

Sherwood Park



**2017** QUARTER ONE



# Table of Contents

| MANAGEMENT'S DISCUSSION<br>AND ANALYSIS |   | M1  | CONDENSED INTERIM<br>CONSOLIDATED FINANCIAL<br>STATEMENTS            | F1 |
|---|---|-----|--|----|
| 1.                                      | Reader Advisories   | M2  |  |    |
| 2.                                      | Executive Summary   | M3  | Condensed Interim Consolidated Statements of<br>Comprehensive Income | F3 |
| 3.                                      | Outlook   | M7  |  |    |
| 4.                                      | Market  | M8  | Condensed Interim Consolidated Statements of<br>Financial Position   | F4 |
| 5.                                      | Selected Quarterly Financial Information                              | M12 | Condensed Interim Consolidated Statements of<br>Changes in Equity    | F5 |
| 6.                                      | Results of operations   | M13 |  |    |
| 7.                                      | Same Store Results  | M19 | Condensed Interim Consolidated Statements of<br>Cash Flows           | F6 |
| 8.                                      | Acquisitions, relocations and real<br>estate                          | M22 | Notes to the Condensed Interim Consolidated<br>Financial Statements  | F7 |
| 9.                                      | Liquidity and capital resources                                       | M25 |  |    |
| 10.                                     | Outstanding shares  | M29 |  |    |
| 11.                                     | Dividends   | M29 |  |    |
| 12.                                     | Free cash flow  | M30 |  |    |
| 13.                                     | Critical accounting estimates and accounting<br>policy developments   | M33 |  |    |
| 14.                                     | Disclosure controls and internal controls over<br>financial reporting | M33 |  |    |
| 15.                                     | Risk factors  | M33 |  |    |
| 16.                                     | Forward looking statements  | M33 |  |    |
| 17.                                     | Non-GAAP Measures   | M34 |  |    |

# 1. READER ADVISORIES

This Management's Discussion & Analysis ("MD&A") was prepared as of May 4, 2017 to assist readers in understanding AutoCanada Inc.'s (the "Company" or "AutoCanada") consolidated financial performance for the three month period ended March 31, 2017 and significant trends that may affect AutoCanada's future performance. The following discussion and analysis should be read in conjunction with the unaudited condensed interim consolidated financial statements and accompanying notes (the "Interim Consolidated Financial Statements") of AutoCanada as at and for the three month period ended March 31, 2017, the audited annual consolidated financial statements and accompanying notes (the "Consolidated Financial Statements") of AutoCanada as at and for the year ended December 31, 2016, and MD&A for the year ended December 31, 2016. Results are reported in Canadian dollars. Certain dollars have been rounded to the nearest thousand dollars, unless otherwise stated.

To provide more meaningful information, this MD&A typically refers to the operating results for the three month period ended March 31, 2017 of

the Company, and compares these to the operating results of the Company for the three month period ended March 31, 2016.

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 2016 Annual Information Form, dated March 16, 2017, is available on SEDAR at [www.sedar.com](http://www.sedar.com) and our website [www.autocan.ca](http://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. EXECUTIVE SUMMARY

### Highlights

- New vehicles sold remained flat, with 8,508 units sold in the first quarter of 2017 and 8,502 units in the first quarter of 2016, compared to an overall market increase of 4.6%. While the overall market is up 4.6%, new unit sales from the 19 brands that we specifically retail are up 3.3% in the quarter compared to the prior year.
- Overall Gross profit remained flat at \$111,627 in the first quarter, compared to \$111,709 in the same quarter of 2016, with gross profit as a percentage of revenue increasing from 16.8% to 17.5%.
- The used vehicle department led the gain in gross profit as a percentage of revenue increasing from 5.6% in the first quarter of 2016 to 7.2% in the first quarter of 2017.
- Finance, insurance and other, per vehicle retailed, has increased 3.7% year-over-year.
- Parts, service and collision repair gross profit remained flat at \$47,284 in the first quarter, compared to \$47,669 in the same quarter of 2016.
- Normalized operating expenses, after adjusted for non-recurring items, was 86.4% compared to 86.0% in Q1, 2016.

### Performance vs. the First Quarter of Prior Year

The following table summarizes the Company's results for the quarter ended March 31, 2017:

| Consolidated Operational Data           | Three months ended March 31 |         |          |
|---|-----------------------------|---------|----------|
|   | 2017                        | 2016    | % Change |
| EBITDA <sup>(1,2)</sup>                 | 14,136                      | 18,312  | (22.8)%  |
| Adjusted EBITDA <sup>(1,2)</sup>        | 15,514                      | 16,447  | (5.7)%   |
| Net earnings <sup>(1)</sup>             | 3,678                       | 7,272   | (49.4)%  |
| Adjusted net earnings <sup>(1,2)</sup>  | 4,602                       | 6,253   | (26.4)%  |
| Basic EPS                               | 0.13                        | 0.27    | (51.9)%  |
| Adjusted diluted EPS <sup>(2)</sup>     | 0.17                        | 0.23    | (26.1)%  |
| New retail vehicles sold (units)        | 6,753                       | 7,078   | (4.6)%   |
| New fleet vehicles sold (units)         | 1,755                       | 1,424   | 23.2%    |
| New vehicles sold (units)               | 8,508                       | 8,502   | 0.1%     |
| Used retail vehicles sold (units)       | 4,547                       | 4,799   | (5.3)%   |
| Total vehicles sold (units)             | 13,055                      | 13,301  | (1.8)%   |
| Revenue                                 | 639,027                     | 666,872 | (4.2)%   |
| Gross Profit                            | 111,627                     | 111,709 | (0.1)%   |
| Gross Profit %                          | 17.5%                       | 16.8%   | 4.2%     |
| Operating expenses                      | 98,170                      | 96,047  | 2.2%     |
| Operating expenses as % of gross profit | 87.9%                       | 86.0%   | 2.2%     |
| Free cash flow <sup>(2)</sup>           | 621                         | 4,045   | (84.6)%  |
| Adjusted free cash flow <sup>(2)</sup>  | 15,217                      | 6,035   | 152.2%   |

<sup>(1)</sup> Represents the portion attributable to AutoCanada Shareholders.

<sup>(2)</sup> These financial measures have been calculated as described under "NON-GAAP MEASURES".

## Industry

During the first quarter of 2017, the Canadian automotive retail sector new vehicle sales increased to 422 thousand units, up 4.6% compared to the prior year. The industry's new light vehicle sales in Alberta were up 9.2% year-over-year, while sales in Saskatchewan and British Columbia were up 17.9% and 4.7%, respectively.

AutoCanada's unit sales in these provinces did not reflect the overall performance of the automotive sector due to our brand mix and dealership locations. While the overall market is up 4.6%, new light vehicle sales from the 19 brands that we retail are up 3.3% in the quarter compared to the prior year<sup>1</sup>. Further impacting our results, our dealership mix in certain provinces are skewed towards brands that saw year-over-year declines as compared to the overall provincial growth.

## Our Performance

### *Sales, Gross Profit & Net Earnings*

Profitability arising from the dealerships' business operations improved year-over-year, while overall Company net earnings declined by \$3.6 million. This decline arose primarily from two non-recurring items, which we have isolated in order to show the normalized impact, including management transition costs related to the departure of the Company's former President during the current quarter, offset by the sale of Newmarket Nissan Infiniti in the first quarter of the prior year. Net earnings was down 26.4% in 2017 on a comparative adjusted basis.

Our results should be analyzed dealership-wide across all business streams, looking not only at new vehicle sales, but also at used vehicle sales, the parts, service and collision revenue stream and also finance and insurance. In the quarter, we held our overall gross profit flat through improvement in margins in used vehicles and parts, service and collision operations.

The Company experienced a 4.2% decline in total revenue of \$639.0 million for the three-month period ended March 31, 2017, as compared to the first quarter of 2016 of \$666.9 million. Gross profit for the quarter was flat at \$111.6 million, while gross profit margin improved to 17.5% from 16.8%.

### *New Vehicles*

AutoCanada's new vehicle sales are still highly dependent on our Alberta stores' performance, as our concentration of 25 dealerships in the province represented 42% of our total revenue. Of these dealerships, 11 are domestic brands which have generally been our larger volume stores. Our Alberta same stores were down 2.2% on a total revenue basis compared to the same period in 2016.

New vehicle revenue decreased 2.7% during the quarter to \$353.5 million, compared to \$363.2 million during the prior year's first quarter. The most significant impact on revenues was the \$1,163 decline in new vehicle revenue per unit, partially due to a larger number of fleet vehicles sold as a percentage of total sales. New vehicle gross profit for the quarter declined 6.2% to \$25.6 million when compared to the same period of 2016, which is correlated to the lower per unit revenue generated.

Certain brands have experienced a disproportionate amount of downward pressure on new vehicle sales compared to other brands throughout the prolonged downturn. We intend to reduce our exposure to specific geographies and brands through our acquisition strategy which targets new locations and brands that more closely reflect the larger Canadian market. By diversifying both regionally and by brand, AutoCanada's results will more closely reflect the Canadian market as a whole.

---

<sup>1</sup> DesRosiers Automotive Consultants Inc.

### *Used Vehicles*

During the first quarter of 2017, used vehicle revenue declined 8.2% year-over-year to \$165.4 million. The decrease is largely the result of 252 fewer units sold. Used vehicle gross profit increased by 14.6% or \$455 per unit to \$11.9 million compared to the same period of the prior year. The increase in gross profit per vehicle reflects our continuing focus on decreasing the length of time that inventory is on hand and increasing turnover.

### *Finance Insurance and Other*

Finance, insurance and other revenue increased by 1.7%, which, compared to the decline in new retail vehicle units sold shows continuous strength of the finance, insurance and other revenue stream. Finance, insurance and other product gross margin increased 1.7% year-over-year as we increased efforts to sell finance and insurance products that tend to generate a higher gross profit than other products or services. During the quarter, average revenue per finance and insurance product increased by \$161 and average gross profit per finance and insurance product increased by \$148 compared to the same period of the prior year.

### *Service, Parts and Collision Repairs*

The first quarter of 2017 experienced 12,125 fewer repair orders completed in our 949 services bays compared to the same period of 2016, partially offset by an increase of \$7 per order. First quarter revenue decreased by 4.2% to \$90.7 million from \$94.7 million generated in the same quarter of 2016. Gross profit for the business stream was essentially flat at \$47.3 million, a decrease of \$385 thousand from the same quarter in 2016, despite the lower repair volume, due to an increase in gross profit per repair order of \$12.

### *Operating expenses*

Operating expenses increased by \$2.2 million to \$98.2 million in the first quarter of 2017 compared to \$96.0 million in the comparative period of 2016. However, after accounting for non-recurring management transition costs of \$1.7 million, operating expenses reduces to \$96.5 million, or 86.4% of gross profit, compared to 86.0% in the same quarter in 2016.

| <b>Normalized Operating Expenses</b>                          | <b>\$</b> |
|---|-----------|
| Operating expenses, per Statement of Comprehensive Income     | 98,170    |
| Non-recurring costs:  |           |
| Management transition costs                                   | (1,684)   |
| Normalized operating expenses                                 | 96,486    |
| Gross Profit  | 111,627   |
| Normalized operating expenses as a percentage of gross profit | 86.4%     |

### *Growth*

We continuously monitor our strategic objectives and have a five-year capital plan set at \$145.3 million, through to the end of fiscal 2021. Dealership relocations, renovation projects, and Open Point opportunities are prudently considered against our overall growth strategy. We allocate capital to improve existing stores in conjunction with manufacturers' brand image programs and our ability to maximize vehicle sales and service in our market areas.

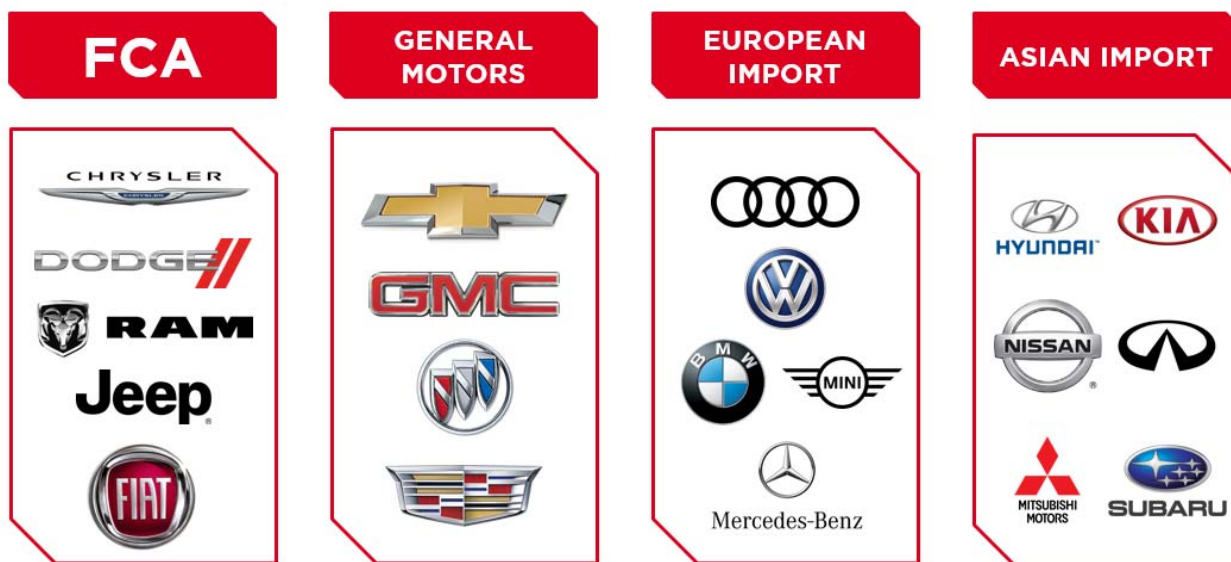
During the first quarter of 2017, we spent \$2.5 million on relocations, renovations and Open Point locations. We intend to continue to acquire dealerships that broaden our brand representations as well as meet our goal of greater geographic diversification.

## Acquisitions

Our acquisition strategy continues to focus on diversifying across Canada through the addition of flagship stores in major markets. Our target acquisitions are not only evaluated in terms of accretion but also for how they will advance our Company, unit sales volumes, and market share. Our ability to generate strong cash flow is a key element in our acquisition plan. Subsequent to the first quarter we announced an agreement to purchase all of the issued and outstanding shares of Mercedes-Benz Rive-Sud, which has operated in the greater Montreal area for nearly 50 years. The acquisition, once closed, brings AutoCanada's dealership count to 57, expanding our brand offering to 20 and adds another top-selling luxury brand. The new addition is consistent with AutoCanada's strategy of adding new brands in metropolitan areas to further expand our dealer network and drive growth potential in major Canadian markets. We remain optimistic in our ability to make additional acquisitions in 2017, as conversations with manufacturers we have not partnered with progress and the pipeline of potential transactions remains attractive.

## Reorganization

In the first quarter of 2017, we reorganized teams at Dealer Support Services into brand platforms. Each platform, being FCA, General Motors, European Import and Asian Import, has a dedicated team composed of sales, marketing, and fixed operations specialists. These brand platform teams are better tailored to focus on brand specific issues, have consistent approaches to operations, meet manufacturer guidelines, and target specific financial objectives. We believe that this new brand alignment by manufacturer will allow us to optimize financial earnings, and better able to serve our dealerships to leverage best practices and thus increase our overall success. No reorganizing charges were incurred as a result of this organizational change.



