AutoCanada

2016 ANNUAL INFORMATION FORM

March 16, 2017

Annual Information Form

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General Disclosure Matters

Certain References and Glossary

In this Annual Information Form ("AIF"), unless the context otherwise requires, references to "AutoCanada", "ACI", the "Company", "we", "us", "our" or similar terms refer to AutoCanada Inc. together with its subsidiaries, the Dealer GPs and the Dealer LPs and any other franchised automobile dealership owned by the foregoing parties.

The "Glossary of Terms" attached as Schedule A to this AIF contains definitions of terms used in this AIF.

Date of Information

The information in this AIF is presented as of March 16, 2017, unless otherwise indicated.

Forward Looking Information

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

In particular, material forward-looking statements in this annual information form include:

- **our intentions for future growth and its effect on financial operations;**
- **our expectations regarding the future of the Canadian automotive retail industry;**
- **management's expected usage of GAAP and non-GAAP financial measures;**
- **our expectation of reduced supply of off-lease vehicles in the future;**
- **our belief that an extended manufacturer's warranty will increase our potential to retain pre-owned vehicle purchasers as future parts and service customers;**
- **our intention to improve our used vehicle trade-in valuation process;**
- **our expectation to improve used inventory turnover;**
- **our belief that relocating certain dealerships may provide growth and the timing and cost of relocations;**
- **our intentions of our incentive and compensation plans;**
- **our intentions for future focus of marketing efforts;**
- **our expectation of the effect of current credit conditions on our future operations;**
- **our belief that a higher percentage of all repair work will be performed at dealerships;**
- **our goals of retaining long-term customers;**
- **anticipation that lease options will be exercised for dealership land and buildings;**
- **our statements regarding the acquisition of franchises in which we currently do not have a relationship;**

- **statements regarding the amount of time it takes for acquisitions and Open Points to achieve normalized performance;**
- **statements regarding our competitive strengths and their effect on operations in the future;**
- **expectation that our supply of vehicles will meet the demand in our markets;**
- **statements regarding the timing, cost, and structure of dealership acquisitions;**
- **expectations and future plans regarding our current and other potential GM acquisitions;**
- **statements regarding the timing of Open Point franchises commencing operations, estimated construction costs, and sales targets;**
- **the impact of and estimates related to dealership real estate relocations and purchases and its impact on liquidity, financial performance and the Company's capital requirements;**
- **guidance with respect to future acquisition and Open Point opportunities;**
- **targets for inventory turnover and inventory management;**
- **potential future impact of provisions in our credit agreements;**
- **our beliefs of the future impact of internet and e-commerce on the Company;**
- **our anticipated compliance with governmental regulations and assumptions with respect to changes in regulations;**
- **statements we have made regarding future dividends of the Company including the effect of acquisitions on earnings of the Company and the payment of dividends;**
- **our expectations regarding macroeconomic factors including fuel prices;**
- **our belief that the trend of more expansive and stricter environmental legislation and regulations is likely to continue;**
- **statements that we do not anticipate that any material environmental liabilities will be incurred in the future;**
- **expectation regarding seasonal variations in revenues;**
- **statements regarding S&P issuer credit rating;**
- **our expectation to incur some additional administrative and legal costs as the Company adds additional dealerships;**
- **expectations that re-imaging will attract more customers to its dealerships; and**
- **the impact of working capital requirements and its impact on future liquidity.**

Although we believe that the expectations reflected by the forward-looking statements presented in this AIF are reasonable, our forward- looking statements have been based on assumptions and factors concerning future events that may prove to be inaccurate. Those assumptions and factors are based on information currently available to us about ourselves and the businesses in which we operate. Information used in developing forward-looking statements has been acquired from various sources including third-party consultants, suppliers, regulators, and other sources. In some instances, material assumptions are disclosed elsewhere in this AIF in respect of forward-looking statements. We caution the reader that the following list of assumptions is not exhaustive. The material factors and assumptions used to develop the forward-looking statements include but are not limited to:

