



2016 QUARTER TWO



AutoCanada Inc.



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

■ For the three and six month periods ended June 30, 2016

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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.

1. READER ADVISORIES

This Management's Discussion & Analysis ("MD&A") was prepared as of August 4, 2016 to assist readers in understanding AutoCanada Inc.'s (the "Company" or "AutoCanada") consolidated financial performance for the three month period and six month period ended June 30, 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 and six month period ended June 30, 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 and six month period ended June 30, 2016 of the Company, and compares these to the operating results of the Company for the three month period and six month period ended June 30, 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 Second Quarter of Prior Year

AutoCanada's higher sales, gross profits and net earnings in the second quarter of 2016 are a direct result of acquisitions made subsequent to the end of the second 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 and free cash flow generated from operations to be key measures 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. Increased free cash flow allows the Company to fund future acquisitions and generate returns to shareholders.

Gross profit increased in used vehicle and parts, service and collision revenue streams and overall gross profit increased by 3.9% compared to the same period of 2015. New vehicle and finance and insurance sales gross profit stayed consistent with the same period of 2015. Same store gross profit decreased by 5.3% in the second 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 and parts, service and collision sales offset by increases in used vehicle retail .

New vehicle same store gross profit decreased by 12.7% and gross profit margin declined to 7.0% from 7.5%, as a result of a change in mix from new vehicles to used. 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 25.2%, while gross profit margin has risen 2.3% compared to the same period of 2015 due to a continuing change in consumer patterns. Throughout 2016 growth of used vehicle sales has out-paced growth of new vehicle sales for the Company. Additionally the Company is selling higher-grossing used vehicles than in the past.

Finance and insurance same store gross profit decreased by 9.2% while gross profit margin has increased to 92.2% compared to 91.5% in the comparative period. The 9.2% decline in finance and insurance gross profit, while significant, is less than the percentage decline in new vehicle retail sales. This evidences the Company's ability to retain this high margin business despite a challenging retail sales environment.

Parts, service and collision same store gross profit decreased by 3.3% as a result of a decrease in the average gross profit per repair order completed during the period. Same store gross profit margin was increased by 1.0% over the comparative period due to a slight increase in higher margin repair orders. Parts and service same store gross profit decreased by 2.2% as a result of a change in mix, resulting from increased warranty work as a portion of total revenue. Gross margins from warranty work are lower than from customer pay, which results in the decrease in same store gross profit. Parts and service provides the Company the largest amount of gross profit and is a key area during periods of economic decline. Collision repair same store gross profit decreased by 16.8% due to an unseasonably warm winter and the resulting decrease in collision repair orders in the spring.

Due to the 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 the remainder of 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 June 30, 2016 were up 3.8% when compared to the same period in 2015. Sales of new vehicles in Alberta and British Columbia, our primary markets, were down by 5.6% and up by 7.7% during the three month period ended June 30, 2016, respectively. The Company's same store unit sales of new retail vehicles decreased by 15.5% during the three month period ended June 30, 2016. The Company's same store total revenue for the three month period ended June 30, 2016 in Alberta decreased by 11.8%, while British Columbia increased by 1.7%.

Similarly, new light vehicle sales in Canada in the six month period ended June 30, 2016 were up 6.0% when compared to the same period in 2015. Sales of new vehicles in Alberta and British Columbia, were down by 6.2% and up by 8.4%, respectively. The Company's same store unit sales of new retail vehicles decreased by 16.6% during the six month period ended June 30, 2016. The Company's same store total revenue for the six month period ended June 30, 2016 in Alberta decreased by 15.9%, while British Columbia increased by 5.3%.

When compared to the Canadian average change in light vehicle sales, as reported by DesRosiers Automotive Consultants, the Company's same store dealerships are outpacing the market in Ontario and the Atlantic provinces for the six

months ended June 30, 2016. The year continues to be challenging for the Alberta market and our concentration of dealerships in this market are a drag on same store results. While our same store dealerships are below the reported Canadian average, the Company has closed the gap since the first quarter when our Alberta new vehicle revenue was down 20.5%. The Company's British Columbia stores are likewise underperforming the reported Canadian average, due to the heavy concentration of dealerships outside of the economic hub of the lower mainland of the province. It is important to note that the reported Canadian average includes sales channels that the Company does not fully participate in such as daily rentals, and small and medium size leasing companies that are not part of the franchise dealership network.

The following table summarizes Canadian new light vehicle sales for the six month periods ended June 30, 2016 and June 30, 2015 by Province:

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

	June Year to Date		Percent Change	Unit Change
	2016	2015		
British Columbia	110,683	102,129	8.4%	8,554
Alberta	110,362	117,717	(6.2)%	(7,355)
Saskatchewan	24,792	25,879	(4.2)%	(1,087)
Manitoba	27,347	26,196	4.4%	1,151
Ontario	407,708	372,735	9.4%	34,973
Quebec	234,283	220,348	6.3%	13,935
New Brunswick	23,717	21,001	12.9%	2,716
PEI	4,368	3,861	13.1%	507
Nova Scotia	27,931	26,514	5.3%	1,417
Newfoundland	17,923	17,059	5.1%	864
Total	989,114	933,439	6.0%	55,675

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, and small and medium size leasing companies that are not part of the franchise dealership network.

The following table summarizes the number of same stores for the month ended June 30, 2016 by Province:

Number of Same Stores by Province

	British Columbia	Alberta	Manitoba	Ontario	Atlantic	Total
FCA	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			For the Six Months Ended		
	June 30, 2016	June 30, 2015	% Change	June 30, 2016	June 30, 2015	% Change
New vehicles - Retail	174,026	197,236	(11.8)%	317,190	350,052	(9.4)%
New vehicles - Fleet	57,953	52,312	10.8%	91,849	89,856	2.2%
Total New vehicles	231,979	249,548	(7.0)%	409,039	439,908	(7.0)%
Used vehicles - Retail	66,630	69,714	(4.4)%	127,230	132,000	(3.6)%
Used vehicles - Wholesale	47,679	36,042	32.3%	85,935	63,508	35.3%
Total Used vehicles	114,309	105,756	8.1%	213,165	195,508	9.0%
Finance, insurance and other	19,084	21,154	(9.8)%	33,790	39,556	(14.6)%
Subtotal	365,372	376,458	(2.9)%	655,994	674,972	(2.8)%
Parts and service	38,013	39,522	(3.8)%	74,841	78,749	(5.0)%
Collision repair	2,611	3,271	(20.2)%	5,584	6,649	(16.0)%
Parts, service, and collision repair	40,624	42,793	(5.1)%	80,425	85,398	(5.8)%
Total	405,996	419,251	(3.2)%	736,419	760,370	(3.1)%
New retail vehicles sold	4,361	5,164	(15.5)%	7,714	9,244	(16.6)%
New fleet vehicles sold	1,774	1,627	9.0%	2,599	2,674	(2.8)%
Used retail vehicles sold	2,705	2,886	(6.3)%	5,173	5,536	(6.6)%
Total	8,840	9,677	(8.6)%	15,486	17,454	(11.3)%
Total vehicles retailed	7,066	8,050	(12.2)%	12,887	14,780	(12.8)%

Same Store Gross Profit and Gross Profit Percentage

Revenue Source (in thousands of dollars)	For the Three Months Ended					
	Gross Profit			Gross Profit %		
	June 30, 2016	June 30, 2015	% Change	June 30, 2016	June 30, 2015	Change
New vehicles - Retail	16,071	18,331	(12.3)%	9.2%	9.3%	(0.1)%
New vehicles - Fleet	160	264	(39.4)%	0.3%	0.5%	(0.2)%
Total New vehicles	16,231	18,595	(12.7)%	7.0%	7.5%	(0.5)%
Used vehicles - Retail	6,548	5,229	25.2%	9.8%	7.5%	2.3%
Used vehicles - Wholesale	474	437	8.4%	1.0%	1.2%	(0.2)%
Total Used vehicles	7,022	5,666	23.9%	6.1%	5.4%	0.7%
Finance, insurance and other	17,586	19,359	(9.2)%	92.2%	91.5%	0.7%
Subtotal	40,839	43,620	(6.4)%	11.2%	11.6%	(0.4)%
Parts and service	20,454	20,920	(2.2)%	53.8%	52.9%	0.9%
Collision repair	1,371	1,648	(16.8)%	52.5%	50.4%	2.1%
Parts, service, and collision repair	21,825	22,568	(3.3)%	53.7%	52.7%	1.0%
Total	62,664	66,188	(5.3)%	15.4%	15.8%	(0.4)%

Revenue Source (in thousands of dollars)	For the Six Months Ended					
	Gross Profit			Gross Profit %		
	June 30, 2016	June 30, 2015	% Change	June 30, 2016	June 30, 2015	Change
New vehicles - Retail	28,985	32,695	(11.3)%	9.1%	9.3%	(0.2)%
New vehicles - Fleet	431	431	—%	0.5%	0.5%	—%
Total New vehicles	29,416	33,126	(11.2)%	7.2%	7.5%	(0.3)%
Used vehicles - Retail	11,560	10,021	15.4%	9.1%	7.6%	1.5%
Used vehicles - Wholesale	1,083	647	67.2%	1.3%	1.0%	0.2%
Total Used vehicles	12,643	10,668	18.5%	5.9%	5.5%	0.4%
Finance, insurance and other	31,148	36,264	(14.1)%	92.2%	91.7%	0.5%
Subtotal	73,207	80,058	(8.6)%	11.2%	11.9%	(0.7)%
Parts and service	40,371	39,780	1.5%	53.9%	50.5%	3.4%
Collision repair	2,952	3,300	(10.5)%	52.9%	49.6%	3.3%
Parts, service, and collision repair	43,323	43,080	0.6%	53.9%	50.5%	3.4%
Total	116,530	123,138	(5.4)%	15.8%	16.2%	(0.4)%

The following table summarizes gross profit percentage for the three months ended June 30, 2016 by same store and non-same store:

	For the Three Months Ended Gross Profit %					
	Same Store			Non-Same Store		
	June 30, 2016	June 30, 2015	Change	June 30, 2016	June 30, 2015	Change
New vehicles - Retail	9.2%	9.3%	(0.1)%	7.4%	7.0%	0.4%
New vehicles - Fleet	0.3%	0.5%	(0.2)%	4.0%	7.8%	(3.8)%
Total New vehicles	7.0%	7.5%	(0.5)%	6.9%	7.1%	(0.2)%
Used vehicles - Retail	9.8%	7.5%	2.3%	8.9%	6.8%	2.1%
Used vehicles - Wholesale	1.0%	0.6%	0.4%	3.4%	2.7%	0.7%
Total Used vehicles	6.1%	5.4%	0.7%	7.2%	5.7%	1.5%
Finance, insurance and other	92.2%	91.5%	0.7%	89.8%	82.2%	7.6%
Subtotal	11.2%	11.6%	(0.4)%	10.9%	7.6%	3.3%
Parts and service	53.8%	52.9%	0.9%	51.7%	48.7%	3.0%
Collision repair	52.5%	50.4%	2.1%	56.5%	51.6%	4.9%
Parts, service, and collision repair	53.7%	52.7%	1.0%	52.2%	48.9%	3.3%
Total	15.4%	15.8%	(0.4)%	16.5%	16.0%	0.5%