### 3. OUTLOOK

The outlook regarding new retail vehicle sales in Canada is difficult to predict, as manufacturers do not publicly disclose fleet and retail sales separately and is largely a function of the condition of the local economy and affordability which equates to vehicle price, loan rates, and trade in values. In Canada, factors contributing to new vehicle sales will vary widely by province.

Despite new light vehicle sales for the Canadian market decreasing 1.6% in April<sup>1</sup>, we believe that there are opportunities to grow in our dealerships, with particular focus on new vehicle sales, gross profit margins and cost reductions. We remain focused on delivering better financial performance irrespective of the energy sector and market conditions in our key markets, while also maintaining our focus on cost reductions. In the first quarter we were able to maintain gross profit and increase gross profit as a percentage of revenue despite lower vehicle sales and we plan to continue our success in this area.

Of the 17 dealerships that became same store in the fourth quarter of 2016, 11 of these are located in Alberta. As a result, we anticipate same stores sales results will continue to be impacted in 2017 as the Alberta economy begins to recover. We will continue to dedicate significant resources to newly acquired dealerships to integrate acquisitions and position them to be successful in their respective markets.

We plan to spend approximately \$30.9 million in 2017 on dealership relocations and expansions. Construction continues on the relocation of Audi Winnipeg, which we anticipate will be completed in Q4, 2017 and will lead to increased customer traffic and sales. We are also constructing two new Nissan Open Point locations in Calgary and Ottawa.

We are committed to delivering meaningful returns to our shareholders. Although we continue to confront headwinds in key markets, we believe that we can generate better results by improving employee productivity, realizing the benefits of our scale and continuing to grow our brand and geographic footprints with accretive acquisitions.

---

<sup>1</sup> DesRosiers Automotive Consultants Inc.



## 4. MARKET

The Company's geographical profile is illustrated below by the number of dealerships, revenues and gross profit by province for the three month periods ended March 31, 2017 and March 31, 2016.

| March 31, 2017          |                                   |                                    |                |                    |                |                         |
|-------------------------|-----------------------------------|------------------------------------|----------------|--------------------|----------------|-------------------------|
| Location of Dealerships | Number of Franchises <sup>1</sup> | Number of Dealerships <sup>1</sup> | Revenue        | Revenue % of Total | Gross Profit   | Gross Profit % of Total |
| British Columbia        | 13                                | 11                                 | 124,753        | 20%                | 21,143         | 19%                     |
| Alberta                 | 28                                | 25                                 | 269,944        | 42%                | 48,146         | 43%                     |
| Saskatchewan            | 4                                 | 4                                  | 57,805         | 9%                 | 11,013         | 10%                     |
| Manitoba                | 4                                 | 4                                  | 38,995         | 6%                 | 8,028          | 7%                      |
| Ontario                 | 9                                 | 8                                  | 54,323         | 8%                 | 8,937          | 8%                      |
| Quebec                  | 4                                 | 2                                  | 62,346         | 10%                | 9,666          | 9%                      |
| Atlantic                | 2                                 | 2                                  | 30,861         | 5%                 | 4,694          | 4%                      |
| <b>Total</b>            | <b>64</b>                         | <b>56</b>                          | <b>639,027</b> | <b>100%</b>        | <b>111,627</b> | <b>100%</b>             |

<sup>(1)</sup> "Dealerships" refers to each physical storefront while "Franchises" refers to each separate franchise agreement.

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

<sup>(1)</sup> "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 March 31, 2017 and March 31, 2016.

| Manufacturer      | March 31, 2017                    |                                    |                |                    | March 31, 2016                    |                                    |                |                    |
|-------------------|-----------------------------------|------------------------------------|----------------|--------------------|-----------------------------------|------------------------------------|----------------|--------------------|
|                   | Number of Franchises <sup>1</sup> | Number of Dealerships <sup>1</sup> | Revenue        | Revenue % of Total | Number of Franchises <sup>1</sup> | Number of Dealerships <sup>1</sup> | Revenue        | Revenue % of Total |
| FCA               | 23                                | 17                                 | 268,283        | 42%                | 21                                | 16                                 | 302,867        | 45%                |
| General Motors    | 9                                 | 9                                  | 141,777        | 22%                | 9                                 | 9                                  | 130,392        | 20%                |
| Hyundai           | 9                                 | 9                                  | 42,718         | 7%                 | 8                                 | 8                                  | 49,244         | 7%                 |
| Nissan / Infiniti | 7                                 | 7                                  | 67,982         | 11%                | 7                                 | 7                                  | 58,991         | 9%                 |
| Volkswagen / Audi | 8                                 | 8                                  | 40,928         | 6%                 | 7                                 | 7                                  | 40,633         | 6%                 |
| BMW / MINI        | 4                                 | 2                                  | 62,346         | 10%                | 4                                 | 2                                  | 64,834         | 10%                |
| Other             | 4                                 | 4                                  | 14,993         | 2%                 | 4                                 | 4                                  | 19,911         | 3%                 |
| <b>Total</b>      | <b>64</b>                         | <b>56</b>                          | <b>639,027</b> | <b>100%</b>        | <b>60</b>                         | <b>53</b>                          | <b>666,872</b> | <b>100%</b>        |

<sup>(1)</sup> "Dealerships" refers to each physical storefront while "Franchises" refers to each separate franchise agreement.

## Performance vs. the Canadian New Vehicle Market

The Canadian automotive retail sector year-to-date has increased 4.6% compared to the prior year. New light vehicle sales in Alberta for the quarter ended March 31, 2017 were up 9.2%, and up 4.7% in British Columbia when compared to the same period in 2016.

The Company's same stores unit sales of new vehicles decreased by 8.5% during the three month period ended March 31, 2017. The Company lagged behind the Canadian market in the first quarter of 2017. Though our same stores unit sales has declined year-over-year, our same stores unit sales of new vehicles has trended upwards during the quarter with March unit sales exceeding sales in the same period of the prior year. During the quarter, the Company has focused on maintaining gross profit company-wide to offset reduced sales volumes. While the Company's same stores revenue has decreased 7.1%, gross profit was largely maintained with a decline of only 1.2% for same stores, compared to the first quarter of the prior year.

The following table summarizes Canadian new light vehicle sales for the three month periods ended March 31, 2017 and March 31, 2016 by province:

**Canadian New Vehicle Sales by Province<sup>1,2</sup>**

|                  | March 31,<br>2017 | March 31,<br>2016 | Percent Change | Unit Change   |
|------------------|-------------------|-------------------|----------------|---------------|
| British Columbia | 50,251            | 48,000            | 4.7%           | 2,251         |
| Alberta          | 53,342            | 48,865            | 9.2%           | 4,477         |
| Saskatchewan     | 12,659            | 10,738            | 17.9%          | 1,921         |
| Manitoba         | 12,698            | 11,639            | 9.1%           | 1,059         |
| Ontario          | 172,665           | 162,287           | 6.4%           | 10,378        |
| Quebec           | 92,994            | 93,592            | (0.6)%         | (598)         |
| Atlantic         | 26,909            | 27,775            | (3.1)%         | (866)         |
| <b>Total</b>     | <b>421,518</b>    | <b>402,896</b>    | <b>4.6%</b>    | <b>18,622</b> |

<sup>(1)</sup> DesRosiers Automotive Consultants Inc.

<sup>(2)</sup> 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.

**Canadian New Vehicle Sales by Brand<sup>3,4</sup>**

|                               | March 31,<br>2017 | March 31,<br>2016 | Percent Change | Unit Change   |
|-------------------------------|-------------------|-------------------|----------------|---------------|
| Audi                          | 6,887             | 5,855             | 17.6%          | 1,032         |
| BMW                           | 7,855             | 7,652             | 2.7%           | 203           |
| FCA                           | 64,089            | 62,831            | 2.0%           | 1,258         |
| General Motors                | 61,248            | 54,622            | 12.1%          | 6,626         |
| Hyundai                       | 24,128            | 27,807            | (13.2)%        | (3,679)       |
| Infiniti                      | 2,800             | 2,780             | 0.7%           | 20            |
| Kia                           | 13,775            | 13,965            | (1.4)%         | (190)         |
| MINI                          | 1,156             | 1,099             | 5.2%           | 57            |
| Mitsubishi                    | 4,439             | 4,958             | (10.5)%        | (519)         |
| Nissan                        | 30,836            | 27,236            | 13.2%          | 3,600         |
| Subaru                        | 10,422            | 9,443             | 10.4%          | 979           |
| Volkswagen                    | 10,311            | 12,196            | (15.5)%        | (1,885)       |
| Total - AutoCanada Brands     | 237,946           | 230,444           | 3.3%           | 7,502         |
| Other - Non-AutoCanada Brands | 183,572           | 172,452           | 6.4%           | 11,120        |
| <b>Total</b>                  | <b>421,518</b>    | <b>402,896</b>    | <b>4.6%</b>    | <b>18,622</b> |

<sup>(3)</sup> DesRosiers Automotive Consultants Inc.

<sup>(4)</sup> 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.

## List of Dealerships

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<br>Opened or<br>Acquired | Same<br>Stores <sup>1</sup> | Owned or<br>Leased <sup>2</sup> |
|----------------------------------|---|---------------|-------------------------------|-----------------------------|---------------------------------|
| <b>Wholly-Owned Dealerships:</b> |   |               |                               |                             |                                 |
| Abbotsford, BC                   | Abbotsford Volkswagen                   | Volkswagen    | 2011                          | Y                           | Leased                          |
| Chilliwack, BC                   | Chilliwack Volkswagen                   | Volkswagen    | 2011                          | Y                           | Owned                           |
| Kelowna, BC                      | Okanagan Chrysler Jeep Dodge FIAT       | FCA           | 2003                          | Y                           | Leased                          |
| Maple Ridge, BC                  | Maple Ridge Chrysler Jeep Dodge FIAT    | FCA           | 2005                          | Y                           | Leased                          |
| Maple Ridge, BC                  | Maple Ridge Volkswagen                  | Volkswagen    | 2008                          | Y                           | Leased                          |
| Prince George, BC                | Northland Chrysler Jeep Dodge           | FCA           | 2002                          | Y                           | Owned                           |
| Prince George, BC                | Northland Hyundai                       | Hyundai       | 2005                          | Y                           | Owned                           |
| Prince George, BC                | Northland Nissan                        | Nissan        | 2007                          | Y                           | Owned                           |
| Victoria, BC                     | Victoria Hyundai                        | Hyundai       | 2006                          | Y                           | Owned                           |
| Airdrie, AB                      | Airdrie Chrysler Jeep Dodge Ram         | FCA           | 2015                          | Q3 2017                     | Leased                          |
| Calgary, AB                      | Courtesy Chrysler Dodge                 | FCA           | 2013                          | Y                           | Leased                          |
| Calgary, AB                      | Calgary Hyundai                         | Hyundai       | 2014                          | Y                           | Leased                          |
| Calgary, AB                      | Crowfoot Hyundai                        | Hyundai       | 2014                          | Y                           | Leased                          |
| Calgary, AB                      | Courtesy Mitsubishi                     | Mitsubishi    | 2014                          | Y                           | Leased                          |
| Calgary, AB                      | Northland Volkswagen                    | Volkswagen    | 2014                          | Y                           | Leased                          |
| Calgary, AB                      | Fish Creek Nissan                       | Nissan        | 2014                          | Y                           | Leased                          |
| Calgary, AB                      | Hyatt Infiniti                          | Infiniti      | 2014                          | Y                           | Leased                          |
| Calgary, AB                      | Tower Chrysler Jeep Dodge Ram           | FCA           | 2014                          | Y                           | Leased                          |
| Edmonton, AB                     | Crosstown Chrysler Jeep Dodge FIAT      | FCA           | 1994                          | Y                           | Leased                          |
| Edmonton, AB                     | Capital Chrysler Jeep Dodge FIAT        | FCA           | 2003                          | Y                           | Leased                          |
| Edmonton, AB                     | North Edmonton Kia                      | Kia           | 2014                          | Y                           | Owned                           |
| Grande Prairie, AB               | Grande Prairie Chrysler Jeep Dodge FIAT | FCA           | 1998                          | Y                           | Owned                           |
| Grande Prairie, AB               | Grande Prairie Hyundai                  | Hyundai       | 2005                          | Y                           | Owned                           |
| Grande Prairie, AB               | Grande Prairie Subaru                   | Subaru        | 1998                          | Y                           | Owned                           |
| Grande Prairie, AB               | Grande Prairie Mitsubishi               | Mitsubishi    | 2007                          | Y                           | Owned                           |
| Grande Prairie, AB               | Grande Prairie Nissan                   | Nissan        | 2007                          | Y                           | Owned                           |
| Grande Prairie, AB               | Grande Prairie Volkswagen               | Volkswagen    | 2013                          | Y                           | Owned                           |
| Ponoka, AB                       | Ponoka Chrysler Jeep Dodge              | FCA           | 1998                          | Y                           | Owned                           |
| Sherwood Park, AB                | Sherwood Park Hyundai                   | Hyundai       | 2006                          | Y                           | Owned                           |
| Sherwood Park, AB                | Sherwood Park Volkswagen                | Volkswagen    | 2017                          | Q2 2019                     | Owned                           |
| Saskatoon, SK                    | Dodge City Chrysler Jeep Dodge Ram      | FCA           | 2014                          | Y                           | Leased                          |
| Winnipeg, MB                     | Audi Winnipeg                           | Audi          | 2013                          | Y                           | Owned                           |
| Winnipeg, MB                     | St. James Volkswagen                    | Volkswagen    | 2013                          | Y                           | Owned                           |
| Winnipeg, MB                     | Eastern Chrysler Jeep Dodge             | FCA           | 2014                          | Y                           | Owned                           |
| Cambridge, ON                    | Cambridge Hyundai                       | Hyundai       | 2008                          | Y                           | Owned                           |
| Mississauga, ON                  | 401 Dixie Hyundai                       | Hyundai       | 2008                          | Y                           | Leased                          |
| Guelph, ON                       | Guelph Hyundai                          | Hyundai       | 2016                          | Q1 2019                     | Leased                          |
| Guelph, ON                       | Wellington Motors                       | FCA           | 2016                          | Q1 2019                     | Leased                          |
| Toronto, ON                      | Toronto Chrysler Jeep Dodge Ram         | FCA           | 2014                          | Y                           | Leased                          |
| Montreal, QB                     | Mercedes-Benz Rive-Sud <sup>4</sup>     | Mercedes-Benz | 2017                          | Q2 2019                     | Leased                          |
| Moncton, NB                      | Moncton Chrysler Jeep Dodge             | FCA           | 2001                          | Y                           | Owned                           |
| Dartmouth, NS                    | Dartmouth Chrysler Jeep Dodge           | FCA           | 2006                          | Y                           | Leased                          |

**Equity Investments:**

|                      |                                |                |      |         |        |
|----------------------|--------------------------------|----------------|------|---------|--------|
| Duncan, BC           | Island Chevrolet Buick GMC     | General Motors | 2013 | Y       | Leased |
| Kelowna, BC          | Kelowna Chevrolet              | General Motors | 2015 | Q4 2017 | Owned  |
| Edmonton, AB         | Lakewood Chevrolet             | General Motors | 2014 | Y       | Owned  |
| Sherwood Park, AB    | Sherwood Park Chevrolet        | General Motors | 2012 | Y       | Leased |
| Sherwood Park, AB    | Sherwood Buick GMC             | General Motors | 2012 | Y       | Leased |
| Spruce Grove, AB     | Grove Dodge Chrysler Jeep      | FCA            | 2015 | Q1 2018 | Leased |
| North Battleford, SK | Bridges Chevrolet Buick GMC    | General Motors | 2014 | Y       | Owned  |
| Prince Albert, SK    | Mann-Northway Auto Source      | General Motors | 2014 | Y       | Leased |
| Saskatoon, SK        | Saskatoon Motor Products       | General Motors | 2014 | Y       | Leased |
| Winnipeg, MB         | McNaught Cadillac Buick GMC    | General Motors | 2014 | Y       | Owned  |
| Laval, QB            | BMW Laval and MINI Laval       | BMW / MINI     | 2014 | Y       | Owned  |
| Montreal, QB         | BMW Canbec and MINI Mont Royal | BMW / MINI     | 2014 | Y       | Leased |
| Ottawa, ON           | Hunt Club Nissan               | Nissan         | 2015 | Q1 2018 | Leased |
| Ottawa, ON           | 417 Nissan                     | Nissan         | 2015 | Q1 2018 | Leased |
| Ottawa, ON           | 417 Infiniti                   | Infiniti       | 2015 | Q1 2018 | Leased |

**Dealership Loan Financing:**

|              |                                  |       |      |     |     |
|--------------|----------------------------------|-------|------|-----|-----|
| Edmonton, AB | Southview Acura <sup>3</sup>     | Acura | 2016 | N/A | N/A |
| Whitby, ON   | Whitby Oshawa Honda <sup>3</sup> | Honda | 2015 | N/A | N/A |

<sup>(1)</sup> Same stores (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 Stores analysis.