- **no significant adverse changes to the automotive market, competitive conditions, the supply and demand of vehicles, parts and service, and finance and insurance products;**
- **no significant construction delays that may adversely affect the timing of dealership relocations and renovations;**
- **no significant disruption of our operations such as may result from harsh weather, natural disaster, accident, civil unrest, or other calamitous event;**

- **no significant unexpected technological event or commercial difficulties that adversely affect our operations;**
- **continuing availability of economical capital resources;**
- **demand for our products and our cost of operations;**
- **no significant adverse legislative and regulatory changes;**
- **stability of general domestic economic, market, and business conditions;**
- **assumptions regarding other automobile manufacturer agreements; and**
- **assumptions regarding provincial government regulations in jurisdictions in which we do not operate.**

Because actual results or outcomes could differ materially from those expressed in any forward-looking statements, investors should not place undue reliance on any such forward-looking statements. By their nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, which contribute to the possibility that the predicted outcomes will not occur. The risks, uncertainties and other factors, many of which are beyond our control, that could influence actual results include, but are not limited to:

- **rapid appreciation or depreciation of the Canadian dollar relative to the U.S. dollar;**
- **the ability to import vehicles and parts that are manufactured outside of Canada;**
- **a sustained downturn in consumer demand and economic conditions in key geographic markets;**
- **adverse conditions affecting one or more of our automobile manufacturers;**
- **the ability of consumers to access automotive loans and leases;**
- **competitive actions of other companies and generally within the automotive industry;**
- **our dependence on sales of new vehicles to achieve sustained profitability;**
- **levels of unemployment in our markets and other macroeconomic factors;**
- **our suppliers ability to provide a desirable mix of popular new vehicles;**
- **the ability to continue financing inventory under similar interest rates;**
- **our suppliers ability to continue to provide manufacturer incentive programs;**
- **the loss of key personnel and limited management and personnel resources;**
- **the ability to refinance or renew credit agreements in the future;**
- **changes in applicable environmental, taxation and other laws and regulations as well as how such laws and regulations are interpreted and enforced;**
- **risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; and**
- **the ability to obtain automotive manufacturers' approval for acquisitions.**

Please refer to the section entitled "Risk Factors" for a complete listing. 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.

Non-GAAP Measures

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. Management believes that, in addition to earnings or loss, EBITDA is a useful supplemental measure of both performance and cash available for distribution before debt service, changes in working capital, capital expenditures and income taxes.

We have used “Adjusted EBITDA” as the basis for the analysis of our past financial performance. Adjusted EBITDA is an indicator of a company's operating performance and ability to incur and service debt prior to recognizing the portion of share-based compensation related to changes in the share price and its impact on the Company's cash-settled portions of its share-based compensation programs. The Company considers this expense to be non-cash in nature as we maintain a share purchase trust in which we purchase shares on the open market as these units are granted to reduce the cash flow risk associated with fluctuations in the share price. Share-based compensation, a component of employee remuneration, can vary significantly with changes in the price of the Company's common shares. The Company believes adjusted EBITDA provides improved continuity with respect to the comparison of our operating results over a period of time.

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 expenditures (not including acquisitions of dealerships and dealership facilities). Free cash flow is a measure used by management to evaluate its performance. While the closest 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 ACI, potential acquisitions, or other purposes. Investors should be cautioned that free cash flow may not actually be available for growth or distributions from ACI.

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. 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 dividends or growth of the Company.

Cautionary Note Regarding Non-GAAP Measures

EBITDA, Adjusted EBITDA, Free Cash Flow, and Adjusted Free Cash Flow 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 ACI's performance, of its cash flows from operating, investing and financing activities or as a measure of its liquidity and cash flows. ACI's methods of calculating EBITDA, Adjusted EBITDA, Free Cash Flow, and Adjusted Free Cash Flow may differ from the methods used by other reporting issuers. Therefore, ACI's EBITDA, Adjusted EBITDA, Free Cash Flow, and Adjusted Free Cash Flow may not be comparable to similar measures presented by other issuers.

