. ("AutoCanada" or the "Company") is incorporated in Alberta, Canada with common shares listed on the Toronto Stock Exchange ("TSX") under the symbol of "ACQ". The business of AutoCanada, held in its subsidiaries, is the operation of franchised automobile dealerships in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, Nova Scotia and New Brunswick. The Company offers a diversified range of automotive products and services, including new vehicles, used vehicles, vehicle leasing, vehicle parts, vehicle maintenance and collision repair services, extended service contracts, vehicle protection products and other after-market products. The Company also arranges financing and insurance for vehicle purchases by its customers through third-party finance and insurance sources. The address of its registered office is 200, 15511 123 Avenue NW, Edmonton, Alberta, Canada, T5V 0C3.

2 Basis of presentation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including *IAS 34, Interim Financial Reporting*, and Canadian Generally Accepted Accounting Principles ("GAAP") as set out in the CPA Canada Handbook - Accounting ("CPA Handbook").

The condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2015, which have been prepared in accordance with IFRS as issued by the IASB.

The condensed interim consolidated financial statements have been prepared on a going concern basis, under the historical cost

convention, except for the revaluation of certain financial assets and financial liabilities to fair value, including derivative instruments, redemption liabilities and liabilities for cash-settled share-based payment arrangements.

These financial statements were approved by the Board of Directors on May 5, 2016.

3 Significant Accounting Policies

The significant accounting policies used in the preparation of these condensed interim consolidated financial statements are the same accounting policies and method of computation as disclosed in the consolidated annual financial statements for the year end December 31, 2015.

Amendments to IFRS effective for the financial year ending December 31, 2016 are not expected to have a material impact on the Company.

4 Critical accounting estimates, judgments & measurement uncertainty

The critical accounting estimates, judgments and measurement uncertainty used in the preparation of these condensed interim consolidated financial statements are the same as disclosed in the consolidated annual financial statements for the year ended December 31, 2015.

5 Revenue

	Three month period ended March 31, 2016 \$	Three month period ended March 31, 2015 \$
New vehicles	363,181	345,542
Used vehicles	180,108	163,243
Finance, insurance and other	28,862	31,671
Parts, service and collision repair	94,721	92,951
	666,872	633,407

6 Cost of sales

	Three month period ended March 31, 2016 \$	Three month period ended March 31, 2015 \$
New vehicles	335,914	319,777
Used vehicles	169,688	154,889
Finance, insurance and other	2,509	4,264
Parts, service and collision repair	47,052	49,038
	555,163	527,968

7 Operating expenses

	Three month period ended March 31, 2016 \$	Three month period ended March 31, 2015 \$
Employee costs	59,086	57,883
Administrative costs ⁽¹⁾	26,096	26,056
Facility lease costs	5,911	5,076
Depreciation of property and equipment	4,954	4,160
	96,047	93,175

⁽¹⁾ Administrative costs include professional fees, consulting services, technology-related expenses, selling and marketing, and other general and administrative costs.

8 Finance costs and finance income

	Three month period ended March 31, 2016 \$	Three month period ended March 31, 2015 \$
Finance costs:		
Interest on long-term indebtedness	3,888	2,091
Unrealized loss on embedded derivative	20	214
Revaluation of redemption liabilities	1,262	323
Floorplan financing	3,030	3,581
Other interest expense	601	777
	8,801	6,986
Finance income:		
Short-term bank deposits	(486)	(444)

Cash interest paid during the three-month period ended March 31, 2016 was \$5,283 (2015 - \$6,676).

Certain put options held by non-controlling interests have become current in nature, therefore are presented as current redemption liabilities.

9 Taxation

Components of income tax expense are as follows:

	Three month period ended March 31, 2016 \$	Three month period ended March 31, 2015 \$
Current tax	11,941	22,337
Deferred	(8,825)	(20,378)
Income tax expense	3,116	1,959

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual statutory rates used for the three month period ended March 31, 2016 was 26.8% (March 31, 2015 - 25.9%).