The following table summarizes same store total revenue for the three and six months ended June 30, 2016 by Province:

(in thousands of dollars)	For the Three Months Ended			For the Six Months Ended		
	June 30, 2016	June 30, 2015	% Change	June 30, 2016	June 30, 2015	% Change
British Columbia	141,868	139,450	1.7%	267,017	253,544	5.3%
Alberta	157,749	178,860	(11.8)%	283,125	336,619	(15.9)%
Manitoba	31,188	31,206	(0.1)%	57,390	57,861	(0.8)%
Ontario	17,995	17,934	0.3%	32,310	29,277	10.4%
Atlantic	57,196	51,801	10.4%	96,577	83,069	16.3%
Total	405,996	419,251	(3.2)%	736,419	760,370	(3.1)%

The following table summarizes same store gross profit for the three and six months ended June 30, 2016 by Province:

(in thousands of dollars)	For the Three Months Ended			For the Six Months Ended		
	June 30, 2016	June 30, 2015	% Change	June 30, 2016	June 30, 2015	% Change
British Columbia	20,736	20,950	(1.0)%	38,128	38,803	(1.7)%
Alberta	26,970	29,827	(9.6)%	50,517	57,555	(12.2)%
Manitoba	5,791	5,858	(1.1)%	10,907	10,907	—%
Ontario	2,545	2,318	9.8%	4,797	4,024	19.2%
Atlantic	6,622	7,235	(8.5)%	12,181	11,849	2.8%
Total	62,664	66,188	(5.3)%	116,530	123,138	(5.4)%

3. SELECTED QUARTERLY FINANCIAL INFORMATION

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

(in thousands of dollars, except Gross Profit %, Earnings per share, and Operating Data)	Q2 2016 ⁽¹⁾	Q1 2016 ⁽¹⁾	Q4 2015 ⁽¹⁾	Q3 2015 ⁽¹⁾	Q2 2015 ⁽¹⁾	Q1 2015 ⁽¹⁾	Q4 2014 ^(1,6)	Q3 2014 ⁽¹⁾
Income Statement Data								
New vehicles	497,025	363,181	368,242	471,018	483,435	345,542	379,094	456,810
Used vehicles	208,016	180,108	167,100	179,270	194,956	163,243	148,579	158,779
Parts, service and collision repair	100,317	94,721	102,220	93,139	99,304	92,951	91,225	77,680
Finance, insurance and other	36,899	28,862	34,752	37,778	39,182	31,671	36,355	37,267
Revenue	842,257	666,872	672,314	781,205	816,877	633,407	655,253	730,536
New vehicles	34,410	27,267	27,482	34,300	34,861	25,765	29,325	35,086
Used vehicles	13,758	10,420	10,326	10,949	11,000	8,354	7,808	9,637
Parts, service and collision repair	52,957	47,669	51,760	48,336	49,859	43,913	45,687	38,913
Finance, insurance and other	33,577	26,353	34,354	35,088	33,955	27,407	31,109	34,714
Gross profit	134,702	111,709	123,922	128,673	129,675	105,439	113,929	118,350
Gross Profit %	16.0%	16.8%	18.4%	16.5%	15.9%	16.6%	17.4%	16.2%
Operating expenses	107,932	96,047	101,310	100,824	100,568	93,175	90,283	90,695
Operating expenses as a % of gross profit	80.1%	86.0%	81.8%	78.4%	77.6%	88.4%	79.2%	76.6%
Income from investments in associates	—	—	—	—	—	—	—	359
Income from loans to associates	610	315	49	—	—	—	—	—
Impairment (recovery) of intangible assets and goodwill	—	—	18,757	—	—	—	(1,767)	—
Net earnings (loss) attributable to AutoCanada shareholders ⁽⁵⁾	14,158	7,272	(7,631)	11,690	13,523	4,969	14,240	17,765
EBITDA attributable to AutoCanada shareholders ^(2,5)	27,072	18,312	23,353	26,379	27,397	12,687	24,605	28,674
EBITDA % of sales	3.7%	3.2%	3.5%	3.8%	3.8%	2.2%	4.0%	4.4%
Basic earnings per share	0.53	0.27	(0.29)	0.48	0.56	0.20	0.60	0.74
Diluted earnings per share	0.53	0.27	(0.29)	0.47	0.56	0.20	0.59	0.74
Basic adjusted earnings per share	0.49	0.31	0.34	0.51	0.56	0.22	0.52	0.71
Dividends declared per share	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.24
Operating Data								
Vehicles (new and used) sold excluding GM	14,159	10,728	12,345	13,092	14,723	11,343	12,774	14,966
Vehicles (new and used) sold including GM ⁽³⁾	17,425	13,301	14,150	17,086	17,739	13,824	15,415	18,079
New vehicles sold including GM ⁽³⁾	12,098	8,502	9,210	12,018	12,296	8,933	10,570	12,821
New retail vehicles sold	9,374	7,078	8,016	9,985	9,929	7,393	8,907	10,686
New fleet vehicles sold	2,724	1,424	1,194	2,033	2,367	1,540	1,663	2,135
Used retail vehicles sold	5,327	4,799	4,940	5,068	5,443	4,891	4,845	5,258
# of service and collision repair orders completed ⁽³⁾	227,446	209,194	230,772	202,692	215,142	199,096	216,427	198,612
Absorption rate ⁽²⁾	90%	83%	93%	91%	94%	85%	85%	93%
# of dealerships at period end	53	53	54	50	49	48	48	45
# of same store dealerships	27	27	28	26	24	23	23	23
# of service bays at period end	898	898	912	862	842	822	822	734
Same store revenue growth ⁽⁴⁾	(3.2)%	(3.1)%	(12.1)%	(6.9)%	(2.8)%	(3.5)%	10.9%	8.9%
Same store gross profit growth ⁽⁴⁾	(5.3)%	(5.5)%	(14.3)%	(14.1)%	(11.0)%	(8.5)%	5.7%	11.4%
Balance Sheet Data								
Cash and cash equivalents	77,582	72,878	62,274	77,071	77,676	66,351	72,462	64,559
Trade and other receivables	115,427	116,092	90,821	118,853	124,683	104,753	92,138	115,074
Inventories	555,957	628,641	596,542	581,258	620,837	625,779	563,277	471,664
Revolving floorplan facilities	532,283	600,578	548,322	550,857	607,694	601,432	527,780	437,935

- 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, June 30, 2016.

AutoCanada is satisfied with our second quarter results, in isolation and as an indication of our growth from the second quarter of 2015. Highlights of Q2, 2016 include:

- Net earnings attributable to AutoCanada shareholders, in the second quarter, has increased by 4.7%, from \$13.5 million in 2015 to \$14.2 million in 2016
- Free cash flow – 12 month trailing has increased by \$20.1 million to \$66.0 million from \$45.9 from Q1, 2016
- Basic earnings per share has decreased by \$0.03 from \$0.56 in Q2, 2015 to \$0.53 in Q2, 2016
- Total same store vehicles (new and used) sold decreased by 837 units from 9,677 in Q2, 2015 to 8,840 in Q2, 2016

Earlier this year, we implemented an action plan comprised of three levers: operational excellence, cost control and balance sheet strength, and acquisition strategy. These levers are the core of our 2016 action plan and will continue to shape our operations.

- Operational excellence, through both the financial and sales metrics, is important at each of our dealerships. During the quarter we saw growth in both revenue and gross profit. Going forward, we are looking to improve our margins at our dealerships and also focus on asset productivity, a key to our continued success.
- Cost control and balance sheet strength has been a focus throughout the year. Earlier this year we implemented a plan to reduce our costs throughout the Company. With an annualized target of \$15.0 million we expect operating expenses will decrease as a result of this initiative. In addition to decreasing operating expenses, we are managing our interest expense on our inventories, managing our accounts receivables and accounts payables, and considering innovative ways we can save money through shared services and central purchasing. During the quarter, we have

improved four of seven of our key financial covenants compared to the first quarter of 2016.

- Our acquisition strategy will be implemented during the remainder of the year. Over the past twelve months we have acquired five dealerships and have provided participatory loans for an additional two. During a period of reduced economic activity, we have the ability to be opportunistic in our acquisition strategy and to focus on acquisitions that are accretive and grow our portfolio. We will diversify across Canada through the acquisition of flagship stores in major markets.

Our focused effort on cost reduction began early in the year and has shown early success through the second quarter. Variable expenses, excluding \$2.7 million in non-recurring senior management transition costs, as a percentage of gross profit has decreased by 0.6% in Q2, 2016 alone with total annual decrease of 0.9% year-to-date.

During the quarter, we have managed to reduce our capital plan by \$48.5 million from \$193.8 million in Q4, 2015 to \$145.3 million at the end of Q2, 2016. This includes \$37.3 million of capital expenditures completed during the first half of 2016, with \$108.0 million of contemplated capital projects remaining.

This will further allow us to implement our acquisition strategy while maintaining a strong balance sheet.

During the year-to-date, Alberta industry new vehicle sales decreased by 6.2% over the same quarter in 2015, while national industry new vehicles sales were up 6.0%. Industry experts expect 2016 Canadian new light vehicle unit sales to achieve 1.9 million units in 2016^{1,2}.

While our same store new vehicle metrics continue to lag the market in Alberta and British Columbia, we are pleased with our same store used vehicle sales for the quarter. Q2, 2016 represented an 8.1% increase in same store used car sales, and an increase of 23.9% in same store used car margins, as compared to Q2, 2015. This increase is due to the focus that management has had on improving used car inventory while increasing used vehicle sales in order to offset the decline in new vehicle sales.

We are optimistic that we are making headway in a difficult market and, over time, look to further improve our key metrics.

¹ DesRosiers Automotive Consultants Inc.

² Scotia Economics - Global Auto Report, June 30, 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 June 30, 2016 and June 30, 2015.