Reader Advisory

This AIF typically refers to the operating results for the year ended December 31, 2016 of the Company and compares these to the operating results of the Company for previous years. Until July 11, 2014, the Company had investments in associates comprised of six General Motors dealerships, and accounted for the investments utilizing the equity method, whereby the operating results of these investments were included in one line item on the statement of comprehensive income known as *Income from investments in associates*. As a result, the Company did not incorporate the consolidated results of its investments in associates in its discussion and analysis prior to and as at June 30, 2014. On July 11, 2014, the Company completed a business combination under common control, resulting in the accounting consolidation of the results of its investments in associates using the predecessor values method. Additional information regarding this business combination is contained in the financial statements as at and for the year ended December 31, 2016 and the accompanying management's discussion and analyses which have been filed on SEDAR at www.sedar.com.

Corporate Structure

AutoCanada Inc. was incorporated under the *Canada Business Corporations Act* ("CBCA") on October 29, 2009. ACI amalgamated with its wholly-owned subsidiary, AutoCanada GP Inc., on January 1, 2011 and continued under the name AutoCanada Inc.

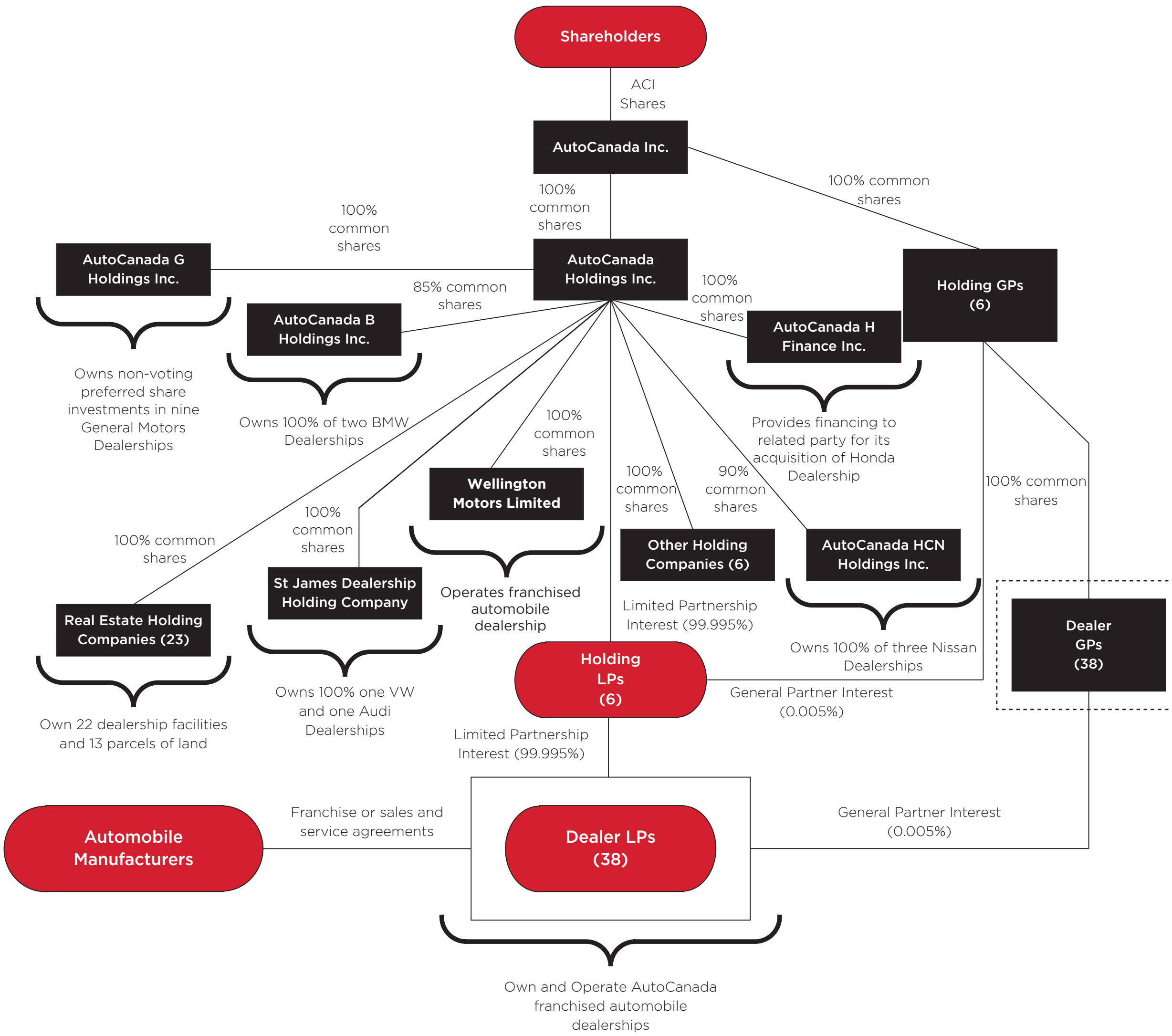
The principal and head office of ACI is located at 200 – 15511 – 123 Avenue, Edmonton, Alberta T5V 0C3. The registered office of ACI is located at 1900, 520 – 3rd Avenue S.W., Calgary, Alberta T2P 0R3.