<sup>(2)</sup> This column summarizes whether the dealership property is owned or leased.

<sup>(3)</sup> For further detail on dealership loan financing, refer to "LIQUIDITY AND CAPITAL RESOURCES" section under Related Party Transactions.

<sup>(4)</sup> On May 1, 2017, the Company acquired shares of Mercedes-Benz Rive-Sud. See "ACQUISITIONS, RELOCATIONS, AND REAL ESTATE" for more information related to this dealership acquisition.



## 5. SELECTED QUARTERLY FINANCIAL INFORMATION

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

| (in thousands of dollars, except Gross Profit %, Earnings per share, and Operating Data) | Q1<br>2017     | Q4<br>2016     | Q3<br>2016     | Q2<br>2016     | Q1<br>2016     | Q4<br>2015     | Q3<br>2015     | Q2<br>2015     |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Income Statement Data</b>   |                |                |                |                |                |                |                |                |
| New vehicles   | 353,540        | 348,107        | 444,482        | 497,025        | 363,181        | 368,242        | 471,018        | 483,435        |
| Used vehicles  | 165,408        | 157,724        | 179,582        | 208,016        | 180,108        | 167,100        | 179,270        | 194,956        |
| Parts, service and collision repair  | 90,735         | 92,310         | 95,585         | 100,317        | 94,721         | 102,220        | 93,139         | 99,304         |
| Finance, insurance and other   | 29,344         | 31,133         | 33,529         | 36,899         | 28,862         | 34,752         | 37,778         | 39,182         |
| <b>Revenue</b>   | <b>639,027</b> | <b>629,274</b> | <b>753,178</b> | <b>842,257</b> | <b>666,872</b> | <b>672,314</b> | <b>781,205</b> | <b>816,877</b> |
| New vehicles   | 25,590         | 25,042         | 31,578         | 34,410         | 27,267         | 27,482         | 34,300         | 34,861         |
| Used vehicles  | 11,940         | 10,064         | 12,950         | 13,758         | 10,420         | 10,326         | 10,949         | 11,000         |
| Parts, service and collision repair  | 47,284         | 52,957         | 47,676         | 52,957         | 47,669         | 51,760         | 48,336         | 49,859         |
| Finance, insurance and other   | 26,813         | 28,722         | 30,733         | 33,577         | 26,353         | 34,354         | 35,088         | 33,955         |
| <b>Gross profit</b>  | <b>111,627</b> | <b>116,785</b> | <b>122,937</b> | <b>134,702</b> | <b>111,709</b> | <b>123,922</b> | <b>128,673</b> | <b>129,675</b> |
| Gross Profit %   | 17.5%          | 18.6%          | 16.3%          | 16.0%          | 16.8%          | 18.4%          | 16.5%          | 15.9%          |
| Operating expenses   | 98,170         | 97,397         | 99,041         | 107,932        | 96,047         | 101,310        | 100,824        | 100,568        |
| Operating expenses as a % of gross profit  | 87.9%          | 83.4%          | 80.6%          | 80.1%          | 86.0%          | 81.8%          | 78.4%          | 77.6%          |
| Net earnings (loss) <sup>(2,5)</sup>   | 3,678          | 13,785         | (32,619)       | 14,158         | 7,272          | (7,361)        | 11,690         | 13,523         |
| Adjusted net earnings <sup>(2,5,6)</sup>   | 4,602          | 7,536          | 10,327         | 15,523         | 6,253          | 8,610          | 12,535         | 13,957         |
| EBITDA <sup>(2,5)</sup>  | 14,136         | 25,260         | 23,842         | 27,072         | 18,312         | 23,353         | 26,379         | 27,397         |
| EBITDA as a % of Sales <sup>(2,5)</sup>  | 2.7%           | 4.5%           | 3.6%           | 3.7%           | 3.2%           | 3.5%           | 3.8%           | 3.8%           |
| Free cash flow <sup>(2)</sup>  | 621            | 23,424         | 30,897         | 37,922         | 4,045          | 9,066          | 14,995         | 17,776         |
| Adjusted free cash flow <sup>(2)</sup>   | 15,217         | 13,133         | 27,766         | 21,632         | 6,035          | 8,078          | 18,951         | 19,187         |
| Basic earnings (loss) per share  | 0.13           | 0.50           | (1.19)         | 0.53           | 0.27           | (0.29)         | 0.48           | 0.56           |
| Diluted earnings (loss) per share  | 0.13           | 0.50           | (1.19)         | 0.53           | 0.27           | (0.29)         | 0.47           | 0.56           |
| Basic adjusted earnings per share <sup>(2,6)</sup>                                       | 0.17           | 0.28           | 0.38           | 0.57           | 0.23           | 0.34           | 0.51           | 0.56           |
| Diluted adjusted earnings per share <sup>(2,6)</sup>                                     | 0.17           | 0.27           | 0.38           | 0.57           | 0.23           | 0.34           | 0.51           | 0.57           |
| Dividends declared per share   | 0.10           | 0.10           | 0.10           | 0.10           | 0.25           | 0.25           | 0.25           | 0.25           |
| <b>Operating Data</b>  |                |                |                |                |                |                |                |                |
| Vehicles (new and used) sold <sup>(3)</sup>  | 13,055         | 12,912         | 15,955         | 17,425         | 13,301         | 14,150         | 17,086         | 17,739         |
| New vehicles sold <sup>(3)</sup>   | 8,508          | 8,449          | 10,983         | 12,098         | 8,502          | 9,210          | 12,018         | 12,296         |
| New retail vehicles sold <sup>(3)</sup>  | 6,753          | 7,590          | 8,949          | 9,374          | 7,078          | 8,016          | 9,985          | 9,929          |
| New fleet vehicles sold <sup>(3)</sup>   | 1,755          | 859            | 2,034          | 2,724          | 1,424          | 1,194          | 2,033          | 2,367          |
| Used retail vehicles sold <sup>(3)</sup>   | 4,547          | 4,463          | 4,972          | 5,327          | 4,799          | 4,940          | 5,068          | 5,443          |
| # of service/collision repair orders completed <sup>(3)</sup>                            | 197,069        | 217,418        | 209,912        | 227,446        | 209,194        | 230,772        | 202,692        | 215,142        |
| Absorption rate <sup>(2)</sup>   | 82%            | 86%            | 89%            | 90%            | 83%            | 93%            | 91%            | 94%            |
| # of dealerships at period end   | 56             | 55             | 53             | 53             | 53             | 54             | 50             | 49             |
| # of same stores dealerships   | 47             | 44             | 33             | 27             | 27             | 28             | 26             | 24             |
| # of service bays at period end  | 949            | 928            | 898            | 898            | 898            | 912            | 862            | 842            |
| Same stores revenue growth <sup>(1)</sup>  | (7.1)%         | (10.0)%        | (9.2)%         | (3.2)%         | (3.1)%         | (12.1)%        | (6.9)%         | (2.8)%         |
| Same stores gross profit growth <sup>(1)</sup>   | (1.2)%         | (5.8)%         | (11.0)%        | (5.3)%         | (5.5)%         | (14.3)%        | (14.1)%        | (11.0)%        |

<sup>(1)</sup> Same stores revenue growth and Same stores gross profit growth is calculated using franchised automobile dealerships that we have owned for at least 2 full years, which includes 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.

<sup>(2)</sup> These financial measures have been calculated as described under "NON-GAAP MEASURES".

<sup>(3)</sup> This number includes 100% of vehicles and service and collision repair orders sold by these dealerships in which we have less than 100% investment.

<sup>(4)</sup> The results from operations 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 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.

<sup>(5)</sup> Represents the portion attributable to AutoCanada Shareholders.

<sup>(6)</sup> In Q1 2017, the Company redefined the calculation of adjusted net earnings. As a result, the values presented for Q1 2016 and Q2 2016 have been restated as presented above.

## 6. RESULTS OF OPERATIONS

### First Quarter Operating Results

EBITDA attributable to AutoCanada shareholders for the quarter decreased by 22.8% to \$14.1 million 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 attributable to a decrease in new vehicle gross profit along with adjusted items: the additional Executive Management transition costs this quarter, and a \$3.2 million gain on disposal of assets in the first quarter of 2016 related to the disposition of a dealership. Adjusted EBITDA attributable to AutoCanada shareholders for the quarter ended March 31, 2017 decreased by 5.7% to \$15.5 million compared to the same quarter in the prior year.

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

| (in thousands of dollars)  | 2017          | 2016          | 2015          |
|--|---------------|---------------|---------------|
| <b>Period from January 1 to March 31</b>                                   |               |               |               |
| Net earnings attributable to AutoCanada shareholders                       | 3,678         | 7,272         | 4,969         |
| Income taxes <sup>2</sup>  | 1,249         | 2,477         | 1,707         |
| Depreciation of property and equipment <sup>2</sup>                        | 4,596         | 4,687         | 3,932         |
| Interest on long-term indebtedness <sup>2</sup>                            | 4,613         | 3,876         | 2,079         |
| <b>EBITDA attributable to AutoCanada shareholders<sup>1</sup></b>          | <b>14,136</b> | <b>18,312</b> | <b>12,687</b> |
| Add back:  |               |               |               |
| Share-based compensation attributed to changes in share price              | 4             | 59            | (330)         |
| Revaluation of redemption liabilities                                      | (310)         | 1,262         | 323           |
| Unrealized gain on embedded derivative                                     | -             | 20            | 214           |
| Gain on dealership divestiture <sup>3</sup>                                | -             | (3,206)       | -             |
| Non-recurring management transition costs <sup>3</sup>                     | 1,684         | -             | -             |
| <b>Adjusted EBITDA attributable to AutoCanada shareholders<sup>1</sup></b> | <b>15,514</b> | <b>16,447</b> | <b>12,894</b> |

<sup>(1)</sup> This financial measure is identified and defined under the section "NON-GAAP MEASURES".

<sup>(2)</sup> Represents the portion attributable to AutoCanada shareholders.

<sup>(3)</sup> In Q1 2017, the Company redefined the calculation of adjusted EBITDA. As a result, the values presented for Q1 2016 have been restated as presented above.

Pre-tax earnings attributable to AutoCanada shareholders decreased by \$4.8 million or 49.5% year-over-year to \$4.9 million for the quarter. Net earnings attributable to AutoCanada shareholders decreased by \$3.6 million or 49.4% year-over-year to \$3.7 million in the first quarter of 2017. Income tax expense attributable to AutoCanada shareholders decreased by \$1.3 million to \$1.2 million in the first quarter of 2017.

Adjusted net earnings attributable to AutoCanada shareholders decreased by \$1.7 million or 26.4% year-over-year to \$4.6 million for the quarter.

The following table reconciles net earnings to adjusted net earnings for the three month period ended March 31, for the last three years of operations:

| (in thousands of dollars)  | 2017       | 2016       | 2015       |
|--|------------|------------|------------|
| <b>Net earnings attributable to AutoCanada shareholders</b>  | 3,678      | 7,272      | 4,969      |
| Add back:  |            |            |            |
| Share-based compensation attributed to changes in share price, net of tax                            | 3          | 43         | (245)      |
| Revaluation of redemption liabilities  | (310)      | 1,262      | 323        |
| Unrealized gain on embedded derivative   | -          | 20         | 214        |
| Gain on dealership divestiture <sup>2</sup>  | -          | (2,344)    | -          |
| Non-recurring management transition costs <sup>2</sup>   | 1,231      | -          | -          |
| <b>Adjusted net earnings attributable to AutoCanada shareholders<sup>1</sup></b>                     | 4,602      | 6,253      | 5,261      |
| Weighted average number of shares - Basic  | 27,358,766 | 27,362,440 | 24,409,574 |
| Weighted average number of shares - Diluted  | 27,509,758 | 27,427,695 | 24,520,694 |
| <b>Adjusted net earnings per share attributable to AutoCanada shareholders - Basic<sup>1</sup></b>   | 0.17       | 0.23       | 0.22       |
| <b>Adjusted net earnings per share attributable to AutoCanada shareholders - Diluted<sup>1</sup></b> | 0.17       | 0.23       | 0.21       |

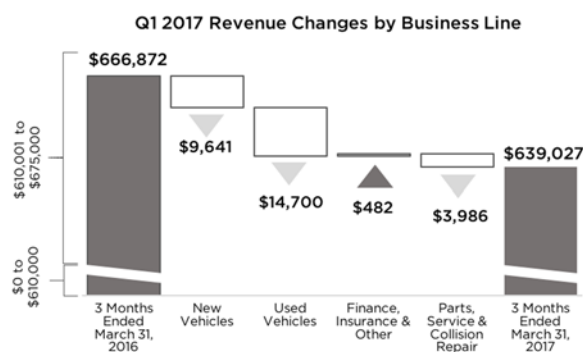
<sup>(1)</sup> This financial measure is identified and defined under the section "NON-GAAP MEASURES".

<sup>(2)</sup> In Q1 2017, the Company redefined the calculation of adjusted net earnings. As a result, the values presented for Q1 2016 have been restated as presented above.

## Revenues

The following table summarizes revenue for the three month periods ended March 31:

|                                     | 2017<br>\$     | 2016<br>\$     | Change<br>\$    |
|-------------------------------------|----------------|----------------|-----------------|
| New vehicles                        | 353,540        | 363,181        | (9,641)         |
| Used vehicles                       | 165,408        | 180,108        | (14,700)        |
| Finance, insurance and other        | 29,344         | 28,862         | 482             |
| Parts, service and collision repair | 90,735         | 94,721         | (3,986)         |
| <b>Total Revenue</b>                | <b>639,027</b> | <b>666,872</b> | <b>(27,845)</b> |



### New vehicles

The \$9.6 million year-over-year decrease in revenue in the quarter from new vehicles is due to a decline in revenue per unit of \$1,163, partially offset by an increase in six new vehicles sold compared to the first quarter of 2016.