Location of Dealerships	June 30, 2016					
	Number of Franchises ¹	Number of Dealerships ¹	Revenue	% of Total	Gross Profit	Gross Profit % of Total
British Columbia	13	11	168,203	20%	25,393	19%
Alberta	27	24	340,286	40%	57,650	43%
Saskatchewan	4	4	70,281	8%	13,929	10%
Manitoba	4	4	50,009	6%	9,239	7%
Ontario	6	6	55,227	7%	7,763	6%
Quebec	4	2	101,055	12%	14,106	10%
Atlantic	2	2	57,196	7%	6,622	5%
Total	60	53	842,257	100%	134,702	100%

Location of Dealerships	June 30, 2015					
	Number of Franchises ¹	Number of Dealerships ¹	Revenue	% of Total	Gross Profit	Gross Profit % of Total
British Columbia	12	10	152,792	19%	23,609	18%
Alberta	26	23	343,383	42%	57,883	45%
Saskatchewan	4	4	66,681	8%	11,146	9%
Manitoba	4	4	48,911	6%	9,054	7%
Ontario	5	4	43,169	5%	5,797	4%
Quebec	4	2	110,140	14%	14,951	11%
Other	2	2	51,801	6%	7,235	6%
Total	57	49	816,877	100%	129,675	100%

¹ "Dealerships" refers to each physical storefront while "Franchises" refers to each separate franchise agreement.

The Company's manufacturers profile is illustrated below by number of dealerships and revenues by manufacturer for the three month periods ended June 30, 2016 and June 30, 2015.

Manufacturer	June 30, 2016				June 30, 2015 ¹			
	Number of Franchises ¹	Number of Dealerships ¹	Revenue	% of Total	Number of Franchises ¹	Number of Dealerships ¹	Revenue	% of Total
FCA	21	16	383,457	45%	20	15	374,682	46%
General Motors	9	9	166,812	20%	8	8	150,185	18%
Hyundai	8	8	62,695	7%	8	8	63,240	8%
Nissan / Infiniti	7	7	64,799	8%	6	5	53,158	7%
Volkswagen/ Audi	7	7	51,970	6%	7	7	54,619	7%
BMW / MINI	4	2	101,055	12%	4	2	110,140	13%
Other	4	4	11,469	2%	4	4	10,853	1%
Total	60	53	842,257	100%	57	49	816,877	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	FCA	2003	Y
Maple Ridge, British Columbia	Maple Ridge Chrysler Jeep Dodge FIAT	FCA	2005	Y
Maple Ridge, British Columbia	Maple Ridge Volkswagen	Volkswagen	2008	Y
Prince George, British Columbia	Northland Chrysler Jeep Dodge	FCA	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	FCA	2015	Q3 2017
Calgary, Alberta	Courtesy Chrysler Dodge	FCA	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
Calgary, Alberta	Fish Creek Nissan	Nissan	2014	Q4 2016
Calgary, Alberta	Hyatt Infiniti	Infiniti	2014	Q4 2016
Calgary, Alberta	Tower Chrysler Jeep Dodge Ram	FCA	2014	Q4 2016
Edmonton, Alberta	Crosstown Chrysler Jeep Dodge FIAT	FCA	1994	Y
Edmonton, Alberta	Capital Chrysler Jeep Dodge FIAT	FCA	2003	Y
Edmonton, Alberta	North Edmonton Kia	Kia	2014	Q4 2016
Grande Prairie, Alberta	Grande Prairie Chrysler Jeep Dodge FIAT	FCA	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	FCA	1998	Y
Sherwood Park, Alberta	Sherwood Park Hyundai	Hyundai	2006	Y
Saskatoon, Saskatchewan	Dodge City Chrysler Jeep Dodge Ram	FCA	2014	Q3 2016
Winnipeg, Manitoba	St. James Audi	Audi	2013	Y
Winnipeg, Manitoba	St. James Volkswagen	Volkswagen	2013	Y
Winnipeg, Manitoba	Eastern Chrysler Jeep Dodge	FCA	2014	Y
Cambridge, Ontario	Cambridge Hyundai	Hyundai	2008	Y
Mississauga, Ontario	401 Dixie Hyundai	Hyundai	2008	Y
Toronto, Ontario	Toronto Chrysler Jeep Dodge Ram	FCA	2014	Q1 2017
Moncton, New Brunswick	Moncton Chrysler Jeep Dodge	FCA	2001	Y
Dartmouth, Nova Scotia	Dartmouth Chrysler Jeep Dodge	FCA	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

Location	Operating Name	Franchise	Year Opened or Acquired	Same Store ¹
Sherwood Park, Alberta	Sherwood Buick GMC	General Motors	2012	Q4 2016
Spruce Grove, Alberta	Grove Dodge Chrysler Jeep	FCA	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:				
Edmonton, Alberta	Southview Acura ^{2,3}	Acura	2016	N/A
Whitby, Ontario	Whitby Honda ²	Honda	2015	N/A

1 Same store (indicated with the letter "Y" in the table above) 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 also cause substantial fluctuations in operating results from quarter to quarter.

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.

Management realignment

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

Steve Rose, Chief Operating Officer, shall retire from his position effective September 30, 2016.

6. RESULTS OF OPERATIONS

Second Quarter Operating Results

EBITDA attributable to AutoCanada shareholders for the three month period ended June 30, 2016 decreased by \$0.3 million or 1.2% to \$27.1 million, from \$27.4 million when compared to the results of the Company for the same period in the prior year.

The decrease in EBITDA attributable to AutoCanada shareholders for the quarter is mainly due to tightening markets and lower achievement of sales volume incentives in certain stores. Adjusted EBITDA attributable to AutoCanada shareholders for the quarter ended June 30, 2016 decreased by \$1.3 million or 4.7% from \$27.7 million to \$26.4 million when compared to the results of the Company for the same quarter in the prior year.

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

(in thousands of dollars)	2016	2015	2014
Period from April 1 to June 30			
Net earnings attributable to AutoCanada shareholders	14,158	13,523	12,831
Income taxes	4,238	5,534	4,477
Depreciation of property and equipment	4,536	4,230	2,550
Interest on long-term indebtedness	4,140	4,110	1,844
EBITDA attributable to AutoCanada shareholders¹	27,072	27,397	21,702
Add back:			
Share-based compensation attributed to changes in share price	59	133	591
Revaluation of redemption liabilities ²	(736)	336	–
Unrealized gain on embedded derivative	–	(167)	–
Adjusted EBITDA attributable to AutoCanada shareholders¹	26,395	27,699	22,293

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 decreased by \$0.7 million or 3.5% to \$18.4 million for the three month period ended June 30, 2016 from \$19.1 million in the same period of the prior year. Net earnings attributable to AutoCanada shareholders increased by \$0.7 million or 4.7% to \$14.2 million in the second quarter of 2016 from a \$13.5 million when compared to the

prior year. Income tax expense attributable to AutoCanada shareholders decreased by \$1.3 million to \$4.2 million in the second quarter of 2016 from \$5.5 million in the same period of 2015.

Adjusted net earnings attributable to AutoCanada shareholders decreased by \$0.5 million or 3.5% to \$13.5 million in 2016 from \$14.0 million in the prior year.

The following table reconciles net earnings to adjusted net earnings for the three month period ended June 30, for the last three years of operations:

(in thousands of dollars)	2016	2015	2014
Net earnings attributable to AutoCanada shareholders	14,158	13,523	12,831
Add back:			
Share-based compensation attributed to changes in share price, net of tax	44	98	438
Revaluation of redemption liabilities ²	(736)	336	–
Adjusted net earnings attributable to AutoCanada shareholders¹	13,466	13,957	13,269
Weighted average number of shares - Basic	27,338,767	24,424,598	21,832,777
Weighted average number of shares - Diluted	27,457,284	24,486,877	21,832,777
Adjusted net earnings per share attributable to AutoCanada shareholders – Basic¹	0.49	0.57	0.61
Adjusted net earnings per share attributable to AutoCanada shareholders – Diluted¹	0.49	0.57	0.61

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.

Year to Date Operating Results

EBITDA attributable to AutoCanada shareholders for the six month period ended June 30, 2016 increased by \$5.3 million or 13.2% to \$45.4 million, from \$40.1 million when compared to the results of the Company for the same period in the prior year. The increase in EBITDA attributable to AutoCanada shareholders for the period can be

mainly attributed to the increase in number of dealerships due to acquisitions since Q2 2015. Adjusted EBITDA attributable to AutoCanada shareholders for the six month period ended June 30, 2016 increased by \$5.4 million or 13.4% from \$40.6 million to \$46.0 million when compared to the results of the Company for the same period in the prior year.

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

(in thousands of dollars)	2016	2015	2014
Period from January 1 to June 30			
Net earnings attributable to AutoCanada shareholders	21,430	18,492	21,125
Income taxes	6,714	7,243	7,358
Depreciation of property and equipment	9,223	8,163	5,061
Interest on long-term indebtedness	8,016	6,189	2,608
EBITDA attributable to AutoCanada shareholders¹	45,383	40,087	36,152
Add back:			
Share-based compensation attributed to changes in share price	118	(197)	1,156
Revaluation of redemption liabilities ²	526	659	–
Unrealized loss on embedded derivative	20	47	–
Adjusted EBITDA attributable to AutoCanada shareholder¹	46,047	40,596	37,308

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.

For the six month period ended June 30, 2016, pre-tax earnings attributable to AutoCanada shareholders increased by \$2.4 million or 9.4% to \$28.1 million from \$25.7 million in the same period of the prior year. Net earnings attributable to AutoCanada shareholders increased by \$2.9 million or 15.9% to \$21.4 million in the six month period ended June 30, 2016 from \$18.5 million when compared to the prior year. Income tax expense

attributable to AutoCanada shareholders decreased by \$0.5 million to \$6.7 million in the six month period ended June 30, 2016 from \$7.2 million in the same period of 2015.

Adjusted net earnings attributable to AutoCanada shareholders increased by \$3.0 million or 15.8% to \$22.1 million in 2016 from \$19.1 million in the prior year.