Intercorporate Relationships

The significant subsidiaries of ACI are AutoCanada Holdings Inc., a wholly-owned subsidiary incorporated under the CBCA, and each of the Holding LPs and Dealer LPs. Holdings was incorporated under the CBCA on October 29, 2009.

Each of the Holding LPs and Dealer LPs is a limited partnership formed under the laws of the Province of Manitoba. Each Dealer LP had been formed to acquire the assets and undertaking relating to one of the franchised automobile dealerships. Each of the Holdings GPs and the Dealer GPs were incorporated under the CBCA.

The following chart illustrates our corporate structure at December 31, 2016:



Overview and Development of Our Business

Overview

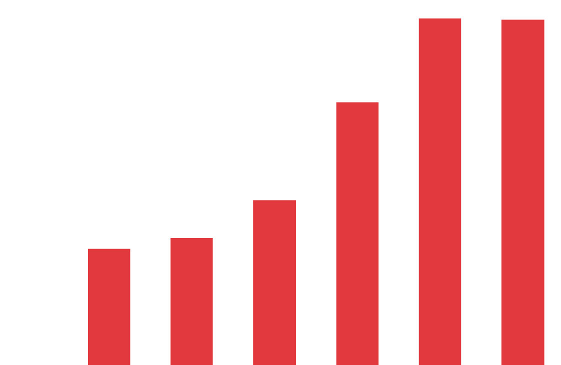
AutoCanada is one of Canada's largest multi-location automobile dealership groups, currently operating 56 dealerships as of March 16, 2017, including 64 franchises, in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick and Nova Scotia. In 2016, our dealerships sold approximately 56,600 vehicles and processed approximately 822,000 service and collision repair orders in our 928 service bays.

See the table in "Description of the AutoCanada Business – Locations" for a list of the franchised automobile dealerships and franchises owned by us as at March 16, 2017 and the year such dealership was opened or acquired.

We currently are authorized to sell through our dealerships the following new vehicle brands: Chrysler, Dodge, Jeep, Ram, Fiat, Chevrolet, GMC, Buick, Cadillac, Hyundai, Kia, Nissan, Infiniti, Volkswagen, Audi, BMW, MINI, Mitsubishi and Subaru. In addition, we sell a broad range of used vehicles. We also offer a full range of parts, service and collision repair services and facilitate the sale of third party finance and insurance products, extended warranties and replacement and after-market automotive products.