10 Dealership divestiture

On February 25, 2016, the Company sold substantially all of the operating and fixed assets, including the land and facilities, of Newmarket Infiniti Nissan, located in Newmarket, Ontario for cash consideration. Net proceeds of \$10,077 resulted in a pre-tax gain on divestiture of \$3,206 included in gain on disposal of assets in the Statement of Comprehensive Income. The break-down of the transaction was as follows:

	\$
Property, plant and equipment	4,800
Trade and other receivables	76
Inventory	9,858
Intangible assets	2,053
Total Assets	16,787
Trade and other payables	165
Revolving floorplan facilities	9,751
Total Liabilities	9,916
Net assets disposed of	6,871
Net proceeds on divestiture	10,077
Net gain on divestiture	3,206

11 Cash and cash equivalents

	March 31, 2016 \$	December 31, 2015 \$
Cash at bank and on hand	62,673	52,936
Short-term deposits	10,205	9,338
Cash and cash equivalents (excluding bank indebtedness)	72,878	62,274
Bank indebtedness	(4,096)	(898)
Cash and cash equivalents	68,782	61,376
Restricted cash	6,304	6,288
Cash and cash equivalents and restricted cash	75,086	67,664

12 Trade and other receivables

	March 31, 2016 \$	December 31, 2015 \$
Trade receivables	109,900	83,166
Less: Allowance for doubtful accounts	(2,150)	(1,885)
Net trade receivables	107,750	81,281
Other receivables	8,342	9,540
Trade and other receivables	116,092	90,821

13 Inventories

	March 31, 2016 \$	December 31, 2015 \$
New vehicles	482,755	441,764
Demonstrator vehicles	30,916	35,830
Used vehicles	88,178	91,144
Parts and accessories	26,792	27,804
	628,641	596,542

During the three month period ended March 31, 2016, \$552,654 of inventory (2015 - \$523,704) was expensed as cost of goods sold which included net write-downs on used vehicles of \$256 (2015 - \$665). During the period ended March 31, 2016, \$1,375 of demonstrator expense (2015 - \$1,552) was included in selling, general,

and administration expense. During the period ended March 31, 2016, demonstrator reserves decreased by \$1,042 (2015 - increased by \$801). As at March 31, 2016, the Company had recorded reserves for inventory write downs of \$5,855 (2015 - \$5,611).

14 Finance lease receivables

	March 31, 2016 \$	December 31, 2015 \$
Current portion of finance lease receivables		
Finance lease receivables	4,361	4,556
Unearned finance income - current	(557)	(544)
	3,804	4,012
Long-term portion of finance lease receivables		
Finance lease receivables	7,631	7,081
Unearned finance income - long-term	(277)	(535)
	7,354	6,546
Gross receivables from finance leases:		
No later than 1 year	4,361	4,556
Later than 1 year and no later than 5 years	7,631	7,081
Later than 5 years	—	—
	11,992	11,637
Unearned future finance income on finance leases	(834)	(1,079)
Net investment in finance leases	11,158	10,558
Net investment in finance lease:		
No later than 1 year	3,804	4,012
Later than 1 year and no later than 5 years	7,354	6,546
Later than 5 years	—	—
	11,158	10,558

15 Property and equipment

During the three month period ended March 31, 2016, the Company purchased \$6,864 (2015 - \$25,279) of fixed assets including land and building additions of \$4,078 (2015 - \$4,061) to be used for two open point dealerships and dealership relocations.

16 Assets held for sale

The Company has committed to a plan to sell a parcel of land held in Winnipeg, Manitoba. The

carrying cost of the land is \$1,556 at March 31, 2016 (2015 - \$1,556). No decommissioning liability exists on the land. Efforts to sell the land have commenced and the sale is expected to be completed during fiscal 2016.

The Company has also committed to a plan to sell a parcel of land in Newmarket, Ontario with a carrying amount of \$3,494 at March 31, 2016 (2015 - \$3,485). No decommissioning liability exists on the land. Efforts to sell the land have commenced and the sale is expected to be completed during fiscal 2016.