The following table reconciles net earnings to adjusted net earnings for the six month period ended June 30, for the last three years of operations:

(in thousands of dollars)	2016	2015	2014
Net earnings attributable to AutoCanada shareholders	21,430	18,492	21,125
Add back:			
Share-based compensation attributed to changes in share price, net of tax	87	(147)	857
Revaluation of redemption liabilities ²	526	659	–
Unrealized loss on embedded derivative	20	47	–
Adjusted net earnings attributable to AutoCanada shareholders¹	22,063	19,051	21,982
Weighted average number of shares - Basic	27,350,603	24,417,128	21,759,732
Weighted average number of shares - Diluted	27,439,896	24,489,827	21,759,732
Adjusted net earnings per share attributable to AutoCanada shareholders - Basic¹	0.81	0.78	1.01
Adjusted net earnings per share attributable to AutoCanada shareholders - Diluted¹	0.80	0.78	1.01

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 and the six month period ended June 30, 2016 increased by \$25.4 million and \$58.8 million or 3.1% and 4.1% respectively as compared to the same periods 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 Q2 2015. New vehicle sales increased by \$13.6 million or 2.8% for the three month period ended June 30, 2016 to \$497.0 million from \$483.4 million in the same period of the prior year. New vehicle sales increased by \$31.2 million or 3.8% for the six month period ended June 30, 2016 to \$860.2 million from \$829.0 million in the same period of the prior year. Used vehicle sales increased by \$13.1 million or 6.7% for the three month period ended June 30, 2016. Used vehicle sales for the six month period ended June 30, 2016 increased by \$29.9 million or 8.4% when compared

to the same period in the prior year. Finance and insurance revenue decreased by \$2.3 million or 5.8% and \$5.1 million or 7.2% in the three month period and the six month period ended June 30, 2016 respectively. Parts, service and collision repair revenue increased by \$1.0 million or 1.0% and \$2.8 million or 1.4% for the three month period and the six month period ended June 30, 2016 respectively.

Revenues - Same Store Analysis

Same store revenue decreased by \$13.3 million or 3.2% in the three month period ended, and decreased by \$24.0 million or 3.1% in the six month period ended June 30, 2016 when compared to the same period in 2015. New vehicle revenues decreased by \$17.6 million or 7.0% for the second quarter of 2016 over the prior year due to a decrease in new vehicle sales of 656 units or 9.7% offset by an increase in the average revenue per new vehicle sold of \$1,065 or 2.9%. Same store new

vehicle revenues decreased by \$30.9 million or 7.0% for the six month period ended June 30, 2016 over the same period in the prior year due to a decrease in new vehicle sales of 1,605 units or 13.5% offset by an increase in the average revenue per new vehicle sold of \$2,752 or 7.5%.

Same store used vehicle revenues increased by \$8.6 million or 8.1% for the three month period ended June 30, 2016 over the same period in the prior year due to an increase in the average revenue per used vehicle sold of \$5,613 or 15.3% offset by a decrease in used vehicle sales of 181 units or 6.3%. For the six month period ended June 30, 2016, used vehicle revenues increased by \$17.7 million or 9.0% due to an increase in the average revenue per used vehicle sold of \$5,891 or 16.7% offset by a decrease in used vehicle sales of 363 units or 6.6%.

Same store parts, service and collision repair revenue decreased by \$2.2 million or 5.1% for the second quarter of 2016 compared to the prior period and was primarily a result of an increase in overall repair orders completed of 813 offset by a \$25 or 5.8% decrease in the average revenue per repair order completed. For the six month period ended June 30, 2016, same store parts, service and collision repair revenue decreased by \$5.0 million or 5.8%, mainly due to an increase in the number of overall repair orders completed of 5,698 offset by a \$38 or 8.5% decrease in the average revenue per repair order completed.

Same store finance, insurance and other revenue decreased by \$2.1 million or 9.8% for the three month period ended June 30, 2016 over the same period in 2015. This was due to an increase in the average revenue per unit retailed of \$73 or 2.8% and a decrease in the number of new and used vehicles retailed, that had finance and insurance related products, of 984 units. For the six month period ended June 30, 2016, same store finance, insurance and other revenue decreased by \$5.8 million or 14.6% over the same period in 2015 mainly due to a decrease in the average revenue per unit retailed of \$54 or 2.0% and by a decrease in the number of new and used vehicles retailed, that had finance and insurance related products, of 1,893 units.

Gross Profit

Gross profit increased by \$5.0 million and \$11.3 million, or 3.9% and 4.8% respectively, for the three month period and the six month period ended June 30, 2016 when compared to the same periods in the prior year. Gross profit increased due to increases in used vehicle and parts, service and collision revenue streams as a result of acquisitions since Q2 2015.

Gross profit on the sale of new vehicles decreased by \$0.5 million and increased by \$1.1 million, or 1.3% and 1.7% respectively, for the three month period and the six month period ended June 30, 2016. The decrease in new vehicle gross profit for the three month period ended June 30, 2016 can be attributed to a decrease in the number of new vehicles sold of 198 or 1.6% offset by an increase in the average gross profit per new vehicle sold of \$9 or 0.3%. The increase in new vehicle gross profit for the six month period ended June 30, 2016 can be attributed to a decrease in number of vehicles sold of 629 or 3.0% offset by an increase in the average gross profit per new vehicle sold of \$138 or 4.8%.

Used vehicle gross profit increased by \$2.8 million or 25.1% for the three month period ended June 30, 2016. Used vehicle gross profit for the six month period ended June 30, 2016 increased by \$4.8 million or 24.9% when compared to the same period in the prior year.

The Company's finance and insurance gross profit decreased by \$0.4 million or 1.1% during the second quarter of 2016. Finance and insurance gross profit decreased by \$1.4 million or 2.3% during the six month period ended June 30, 2016. These decreases can mainly be attributed to decreases in the total number of vehicles retailed of 671 or 4.4% during the three month ended, and decreases in the total number of vehicles retailed of 1,078 or 3.9% for the six month period ended June 30, 2016.

Parts, service and collision repair gross profit increased by \$3.1 million or 6.2% in the second quarter of 2016. Parts, service and collision repair gross profit increased by \$6.9 million or 7.3% during the six month period ended June 30, 2016. This increase is due to increase in number of dealerships owned in the first half of 2016 compared to 2015.

Gross Profit - Same Store Analysis

Same store gross profit decreased by \$3.5 million or 5.3% and \$6.6 million or 5.4% for the three month period and the six month period ended June 30, 2016 respectively when compared to the same period in the prior year. Same store new vehicle gross profit decreased by \$2.4 million or 12.7% in the three month period ended June 30, 2016 when compared to 2015 as a result of a decrease in new vehicle sales of 656 units or 9.7% and a decrease in the average gross profit per new vehicle sold of \$92 or 3.4%. For the six month period ended June 30, 2016, same store new vehicle gross profit decreased by \$3.7 million or 11.2% which can be mainly attributed to a decrease in new vehicle sales of 1,605 units or 13.5% offset by an increase in the average gross profit per new vehicle sold of \$73 or 2.6%.

Same store used vehicle gross profit increased by \$1.4 million or 23.9% in the three month period ended June 30, 2016 over the prior year. This was due to an increase in the average gross profit per used vehicle retailed of \$609 or 33.6% offset by a decrease in the number of used vehicles sold of 181 units. For the six month period ended June 30, 2016, same store used vehicle gross profits increased by \$2.0 million or 18.5% which was mainly due to an increase in the average gross profit per vehicle retailed of \$425 or 23.5% offset by a decrease in the number of vehicles retailed of 363 units.

Same store parts, service and collision repair gross profit decreased by \$0.7 million or 3.3% in the three month period ended June 30, 2016 when compared to the same period in the prior year as a result of a decrease in the average gross profit per repair order completed of \$10 or 4.4%, offset by an increase in the number of repair orders completed of 813. For the six month period ended June 30,

2016, same store parts, service and collision repair gross profit increased by \$0.2 million or 0.6% which can be mainly attributed to an increase in the number of repair orders completed of 5,698 offset by a decrease in the average gross profit per repair order completed of \$5 or 2.2%.

Same store finance and insurance gross profit decreased by \$1.8 million or 9.2% in the three month period ended June 30, 2016 when compared to the prior year as a result of an increase in the average gross profit per unit sold of \$84 offset by a decrease in units retailed that had finance and insurance related products of 984. For the six month period ended June 30, 2016, same store finance and insurance gross profit decreased by \$5.1 million or 14.1% and can be attributed to a decrease in the average gross profit per unit sold of \$37 and a decrease in units retailed of 1,893.

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, with operating expenses 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 June 30, 2016	Three month period ended June 30, 2015	Change
Employee costs before management transition costs	48.6%	49.3%	(0.7)%
Management transition costs	2.0%	–	2.0%
Administrative costs – Variable	16.3%	16.9%	(0.6)%
Total Variable Expenses	66.9%	66.2%	0.7%
Administrative costs – Fixed	5.2%	4.1%	1.1%
Facility lease costs	4.4%	3.9%	0.5%
Depreciation of property and equipment	3.6%	3.4%	0.2%
Total fixed expenses	13.2%	11.4%	1.8%
Total operating expenses	80.1%	77.6%	2.5%

	Six month period ended June 30, 2016	Six month period ended June 30, 2015	Change
(in thousands of dollars)			
Employee costs before management transition costs	50.5%	51.8%	(1.3)%
Management transition costs	1.1%	–	1.1%
Administrative costs – Variable	17.2%	18.0%	(0.8)%
Total Variable Expenses	68.8%	69.8%	(1.0)%
Administrative costs – Fixed	5.2%	4.6%	0.6%
Facility lease costs	4.8%	4.3%	0.5%
Depreciation of property and equipment	4.0%	3.7%	0.3%
Total fixed expenses	14.0%	12.6%	1.4%
Total operating expenses	82.8%	82.4%	0.4%

Operating expenses increased by 7.3% or \$7.4 million during the three month period ended June 30, 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 increased to 80.1% in the second quarter of 2016 from 77.6% in the same period of the prior year. As a percentage of gross profit, the variable portion of operating expenses has increased from 66.2% to 66.9% and the fixed portion has increased from 11.4% to 13.2%.

The increase in the fixed portion of operating expenses is due to the growth of the Company since the second 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 Western Canada economy, particularly in Alberta and Saskatchewan, 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.

For the six month period ended June 30, 2016, operating expenses as a percentage of gross profit increased to 82.8% from 82.4% in the same period of the prior year. As a percentage of gross profit, the variable portion of operating expenses has decreased from 69.8% to 68.8%. A part of the variable portion includes \$2.7 million in non-

recurring transition costs related to senior management restructuring. These costs account for 1.1% change in employee costs a percentage of gross profit.

Employee costs

During the three month period ended June 30, 2016, employee costs increased by \$4.3 million to \$68.2 million from \$63.9 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 June 30, 2016 decreased to 48.6% from 49.3% for the same period in the prior year. During the three month period ended June 30, 2016, the Company incurred \$2.7 million in non-recurring transition costs related the senior management transition announced on March 17, 2016. These costs account for a 2.0% change in employee costs as a percentage of gross profit. Removing these expenses, employee costs decreased as a percentage of gross profit compared with the same period in 2015. Employee costs as a percentage of gross profit for the six month period ended June 30, 2016 decreased to 50.5% from 51.8% 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 June 30, 2016, administrative costs increased by \$1.9 million or 7.0%. The variable portion of administrative costs as a percentage of gross profit decreased to 16.3% in the second quarter from 16.9% in the comparable period of 2015. The fixed portion of administrative costs as a percentage of gross profit increased to 5.2% in the second quarter from 4.1% in the comparable period of 2015. Fixed administrative costs increased during the quarter, as a percentage of gross profit, as a result of increased property taxes. Increased property taxes results from increased property ownership, purchased during the past year for relocations, open points and as part of dealership acquisitions, as well as an increase in assessed values of owned property.