### *Used vehicles*

The \$14.7 million year-over-year decrease in revenue in the quarter from used vehicles is due to a decline in used vehicles sold of 252 units and a decrease in revenue per unit of \$1,153 compared to the same period of the prior year.

### *Finance, insurance and other*

While finance and insurance products are also sold with used retail vehicles, finance and insurance products are largely sold in conjunction with new retail vehicles. The quarterly year-over-year finance, insurance and other revenue increased by 1.7% while new retail vehicle units sold increased by 0.1%. Finance and insurance revenue per vehicle sold has increased by 3.6% year-over-year, or \$78, to \$2,248 in the quarter. The average revenue per finance and insurance product increased by \$161 compared to the same period of the prior year.

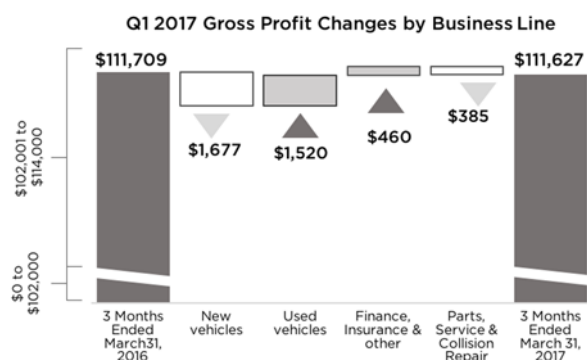
### *Parts, service and collision repair*

The \$4.0 million year-over-year decrease in revenue in the first quarter from parts, service and collision repair is due to a quarterly decline in repair orders of 12,125, offset by a quarterly increase in revenue per order of \$7. While retail service revenue has remained constant, there has been a significant decline in warranty and repair orders due to reduced vehicle recalls and warranty repairs. Collision repair and warranty work have also declined as a result of unseasonably warm temperatures during Q1 2017 compared to the same period in the prior year, which resulted in fewer weather related breakdowns. There has also been a decrease in parts and accessories added to vehicles sold this quarter.

## **Gross Profit**

The following table summarizes gross profit for the three month periods ended March 31:

|                                     | 2017    | 2016    | Change  |
|-------------------------------------|---------|---------|---------|
|                                     | \$      | \$      | \$      |
| New vehicles                        | 25,590  | 27,267  | (1,677) |
| Used vehicles                       | 11,940  | 10,420  | 1,520   |
| Finance, insurance and other        | 26,813  | 26,353  | 460     |
| Parts, service and collision repair | 47,284  | 47,669  | (385)   |
| Total Gross Profit                  | 111,627 | 111,709 | (82)    |



### *New vehicles*

The \$1.7 million year-over-year decrease in gross profit in the first quarter from new vehicles is due to a decrease in gross profit per unit of \$199 and an increase in new vehicles sold of six.



### *Used vehicles*

The \$1.5 million year-over-year increase in gross profit in the quarter from used vehicles is due primarily to an increased gross profit per unit of \$455, offset by a 252 unit decline in used vehicles sold. The increase in gross profit per vehicle stems from Management's continued focus on tightening inventory, decreasing the length of time that inventory is on hand and increasing turnover. By decreasing the length of time used inventory is available for sale and selling slow moving inventory at wholesale auctions earlier, we are able to make room on dealership lots to focus on higher quality inventory.

### *Finance, insurance and other*

The increase in finance, insurance and other is tied to the slight increase in new vehicle unit sales. The first quarter finance, insurance and other gross profit increased by 1.7% year-over-year as new vehicle units sold increased by 0.1%. This is mainly attributable to increased efforts in selling finance and insurance products this quarter. Finance and insurance gross profit per vehicle sold has increased by 3.7% year-over-year, or \$73, to \$2,054 in the quarter. The average gross profit per finance and insurance product increased by \$148 compared to the same period of the prior year.

### *Parts, service and collision repair*

The slight decrease in gross profit in the quarter from parts, service and collision repair is due to a year-over-year decline in repair orders of 12,125, offset by an increase in gross profit per order of \$12. As mentioned, the decrease in gross profit can be mainly attributable to the decrease in parts and accessories added to vehicles sold this quarter, as well as a significant decline in warranty repair orders and collision repair work.

## **Operating Expenses**

Operating costs consist of four major categories:

### *Employee costs*

Employee costs are the costs associated with employing staff both at the dealerships and at AutoCanada's head office. Dealership employees are largely commission based, resulting in employee costs being largely variable in nature. Our dealership pay structures are tied to meeting sales objectives, maintaining customer satisfaction indices, as well as improving gross profit and net income.

### *Administrative costs*

Administrative costs comprise the remaining costs of running our dealerships. Advertising, utilities, service shop consumables, information processing, insurance, and consulting costs comprise a significant portion of the administrative costs. Administrative costs can be either fixed or variable in nature. The Company also operates a centralized marketing department and information technology department, both of which provide services to the dealerships to leverage the size of the group as a means to lower the operating costs of the dealerships.

### *Facility lease costs*

Facility lease costs relate to the cost of leasing dealership facilities not owned by AutoCanada. Facility lease costs are fixed in nature as lease contracts are based on the market value of the property and are long-term.

### *Depreciation of property and equipment*

Depreciation of property and equipment relates to the depreciation of the dealership assets including buildings, machinery and equipment, leasehold improvements, company and lease vehicles, furniture, and computer hardware. Depreciation rates vary based on the nature of the asset.

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.

The following table summarizes operating expenses as a percentage of gross profit, 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.

| <b>Operating expenses as a % of Gross Profit</b>  | <b>Three months ended March 31</b> |              |               |
|---|------------------------------------|--------------|---------------|
|   | <b>2017</b>                        | <b>2016</b>  | <b>Change</b> |
| Employee costs before management transition costs | 53.2%                              | 52.9%        | 0.3%          |
| Management transition costs                       | 1.5%                               | - %          | 1.5%          |
| Administrative costs - variable                   | 17.9%                              | 18.2%        | (0.3)%        |
| <b>Total variable expenses</b>                    | <b>72.6%</b>                       | <b>71.1%</b> | <b>1.5%</b>   |
| Administrative costs - fixed                      | 5.8%                               | 5.2%         | 0.6%          |
| Facility lease costs                              | 5.1%                               | 5.3%         | (0.2)%        |
| Depreciation of property and equipment            | 4.4%                               | 4.4%         | - %           |
| <b>Total fixed expenses</b>                       | <b>15.3%</b>                       | <b>14.9%</b> | <b>0.4%</b>   |
| <b>Total operating expenses</b>                   | <b>87.9%</b>                       | <b>86.0%</b> | <b>1.9%</b>   |

### *Variable Expenses*

Employee costs have increased in the quarter by 1.8% mainly due to additional management transition costs, related to the departure of the Company's former President during the quarter. This accounts for 1.5% of operating expenses as a percentage of gross profit. Excluding management transition costs, employee costs have slightly increased by 0.3%.

Variable administrative costs decreased by 0.3% for the quarter ended March 31, 2017, as a percentage of gross profit. The decline is the result of our continued focus on cost control over the quarter. Management continues to dedicate resources to cost control and expects to the same trend for the remainder of 2017.

### *Fixed Expenses*

Fixed administrative costs increased by 0.6% for the quarter, as a percentage of gross profit. This is mainly attributable to increased property taxes on property purchased since the first quarter of 2016 (43 properties owned this quarter compared to 38 properties owned in the previous comparative quarter). Facility lease costs decreased by 0.2% and depreciation of property and equipment remained constant for the quarter, as a percentage of gross profit.

### ***Income Taxes***

The following table summarizes income taxes for the three month periods ended March 31:

|                           | <b>2017</b>  | <b>2016</b>  |
|---------------------------|--------------|--------------|
|                           | <b>\$</b>    | <b>\$</b>    |
| Current tax               | 4,487        | 11,941       |
| Recovery of deferred tax  | (2,492)      | (8,825)      |
| <b>Income tax expense</b> | <b>1,995</b> | <b>3,116</b> |

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 rates used for the three month period ended March 31, 2017 was 26.9% (March 31, 2016 26.8%).

### **Finance Costs**

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

During the three month period ended March 31, 2017, finance costs on our revolving floorplan facilities increased by 8.7% to \$3.3 million, partially due to an additional \$32.0 million of inventory from new stores which weren't included in the prior year. Finance costs on long term indebtedness increased by 19.0% to \$4.6 million due to the increase in the Company's revolving term facility from \$111.0 million in Q1 2016 to \$152.1 million in Q1 2017.

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. Floorplan credits are recorded 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:

| <b>(in thousands of dollars)</b>              | <b>Three months ended March 31</b> |              |               |
|---|------------------------------------|--------------|---------------|
|   | <b>2017</b>                        | <b>2016</b>  | <b>Change</b> |
| Floorplan financing                           | 3,295                              | 3,030        | 265           |
| Floorplan credits earned                      | (3,714)                            | (3,274)      | (440)         |
| <b>Net carrying cost of vehicle inventory</b> | <b>(419)</b>                       | <b>(244)</b> | <b>(175)</b>  |

## 7. SAME STORES RESULTS

Same stores is defined as a franchised automobile dealership that has been owned for at least two full years since acquisition. The dealership is then included in the quarter thereafter, for same stores analysis. The Company believes that it takes two years for an acquired dealership or Open Point to achieve normal operating results.

The dealerships which have been acquired over the past two years are integrating well into their respective platforms and within the Company. Three dealerships have been added to same stores in the first quarter of 2017. We believe that there continues to be opportunities within these dealerships and continue to dedicate significant resources to newly acquired dealerships to successfully integrate acquisitions in an efficient manner. As a result, we expect to incur additional selling and administrative costs in the future to successfully integrate new dealerships into our model.

### *Number of Same Stores by Province*

The following table summarizes the number of same stores for the period ended March 31, 2017 by province:

|                 | British<br>Columbia | Alberta | Saskatchewan | Manitoba | Ontario | Quebec | Atlantic | Total |
|-----------------|---------------------|---------|--------------|----------|---------|--------|----------|-------|
| FCA             | 3                   | 6       | 1            | 1        | 1       | -      | 2        | 14    |
| Hyundai         | 2                   | 4       | -            | -        | 2       | -      | -        | 8     |
| General Motors  | 1                   | 3       | 3            | 1        | -       | -      | -        | 8     |
| Volkswagen      | 3                   | 2       | -            | 1        | -       | -      | -        | 6     |
| Nissan/Infiniti | 1                   | 3       | -            | -        | -       | -      | -        | 4     |
| Mitsubishi      | -                   | 2       | -            | -        | -       | -      | -        | 2     |
| BMW/MINI        | -                   | -       | -            | -        | -       | 2      | -        | 2     |
| Audi            | -                   | -       | -            | 1        | -       | -      | -        | 1     |
| Subaru          | -                   | 1       | -            | -        | -       | -      | -        | 1     |
| KIA             | -                   | 1       | -            | -        | -       | -      | -        | 1     |
| <b>Total</b>    | 10                  | 22      | 4            | 4        | 3       | 2      | 2        | 47    |

### **Same Stores Revenue and Vehicles Sold**

| (in thousands of dollars)           | Three Months Ended March 31 |         |          |
|-------------------------------------|-----------------------------|---------|----------|
|                                     | 2017                        | 2016    | % Change |
| <b>Revenue Source</b>               |                             |         |          |
| New vehicles - Retail               | 251,515                     | 277,777 | (9.5)%   |
| New vehicles - Fleet                | 58,810                      | 49,844  | 18.0%    |
| <b>Total New vehicles</b>           | 310,325                     | 327,621 | (5.3)%   |
| Used vehicles - Retail              | 104,673                     | 121,601 | (13.9)%  |
| Used vehicles - Wholesale           | 43,987                      | 44,976  | (2.2)%   |
| <b>Total Used vehicles</b>          | 148,660                     | 166,577 | (10.8)%  |
| Finance, insurance and other        | 26,270                      | 26,494  | (0.8)%   |
| <b>Subtotal</b>                     | 485,255                     | 520,692 | (6.8)%   |
| Parts, service and collision repair | 78,096                      | 86,040  | (9.2)%   |
| <b>Total</b>                        | 563,351                     | 606,732 | (7.1)%   |
| New retail vehicles sold (units)    | 5,802                       | 6,338   | (8.5)%   |
| New fleet vehicles sold (units)     | 1,542                       | 1,279   | 20.6%    |
| Used retail vehicles sold (units)   | 4,076                       | 4,433   | (8.1)%   |
| <b>Total</b>                        | 11,420                      | 12,050  | (5.2)%   |
| Total vehicles retailed (units)     | 9,878                       | 10,771  | (8.3)%   |



## Revenues - Same Stores Analysis

Same stores revenue decreased by \$43.4 million or 7.1%, for the three month period ended March 31, 2017 when compared to the same period in the prior year.

New vehicle revenues decreased by \$17.3 million or 5.3% for the first quarter of 2017 over the prior year due to a 3.6% decrease of 273 new vehicle sales units coupled with a 1.8% decrease in the average revenue per new vehicle sold \$756.

Same stores used vehicle revenues decreased by \$17.9 million or 10.8% for the three month period ended March 31, 2017 over the same period in the prior year due to a decrease in used retail vehicle sales of 357 units or 8.1% and a decrease in the average revenue per used retail vehicle sold of \$1,751 or 6.4%.

Same stores parts, service and collision repair revenue decreased by \$7.9 million or 9.2% for the first quarter of 2017 compared to the prior period and was primarily a result of a \$4 or 0.9% decrease in the average revenue per repair order completed and a decrease in overall repair orders completed of 15,533.

Same stores finance, insurance and other revenue decreased by \$0.2 million or 0.8% for the three month period ended March 31, 2017 over the same period in 2016. This was due to a decrease in the number of new and used vehicles retailed of 893 units, offset by an increase in the average revenue per unit retailed of \$199 or 8.1%.

While same stores new vehicle retail sales decreased in the quarter, compared to the same quarter of the prior year, there was an upward trend to finish the quarter. During the months of January and February our same stores unit sales was below that of prior year, however in March our same stores new vehicle retail unit sales increased slightly year-over-year. This increase was driven by year-over-year gains in Alberta, Saskatchewan and Quebec, with all provinces outside of Manitoba seeing increased year-over-year unit sales volumes in March.

### Same Stores Gross Profit and Gross Profit Percentage

The following table summarizes same stores gross profit and gross profit % for the three month periods ended March 31:

| (in thousands of dollars)           | Three Months Ended March 31 |         |          |                |       |
|-------------------------------------|-----------------------------|---------|----------|----------------|-------|
|                                     | Gross Profit                |         |          | Gross Profit % |       |
|                                     | 2017                        | 2016    | % Change | 2017           | 2016  |
| <b>Revenue Source</b>               |                             |         |          |                |       |
| New vehicles - Retail               | 21,184                      | 22,995  | (7.9)%   | 8.4%           | 8.3%  |
| New vehicles - Fleet                | 1,707                       | 1,592   | 7.2%     | 2.9%           | 3.2%  |
| <b>Total New vehicles</b>           | 22,891                      | 24,587  | (6.9)%   | 7.4%           | 7.5%  |
| Used vehicles - Retail              | 9,465                       | 8,970   | 5.5%     | 9.0%           | 7.4%  |
| Used vehicles - Wholesale           | 1,217                       | 751     | 62.1%    | 2.8%           | 1.7%  |
| <b>Total Used vehicles</b>          | 10,682                      | 9,721   | 9.9%     | 7.2%           | 5.8%  |
| Finance, insurance and other        | 23,890                      | 24,217  | (1.4)%   | 90.9%          | 91.4% |
| <b>Subtotal</b>                     | 57,463                      | 58,525  | (1.8)%   | 11.8%          | 11.2% |
| Parts, service and collision repair | 43,447                      | 43,600  | (0.4)%   | 55.6%          | 50.7% |
| <b>Total</b>                        | 100,910                     | 102,125 | (1.2)%   | 17.9%          | 16.8% |

### **Gross Profit Same Store Analysis**

Same stores gross profit decreased by \$1.2 million or 1.2% for the three month period ended March 31, 2017 when compared to the same period in the prior year.