17 Trade and other payables

	March 31, 2016 \$	December 31, 2015 \$
Trade payables	49,870	46,443
Accruals and provisions	13,224	11,974
Sales tax payable	4,106	4,710
Wages and withholding taxes payable	24,177	23,157
	91,377	86,284

The following table provides a continuity schedule of all recorded provisions:

	Finance and insurance ^(a) \$	Other \$	Total \$
December 31, 2015	1,912	539	2,451
Provisions arising during the period	335	55	390
Amounts expired or disbursed	(407)	(15)	(422)
March 31, 2016	1,840	579	2,419

^(a) Represents an estimated chargeback reserve provided by the Company's third party underwriter of finance and insurance products.

18 Indebtedness

	March 31, 2016 \$	December 31, 2015 \$
Revolving floorplan facilities		
Revolving floorplan facilities - Syndicate	393,500	348,840
Revolving floorplan facilities - VCCI (i)	40,477	33,086
Revolving floorplan facilities - BMW Financial	67,165	72,111
Revolving floorplan facilities - RBC	76,508	70,790
Revolving floorplan facilities - Scotiabank	22,928	23,495
	600,578	548,322
Indebtedness		
<i>Senior unsecured notes</i>		
Senior unsecured notes	149,739	149,739
Embedded derivative	(4)	(24)
Unamortized deferred financing costs	(2,773)	(2,907)
	146,962	146,808
<i>HSBC revolving term facility</i>		
HSBC revolving term facility	111,031	103,591
Unamortized deferred financing costs	(617)	(688)
	110,414	102,903
<i>Other long-term debt:</i>		
Lease financing - RBC	8,441	7,797
Lease financing - Scotiabank	812	915
Lease financing - BMO	258	346
Servus mortgage	5,498	5,557
VCCI mortgages	3,978	4,032
BMW mortgage	19,999	20,181
Other long-term debt	7,434	8,704
Total indebtedness	303,796	297,243
Current indebtedness	10,523	11,484
Long-term indebtedness	293,273	285,759

Updates to the terms and conditions of outstanding loans disclosed at December 31, 2015 are as follows:

- i The Revolving floorplan facilities - VCCI provides a maximum amount of financing of \$52,845 as at March 31, 2016 (\$46,930 as at December 31, 2015).

19 Commitments

At March 31, 2016, the Company is committed to capital expenditure obligations in the amount of \$31,857 (December 31, 2015 - \$35,695) related to dealership relocations,

re-imaging and a dealership open point with expected completion of these commitments in 2016.

20 Share-based payments

The Company operates a combination of cash and equity-settled compensation plan under which it receives services from employees as consideration for share-based and cash payments.

Restricted Share Units (RSUs)

The following table shows the change in the number and value of RSUs for the three month periods ended:

	March 31, 2016 #	March 31, 2016 \$	March 31, 2015 #	March 31, 2015 \$
Outstanding, beginning of the period	64,835	1,566	84,772	3,772
Settled - equity	(21,706)	(397)	(31,558)	(1,211)
Settled - cash	(14,471)	(265)	(21,039)	(808)
Granted	45,586	875	30,452	1,302
Dividends reinvested	888	16	521	21
Impact of movements in share price	–	(426)	–	(1,076)
Outstanding, end of the period	75,132	1,369	63,148	2,000

Deferred Share Units (DSUs)

The following table shows the change in the number and value of DSUs for the three month periods ended:

	March 31, 2016 #	March 31, 2016 \$	March 31, 2015 #	March 31, 2015 \$
Outstanding, beginning of the period	25,659	620	16,612	739
Granted	3,783	67	1,712	77
Dividends reinvested	319	7	113	5
Impact of movements in share price	–	(152)	–	(237)
Outstanding, end of the period	29,761	542	18,437	584

21 Share capital

Common shares of the Company are voting shares and have no par value. The authorized share capital is an unlimited number of shares.

The following table shows the change in shareholders' capital:

	March 31, 2016 #	March 31, 2016 \$	March 31, 2015 #	March 31, 2015 \$
Outstanding, beginning of the period	27,388,750	508,237	24,409,656	434,572
Deferred tax on share issuance costs	–	–	–	(109)
Treasury shares acquired	(60,823)	(1,233)	–	–
Dividends reinvested	(1,337)	(24)	(616)	(25)
Outstanding, end of the period	27,326,590	506,980	24,409,040	434,438

As at March 31, 2016, 133,093 (2015 - 100,643) common shares were held in trust for the Restricted Share Unit Plan, resulting in a total of 27,459,683 (2015 - 24,509,683) common shares issued.