For the six month period ended June 30, the variable portion of administrative costs as a percentage of gross profit decreased from 18.0% to 17.2% in the same period of the prior year. For the six month period ended June 30, the fixed portion of administrative costs as a percentage of gross profit increased to 5.2% from 4.6% in the same period of the prior year.

Facility lease costs

During the three month period ended June 30, 2016, facility lease costs increased by 16.4% to \$5.9 million from \$5.1 million. For the six month period ended June 30, 2016 the Company's facility lease costs have increased by 16.4%, to \$11.8 million from \$10.1 million, primarily due to the 5 dealership acquisitions completed in the third and fourth quarter of 2015. Facility lease costs are 4.4% of gross profit for the three month period (2015 - 3.9%) and 4.8% for the six month period ended June 30 (2015 - 4.3%). Facility lease costs increased during the quarter, as a percentage of gross profit, due to the increase in number of dealerships in leased facilities. Of the six dealerships acquired in 2015, five lease their facilities.

Depreciation of property and equipment

During the three month period ended June 30, 2016, depreciation of property and equipment increased to \$4.8 million from \$4.5 million in the same period of the prior year. Increase in depreciation during the quarter, as a percentage of gross profit, is tied to the increase in property, plant and equipment. Since June 30, 2015 the balance of property, plant and equipment increased by \$67 million. For the six month period ended June 30, 2016, depreciation of property and equipment increased to \$9.8 million from \$8.6 million in the same period of the prior year. The increase in depreciation of property and equipment can be primarily attributed to the 5 dealership acquisitions and PP&E purchases completed subsequent to the second quarter of 2015. Depreciation expense makes up 3.6% of gross profit for the three month period (2015 - 3.4%) and 4.0% for the six month period ended June 30 (2015 - 3.7%).

Income Taxes

Income tax expense for the three month period ended June 30, 2016 decreased by \$1.2 million to \$5.2 million from \$6.4 million in 2015. For the six month period ended June 30, 2016, income tax expense remained the same at \$8.3 million as compared to the same period in the prior year.

During the first two quarters of 2016, the Company paid \$7.3 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 June 30, 2016, finance costs on our revolving floorplan facilities decreased by 15.3% to

\$3.0 million from \$3.5 million in the second quarter of 2015, mainly due to management efforts in monitoring inventory levels and turnover at all dealerships. Finance costs on long term indebtedness stayed at consistent compared to the same period of the prior year.

Some of our manufacturers provide non-refundable credits on the finance costs for our revolving floorplan facilities to offset the dealership's cost of inventory that, on average, effectively provide the dealerships with interest-free floorplan financing for the first 45 to 60 days of ownership of each financed vehicle. During the three month period and the six month period ended June 30, 2016, the floorplan credits earned were \$3,931 (2015 - \$4,301) and \$7,205 (2015 - \$7,606), respectively. Accounting standards require the floorplan credits to be accounted for as a reduction in the cost of new vehicle inventory and subsequently a reduction in the cost of sales as vehicles are sold.

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

(in thousands of dollars)	For the Three Months Ended		For the Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Floorplan financing	2,965	3,500	5,996	7,081
Floorplan credits earned	(3,931)	(4,301)	(7,205)	(7,606)
Net carrying cost of vehicle inventory	(966)	(801)	(1,209)	(525)

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 nine General Motors dealerships (nine franchises), two BMW dealerships (four franchises), and one Chrysler dealership (one franchise) 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 \$3,120 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 Chair of the Board of Directors. 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 July 1, 2015, the Company has acquired or invested in five 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 and 17 stores will become same store during the remainder of 2016. 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 fairly 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 is currently constructing 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 now 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 commenced 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 \$82.7 million by the second quarter of 2020. 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 \$13.8 million in capital costs that it may incur in order to expand or renovate various current locations by 2019. 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 \$11.5 million in capital costs that it may incur by the second quarter of 2018 related to currently awarded Open Points. If awarded in the future, Management will provide additional cost estimates and timing of construction. In order to be successful in some opportunities, Management may be required to secure appropriate land for the potential open points, in which case, additional land purchase costs may be incurred.

The following summarizes the capital plan for contemplated future capital projects:

(in millions of dollars)	2016	2017	2018	2019	2020	Total
Same Store						
Dealership Relocations	5.2	23.6	10.2	12.7	12.6	64.3
Current Dealership Expansion and Imaging Requirements	1.1	4.9	5.3	–	–	11.3
Capital Plan	6.3	28.5	15.5	12.7	12.6	75.6
Cash outlay¹	3.5	17.0	5.4	4.1	4.0	34.0
Non Same Store						
Dealership Relocations	–	5.0	13.4	–	–	18.4
Current Dealership Expansion and Imaging Requirements	–	–	–	2.5	–	2.5
Open Point Opportunities	7.6	3.2	0.7	–	–	11.5
Capital Plan	7.6	8.2	14.1	2.5	–	32.4
Cash outlay¹	2.5	4.7	7.5	2.5	–	17.2
Total Capital Plan	13.9	36.7	29.6	15.2	12.6	108.0
Total Cash outlay	6.0	21.7	12.9	6.6	4.0	51.2

¹ Refers to amount expected to be funded by internal Company cash flow.

During the quarter, the Company re-examined capital expenditures and reduced the five year capital plan from \$193.8 million to \$145.3 million. The \$145.3 million includes \$37.3 million of capital expenditures made in the first half of 2016, resulting in \$108.0 million of contemplated future capital projects remaining.

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 incur

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 June 30, 2016 is as follows:

- The Company had drawn \$111.4 million on its \$250.0 million revolving term facility.

As a result of the above, as at June 30, 2016, the Company currently has approximately \$138.6 million in readily available liquidity, not including future retained cash from operations, that it may deploy for growth expenditures including acquisitions.

Cash Flow from Operating Activities

Cash flow from operating activities (including changes in non-cash working capital) of the Company for the three month period ended June 30, 2016 was \$40.4 million (cash provided by operating activities of \$24.1 million plus net

change in non-cash working capital of \$16.3 million) compared to \$21.0 million (cash provided by operating activities of \$22.4 million less negative net change in non-cash working capital of \$1.4 million) in the same period of the prior year.

Cash Flow from Investing Activities

For the three month period ended June 30, 2016, cash flow from investing activities of the Company was a net outflow of \$42.3 million as compared to a net outflow of \$43.8 million in the same period of the prior year. The decrease was primarily due to no business acquisitions in the first and second quarter of 2016 compared to \$21.6 million used for business acquisitions that occurred in Q2 2015 offset by increased purchases of property and equipment in Q2 2016.

Cash Flow from Financing Activities

For the three month period ended June 30, 2016, cash flow from financing activities was a net inflow of \$8.7 million as compared to \$35.0 million in the same period of 2015. The decrease was primarily due to reduced usage of long-term indebtedness, \$65.8 million compared to \$98.5 million in Q2 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 MD&A 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 key financial covenants as at June 30, 2016:

Financial Covenant	Requirement	Q2 2016 Actual Calculation	Q1 2016 Actual Calculation
Syndicated Revolver:			
Senior Secured Leverage Ratio ¹	Shall not exceed 2.75	1.56	1.42
Adjusted Total Leverage Ratio ¹	Shall not exceed 5.00	4.44	4.19
Fixed Charge Coverage Ratio	Shall not be less than 1.20	2.04	1.99
Current Ratio	Shall not be less than 1.05	1.12	1.15
Syndicated Floorplan:			
Current Ratio	Shall not be less than 1.10	1.18	1.15
Tangible Net Worth	Shall not be less than \$40 million	\$91.4 million	\$90.6 million
Debt to Tangible Net Worth	Shall not exceed 7.50	4.30	4.95

The covenants above are based on consolidated financial statements of the dealerships that are financed directly by the lender. As a result, the actual performance against the covenant does not necessarily reflect the actual performance of AutoCanada. The Company is required to comply with other covenants under the terms of its remaining credit agreements. The Company stress tests all covenants on a monthly and quarterly basis and notes that a significant further drop in performance would be necessary to breach the covenants.

As at June 30, 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)	April 1, 2016 to June 30, 2016	January 1, 2016 to June 30, 2016
Leasehold improvements	1,157	3,137
Machinery and equipment	338	676
Furniture and fixtures	754	979
Computer equipment	165	341
Company & lease vehicles	4	4
	2,418	5,137

Amounts relating to the expansion of sales and service capacity are considered growth expenditures. Growth expenditures are discretionary, represent cash outlays intended to provide additional future cash flows and are expected to provide benefit in future periods. During the three month period and the six month period ended June 30, 2016, growth capital

expenditures of \$36.2 million and \$40.3 million were incurred, respectively. These expenditures related primarily to land and buildings that were purchased for future dealership operations during the first and second quarter of 2016. Dealership relocations are included as growth expenditures if they contribute to the expansion of sales and service capacity of the dealership.

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

(in thousands of dollars)	April 1, 2016 to June 30, 2016	January 1, 2016 to June 30, 2016
Purchase of property and equipment from the Statement of Cash Flows	38,597	45,460
Less: Amounts related to the expansion of sales and service capacity	(36,179)	(40,323)
Purchase of non-growth property and equipment	2,418	5,137

Repairs and maintenance expenditures are expensed as incurred and have been deducted from earnings for the period. Repairs and maintenance expense incurred during the three month period and the six month period ended June 30, 2016, were \$1.4 million and \$3.1 million (2015 - \$1.4 million and \$3.0 million), respectively.

Planned Capital Expenditures

Our capital expenditures consist primarily of leasehold improvements, the purchase of furniture

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

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

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 June 30, 2016, March 31, 2016, September 30, 2015, June 30, 2015, March 31, 2015, September 30, 2014:

(in thousands of dollars)	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014
Cash and cash equivalents	77,582	72,878	62,274	77,071	77,676	66,351	72,462	64,559
Trade and other receivables	115,427	116,092	90,821	118,853	124,683	104,753	92,138	115,074
Inventories	555,957	628,641	596,542	581,258	620,837	625,779	563,277	471,664
Total Assets	1,548,879	1,578,225	1,532,182	1,508,028	1,517,978	1,449,213	1,354,755	1,211,527
Revolving floorplan facilities	532,283	600,578	548,322	550,857	607,694	601,432	527,780	437,935
Non-current debt and lease obligations	295,922	293,273	285,759	313,073	287,202	241,929	223,009	179,447

Net Working Capital

The automobile manufacturers represented by the Company require the Company to maintain net working capital for each individual dealership. At June 30, 2016, the aggregate of net working capital requirements was approximately \$93.4 million. At June 30, 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 June 30, 2016, the Company had aggregate working capital of approximately \$84.7 million, additionally \$10.6 million of dealership cash was separately held for allocation as required, resulting in \$95.3 million of aggregate working capital.