New vehicle gross profit decreased by \$1.7 million or 6.9% in the three month period ended March 31, 2017 when compared to 2016 as a result of a 3.6% decrease in new vehicle sales of 273 units and a 3.4% decrease in the average gross profit per new vehicle sold of \$111.

Used vehicle gross profit increased by \$1.0 million or 9.9% in the three month period ended March 31, 2017 over the prior year. This was due to an increase in the average gross profit per used vehicle retailed of \$299 or 14.8%, slightly offset by a decrease in the number of used retail vehicles sold of 357 units or 8.1%.

Parts, service and collision repair gross profit decreased by \$0.2 million or 0.4% in the three month period ended March 31, 2017 when compared to the same period in the prior year as a result of a decrease in the number of repair orders completed of 15,533, offset by an increase in the average gross profit per repair order completed of \$21 or 9.0%.

Finance and insurance gross profit decreased by \$0.3 million or 1.4% in the three month period ended March 31, 2017 when compared to the prior year as a result of an 893 unit decrease, offset by an increase in the average gross profit per unit sold of \$171 or 7.6%.

The following table summarizes same store total revenue for the three month periods ended March 31 by province:

| <b>(in thousands of dollars)</b> | <b>2017</b>    | <b>2016</b>    | <b>% Change</b> |
|----------------------------------|----------------|----------------|-----------------|
| British Columbia                 | 110,967        | 137,913        | (19.5)%         |
| Alberta                          | 242,901        | 248,432        | (2.2)%          |
| Saskatchewan                     | 57,805         | 51,238         | 12.8%           |
| Manitoba                         | 38,995         | 41,537         | (6.1)%          |
| Ontario                          | 19,469         | 22,234         | (12.4)%         |
| Quebec                           | 62,346         | 65,995         | (5.5)%          |
| Atlantic                         | 30,868         | 39,383         | (21.6)%         |
| <b>Total</b>                     | <b>563,351</b> | <b>606,732</b> | <b>(7.1)%</b>   |

The following table summarizes same store total gross profit for the three month periods ended March 31 by province:

| <b>(in thousands of dollars)</b> | <b>2017</b>    | <b>2016</b>    | <b>% Change</b> |
|----------------------------------|----------------|----------------|-----------------|
| British Columbia                 | 19,250         | 20,190         | (4.7)%          |
| Alberta                          | 45,076         | 45,982         | (2.0)%          |
| Saskatchewan                     | 11,013         | 9,378          | 17.4%           |
| Manitoba                         | 8,028          | 7,922          | 1.3%            |
| Ontario                          | 3,185          | 3,504          | (9.1)%          |
| Quebec                           | 9,666          | 9,589          | 0.8%            |
| Atlantic                         | 4,692          | 5,560          | (15.6)%         |
| <b>Total</b>                     | <b>100,910</b> | <b>102,125</b> | <b>(1.2)%</b>   |

## 8. ACQUISITIONS, RELOCATIONS AND REAL ESTATE

### Dealership Operations and Expansion

Our goals are to maximize the profit potential of every store and to generate incremental growth through accretive acquisitions. With the addition of our first Mercedes-Benz dealership after the quarter, we now currently operate 57 dealerships, representing 65 franchises. We continue to focus on our acquisition strategy, focusing on growth throughout Canada with a greater diversification in both geography and brand. The Company is being patient with our acquisition strategy, focusing on acquisitions that are accretive and provide diversity. The Company plans to diversify across Canada through the acquisition of flagship stores in major markets. Management and the Company have excellent relationships with our manufacturer partners, providing the Company with greater opportunities with brands we currently operate.

#### *Mercedes-Benz Rive-Sud*

On May 1, 2017, the Company purchased 100% of the voting shares of Mercedes-Benz Rive-Sud, which owns and operates a Mercedes-Benz dealership in Montreal, Quebec for total cash consideration of \$17.0 million. The acquisition was financed by drawing on the Company's revolving term facility. In 2016, the dealership retailed 1,270 new and used vehicles and generated revenue of \$90 million. This dealership represents our first Mercedes-Benz franchise and we are extremely pleased to have added a top selling luxury brand to our portfolio and look forward to experience sustained success and growth in Mercedes-Benz.

History has shown that within two years a newly acquired store adopts AutoCanada processes and culture. As we expand our presence into eastern Canada we are establishing regional and brand specialists whose role it is to ensure that every store in our portfolio meets not only our volume and profit targets but also every automakers' sales and customer satisfaction objectives.

AutoCanada continues to diligently evaluate acquisition opportunities. We believe that we have sufficient capital to acquire stores that meet our specific criteria in 2017. While our focus remains on flagship stores in major markets, we are also targeting smaller stores that offer both organic growth as well as synergies with our other local stores.

### Dealership Open Points

The retail automotive industry is a mature industry and rights to open new franchised automobile dealerships are rarely awarded by the automobile manufacturers. However, from time to time automobile manufacturers may seek to establish new dealerships in attractive markets. The right to open a new franchised automobile dealership in a specific location granted by an automobile manufacturer to a dealer is referred to in the industry as an Open Point. Generally, a new franchised automobile dealership is fully performing within one to three years depending on the manufacturer and location.

The Company will review on a case by case basis whether to own or lease a particular dealership facility. In either case, the Company would incur the costs of equipping and furnishing these facilities, including the costs relating to the integration of our management information systems into the new dealerships. Costs relating to Open Points are significant, and vary by dealership depending upon size and location.

#### *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 has constructed an approximately 45,000 square foot facility in Sherwood Park, designed to Volkswagen Canada image standards. The dealership opened on February 1, 2017. The Volkswagen Open Point has a potential of 800 new vehicles annually which the Company anticipates achieving in two to three years of operation.

#### *Nissan – Calgary, Alberta*

The dealership construction is expected to begin late 2017 with anticipated opening in mid 2018. The dealership will be constructed by a third party and subsequently leased by the Company.

#### *Nissan - Ottawa, Ontario*

AutoCanada intends to operate the dealership out of a new facility, designed to Nissan image standards, with construction commenced and anticipated opening in late 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 currently planned dealership relocations to be approximately \$67.6 million to the beginning of 2020. 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 \$63.6 million in capital costs that it may incur to expand or renovate various current locations through to 2021. 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 to construct suitable facilities for Open Points. The Company currently estimates approximately \$14.1 million in capital costs that it may incur by the first quarter of 2020 related to currently awarded Open Points. If awarded in the future, Management will provide additional cost estimates and timing of construction. To be successful in some opportunities, Management may be required to secure appropriate land for the potential Open Points, in which case, additional land purchase costs may be incurred in the future.

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

| <b>(in millions of dollars)</b>                       | <b>2017</b> | <b>2018</b> | <b>2019</b> | <b>2020</b> | <b>2021</b> | <b>Total</b> |
|---|-------------|-------------|-------------|-------------|-------------|--------------|
| <b>Same Store</b>                                     |             |             |             |             |             |              |
| Dealership Relocations                                | 16.7        | 15.8        | 33.1        | 2.0         | -           | 67.6         |
| Current Dealership Expansion and Imaging Requirements | 5.2         | 13.9        | -           | 3.0         | 9.5         | 31.6         |
| <b>Capital Plan</b>                                   | 21.9        | 29.7        | 33.1        | 5.0         | 9.5         | 99.2         |
| <b>Cash Outlay<sup>1</sup></b>                        | 16.3        | 17.6        | 21.1        | 5.0         | 9.5         | 69.5         |
| <b>Non Same Store</b>                                 |             |             |             |             |             |              |
| Current Dealership Expansion and Imaging Requirements | 2.9         | 5.0         | 6.8         | 9.5         | 7.8         | 32.0         |
| Open Point Opportunities                              | 2.7         | 7.6         | 2.1         | 1.7         | -           | 14.1         |
| <b>Capital Plan</b>                                   | 5.6         | 12.6        | 8.9         | 11.2        | 7.8         | 46.1         |
| <b>Cash Outlay<sup>1</sup></b>                        | 5.6         | 12.6        | 8.9         | 11.2        | 7.8         | 46.1         |
| <b>Total Capital Plan</b>                             | 27.5        | 42.3        | 42.0        | 16.2        | 17.3        | 145.3        |
| <b>Total Cash outlay<sup>1</sup></b>                  | 21.9        | 30.2        | 30.0        | 16.2        | 17.3        | 115.6        |

<sup>(1)</sup> Refers to amount expected to be funded by internal Company cash flow.

The five year capital plan at March 31, 2017 is \$145.3 million for contemplated future capital projects remaining. Of this, the Company is committed to capital expenditure obligations in the amount of \$15.8 million with expected completion of these commitments during the year.

Notwithstanding the capital plan laid out above, expected capital expenditures are subject to deferral due to issues in obtaining permits, construction delays, changes in re-imaging requirements, economic factors, or other delays that are normal to the construction process. The above is considered to be a guide for when the Company expects to perform capital expenditures, however, significant deferral may occur in the future. Management closely monitors the capital plan and adjusts as appropriate based on Company performance, manufacturer requirements, expected economic conditions, and individual dealership needs. Management performs a robust analysis on all future expenditures prior to the allocation of funds. Timing of dealership relocations is determined based on the dealership's current performance, the market, and expected return on invested capital. It is expected that a dealership relocation will result in improved performance and increased profitability.



## 9. 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 had drawn \$152.1 million on its \$250.0 million revolving term facility.

Under our franchise agreements, manufacturers require us to maintain a minimum level of working capital. We maintain working capital in excess of manufacturer requirements which may be used for capital expenditures.

### **Cash Flow from Operating Activities**

Cash flow from operating activities (including changes in non-cash working capital) of the Company for the three month period ended March 31, 2017 was \$3.0 million (cash provided by operating activities of \$15.8 million less negative net change in non-cash working capital of \$12.8 million) compared to \$6.8 million (cash provided by operating activities of \$8.7 million less negative net change in non-cash working capital of \$1.9 million) in the same period of the prior year. The decrease is mainly attributable to lower net income of \$5.8 million compared to \$9.0 million in Q1 2016.

### **Cash Flow from Investing Activities**

For the three month period ended March 31, 2017, cash flow from investing activities of the Company was a net outflow of \$5.0 million as compared to a net inflow of \$2.2 million in the same period of the prior year, which is mainly attributable to proceeds on divestiture of dealership of \$10.1 million in Q1 2016 that did not exist this quarter.

### **Cash Flow from Financing Activities**

For the three month period ended March 31, 2017, cash flow from financing activities was a net outflow of \$3.8 million as compared to a net outflow of \$1.6 million in the same period of 2016, which is mainly attributable the net repayment of indebtedness this quarter compared to net proceeds from indebtedness in Q1 2016, and dividends paid to non-controlling interests by subsidiaries that did not occur in Q1 2016.

### **Credit Facilities and Floor Plan Financing**

Details of the Company's credit facilities and floorplan financing are included in Note 28 of the annual audited consolidated financial statements for the year ended December 31, 2016. Updates to credit facilities and floorplan financing are included in Note 18 of the interim consolidated financial statements for the three month period ended March 31, 2017.

## Key Financial Covenants

The Company is required by its debt agreements to comply with several financial covenants. The following is a summary of the Company's actual performance against its financial covenants as at March 31, 2017:

|                               |                                     | Q1 2017            | Q4 2016            |
|-------------------------------|-------------------------------------|--------------------|--------------------|
| Financial Covenant            | Requirement                         | Actual Calculation | Actual Calculation |
| <b>Syndicated Revolver:</b>   |                                     |                    |                    |
| Senior Secured Leverage Ratio | Shall not exceed 2.75               | 1.85               | 1.77               |
| Adjusted Total Leverage Ratio | Shall not exceed 5.00               | 4.42               | 4.28               |
| Fixed Charge Coverage Ratio   | Shall not be less than 1.20         | 3.21               | 2.96               |
| Current Ratio                 | Shall not be less than 1.05         | 1.09               | 1.13               |
| <b>Syndicated Floorplan:</b>  |                                     |                    |                    |
| Current Ratio                 | Shall not be less than 1.10         | 1.13               | 1.16               |
| Tangible Net Worth (millions) | Shall not be less than \$40 million | \$83.0             | \$121.9            |
| Debt to Tangible Net Worth    | Shall not exceed 7.50               | 5.45               | 3.31               |

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 drop in performance would be necessary to breach the covenants.

As at March 31, 2017, 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, 2016. There have been no significant changes to the Company's financial instruments since that time.

## Growth vs. Non-Growth Capital Expenditures

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

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

| (in thousands of dollars) | January 1, 2017<br>to March 31, 2017 | January 1, 2016<br>to March 31, 2016 |
|---------------------------|--------------------------------------|--------------------------------------|
| Leasehold improvements    | -                                    | 1,980                                |
| Machinery and equipment   | 290                                  | 338                                  |
| Furniture and fixtures    | 107                                  | 225                                  |
| Computer equipment        | 107                                  | 176                                  |
|                           | 504                                  | 2,719                                |

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. Dealership relocations are included as growth expenditures if they contribute to the expansion of sales and service capacity of the dealership. During the three month period ended March 31, 2017, growth capital expenditures of \$4.3 million were incurred. These expenditures related primarily to costs relating to the opening of Sherwood Park Volkswagen as well as building construction costs for dealership relocations and future Open Point dealerships.

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

| (in thousands of dollars)  | January 1, 2017 to<br>March 31, 2017 | January 1, 2016 to<br>March 31, 2016 |
|--|--------------------------------------|--------------------------------------|
| Purchase of property and equipment from the Statement of Cash Flows  | 4,844                                | 6,864                                |
| Less: Amounts related to the expansion of sales and service capacity | (4,340)                              | (4,145)                              |
| Purchase of non-growth property and equipment                        | 504                                  | 2,719                                |

Repairs and maintenance expenditures are expensed as incurred and have been deducted from earnings for the period. Repairs and maintenance expense incurred during the three month period ended March 31, 2017 were \$1.6 million (2016 \$1.6 million).