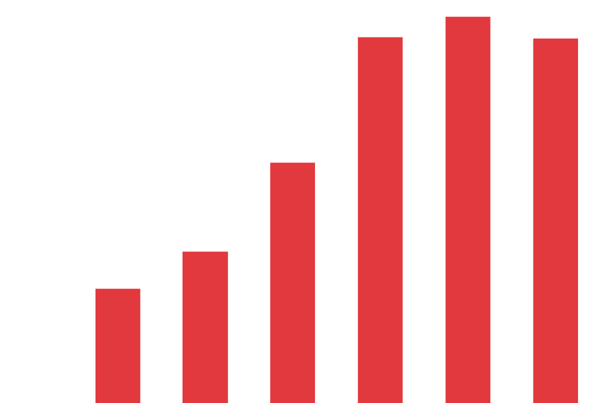
The following charts illustrate the Revenue and Adjusted EBITDA growth since the 2011 fiscal year.

Revenue
(in millions of dollars)



	2011	2012	2013	2014	2015	2016
Total	$1,008	$1,101	$1,409	$2,214	$2,903	$2,891

Adjusted EBITDA[1]
(in millions of dollars)



	2011	2012	2013	2014	2015	2016
Total	$29.1	$37.9	$59.2	$89.2	$94.0	$88.8

Notes:

[1] *Adjusted EBITDA is not a recognized measure under GAAP and does not have a standardized meaning prescribed by GAAP. Our Adjusted EBITDA may not be comparable to similar measures presented by other issuers. See "Non-GAAP Measures".*

The Canadian retail automotive industry is highly fragmented with approximately 3,500 franchised automobile dealerships. Although we expect the Canadian automotive retail industry to continue to consolidate as the average age of automobile dealership owners continues to rise, the Company's ability to act as a consolidator is limited to those brands which have accepted public ownership or which are related to same (see "*History*" and "*Recent Developments*").

History

Our founder, Patrick Priestner, has been directly involved in the retail automotive industry since 1974. He was one of the founders of a predecessor to COAG when, in 1993, it purchased a franchised automobile dealership in Edmonton, Alberta that had been in business since 1952. In 2001, after growing the business to five franchised automobile dealerships, we began to implement our strategy of becoming a national multi-location automobile dealership group in Canada, a strategy that had been successfully executed by that time by owners of several franchised automobile dealers in the United States. Between 2001 and 2011, we grew by acquiring and successfully integrating the operations of seventeen existing franchised automobile dealerships and establishing three Open Point dealerships, and we also sold the assets of one of our dealerships.

Three-Year History

The following is a three year history of the Company's acquisitions, dispositions, Open Points, and debt and equity offerings:

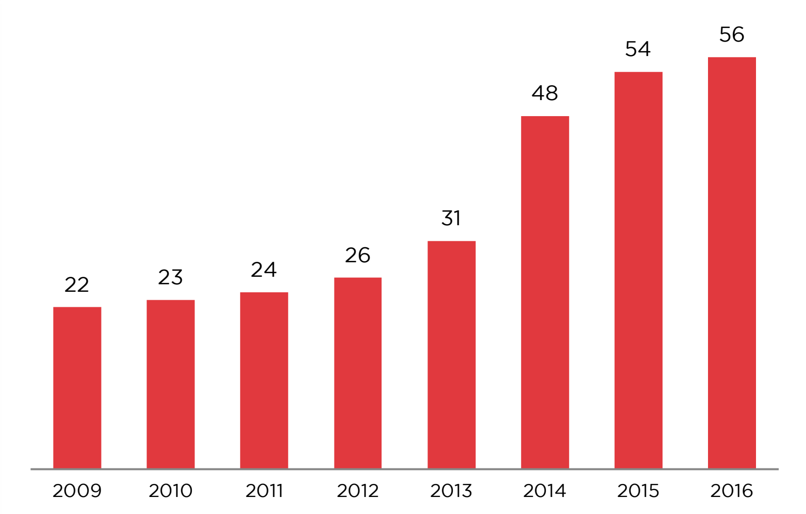
- **February 2014 – Awarded the right to a Volkswagen Open Point dealership in Sherwood Park, Alberta**
- **March 2014 – Acquired a 70% equity interest in each of Saskatoon Motor Products (Saskatoon, Saskatchewan) and Mann-Northway Auto Source (Prince Albert, Saskatchewan)**
- **April 2014 – Acquired an 80% equity interest in McNaught Buick Cadillac GMC (Winnipeg, Manitoba)**
- **May 2014 – ACI completed an offering, on a private placement basis, of $150.0 million aggregate principal amount of 5.625% senior unsecured notes due May 25, 2021**
- **June 2014 – Acquired a 100% equity interest in Automobile Canbec Inc., operating as BMW Canbec and MINI Mont Royal (Montreal, Quebec), subsequently reduced to 85% in December 2014; and acquired the assets of Dodge City Auto 1984 Ltd., operating as Dodge City Chrysler Jeep Dodge Ram (Saskatoon, Saskatchewan)**
- **June /July 2014 – Acquired substantially all of the assets of Calgary Hyundai, Crowfoot Hyundai, Hyatt Mitsubishi, Northland Volkswagen, Fish Creek Nissan, and Hyatt Infiniti (Calgary, Alberta) and acquired the exclusive right to build and operate a Nissan motor vehicle dealership on a designated property in southeast Calgary, Alberta**
- **July 2014 – Completed a public offering of common shares, whereby 2,565,000 ACI Shares were issued from treasury at a price of $78.00 per ACI Share; completed a business combination under common control, resulting in the consolidation of the financial results of the Company's investments in associates**
- **August 2014 – Acquired substantially all of the assets of Tower Chrysler Plymouth Ltd., operating as Tower Chrysler (Calgary, Alberta); opened North Edmonton Kia Open Point dealership (Edmonton, Alberta)**
- **September 2014 – Acquired a 75% equity interest in Lakewood Chevrolet (Edmonton, Alberta)**
- **October 2014 – Acquired substantially all of the assets of Toronto Chrysler (Toronto, Ontario)**
- **November 2014 – Acquired an 80% equity interest in Bridges Chevrolet Buick GMC and a 100% equity interest in its dealership land and facility (North Battleford, Saskatchewan)**
- **December 2014 – Acquired an 85% equity interest in Auto Boulevard St-Martin Inc., operating as BMW MINI Laval, plus 100% of the dealership land and facility (Laval, Quebec), and concurrently divested a 15% equity interest in Automobile Canbec Inc.**
- **February 2015 – Announced TSX approval for the Company to complete the purchase of up to 490,193 ACI Shares pursuant to a normal course issuer bid; no purchases were made under the program**
- **May 2015 – Acquired substantially all of the assets of North Hill Motors (1975) Ltd., operating as Airdrie Chrysler Jeep Dodge Ram (Airdrie, Alberta)**

- **September 2015 – Acquired an 80% equity interest in Don Folk Chevrolet Inc. and a 100% equity interest in its dealership land and facility (Kelowna, British Columbia)**
- **October 2015 – Acquired a 90% equity interest in Grove Dodge Chrysler Jeep (Spruce Grove, Alberta)**
- **November 2015 – Acquired a 90% equity interest in each of Hunt Club Nissan (Ottawa, Ontario) and 417 Infiniti Nissan (Ottawa, Ontario); advanced 80% of purchase price of Whitby Oshawa Honda to PPH Holdings Ltd., a related party, in exchange for approximately 80% of the annual net income; acquired the exclusive right to build and operate a Nissan motor vehicle dealership on a designated property in southwest Ottawa, Ontario; Increased available funds under Credit agreement to $250 million**
- **December 2015 – Completed a public offering of common shares, whereby 2,950,000 ACI Shares were issued from treasury at a price of $25.50 per ACI Share**
- **February 2016 – Divested the operating assets and dealership land and facility of Newmarket Infiniti Nissan (Newmarket, Ontario)**
- **March 2016 – Announced senior management changes and succession plan; effective April 2016, Steven Landry was appointed Chief Executive Officer; effective May 2016, Patrick Priestner assumed non-executive Chair of the Board of Directors with a target retirement date of May 2017. Tom Orysiuk continued with the Company as the President**
- **April 2016 – Entered into a financing arrangement with PPH Holdings Inc., a related party; advanced 60% of purchase price of Southview Acura (Edmonton, Alberta) to PPH, in exchange for approximately 60% of the annual net income of the dealership**
- **October 2016 – Acquired a 100% equity interest in Wellington Motors Limited, which operates a Chrysler Dodge Jeep Ram Fiat dealership (Guelph, Ontario)**