The net working capital requirements above restrict the Company's ability to transfer funds up from its subsidiaries, as each subsidiary dealership is required to be appropriately capitalized as explained above. In addition, our VCCI Facilities require the VW and Audi dealerships to maintain minimum cash and equity, which also restricts our ability to transfer 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)	\$
2016	10,006
2017	18,723
2018	16,232
2019	14,233
2020	12,279
Thereafter	134,015
Total	205,488

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 23 of the condensed interim consolidated financial statements of the Company for the period ended June 30, 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 Non-Executive Chairman of AutoCanada. The administrative support fees consist of a portion of human resource and fixed costs associated with providing technological and accounting support to these companies. The Company believes that providing support services to these companies provides value to both the companies supported and AutoCanada. By providing support, AutoCanada is able to reduce its overall fixed costs associated with accounting and information technology.

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

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 June 30, 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 June 30, 2016 were 27,338,767 and 27,457,284, respectively. Basic earnings per share are adjusted by the

dilutive impact of the restricted share units and stock options to calculate the diluted earnings per share. As at June 30, 2016, the value of the shares held in trust was \$3.0 million (2015 - \$2.3 million) which was comprised of 112,047 in shares with a nil aggregate cost. As at August 4, 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, 2015	March 15, 2016	0.25	6,840
May 31, 2016	June 15, 2016	0.10	2,735
August 31, 2016	September 15, 2016	0.10	2,735
		0.45	12,310

On August 4, 2016, the Board declared a quarterly eligible dividend of \$0.10 per common share on AutoCanada's outstanding Class A shares, payable on September 15, 2016 to shareholders of record at the close of business on August 31, 2016.

As per the terms of the HSBC facility, we are restricted from declaring dividends and

distributing cash if we are in breach of financial covenants or our available margin and facility limits or if such dividend would result in a breach of our covenants or our available margin and facility limits. At this time, the Company is within its covenants.

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)	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Cash provided by operating activities	40,374	6,831	12,420	20,139	21,004	(810)	42,276	9,093
Deduct:								
Purchase of property and equipment	(2,452)	(2,786)	(3,354)	(5,144)	(3,228)	(2,352)	(2,454)	(2,834)
Free cash flow¹	37,922	4,045	9,066	14,995	17,776	(3,162)	39,822	6,259
Weighted average shares outstanding at end of period	27,338,767	27,362,440	25,016,637	24,440,080	24,424,598	24,409,574	24,410,169	24,103,670
Free cash flow per share	1.39	0.15	0.36	0.61	0.73	(0.13)	1.63	0.26
Free cash flow - 12 month trailing	66,028	45,882	38,675	69,431	60,695	52,780	63,723	32,256

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

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

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

The following table summarizes the net increase (decrease) in cash due to changes in non-cash working capital for the six month periods ended June 30, 2016 and June 30, 2015.

(in thousands of dollars)	January 1, 2016 to June 30, 2016	January 1, 2015 to June 30, 2015
Trade and other receivables	(24,589)	(32,232)
Inventories	40,596	(37,965)
Finance lease receivables	(2,938)	(652)
Other current assets	(2,939)	(5,726)
Trade and other payables	20,664	17,104
Vehicle repurchase obligations	(354)	258
Revolving floorplan facilities	(16,039)	62,242
	14,401	3,029

Adjusted Free Cash Flow

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

(in thousands of dollars, except unit and per unit amounts)	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Cash provided by operating activities before changes in non-cash working capital	24,050	8,754	11,242	23,082	22,386	(5,221)	19,125	23,192
Deduct:								
Purchase of non-growth property and equipment	(2,418)	(2,719)	(3,164)	(4,131)	(3,199)	(2,199)	(2,003)	(1,079)
Adjusted free cash flow¹	21,632	6,035	8,078	18,951	19,187	(7,420)	17,122	22,113
Weighted average shares outstanding at end of period	27,338,767	27,362,440	25,016,637	24,440,080	24,424,598	24,409,574	24,410,169	24,103,670
Adjusted free cash flow per share	0.79	0.22	0.32	0.78	0.79	(0.30)	0.70	0.92
Adjusted free cash flow - 12 month trailing	54,596	52,251	38,796	47,840	51,002	47,316	62,082	56,891

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

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

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

In the six month period ending June 30, 2016, the Company paid approximately \$7.3 million in corporate income taxes and tax installments. Accordingly, this reduced our adjusted free cash flow by this amount. The Company expects the payment of corporate income taxes to have a more significant negative affect on free cash flow and adjusted free cash flow. See "RESULTS FROM OPERATIONS - Income Taxes" for further detail regarding the impact of corporate income taxes on cash flow.

Adjusted Return on Capital Employed

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

(in thousands of dollars, except unit and per unit amounts)	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
EBITDA ^{1,2}	30,845	21,010	23,524	29,487	30,730	13,890	26,043	31,895
Deduct:								
Depreciation of property and equipment	(4,822)	(4,954)	(5,176)	(5,063)	(4,461)	(4,160)	(4,423)	(4,139)
EBIT^{1,2}	26,023	16,056	18,348	24,424	26,269	9,730	21,620	27,756
Average long-term debt	310,281	300,520	312,471	314,443	277,571	239,251	204,514	240,799
Average shareholder’s equity	516,513	510,595	481,112	447,774	439,711	436,262	440,513	326,410
Average capital employed¹	826,794	811,115	793,583	762,217	717,282	675,513	645,027	567,209
Return on capital	3.1%	2.0%	2.3%	3.2%	3.7%	1.4%	3.4%	4.9%
Comparative adjustment ³	(13,191)	(13,191)	(13,191)	(17,264)	(17,264)	(17,264)	(17,264)	(15,951)
Adjusted average capital employed¹	813,602	797,924	778,354	744,953	700,018	658,249	628,418	551,258
Adjusted return on capital employed¹	3.2%	2.0%	2.4%	3.3%	3.8%	1.5%	3.4%	5.0%
Adjusted return on capital employed - 12 month trailing	11.2%	11.7%	11.2%	12.7%	15.5%	16.5%	18.6%	19.3%

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 is caused by the volume of acquisitions over the past two years, compounded by the reduced economic activity in 2015 and 2016. Management expects this measure to return to normal as the economy improves and the acquisitions are further integrated.

12. CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICY DEVELOPMENTS

A complete listing of critical accounting policies, estimates and measurement uncertainty can be found in Notes 3 & 5 of the annual consolidated financial statements for the year ended December 31, 2015; and Note 4 of the unaudited interim consolidated financial statements for the period ended June 30, 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 June 30, 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 June 30, 2016.

13. DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended June 30, 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", "believe", "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 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:

- a sustained downturn in consumer demand and economic conditions in key geographic markets;
- the ability of consumers to access automotive loans and leases;

- adverse conditions affecting one or more of our automobile manufacturers;
- levels of unemployment in our markets and other macroeconomic factors;
- our suppliers' ability to provide a desirable mix of popular new vehicles;
- rapid appreciation or depreciation of the Canadian dollar relative to the U.S. dollar;
- competitive actions of other companies and generally within the automotive industry;
- our dependence on sales of new vehicles to achieve sustained profitability;
- 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 this expense 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)

■ June 30, 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 June 30, 2016 \$	Three month period ended June 30, 2015 \$	Six month period ended June 30, 2016 \$	Six month period ended June 30, 2015 \$
Revenue (Note 5)	842,257	816,877	1,509,128	1,450,284
Cost of sales (Note 6)	(707,555)	(687,202)	(1,262,717)	(1,215,170)
Gross profit	134,702	129,675	246,411	235,114
Operating expenses (Note 7)	(107,932)	(100,568)	(203,979)	(193,743)
Operating profit before other income (expense)	26,770	29,107	42,432	41,371
Lease and other income, net	1,225	1,260	2,385	3,188
(Loss) gain on disposal of assets, net	(163)	(23)	3,186	(34)
Income from loan to associates (Note 23)	610	—	925	—
Operating profit	28,442	30,344	48,928	44,525
Finance costs (Note 8)	(7,052)	(8,710)	(15,853)	(15,696)
Finance income (Note 8)	481	512	966	956
Net income for the period before taxation	21,871	22,146	34,041	29,785
Income taxes (Note 9)	5,155	6,356	8,273	8,315
Net and comprehensive income for the period	16,716	15,790	25,768	21,470
Net and comprehensive income for the period attributable to:				
AutoCanada shareholders	14,158	13,523	21,430	18,492
Non-controlling interests	2,558	2,267	4,337	2,978
	16,716	15,790	25,767	21,470
Net earnings per share attributable to AutoCanada shareholders				
Basic	0.53	0.56	0.78	0.76
Diluted	0.53	0.56	0.78	0.76
Weighted average shares				
Basic (Note 22)	27,338,767	24,424,598	27,350,603	24,417,128
Diluted (Note 22)	27,457,284	24,486,877	27,439,896	24,489,827

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)

	June 30, 2016 (Unaudited) \$	December 31, 2015 \$
ASSETS		
Current assets		
Cash and cash equivalents (Note 11)	77,582	62,274
Trade and other receivables (Note 12)	115,427	90,821
Inventories (Note 13)	555,957	596,542
Current tax recoverable	659	6,920
Current portion of finance lease receivables (Note 14)	6,936	4,012
Other current assets	7,721	4,760
Asset held for sale (Note 15)	1,556	27,482
	765,838	792,811
Restricted cash (Note 11)	6,327	6,288
Property and equipment (Note 16)	317,473	278,385
Loans to associates (Note 17)	13,247	8,470
Long-term portion of finance lease receivables (Note 14)	6,560	6,546
Other long-term assets	6,830	7,078
Intangible assets	399,648	399,648
Goodwill	32,956	32,956
	1,548,879	1,532,182
LIABILITIES		
Current liabilities		
Bank indebtedness (Note 11)	1,973	898
Trade and other payables (Note 18)	106,236	86,284
Revolving floorplan facilities (Note 19)	532,283	548,322
Vehicle repurchase obligations	1,492	1,846
Current indebtedness (Note 19)	20,844	11,484
Current portion of redemption liabilities (Note 8)	18,285	6,338
Liabilities held for sale	–	14,493
	681,113	669,665
Long-term indebtedness (Note 19)	295,922	285,759
Deferred income tax	20,509	25,838
Redemption liabilities (Note 8)	29,470	40,891
	1,027,014	1,022,153
EQUITY		
Attributable to AutoCanada shareholders	463,033	451,945
Attributable to Non-controlling interests	58,832	58,084
	521,865	510,029
	1,548,879	1,532,182