### Planned Capital Expenditures

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

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

### Financial Position

The following table shows selected audited balances of the Company (in thousands) for December 31, 2016 and December 31, 2015, as well as unaudited balances of the Company at March 31, 2017, September 30, 2016, June 30, 2016, March 31, 2016, September 30, 2015, and June 30, 2015:

| (in thousands of dollars)              | March 31,<br>2017 | Dec. 31,<br>2016 | Sep. 30,<br>2016 | Jun. 30,<br>2016 | Mar. 31,<br>2016 | Dec. 31,<br>2015 | Sep. 30,<br>2015 | Jun. 30,<br>2015 |
|--|-------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Cash and cash equivalents              | 100,402           | 103,221          | 96,368           | 77,582           | 72,878           | 62,274           | 77,071           | 77,676           |
| Trade and other receivables            | 113,688           | 85,587           | 108,363          | 115,427          | 116,092          | 90,821           | 118,853          | 124,683          |
| Inventories                            | 701,559           | 619,718          | 597,831          | 555,957          | 628,641          | 596,542          | 581,258          | 620,837          |
| Total Assets                           | 1,707,063         | 1,600,615        | 1,547,344        | 1,548,879        | 1,578,225        | 1,532,182        | 1,508,028        | 1,517,978        |
| Revolving floorplan facilities         | 688,173           | 582,695          | 569,581          | 532,283          | 600,578          | 548,322          | 550,857          | 607,694          |
| Non-current debt and lease obligations | 330,563           | 330,351          | 291,408          | 295,922          | 293,273          | 285,759          | 313,073          | 287,202          |

## Net Working Capital

The automobile manufacturers represented by the Company require the Company to maintain net working capital for each individual dealership. At March 31, 2017, the aggregate of net working capital requirements was approximately \$104.6 million. At March 31, 2017, 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 consolidated financial statements.

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 and consolidate funds.

## Off Balance Sheet Arrangements

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

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

| (in thousands of dollars) | \$             |
|---------------------------|----------------|
| 2017                      | 14,632         |
| 2018                      | 17,370         |
| 2019                      | 14,945         |
| 2020                      | 12,984         |
| 2021                      | 12,752         |
| Thereafter                | 124,594        |
| <b>Total</b>              | <b>197,277</b> |

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 34 of the annual consolidated financial statements of the Company for the year ended December 31, 2016 summarizes the transactions between the Company and its related parties.

### *Administrative support fees*

The Company currently earns administrative support fees from companies controlled by Mr. Patrick Priestner ("Priestner"), the Chair of the Board of Directors of AutoCanada. The administrative support fees consist of a portion of human resource and fixed costs associated with providing technological and administrative 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 overhead expenses.

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 has provided dealership loan financing to PPH Holdings Ltd. ("PPH"), a company controlled and formed by Priestner. The Company holds no ownership interest in PPH or its subsidiaries. The loans to associates have been structured as executed to satisfy the requirements of the manufacturer.

## 10. OUTSTANDING SHARES

As at March 31, 2017, the Company had 27,459,683 common shares outstanding. Basic and diluted weighted average number of shares outstanding for the three month period ended March 31, 2017 were 27,358,766 and 27,509,758, respectively. As at March 31, 2017, the value of the shares held in trust was \$2.1 million (2016 - \$3.6 million) which was comprised of 95,123 (2016 - 133,093) shares. As at May 4, 2017, there were 27,459,683 shares issued and outstanding.

## 11. DIVIDENDS

Management reviews the Company's financial results on a monthly basis. The Board of Directors reviews the financial results periodically to determine whether a dividend shall be paid based on a number of factors.

The following table summarizes the dividends declared by the Company in 2017:

| Record date       | Payment date   | Per Share \$ | Total \$ |
|-------------------|----------------|--------------|----------|
| February 28, 2017 | March 15, 2017 | 0.10         | 2,736    |

On May 4, 2017 the Board declared a quarterly eligible dividend of \$0.10 per common share on AutoCanada's outstanding Class A shares, payable on June 15, 2017 to shareholders of record at the close of business on May 31, 2017.

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

## 12. FREE CASH FLOW

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

| (in thousands of dollars, except unit and per unit amounts) | Q1 2017    | Q4 2016    | Q3 2016    | Q2 2016    | Q1 2016    | Q4 2015    | Q3 2015    | Q2 2015    |
|---|------------|------------|------------|------------|------------|------------|------------|------------|
| Cash provided by operating activities                       | 2,967      | 24,930     | 32,594     | 40,374     | 6,831      | 12,420     | 20,139     | 21,004     |
| <b>Deduct:</b>  |            |            |            |            |            |            |            |            |
| Purchase of property and equipment                          | (2,346)    | (1,506)    | (1,697)    | (2,452)    | (2,786)    | (3,354)    | (5,144)    | (3,228)    |
| <b>Free cash flow <sup>1</sup></b>                          | 621        | 23,424     | 30,897     | 37,922     | 4,045      | 9,066      | 14,995     | 17,776     |
| Weighted average shares outstanding at end of period        | 27,358,766 | 27,353,431 | 27,347,585 | 27,338,767 | 27,362,440 | 25,016,637 | 24,440,080 | 24,424,598 |
| <b>Free cash flow per share</b>                             | 0.02       | 0.86       | 1.13       | 1.39       | 0.15       | 0.36       | 0.61       | 0.73       |
| <b>Free cash flow 12 month trailing</b>                     | 92,864     | 96,288     | 81,930     | 66,028     | 45,882     | 38,675     | 69,431     | 60,695     |

<sup>(1)</sup> This financial measure is identified and defined under the section "NON-GAAP MEASURES".

Management believes that 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 decrease in cash due to changes in non-cash working capital for the three month periods ended March 31, 2017 and March 31, 2016.

| (in thousands of dollars)      | January 1, 2017 to March 31, 2017 | January 1, 2016 to March 31, 2016 |
|--------------------------------|-----------------------------------|-----------------------------------|
| Trade and other receivables    | (28,101)                          | (25,254)                          |
| Inventories                    | (82,837)                          | (32,601)                          |
| Finance lease receivables      | 663                               | (600)                             |
| Other current assets           | (1,090)                           | (2,030)                           |
| Trade and other payables       | (6,522)                           | 6,438                             |
| Vehicle repurchase obligations | (345)                             | (132)                             |
| Revolving floorplan facilities | 105,478                           | 52,256                            |
|                                | (12,754)                          | (1,923)                           |



## Adjusted Free Cash Flow

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

| (in thousands of dollars, except unit and per unit amounts)                      | Q1 2017    | Q4 2016    | Q3 2016    | Q2 2016    | Q1 2016    | Q4 2015    | Q3 2015    | Q2 2015    |
|--|------------|------------|------------|------------|------------|------------|------------|------------|
| Cash provided by operating activities before changes in non-cash working capital | 15,721     | 14,344     | 28,996     | 24,050     | 8,754      | 11,242     | 23,082     | 22,386     |
| <b>Deduct:</b>   |            |            |            |            |            |            |            |            |
| Purchase of non-growth property and equipment                                    | (504)      | (1,211)    | (1,230)    | (2,418)    | (2,719)    | (3,164)    | (4,131)    | (3,199)    |
| <b>Adjusted free cash flow<sup>1</sup></b>                                       | 15,217     | 13,133     | 27,766     | 21,632     | 6,035      | 8,078      | 18,951     | 19,187     |
| Weighted average shares outstanding at end of period                             | 27,358,766 | 27,353,431 | 27,347,585 | 27,338,767 | 27,362,440 | 25,016,637 | 24,440,080 | 24,424,598 |
| <b>Adjusted free cash flow per share</b>   | 0.56       | 0.48       | 1.02       | 0.79       | 0.22       | 0.32       | 0.78       | 0.79       |
| <b>Adjusted free cash flow-12 month trailing</b>                                 | 77,748     | 68,566     | 63,511     | 54,696     | 52,251     | 38,796     | 47,840     | 51,002     |

<sup>(1)</sup> This financial measure is identified and defined under the section "NON-GAAP MEASURES".

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

In the three month period ended March 31, 2017, the Company paid approximately \$2.8 million in 2017 tax installments (2016 - \$6.3 million). Accordingly, this reduced our adjusted free cash flow by this amount. The Company expects the payment of corporate income taxes to have a more significant negative affect on free cash flow and adjusted free cash flow. See "RESULTS FROM OPERATIONS - Income Taxes" for further detail regarding the impact of corporate income taxes on cash flow.

## Adjusted Return on Capital Employed

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

| (in thousands of dollars, except unit and per unit amounts)    | Q1<br>2017     | Q4<br>2016     | Q3<br>2016     | Q2<br>2016     | Q1<br>2016     | Q4<br>2015     | Q3<br>2015     | Q2<br>2015     |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| EBITDA <sup>1,2</sup>  | 17,228         | 28,536         | 26,915         | 30,845         | 21,010         | 23,524         | 29,487         | 30,730         |
| <b>Deduct:</b>   |                |                |                |                |                |                |                |                |
| Depreciation of property and equipment                         | (4,852)        | (4,921)        | (4,860)        | (4,822)        | (4,954)        | (5,176)        | (5,063)        | (4,461)        |
| <b>EBIT<sup>1,2</sup></b>                                      | <b>12,376</b>  | <b>23,615</b>  | <b>22,055</b>  | <b>26,023</b>  | <b>16,056</b>  | <b>18,348</b>  | <b>24,424</b>  | <b>26,269</b>  |
| Average long-term debt   | 351,986        | 333,310        | 315,678        | 310,281        | 300,520        | 312,471        | 314,443        | 277,571        |
| Average shareholder’s equity                                   | 498,732        | 491,026        | 503,163        | 516,513        | 510,595        | 481,112        | 447,774        | 439,711        |
| <b>Average capital employed<sup>1</sup></b>                    | <b>850,718</b> | <b>824,336</b> | <b>818,841</b> | <b>826,794</b> | <b>811,115</b> | <b>793,583</b> | <b>762,217</b> | <b>717,282</b> |
| <b>Return on capital</b>                                       | <b>1.5%</b>    | <b>2.9%</b>    | <b>2.7%</b>    | <b>3.1%</b>    | <b>2.0%</b>    | <b>2.3%</b>    | <b>3.2%</b>    | <b>3.7%</b>    |
| Comparative adjustment <sup>3</sup>                            | 25,959         | 25,959         | (13,191)       | (13,191)       | (13,191)       | (13,191)       | (17,264)       | (17,264)       |
| <b>Adjusted average capital employed<sup>1</sup></b>           | <b>876,677</b> | <b>830,720</b> | <b>805,650</b> | <b>813,603</b> | <b>797,924</b> | <b>778,354</b> | <b>744,953</b> | <b>700,018</b> |
| <b>Adjusted return on capital employed<sup>1</sup></b>         | <b>1.4%</b>    | <b>2.8%</b>    | <b>2.7%</b>    | <b>3.2%</b>    | <b>2.0%</b>    | <b>2.4%</b>    | <b>3.3%</b>    | <b>3.8%</b>    |
| <b>Adjusted return on capital employed - 12 month trailing</b> | <b>9.9%</b>    | <b>10.9%</b>   | <b>10.6%</b>   | <b>11.2%</b>   | <b>11.7%</b>   | <b>11.2%</b>   | <b>12.7%</b>   | <b>15.5%</b>   |

<sup>(1)</sup> These financial measures are identified and defined under the section “NON-GAAP MEASURES”.

<sup>(2)</sup> EBITDA and EBIT used in the calculation of Adjusted Return on Capital Employed is calculated using the financial results including non-controlling interests.

<sup>(3)</sup> A comparative adjustment has been made 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 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 to ensure shareholder value is being achieved by these capital investments.

## **13. CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICY DEVELOPMENTS**

A complete listing of critical accounting policies, estimates, judgments and measurement uncertainty can be found in Notes 3 and 5 of the annual consolidated financial statements for the year ended December 31, 2016.

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are not yet effective for the period ended March 31, 2017. 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, 2016. The Company adopted the amendments to IAS 7, Statement of Cash Flows, effective for the interim and annual consolidated financial statements commencing January 1, 2017. The amendment standard does not have a material impact on the financial statements.

## **14. DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

During the quarter ended March 31, 2017, there were no changes in the Company's disclosure controls or internal controls over financial reporting that materially affected, or would be reasonable likely to materially affect, such controls.

## **15. RISK FACTORS**

We face a number of business risks that could cause our actual results to differ materially from those disclosed in this MD&A (See "FORWARD LOOKING STATEMENTS"). Investors and the public should carefully consider our business risks, other uncertainties and potential events as well as the inherent uncertainty of forward looking statements when making investment decisions with respect to AutoCanada. If any of the business risks identified by AutoCanada were to occur, our business, financial condition, results of operations, cash flows or prospects could be materially adversely affected. In such case, the trading price of our shares could decline. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also adversely affect our business and operations. A comprehensive discussion of the known risk factors of AutoCanada and additional business risks is available in our 2016 Annual Information Form dated March 16, 2017 available on the SEDAR website at [www.sedar.com](http://www.sedar.com).

## **16. 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.

Details of the Company's material forward looking statements are included in the Company's most recent Annual Information Form. The Company's most recent Annual Information Form and other documents filed with securities regulatory authorities (accessible through the SEDAR website [www.sedar.com](http://www.sedar.com)) describe the risks, material assumptions and other factors that could influence actual results and which are incorporated herein by reference.

Further, any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by applicable law, we undertake no obligation to update any forward looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for Management to predict all of such factors and to assess in advance the impact of each such factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward looking statement.

## 17. NON-GAAP MEASURES

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

### **EBITDA**

EBITDA is a measure commonly reported and widely used by investors as an indicator of a company's operating performance and ability to incur and service debt, and as a valuation metric. The Company believes EBITDA assists investors in comparing a company's performance on a consistent basis without regard to depreciation and amortization and asset impairment charges which are non-cash in nature and can vary significantly depending upon accounting methods or non-operating factors such as historical cost. References to "EBITDA" are to earnings before interest expense (other than interest expense on floorplan financing and other interest), income taxes, depreciation, amortization and asset impairment charges. EBITDA attributable to AutoCanada shareholders refers to the parent portion of consolidated financial results. Non-controlling interest (the portion of ownership not attributable to the parent) is excluded.

### **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, the unrealized gain or loss on embedded derivatives, gains or losses on dealership divestitures and certain non-recurring items are added back to EBITDA to get to adjusted EBITDA. The Company believes adjusted EBITDA provides a better representation of continuing operations and improved continuity with respect to the comparison of our operating results over a period of time. Adjusted EBITDA attributable to AutoCanada shareholders refers to the parent portion of consolidated financial results. Non-controlling interest (the portion of ownership not attributable to the parent) is excluded.

## **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, gains or losses on dealership divestitures and certain non-recurring items. Adding back these amounts to net earnings allows Management to better assess the net earnings of the Company from continuing 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, utility 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 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 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.