Dividends

Dividends are discretionary and are determined based on a number of factors. Dividends are subject to approval of the Board of Directors. During the three month period

ended March 31, 2016, eligible dividends totaling \$0.25 per common share were declared and paid, resulting in total payments of \$6,840 (2015 - \$6,102).

22 Related party transactions

Transactions with Companies Controlled by the Executive Chair of AutoCanada

During the period ended March 31, 2016, the Company had financial transactions with entities controlled by the Company's Executive Chair. Mr. Patrick Priestner ("Priestner") is the controlling shareholder of Canada One Auto Group ("COAG") and its subsidiaries, which beneficially own approximately 8.6% of the Company's shares. In addition to COAG, Priestner is the controlling shareholder of other companies from which AutoCanada earns administrative fees. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. All significant transactions between AutoCanada and companies controlled by Priestner are approved by the Company's independent members of the Board of Directors.

a Rent paid to companies with common directors

During the period ended March 31, 2016, total rent paid to companies controlled by

Priestner amounted to \$705 (2015 - \$713). The Company currently leases two of its facilities from affiliates of COAG. The Company's independent Board of Directors has received advice from a national real estate appraisal company that the market rents at each of the COAG properties were at fair market value rates at inception.

b Administrative support fees

During the period ended March 31, 2016, total administrative support fees received from companies controlled by Priestner amount to \$370 (2015 - \$234).

c Loan to related party

During the three month period ended March 31, 2016, the Company's loan to PPH Holdings Ltd. generated interest income of \$114 and licensing fees of \$201. These amounts are recorded as income from Loan to Associate on the Statement of Comprehensive Income. As at March 31, 2016, there was \$149 interest receivable and \$215 of licensing fees receivable related to the loan.

23 Net change in non-cash working capital

The following table summarizes the net increase (decrease) in cash due to changes in non-cash working capital:

	Three month period ended March 31, 2016 \$	Three month period ended March 31, 2015 \$
Trade and other receivables	(25,254)	(12,615)
Inventories	(32,601)	(63,296)
Finance lease receivables	(600)	583
Other current assets	(2,030)	(4,278)
Trade and other payables	6,438	10,156
Vehicle repurchase obligations	(132)	209
Revolving floorplan facilities	52,256	73,652
	(1,923)	4,411

24 Seasonal nature of the business

The Company's results from operations for the period ended March 31, 2016 are not necessarily indicative of the results that may be expected for the full year due to seasonal variations in sales levels. The results from operations of the Company have historically 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 number of business days during the period. As a result, the Company's 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 also cause substantial fluctuations in operating results from quarter to quarter.

25 Subsequent Events

Dividends

On May 5, 2016, the Board of Directors of the Company declared a quarterly eligible dividend of \$0.10 per common share on the Company's outstanding Class A common shares, payable on June 15, 2016 to shareholders of record at the close of business on May 31, 2016.

Loan to associate

On May 1, 2016, the Company loaned \$2,835 to PPH Holdings Ltd. The Company holds no ownership interest in PPH, which is a company controlled, and formed, by Priestner. The loan was used by PPH to acquire Southview Acura. The Company has no participation in the equity of PPH or Southview Acura. PPH's principal place of business is Alberta, Canada.

Although the Company holds no voting rights in PPH, the Company exercises significant influence by virtue of the existence of its loan and the provision of essential technical information required for operations, as well as through the relationship with Priestner, as AutoCanada's Executive Chair. However, the Company does not have the power to make or block key decisions under the terms of the underlying agreements. As a result, the Company has accounted for its loan to PPH under the effective interest method and it is carried at amortized cost.

Employee stock options

On April 1, 2016, the Company issued 520,000 stock options to members of executive management. The options were granted at a strike price of \$18.18. The options are to vest evenly over varying terms between 3 to 4 years. The options expire 10 years from the date of grant.





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