Commitments (Note 20)

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 \$	\$	\$
Balance, January 1, 2016	508,237	4,286	(60,578)	451,945	58,084	510,029
Net and comprehensive income	—	—	21,430	21,430	4,337	25,767
Dividends declared on common shares (Note 22)	—	—	(9,575)	(9,575)	—	(9,575)
Dividends declared by subsidiaries to non-controlling interests	—	—	—	—	(3,589)	(3,589)
Treasury shares acquired (Note 22)	(1,269)	—	—	(1,269)	—	(1,269)
Shares settled from treasury (Note 22)	637	(637)	—	—	—	—
Share-based compensation	—	502	—	502	—	502
Balance, June 30, 2016	507,605	4,151	(48,723)	463,033	58,832	521,865

	Attributable to AutoCanada shareholders				Non-controlling interests	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	—	—	18,492	18,492	2,978	21,470
Dividends declared on common shares (Note 22)	—	—	(12,213)	(12,213)	—	(12,213)
Dividends declared by subsidiaries to non-controlling interests	—	—	—	—	(2,641)	(2,641)
Treasury shares acquired (Note 22)	(43)	—	—	(43)	—	(43)
Shares settled from treasury (Note 22)	1,052	(1,052)	—	—	—	—
Share-based compensation	—	325	—	325	—	325
Balance, June 30, 2015	435,581	3,994	(51,586)	387,989	55,365	443,354

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 June 30, 2016 \$	Three month period ended June 30, 2015 \$	Six month period ended June 30, 2016 \$	Six month period ended June 30, 2015 \$
Cash provided by (used in):				
Operating activities				
Net and comprehensive income	16,716	15,790	25,767	21,470
Income taxes (Note 9)	5,155	6,356	8,273	8,315
Amortization of prepaid rent	113	113	226	226
Depreciation of property and equipment (Note 7)	4,822	4,461	9,776	8,621
Loss (gain) on disposal of assets	163	23	(3,186)	34
Share-based compensation - equity-settled	(311)	157	(135)	325
Share-based compensation - cash-settled	633	(161)	307	(1,049)
Income taxes paid	(1,043)	(4,522)	(7,339)	(21,483)
Revaluation of redemption liabilities (Note 8)	(736)	336	526	659
Revaluation of contingent consideration	(1,462)	–	(1,431)	–
Unrealized (gain) loss on embedded derivative (Note 8)	–	(167)	20	47
Net change in non-cash working capital (Note 24)	16,324	(1,382)	14,401	3,029
	40,374	21,004	47,205	20,194
Investing activities				
Additions to restricted cash	(23)	(4,000)	(39)	(4,000)
Business acquisitions	–	(21,593)	–	(21,593)
Purchases of property and equipment (Note 16)	(38,597)	(18,184)	(45,460)	(43,463)
Proceeds on sale of property and equipment	70	9	91	41
Loans to associates	(3,730)	–	(4,777)	–
Proceeds on divestiture of dealership (Note 10)	–	–	10,077	–
	(42,280)	(43,768)	(40,108)	(69,015)
Financing activities				
Proceeds from long-term indebtedness	65,762	98,503	102,741	162,194
Repayment of long-term indebtedness	(51,330)	(54,710)	(81,809)	(92,321)
Common shares repurchased (Note 22)	625	(18)	(632)	(43)
Dividends paid (Note 22)	(2,735)	(6,111)	(9,575)	(12,213)
Dividends paid to non-controlling interests	(3,589)	(2,641)	(3,589)	(2,641)
	8,733	35,023	7,136	54,976
Increase in cash	6,827	12,259	14,233	6,155
Cash and cash equivalents at beginning of period (Note 11)	68,782	64,177	61,376	70,281
Cash and cash equivalents at end of period (Note 11)	75,609	76,436	75,609	76,436

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 June 30, 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 August 4, 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 ended 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

Associates

When assessing control over an investee, an investor considers the nature of its relationship with other parties and whether those other parties are acting on the investor's behalf; that is, acting as a de facto agent. The determination of whether other parties are acting as de facto agents requires judgment, considering not only the nature of the relationship but also how those parties interact with each other and the investor.

(a) Investments in associates

On May 6, 2016, Mr. Patrick Priestner ("Priestner"), then Executive Chair of the Company, transitioned from his role as an employee and assumed the role of non-executive Chair of the Board of Directors ("Chair"). Priestner also signed an agreement

effective May 6, 2016 (the “Agreement”) giving the Company certain rights as it relates to its investments in associates (the “investees”). The agreement is for a 14 month term, automatically renewable for successive one year terms, and cancellable by either party subject to a one year notice period. These events caused the Company to re-evaluate its significant judgment dealing with the accounting for its investees. Since the Company does not hold voting shares in the investees, the Company evaluated whether it continued to exercise power over the investees through a de facto agency relationship with Priestner, or any other substantive means.

The following facts were considered to assess the relationship between AutoCanada and Priestner:

Factors indicative of Priestner controlling the investees:

- As a function of owning 100% of the voting shares of the investees, and in the absence of other contractual arrangements, Priestner possesses the legal right to control decisions as they pertain to the investees;
- Priestner has not relied on any financial support from the Company in making his investments, and therefore the risk of loss and reward to Priestner personally is significant; and
- Priestner’s level of expertise and knowledge in operating the investees

Factors indicative of the Company controlling the investees:

- The Company has contractual rights to participate in any issuance or sale of securities that would impact its proportionate interest in the investees, as well as a right of first refusal to purchase Priestner’s shares in applicable circumstances
- The Company has retained effective control of the relevant activities that will

impact its investment returns through execution of the Agreement, which provides the Company with, among other things, the ability to hire, manage and terminate the general managers of the relevant dealerships;

- The directors and officers of the investees are related parties of the Company; and
- The Company is involved in the operational decision making of its investees in a fashion consistent with its wholly-owned dealerships

Prior to the change in employment status the Company concluded that it had power over its investees through a de facto agency relationship with Priestner in respect of these investments. As a result of the signing of the Agreement, management has concluded that it continues to have power over the relevant activities and therefore control of the investees. As a result, the financial results of the investees will continue to be consolidated in the Company’s financial statements.

Should the nature of the relationship and/or the relevant agreements between Priestner and the Company change, or should a termination notice be received in the future, this assessment would need to be further evaluated.

(b) Loan to associate

As a result of Priestner’s change in employment from Executive Chair to non-executive Chair of the Board of Directors, the Company has assessed the relationship between Priestner and the Company as it relates to PPH Holdings Ltd. (“PPH”). As a result of the reassessment it was concluded that Priestner continues not to be considered a de factor agent of AutoCanada as it relates to PPH. Should the nature of the relationship and/or the relevant agreements between Priestner and the Company change in the future, this assessment would need to be further evaluated.

5 Revenue

	Three month period ended June 30, 2016 \$	Three month period ended June 30, 2015 \$	Six month period ended June 30, 2016 \$	Six month period ended June 30, 2015 \$
New vehicles	497,025	483,435	860,205	828,977
Used vehicles	208,016	194,956	388,124	358,199
Finance, insurance and other	36,899	39,182	65,761	70,853
Parts, service and collision repair	100,317	99,304	195,038	192,255
	842,257	816,877	1,509,128	1,450,284

6 Cost of sales

	Three month period ended June 30, 2016 \$	Three month period ended June 30, 2015 \$	Six month period ended June 30, 2016 \$	Six month period ended June 30, 2015 \$
New vehicles	462,615	448,574	798,530	768,351
Used vehicles	194,258	183,956	363,946	338,845
Finance, insurance and other	3,322	5,227	5,829	9,491
Parts, service and collision repair	47,360	49,445	94,412	98,483
	707,555	687,202	1,262,717	1,215,170

7 Operating expenses

	Three month period ended June 30, 2016 \$	Three month period ended June 30, 2015 \$	Six month period ended June 30, 2016 \$	Six month period ended June 30, 2015 \$
Employee costs	68,171	63,900	127,257	121,783
Administrative costs ⁽¹⁾	29,058	27,156	55,154	53,212
Facility lease costs	5,881	5,051	11,792	10,127
Depreciation of property and equipment	4,822	4,461	9,776	8,621
	107,932	100,568	203,979	193,743

⁽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 June 30, 2016 \$	Three month period ended June 30, 2015 \$	Six month period ended June 30, 2016 \$	Six month period ended June 30, 2015 \$
Finance costs:				
Interest on long-term indebtedness	4,153	4,123	8,040	6,214
Unrealized loss (gain) on embedded derivative	—	(167)	20	47
Revaluation of redemption liabilities	(736)	336	526	659
Floorplan financing	2,965	3,500	5,996	7,081
Other interest expense	670	918	1,271	1,695
	7,052	8,710	15,853	15,696
Finance income:				
Short-term bank deposits	(481)	(512)	(966)	(956)

Cash interest paid during the six month period ended June 30, 2016 was \$14,527 (2015 - \$15,288).

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 June 30, 2016 \$	Three month period ended June 30, 2015 \$	Six month period ended June 30, 2016 \$	Six month period ended June 30, 2015 \$
Current tax	1,659	1,427	13,602	23,764
Deferred tax	3,496	4,929	(5,329)	(15,449)
Income tax expense	5,155	6,356	8,273	8,315

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 six month period ended June 30, 2016 was 26.8% (June 30, 2015 - 26.4%).

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

	June 30, 2016 \$	December 31, 2015 \$
Cash at bank and on hand	64,879	52,936
Short-term deposits	12,703	9,338
Cash and cash equivalents (excluding bank indebtedness)	77,582	62,274
Bank indebtedness	(1,973)	(898)
Cash and cash equivalents	75,609	61,376
Restricted cash	6,327	6,288
Cash and cash equivalents and restricted cash	81,936	67,664

12 Trade and other receivables

	June 30, 2016 \$	December 31, 2015 \$
Trade receivables	110,635	83,166
Less: Allowance for doubtful accounts	(2,367)	(1,885)
Net trade receivables	108,268	81,281
Other receivables	7,159	9,540
Trade and other receivables	115,427	90,821

13 Inventories

	June 30, 2016 \$	December 31, 2015 \$
New vehicles	425,647	441,764
Demonstrator vehicles	32,851	35,830
Used vehicles	70,566	91,144
Parts and accessories	26,893	27,804
	555,957	596,542

During the three month period ended June 30, 2016, \$704,233 of inventory (2015 - \$681,976) was expensed as cost of goods sold which included net recovery of write-down on used vehicles of \$1,087 (2015 - write-down of \$205). During the three month period ended June 30, 2016, \$1,269 of demonstrator expense (2015 - \$1,330) was included in selling, general, and

administration expense. During the three month period ended June 30, 2016, demonstrator reserves decreased by \$2 (2015 - \$482).