**CONDENSED INTERIM  
CONSOLIDATED FINANCIAL  
STATEMENTS (UNAUDITED)**

March 31, 2017



# AutoCanada Inc.

## Condensed Interim Consolidated Statements of Comprehensive Income

(Unaudited)

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

|   | Three month<br>period ended<br>March 31,<br>2017<br>\$ | Three month<br>period ended<br>March 31,<br>2016<br>\$ |
|---|--|--|
| <b>Revenue</b> (Note 6)   | 639,027  | 666,872  |
| <b>Cost of sales</b> (Note 7)   | (527,400)  | (555,163)  |
| <b>Gross profit</b>   | 111,627  | 111,709  |
| <b>Operating expenses</b> (Note 8)                                    | (98,170)   | (96,047)   |
| <b>Operating profit before other income</b>                           | 13,457   | 15,662   |
| Lease and other income, net   | 1,756  | 1,159  |
| Gain on disposal of assets, net                                       | 80   | 3,347  |
| Income from loans to associate (Note 16)                              | 345  | 315  |
| <b>Operating profit</b>   | 15,638   | 20,483   |
| Finance costs (Note 9)  | (8,648)  | (7,539)  |
| Finance income (Note 9)   | 450  | 486  |
| Other gains (losses)  | 310  | (1,262)  |
| <b>Net income for the period before taxes</b>                         | 7,750  | 12,168   |
| Income taxes (Note 10)  | 1,995  | 3,116  |
| <b>Net and comprehensive income for the period</b>                    | 5,755  | 9,052  |
| <b>Net and comprehensive income for the period attributable to:</b>   |  |  |
| AutoCanada shareholders   | 3,678  | 7,272  |
| Non-controlling interests   | 2,077  | 1,780  |
|   | 5,755  | 9,052  |
| <b>Net earnings per share attributable to AutoCanada shareholders</b> |  |  |
| Basic   | 0.13   | 0.27   |
| Diluted   | 0.13   | 0.27   |
| <b>Weighted average shares</b>  |  |  |
| Basic (Note 21)   | 27,358,766   | 27,362,440   |
| Diluted (Note 21)   | 27,509,758   | 27,427,695   |

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

Approved on behalf of the Company:



Gordon R. Barefoot, Lead Director



Barry L. James, Director

# AutoCanada Inc.

## Condensed Interim Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

|   | March 31,<br>2017<br>(Unaudited)<br>\$ | December 31,<br>2016<br>\$ |
|---|--|----------------------------|
| <b>ASSETS</b>   |  |                            |
| <b>Current assets</b>   |  |                            |
| Cash and cash equivalents (Note 11)                             | 100,402                                | 103,221                    |
| Trade and other receivables (Note 12)                           | 113,688                                | 85,587                     |
| Inventories (Note 13)   | 701,559                                | 619,718                    |
| Current tax recoverable   | -                                      | 2,262                      |
| Current portion of finance lease receivables (Note 14)          | 3,742                                  | 3,797                      |
| Other current assets  | 6,323                                  | 4,219                      |
| Asset held for sale   | 1,556                                  | 1,556                      |
|   | 927,270                                | 820,360                    |
| <b>Restricted cash</b> (Note 11)                                | 6,574                                  | 6,558                      |
| <b>Property and equipment</b> (Note 15)                         | 343,680                                | 342,768                    |
| <b>Loans to associate</b> (Note 16)                             | 15,071                                 | 14,726                     |
| <b>Long-term portion of finance lease receivables</b> (Note 14) | 5,139                                  | 5,747                      |
| <b>Other long-term assets</b>                                   | 5,983                                  | 7,110                      |
| <b>Intangible assets</b>  | 378,982                                | 378,982                    |
| <b>Goodwill</b>   | 24,364                                 | 24,364                     |
|   | 1,707,063                              | 1,600,615                  |
| <b>LIABILITIES</b>  |  |                            |
| <b>Current liabilities</b>                                      |  |                            |
| Bank indebtedness (Note 11)                                     | 3,252                                  | 226                        |
| Trade and other payables (Note 17)                              | 83,995                                 | 90,131                     |
| Revolving floorplan facilities (Note 18)                        | 688,173                                | 582,695                    |
| Current tax payable   | 5,037                                  | -                          |
| Vehicle repurchase obligations                                  | 6,449                                  | 6,794                      |
| Current indebtedness (Note 18)                                  | 21,378                                 | 21,679                     |
| Current portion of redemption liabilities                       | 44,964                                 | 22,752                     |
|   | 853,248                                | 724,277                    |
| <b>Long-term indebtedness</b> (Note 18)                         | 330,563                                | 330,351                    |
| <b>Deferred income tax</b>                                      | 22,191                                 | 24,683                     |
| <b>Redemption liabilities</b>                                   | 1,190                                  | 23,712                     |
|   | 1,207,192                              | 1,103,023                  |
| <b>EQUITY</b>   |  |                            |
| <b>Attributable to AutoCanada shareholders</b>                  | 441,434                                | 440,081                    |
| <b>Attributable to Non-controlling interests</b>                | 58,437                                 | 57,511                     |
|   | 499,871                                | 497,592                    |
|   | 1,707,063                              | 1,600,615                  |

### Commitments (Note 19)

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

# AutoCanada Inc.

## Condensed Interim Consolidated Statements of Changes in Equity

(Unaudited)

(in thousands of Canadian dollars)

|   | Attributable to AutoCanada shareholders |                     |                     |               | Non-controlling interests | Total equity |
|---|---|---------------------|---------------------|---------------|---------------------------|--------------|
|   | Share capital                           | Contributed surplus | Accumulated deficit | Total capital |                           |              |
|   | \$                                      | \$                  | \$                  | \$            | \$                        | \$           |
| <b>Balance, January 1, 2017</b>                                 | 507,886                                 | 5,223               | (73,028)            | 440,081       | 57,511                    | 497,592      |
| Net and comprehensive income                                    | -                                       | -                   | 3,678               | 3,678         | 2,077                     | 5,755        |
| Dividends declared on common shares (Note 21)                   | -                                       | -                   | (2,736)             | (2,736)       | -                         | (2,736)      |
| Dividends declared by subsidiaries to non-controlling interests | -                                       | -                   | -                   | -             | (1,151)                   | (1,151)      |
| Dividends reinvested (Note 21)                                  | (10)                                    | -                   | -                   | (10)          | -                         | (10)         |
| Treasury shares settled (Note 21)                               | 223                                     | (223)               | -                   | -             | -                         | -            |
| Share-based compensation  | -                                       | 421                 | -                   | 421           | -                         | 421          |
| <b>Balance, March 31, 2017</b>                                  | 508,099                                 | 5,421               | (72,086)            | 441,434       | 58,437                    | 499,871      |

|   | Attributable to AutoCanada shareholders |                     |                     |               | Non-controlling interests | Total equity |
|---|---|---------------------|---------------------|---------------|---------------------------|--------------|
|   | Share capital                           | Contributed surplus | Accumulated deficit | Total capital |                           |              |
|   | \$                                      | \$                  | \$                  | \$            | \$                        | \$           |
| <b>Balance, January 1, 2016</b>               | 508,237                                 | 4,286               | (60,578)            | 451,945       | 58,084                    | 510,029      |
| Net and comprehensive income                  | -                                       | -                   | 7,272               | 7,272         | 1,780                     | 9,052        |
| Dividends declared on common shares (Note 21) | -                                       | -                   | (6,840)             | (6,840)       | -                         | (6,840)      |
| Treasury shares acquired (Note 21)            | (1,233)                                 | -                   | -                   | (1,233)       | -                         | (1,233)      |
| Dividends reinvested (Note 21)                | (24)                                    | -                   | -                   | (24)          | -                         | (24)         |
| Share-based compensation                      | -                                       | 176                 | -                   | 176           | -                         | 176          |
| <b>Balance, March 31, 2016</b>                | 506,980                                 | 4,462               | (60,146)            | 451,296       | 59,864                    | 511,160      |

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<br>period ended<br>March 31,<br>2017<br>\$ | Three month<br>period ended<br>March 31,<br>2016<br>\$ |
|---|--|--|
| <b>Cash provided by (used in):</b>                                |  |  |
| <b>Operating activities</b>                                       |  |  |
| Net and comprehensive income                                      | 5,755  | 9,052  |
| Income taxes (Note 10)  | 1,995  | 3,116  |
| Amortization of prepaid rent                                      | 113  | 113  |
| Depreciation of property and equipment (Note 8)                   | 4,852  | 4,954  |
| Gain on disposal of assets  | (80)   | (3,347)  |
| Share-based compensation - equity-settled                         | 421  | 176  |
| Share-based compensation - cash-settled                           | 163  | (326)  |
| Revaluation of redemption liabilities                             | (310)  | 1,262  |
| Revaluation of contingent consideration                           | -  | 33   |
| Unrealized loss on embedded derivative (Note 9)                   | -  | 20   |
| Income taxes recovered (paid)                                     | 2,812  | (6,299)  |
| Net change in non-cash working capital (Note 23)                  | (12,754)   | (1,923)  |
|   | 2,967  | 6,831  |
| <b>Investing activities</b>                                       |  |  |
| Additions to restricted cash (Note 11)                            | (16)   | (16)   |
| Purchases of property and equipment (Note 15)                     | (4,844)  | (6,864)  |
| Proceeds on sale of property and equipment                        | 156  | 22   |
| Loans to associate (Note 16)                                      | (345)  | (1,048)  |
| Proceeds on divestiture of dealership                             | -  | 10,077   |
|   | (5,049)  | 2,171  |
| <b>Financing activities</b>                                       |  |  |
| Proceeds from indebtedness  | 20,158   | 36,979   |
| Repayment of indebtedness   | (20,247)   | (30,478)   |
| Common shares settled (repurchased), net (Note 21)                | 213  | (1,257)  |
| Dividends paid (Note 21)  | (2,736)  | (6,840)  |
| Dividends paid to non-controlling interests by subsidiaries       | (1,151)  | -  |
|   | (3,763)  | (1,596)  |
| <b>Net (decrease) increase in cash and cash equivalents</b>       | (5,845)  | 7,406  |
| <b>Cash and cash equivalents at beginning of period</b> (Note 11) | 102,995  | 61,376   |
| <b>Cash and cash equivalents at end of period</b> (Note 11)       | 97,150   | 68,782   |

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

# AutoCanada Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the Period Ended March 31, 2017

(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, 2016, which have been prepared in accordance with IFRS as issued by the IASB.

The condensed interim consolidated financial statements have been prepared on a going concern basis, under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value, including derivative instruments, redemption liabilities and liabilities for cash-settled share-based payment arrangements.

These financial statements were approved by the Board of Directors on May 4, 2017.

### 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, 2016.

Amendments to IFRS effective for the financial year ending December 31, 2017 are not expected to have a material impact on the Company.

### 4 New accounting pronouncement adopted in 2017

The Company adopted the amendments to IAS 7, *Statement of Cash Flows*, effective for the interim and annual consolidated financial statements commencing January 1, 2017. The amended standard does not have a material impact on the financial statements.

## 5 Critical accounting estimates, judgments & measurement uncertainty

The critical accounting estimates, judgments, and measurement uncertainty used in the preparation of these condensed interim consolidated financial statements are the same as disclosed in the consolidated annual financial statements for the year ended December 31, 2016.

## 6 Revenue

|                                     | Three month<br>period ended<br>March 31,<br>2017<br>\$ | Three month<br>period ended<br>March 31,<br>2016<br>\$ |
|-------------------------------------|--|--|
| New vehicles                        | 353,540  | 363,181  |
| Used vehicles                       | 165,408  | 180,108  |
| Finance, insurance and other        | 29,344   | 28,862   |
| Parts, service and collision repair | 90,735   | 94,721   |
|                                     | 639,027  | 666,872  |

## 7 Cost of sales

|                                     | Three month<br>period ended<br>March 31,<br>2017<br>\$ | Three month<br>period ended<br>March 31,<br>2016<br>\$ |
|-------------------------------------|--|--|
| New vehicles                        | 327,950  | 335,914  |
| Used vehicles                       | 153,468  | 169,688  |
| Finance, insurance and other        | 2,531  | 2,509  |
| Parts, service and collision repair | 43,451   | 47,052   |
|                                     | 527,400  | 555,163  |

## 8 Operating expenses

|  | Three month<br>period ended<br>March 31,<br>2017<br>\$ | Three month<br>period ended<br>March 31,<br>2016<br>\$ |
|--|--|--|
| Employee costs <sup>(1)</sup>          | 61,088   | 59,086   |
| Administrative costs <sup>(2)</sup>    | 26,547   | 26,096   |
| Facility lease costs                   | 5,683  | 5,911  |
| Depreciation of property and equipment | 4,852  | 4,954  |
|  | 98,170   | 96,047   |

<sup>(1)</sup> Employee costs includes management transition expenses related to the departure of the Company's former President.

<sup>(2)</sup> Administrative costs include professional fees, consulting services, technology-related expenses, marketing, and other general and administrative costs.

## 9 Finance costs and finance income

|  | Three month<br>period ended<br>March 31,<br>2017<br>\$ | Three month<br>period ended<br>March 31,<br>2016<br>\$ |
|--|--|--|
| <b>Finance costs:</b>                  |  |  |
| Interest on long-term indebtedness     | 4,626  | 3,888  |
| Unrealized loss on embedded derivative | -  | 20   |
| Floorplan financing                    | 3,295  | 3,030  |
| Other interest expense                 | 727  | 601  |
|  | 8,648  | 7,539  |
| <b>Finance income:</b>                 |  |  |
| Short-term bank deposits               | (450)  | (486)  |

Cash interest paid during the three month period ended March 31, 2017 was \$6,509 (2016 - \$5,283).

## 10 Taxation

Components of income tax expense were as follows:

|                          | Three month<br>period ended<br>March 31,<br>2017<br>\$ | Three month<br>period ended<br>March 31,<br>2016<br>\$ |
|--------------------------|--|--|
| Current tax              | 4,487  | 11,941   |
| Recovery of deferred tax | (2,492)  | (8,825)  |
| Total income tax expense | 1,995  | 3,116  |

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 rate used for the period ended March 31, 2017 was 26.9% (2016 - 26.8%).

## 11 Cash and cash equivalents

|  | March 31,<br>2017<br>\$ | December 31,<br>2016<br>\$ |
|--|-------------------------|----------------------------|
| Cash at bank and on hand                                       | 73,414                  | 79,168                     |
| Short-term deposits  | 26,988                  | 24,053                     |
| <b>Cash and cash equivalents (excluding bank indebtedness)</b> | 100,402                 | 103,221                    |
| Bank indebtedness  | (3,252)                 | (226)                      |
| <b>Cash and cash equivalents</b>                               | 97,150                  | 102,995                    |
| Restricted cash  | 6,574                   | 6,558                      |
| <b>Cash and cash equivalents and restricted cash</b>           | 103,724                 | 109,553                    |

## 12 Trade and other receivables

|                                       | March 31,<br>2017<br>\$ | December 31,<br>2016<br>\$ |
|---------------------------------------|-------------------------|----------------------------|
| Trade receivables                     | 109,262                 | 81,511                     |
| Less: Allowance for doubtful accounts | (3,005)                 | (2,810)                    |
| <b>Net trade receivables</b>          | 106,257                 | 78,701                     |
| Other receivables                     | 7,431                   | 6,886                      |
| <b>Trade and other receivables</b>    | 113,688                 | 85,587                     |

## 13 Inventories

|                       | March 31,<br>2017<br>\$ | December 31,<br>2016<br>\$ |
|-----------------------|-------------------------|----------------------------|
| New vehicles          | 554,728                 | 471,610                    |
| Demonstrator vehicles | 47,934                  | 50,757                     |
| Used vehicles         | 71,832                  | 69,009                     |
| Parts and accessories | 27,065                  | 28,342                     |
|                       | 701,559                 | 619,718                    |

During the three month period ended March 31, 2017, \$520,726 of inventory (2016 - \$552,654) was expensed as cost of goods sold which included net recovery of write-downs on used vehicles of \$598 (2016 - net write-downs of \$256). During the three month period ended March 31, 2017, \$1,738 of demonstrator expense (2016 - \$1,375) was included in administration costs. During the three month period ended March 31, 2017, demonstrator reserves increased by \$901 (2016 - decreased by \$1,042). As at March 31, 2017, the Company had recorded reserves for inventory write-downs of \$5,439 (2016 - \$5,855).

## 14 Finance lease receivables

|   | March 31,<br>2017<br>\$ | December,31,<br>2016<br>\$ |
|---|-------------------------|----------------------------|
| <b>Current portion of finance lease receivables</b>   |                         |                            |
| Finance lease receivables                             | 4,162                   | 4,256                      |
| Unearned finance income - current                     | (420)                   | (459)                      |
|   | 3,742                   | 3,797                      |
| <b>Long-term portion of finance lease receivables</b> |                         |                            |
| Finance lease receivables                             | 5,553                   | 6,217                      |
| Unearned finance income - long-term                   | (414)                   | (470)                      |
|   | 5,139                   | 5,747                      |
| Gross receivables from finance leases:                |                         |                            |
| No later than 1 year                                  | 4,162                   | 4,256                      |
| Later than 1 year and no later than 5 years           | 5,553                   | 6,217                      |
|   | 9,715                   | 10,473                     |
| Unearned future finance income on finance leases      | (834)                   | (929)                      |
| <b>Net investment in finance leases</b>               | 8,881                   | 9,544                      |
| Net investment in finance lease:                      |                         |                            |
| No later than 1 year                                  | 3,742                   | 3,797                      |
| Later than 1 year and no later than 5 years           | 5,139                   | 5,747                      |
|   | 8,881                   | 9,544                      |

## 15 Property and equipment

During the three month period ended March 31, 2017, the Company purchased \$4,844 (2016 - \$6,864) of fixed assets including land and building additions of \$2,499 (2015 - \$4,078) to be used for dealership relocations, dealership re-imagings, and dealership open points.

## 16 Loans to associate

### *PPH Holdings Ltd.*

The Company loaned funds to PPH Holdings Ltd. ("PPH") to acquire Whitby Oshawa Honda and Southview Acura. The Company holds no ownership interest in PPH, which is a company controlled, and formed, by Mr. Patrick Priestner ("Priestner"), the Chair of the Board of Directors of AutoCanada ("Chair"). The Company has no participation in the equity of PPH. Refer to Note 22 for disclosure over related parties.

The transactions relating to the Company's loans to PPH were as follows:

|                                   | <b>March 31,<br/>2017<br/>\$</b> | <b>December 31,<br/>2016<br/>\$</b> |
|-----------------------------------|----------------------------------|-------------------------------------|
| Outstanding, beginning of period  | 14,726                           | 8,470                               |
| Issuance of loan                  | -                                | 3,120                               |
| Accrued interest income (Note 22) | 168                              | 603                                 |
| Accrued licensing fees (Note 22)  | 177                              | 562                                 |
| Additional advances               | -                                | 1,971                               |
| Outstanding, end of period        | 15,071                           | 14,726                              |

## 17 Trade and other payables

|                                     | <b>March 31,<br/>2017<br/>\$</b> | <b>December 31,<br/>2016<br/>\$</b> |
|-------------------------------------|----------------------------------|-------------------------------------|
| Trade payables                      | 39,182                           | 45,783                              |
| Accruals and provisions             | 16,820                           | 14,681                              |
| Sales tax payable                   | 6,506                            | 5,339                               |
| Wages and withholding taxes payable | 21,487                           | 24,328                              |
|                                     | 83,995                           | 90,131                              |

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

|                                      | <b>Finance and<br/>insurance <sup>(1)</sup><br/>\$</b> | <b>Other<br/>\$</b> | <b>Total<br/>\$</b> |
|--------------------------------------|--|---------------------|---------------------|
| <b>January 1, 2017</b>               | 1,428  | 788                 | 2,216               |
| Provisions arising during the period | 306  | 88                  | 394                 |
| Amounts expired or disbursed         | (28)   | (162)               | (190)               |
| <b>March 31, 2017</b>                | 1,706  | 714                 | 2,420               |

<sup>(1)</sup> Represents an estimated chargeback reserve provided by the Company's third party underwriter of finance and insurance products.



## 18 Indebtedness

|  | March 31,<br>2017<br>\$ | December 31,<br>2016<br>\$ |
|--|-------------------------|----------------------------|
| <b>Revolving floorplan facilities</b>                        |                         |                            |
| Revolving floorplan facilities - Syndicate                   | 410,708                 | 354,774                    |
| Revolving floorplan facilities - VCCI (i)                    | 40,304                  | 37,418                     |
| Revolving floorplan facilities - BMW Financial               | 71,843                  | 65,036                     |
| Revolving floorplan facilities - RBC                         | 112,404                 | 84,374                     |
| Revolving floorplan facilities - Scotiabank (ii)             | 37,199                  | 30,824                     |
| Revolving floorplan facilities - Toronto-Dominion Bank (iii) | 15,715                  | 10,269                     |
|  | <b>688,173</b>          | <b>582,695</b>             |
| <b>Indebtedness</b>  |                         |                            |
| <i>Senior unsecured notes</i>                                |                         |                            |
| Senior unsecured notes                                       | 149,739                 | 149,739                    |
| Embedded derivative  | (21)                    | (21)                       |
| Unamortized deferred financing costs                         | (2,236)                 | (2,370)                    |
|  | 147,482                 | 147,348                    |
| <i>HSBC revolving term facility (iv)</i>                     |                         |                            |
| HSBC revolving term facility                                 | 152,144                 | 151,121                    |
| Unamortized deferred financing costs                         | (893)                   | (402)                      |
|  | 151,251                 | 150,719                    |
| <i>Other debt:</i>   |                         |                            |
| Lease financing - RBC  | 6,868                   | 8,079                      |
| Lease financing - Scotiabank                                 | 623                     | 661                        |
| Servus mortgage  | 5,258                   | 5,319                      |
| VCCI mortgages   | 18,322                  | 17,431                     |
| BMW mortgage   | 19,253                  | 19,444                     |
| Other long-term debt   | 2,884                   | 3,029                      |
| <b>Total indebtedness</b>                                    | <b>351,941</b>          | <b>352,030</b>             |
| <b>Current indebtedness</b>                                  | <b>21,378</b>           | <b>21,679</b>              |
| <b>Long-term indebtedness</b>                                | <b>330,563</b>          | <b>330,351</b>             |

Updates to the terms and conditions of outstanding loans disclosed at December 31, 2016 are as follows:

- i. The Revolving floorplan facilities - VCCI provides a maximum amount of financing of \$61,555 as at March 31, 2017 (\$52,845 as at December 31, 2016).
- ii. The Revolving floorplan facilities - Scotiabank provides a maximum amount of financing of \$56,000 as at March 31, 2017 (\$50,400 as at December 31, 2016).
- iii. The Revolving floorplan facilities - Toronto-Dominion Bank provides a maximum amount of financing of \$23,500 as at March 31, 2017 (\$21,500 as at December 31, 2016).
- iv. The Company is in the first of five tiers of the pricing grid, with the first tier providing interest rates of HSBC's prime rate plus 1.75% (December 31, 2016 - 2.00%) for a total of 4.45% (December 31, 2016 - 4.70%). Amounts drawn as at March 31, 2017 are due May 22, 2020 (December 31, 2016 - May 22, 2018).

## 19 Commitments

At March 31, 2017, the Company is committed to capital expenditure obligations in the amount of \$15,843 (December 31, 2016 - \$15,856) related to dealership relocations, dealership re-imagings, and dealership Open Points with expected completion of these commitments during the year.

## 20 Share-based payments

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

### ***Restricted Share Units (RSUs)***

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

|                                      | <b>March 31,<br/>2017<br/>Number of<br/>RSUs</b> | <b>March 31,<br/>2017<br/>Amount<br/>\$</b> | <b>March 31,<br/>2016<br/>Number of<br/>RSUs</b> | <b>March 31,<br/>2016<br/>Amount<br/>\$</b> |
|--------------------------------------|--|---|--|---|
| Outstanding, beginning of the period | 33,676   | 779   | 64,835   | 1,566                                       |
| Settled - equity                     | (27,075)   | (642)                                       | (21,706)   | (397)                                       |
| Settled - cash                       | (18,050)   | (428)                                       | (14,471)   | (265)                                       |
| Granted                              | 31,044   | 738   | 45,586   | 875   |
| Dividends reinvested                 | 145  | 3   | 888  | 16  |
| Impact of movements in share price   | -  | (7)   | -  | (426)                                       |
| Outstanding, end of the period       | 19,740   | 443   | 75,132   | 1,369                                       |

### ***Deferred Share Units (DSUs)***

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

|                                      | <b>March 31,<br/>2017<br/>Number of<br/>DSUs</b> | <b>March 31,<br/>2017<br/>Amount<br/>\$</b> | <b>March 31,<br/>2016<br/>Number of<br/>DSUs</b> | <b>March 31,<br/>2016<br/>Amount<br/>\$</b> |
|--------------------------------------|--|---|--|---|
| Outstanding, beginning of the period | 34,731   | 824   | 25,659   | 620   |
| Granted                              | 2,632  | 66  | 3,783  | 67  |
| Dividends reinvested                 | 162  | 4   | 319  | 7   |
| Impact of movements in share price   | -  | (52)  | -  | (152)                                       |
| Outstanding, end of the period       | 37,525   | 842   | 29,761   | 542   |

### Stock Option Plan

On April 1, 2016, the Company granted 520,000 stock options. The following table shows the change in the number of stock options for the three month period ended March 31, 2017:

|   | Average<br>exercise price<br>per share<br>option<br>\$ | Share<br>options<br># |
|---|--|-----------------------|
| Outstanding, beginning of the period      | 18.68  | 520,000               |
| Forfeited                                 | 18.68  | (90,000)              |
| Outstanding, end of the period            | 18.68  | 430,000               |
| Vested and exercisable, end of the period | 18.68  | 116,666               |

During the three month period ended March 31, 2017, no options were exercised or expired.

The following table shows the expiry date and exercise price for the share options outstanding for the three month period ended March 31, 2017:

| Grant date   | Expiry date    | Exercise<br>price<br>\$ | Share options<br>March 31,<br>2017<br># |
|--|----------------|-------------------------|---|
| April 1, 2016  | March 31, 2026 | 18.68                   | 430,000                                 |
| <b>Total</b>   |                |                         | <b>430,000</b>                          |
| Weighted average remaining contractual life of options<br>outstanding, end of the period |                |                         | 9.00 years                              |

During the three month period ended March 31, 2017, expenses of \$332 (2016 - \$nil) and recoveries of \$249 (2016 - \$nil) arose as a result of the options issued.

## 21 Share capital

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

The following table shows the change in shareholders' capital for the three month periods ended:

|                                      | March 31,<br>2017<br>Number of<br>shares | March 31,<br>2017<br>\$ | March 31,<br>2016<br>Number of<br>shares | March 31,<br>2016<br>\$ |
|--------------------------------------|--|-------------------------|--|-------------------------|
| Outstanding, beginning of the period | 27,356,439                               | 507,886                 | 27,388,750                               | 508,237                 |
| Treasury shares acquired             | -  | -                       | (60,823)                                 | (1,233)                 |
| Dividends reinvested                 | (429)                                    | (10)                    | (1,337)                                  | (24)                    |
| Treasury shares settled              | 8,550                                    | 223                     | -  | -                       |
| Outstanding, end of the period       | 27,364,560                               | 508,099                 | 27,326,590                               | 506,980                 |

As at March 31, 2017, 95,123 (2016 - 133,093) common shares were held in trust for the compensation plan, resulting in a total of 27,459,683 (2016 - 27,459,683) common shares issued.

### ***Dividends***

Dividends are discretionary and are determined based on a number of factors. Dividends are subject to approval of the Board of Directors. During the three month period ended March 31, 2017, eligible dividends totaling \$0.10 (2016 - \$0.25) per common share were declared and paid, resulting in total payments of \$2,736 (2016 - \$6,840).

### ***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 for the three month periods ended:

|                                       | <b>Three month<br/>period ended<br/>March 31,<br/>2017</b> | <b>Three month<br/>period ended<br/>March 31,<br/>2016</b> |
|---------------------------------------|--|--|
| Basic                                 | 27,358,766   | 27,362,440   |
| Effect of dilution from RSUs          | 34,800   | 65,255   |
| Effect of dilution from stock options | 116,192  | -  |
| Diluted                               | 27,509,758   | 27,427,695   |

## **22 Related party transactions**

### ***Transactions with Companies Controlled by the Chair of the Board of Directors of AutoCanada***

During the period ended March 31, 2017, 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% (2016 - 8.6%) of the Company's shares. In addition to COAG, Priestner is the controlling shareholder of other companies from which AutoCanada earns administrative fees. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. All significant transactions between AutoCanada and companies controlled by Priestner are approved by the Company's independent members of the Board of Directors.

#### **(a) Rent paid to companies with common directors**

During the period ended March 31, 2017, total rent paid to companies controlled by Priestner amounted to \$705 (2016 - \$705). The Company currently leases two of its dealership facilities from affiliates of COAG. The Company's independent Board of Directors has received advice from a national real estate appraisal company that the market rents at each of the COAG properties were at fair market value rates at inception.

#### **(b) Administrative support fees**

During the period ended March 31, 2017, total administrative support fees received from companies controlled by Priestner amount to \$310 (2016 - \$370).

(c) Loans to related parties

During the period ended March 31, 2017, the Company's loans to PPH generated interest income of \$168 (2016 - \$114) and licensing fees of \$177 (2016 - \$201). These amounts are recorded as Income from loans to associates on the Condensed Interim Consolidated Statements of Comprehensive Income. As at March 31, 2017, there was \$806 (2016 - \$149) interest receivable and \$753 (2016 - \$215) of licensing fees receivable related to the loans.

## 23 Net change in non-cash working capital

The following table summarizes the net decrease in cash due to changes in non-cash working capital for the three month periods ended:

|                                | Three month<br>period ended<br>March 31,<br>2017<br>\$ | Three month<br>period ended<br>March 31,<br>2016<br>\$ |
|--------------------------------|--|--|
| Trade and other receivables    | (28,101)   | (25,254)   |
| Inventories                    | (82,837)   | (32,601)   |
| Finance lease receivables      | 663  | (600)  |
| Other current assets           | (1,090)  | (2,030)  |
| Trade and other payables       | (6,522)  | 6,438  |
| Vehicle repurchase obligations | (345)  | (132)  |
| Revolving floorplan facilities | 105,478  | 52,256   |
|                                | (12,754)   | (1,923)  |

## 24 Seasonal nature of the business

The Company's results from operations for the period ended March 31, 2017 are not necessarily indicative of the results that may be expected for the full year due to seasonal variations in sales levels. The results from operations of the Company have historically been lower in the first and fourth quarters of each year, largely due to consumer purchasing patterns during the holiday season, inclement weather and the number of business days during the period. As a result, the Company's financial performance is generally not as strong during the first and fourth quarters than during the other quarters of each fiscal year. The timing of acquisitions may also cause substantial fluctuations in operating results from quarter to quarter.

## 25 Subsequent events

### *Mercedes-Benz Rive-Sud*

On May 1, 2017, the Company purchased 100% of the voting shares of Mercedes-Benz Rive-Sud, which owns and operates a Mercedes-Benz dealership in Montreal, Quebec, for total cash consideration of \$17,028, subject to finalizing adjustments. The acquisition was financed by drawing on the Company's revolving term facility.

### *Dividends*

On May 4, 2017, the Board of Directors of the Company declared a quarterly eligible dividend of \$0.10 per common share on the Company's outstanding Class A common shares, payable on June 15, 2017 to shareholders of record at the close of business on May 31, 2017.





**AutoCanada Inc.**  
200 - 15511 123 Avenue NW  
Edmonton, AB T5V 0C3  
**[www.autocan.ca](http://www.autocan.ca)**