As at June 30, 2016, the Company had recorded reserves for inventory write downs of \$4,844 (2015 - \$5,198).

14 Finance lease receivables

	June 30, 2016 \$	December 31, 2015 \$
Current portion of finance lease receivables		
Finance lease receivables	7,438	4,556
Unearned finance income - current	(502)	(544)
	6,936	4,012
Long-term portion of finance lease receivables		
Finance lease receivables	7,085	7,081
Unearned finance income - long-term	(525)	(535)
	6,560	6,546
Gross receivables from finance leases:		
No later than 1 year	7,438	4,556
Later than 1 year and no later than 5 years	7,085	7,081
Later than 5 years	—	—
	14,523	11,637
Unearned future finance income on finance leases	(1,027)	(1,079)
Net investment in finance leases	13,496	10,558
Net investment in finance lease:		
No later than 1 year	6,936	4,012
Later than 1 year and no later than 5 years	6,560	6,546
Later than 5 years	—	—
	13,496	10,558

15 Asset 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 June 30, 2016. 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 had a change of plan to sell a parcel of land in Newmarket, Ontario. The land with a carrying amount of \$3,486 at June 30, 2016 has been reclassified to Property and equipment, as it will be held for future development.

16 Property and equipment

During the six month period ended June 30, 2016, the Company purchased \$45,460 (2015 - \$43,463) of fixed assets including land and

building additions of \$40,222 (2015 - \$37,882) to be used for two open point dealerships and dealership relocations, including the purchase of a previously leased dealership property.

17 Loans to associates

PPH Holdings Ltd.

On May 1, 2016, the Company loaned an additional \$3,120 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 loan was used by PPH to acquire Southview Acura. The Company has no participation in the equity of PPH or Southview Acura. Refer to Note 23 for disclosure over related parties.

18 Trade and other payables

	June 30, 2016 \$	December 31, 2015 \$
Trade payables	55,661	46,443
Accruals and provisions	15,454	11,974
Sales tax payable	7,888	4,710
Wages and withholding taxes payable	27,233	23,157
	106,236	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	370	481	851
Amounts expired or disbursed	(698)	(168)	(866)
June 30, 2016	1,584	852	2,436

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

19 Indebtedness

	June 30, 2016 \$	December 31, 2015 \$
Revolving floorplan facilities		
Revolving floorplan facilities - Syndicate	334,018	348,840
Revolving floorplan facilities - VCCI (i)	38,194	33,086
Revolving floorplan facilities - BMW Financial	66,582	72,111
Revolving floorplan facilities - RBC	70,152	70,790
Revolving floorplan facilities - Scotiabank	23,337	23,495
	532,283	548,322
Indebtedness		
<i>Senior unsecured notes</i>		
Senior unsecured notes	149,739	149,739
Embedded derivative	(4)	(24)
Unamortized deferred financing costs	(2,639)	(2,907)
	147,096	146,808
<i>HSBC revolving term facility</i>		
HSBC revolving term facility	111,358	103,591
Unamortized deferred financing costs	(545)	(688)
	110,813	102,903
<i>Other long-term debt:</i>		
Lease financing - RBC	12,820	7,797
Lease financing - Scotiabank	687	915
Lease financing - BMO	—	346
Servus mortgage	5,439	5,557
VCCI mortgages (ii)	12,221	4,032
BMW mortgage	19,816	20,181
Other long-term debt	7,874	8,704
Total indebtedness	316,766	297,243
Current indebtedness	20,844	11,484
Long-term indebtedness	295,922	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 June 30, 2016 (\$46,930 as at December 31, 2015).
- ii VCCI provides the Company with mortgages (the "VCCI Mortgages"), which bear interest at a floating rate of interest per annum equal to the Royal Bank of Canada's prime rate plus 0.15%-0.50%

(2.85%-3.20% at June 30, 2016). The VCCI Mortgages are repayable with fifty-nine equal blended monthly payments of \$51 amortized over a twenty year period with term expiring in between April 2019 and April 2021. The VCCI Mortgages have certain reporting requirements and financial covenants and are collateralized by a general security agreement consisting of a first fixed charge over the properties. At June 30, 2016, the carrying amount of the properties was \$23,852 (\$11,268 as at December 31, 2015).

20 Commitments

At June 30, 2016, the Company is committed to capital expenditure obligations in the amount of \$25,096 (December 31, 2015 - \$35,695) related to dealership relocations, re-imaging and dealership open points with expected completion of these commitments by mid 2017.

Restricted Share Units (RSUs)

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

	June 30 2016 #	June 30 2016 \$	June 30 2015 #	June 30 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	1,240	24	919	37
Impact of movements in share price	—	(130)	—	(468)
Outstanding, end of the period	75,484	1,673	63,546	2,624

Deferred Share Units (DSUs)

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

	June 30, 2016 #	June 30, 2016 \$	June 30, 2015 #	June 30, 2015 \$
Outstanding, beginning of the period	25,659	620	16,612	739
Granted	7,623	146	3,339	151
Dividends reinvested	448	11	201	10
Impact of movements in share price	—	(30)	—	(68)
Outstanding, end of the period	33,730	747	20,152	832

Stock Option Plan

The Stock Option Plan (the "Plan") is designed to provide long-term incentives to designated management to deliver long-term shareholder returns. Under the Plan, participants are granted options which only vest if certain service conditions are met. The terms of the Plan specify that following retirement an employee may exercise vested options with

21 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.

the rights to exercise continuing for 120 days following the retirement date.

Options are granted under the Plan for no consideration and carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share. The exercise price of options is determined by the Board and shall not be lower than the closing price of the AutoCanada shares on the TSX immediately preceding the date of grant.

The following table shows the change in the number of stock options for the six month period ended June 30, 2016:

	Average exercise price per share option \$	Share options #
Outstanding, beginning of period	—	—
Granted	18.68	520,000
Outstanding, end of the period	18.68	520,000
Vested and exercisable at end of the period	18.68	10,000

During the six month period ended June 30, 2016, no options have been exercised, forfeited, or expired.

The following table shows the expiry date and exercise price for the share options outstanding for the six month period ended:

Grant date	Expiry date	Exercise price \$	Share options June 30, 2016 #
April 1, 2016	March 31, 2026	18.68	520,000
Total			520,000
Weighted average remaining contractual life of options outstanding at end of period			9.75 years

The assessed fair value at grant date of options granted during the period ended June 30, 2016 was \$6.03 per option. The fair value at grant date is determined using an adjusted form of the Black-Scholes Model that takes into account the exercise price, the expected life of the option, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield of the underlying share, and the risk free interest rate for the term of the option.

The model inputs for options granted during the six month period ended June 30, 2016 include:

- a) Options are granted for no consideration and vest based on varying service conditions over a four year period. Vested options are exercisable for a period of ten years after grant date.
- b) Exercise price: \$18.68

- c) Grant date: April 1, 2016
- d) Expected life of option: five years
- e) Share price at grant date: \$18.18
- f) Expected price volatility of the company's shares: 45.52%
- g) Expected dividend yield: 2.20%
- h) Risk-free interest rate: 1.50%

Expected price volatility was determined at the time of grant using the AutoCanada share price on a historical basis. It reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

During the three month and six month periods ended June 30, 2016, total expenses of \$175 arose as a result of options issued under the Plan.

22 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:

	June 30, 2016 #	June 30, 2016 \$	June 30, 2015 #	June 30, 2015 \$
Outstanding, beginning of the period	27,388,750	508,237	24,409,656	434,572
Treasury shares acquired	(60,823)	(1,233)	–	–
Dividends reinvested	(1,871)	(36)	(1,051)	(43)
Treasury shares settled	21,580	637	31,557	1,052
Outstanding, end of the period	27,347,636	507,605	24,440,162	435,581

As at June 30, 2016, 112,047 (2015 - 69,521) 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 six month period ended June 30, 2016, eligible dividends totaling \$0.35 per common share were declared and paid, resulting in total payments of \$9,575 (2015 - \$12,213).

Earnings per share

Basic earnings per share was calculated by dividing earnings attributable to common shares by the sum of the weighted-average number of shares outstanding during the period. Basic earnings per share are adjusted by the dilutive impact of the RSUs and stock options to calculate the diluted earnings per share.

The following table shows the weighted-average number of shares outstanding:

	Three month period ended June 30, 2016	Three month period ended June 30, 2015	Six month period ended June 30, 2016	Six month period ended June 30 2015
Basic	27,338,767	24,424,598	27,350,603	24,417,128
Effect of dilution from RSUs	69,944	62,279	65,006	72,699
Effect of dilution from stock options	48,573	–	24,287	–
Diluted	27,457,284	24,486,877	27,439,896	24,489,827

23 Related party transactions

Transactions with Companies Controlled by the Chair of the Board of Directors of AutoCanada ("Chair")

During the period ended June 30, 2016, the Company had financial transactions with entities controlled by the Company's Chair. 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 six month period ended June 30, 2016, total rent paid to companies controlled by Priestner amounted to \$1,411 (2015 - \$1,427). 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 six month period ended June 30, 2016, total administrative support fees received from companies controlled by Priestner amount to \$681 (2015 - \$458).

- c Loans to related parties

During the six month period ended June 30, 2016, the Company's loans to PPH Holdings Ltd. generated interest income of \$255 (2015 - \$nil) and licensing fees of \$670 (2015 - \$nil). These amounts are recorded as income from Loans to Associates on the Statement of Comprehensive Income. As at June 30, 2016, there was \$290 interest receivable and \$684 of licensing fees receivable related to the loans.

24 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 June 30, 2016 \$	Three month period ended June 30, 2015 \$	Six month period ended June 30, 2016 \$	Six month period ended June 30, 2015 \$
Trade and other receivables	665	(19,617)	(24,589)	(32,232)
Inventories	73,197	25,331	40,596	(37,965)
Finance lease receivables	(2,338)	(1,235)	(2,938)	(652)
Other current assets	(909)	(1,448)	(2,939)	(5,726)
Trade and other payables	14,226	6,948	20,664	17,104
Vehicle repurchase obligations	(222)	49	(354)	258
Revolving floorplan facilities	(68,295)	(11,410)	(16,039)	62,242
	16,324	(1,382)	14,401	3,029

25 Seasonal nature of the business

The Company's results from operations for the period ended June 30, 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.

26 Subsequent Events

Dividends

On August 4, 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 September 15, 2016 to shareholders of record at the close of business on August 31, 2016.



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