  November 2016 – Acquired substantially all of the assets of 993527 Ontario Limited, operating as Guelph Hyundai (Guelph, Ontario)

Please refer to "Description of the AutoCanada Business – Acquisitions, Divestitures, and Relocations" for further information on the above transactions.

Number of Dealerships Operated at Year End



Significant Acquisitions

The Company made no acquisitions during the most recently completed fiscal year that required filing of a business acquisition report.

DESCRIPTION OF THE AUTOCANADA BUSINESS

Our Operations

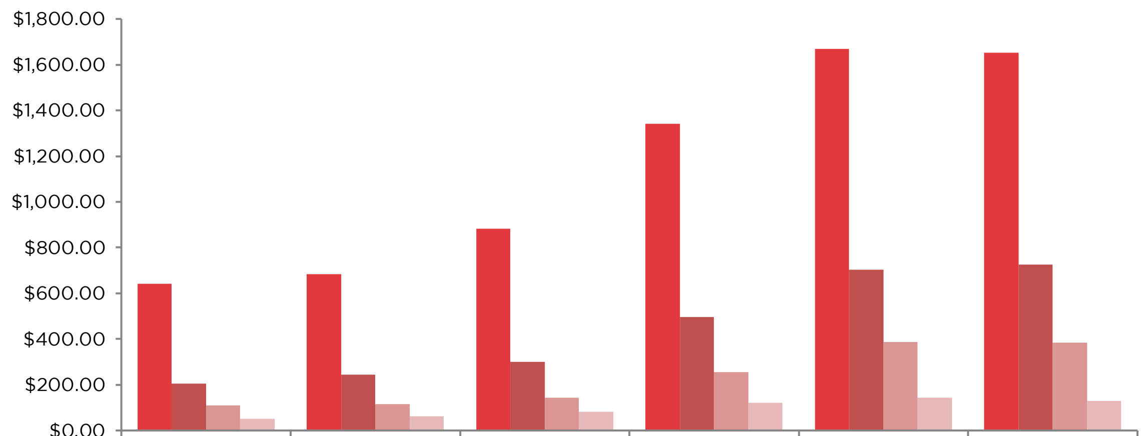
Our current multi-location automobile dealership model of 56 automobile dealerships (64 franchises) located in eight provinces enables us to serve a diversified geographic customer base and enjoy benefits not available to single location dealerships. In addition, by operating nine dealerships in Greater Calgary, Alberta, nine dealerships in Greater Edmonton, Alberta, six dealerships in Grande Prairie, Alberta, three dealerships in Prince George, British Columbia, five dealerships in the Greater Toronto Area, four dealerships in Winnipeg, Manitoba, as well as four dealerships in the Fraser Valley area of British Columbia, we are able to gain the advantages associated with a group of dealerships in a single geographic area.

Our franchised automobile dealerships are operated as distinct profit centres in which the dealer principals are given significant autonomy within overall operating guidelines. This autonomy, combined with the dealer principals' understanding of their local markets, enables the dealer principals to effectively run day-to-day operations, market to customers, recruit new employees and gauge acquisition opportunities in their local markets. Our dealer principals are required to take an active, hands-on approach to operating their respective dealerships. Each dealer principal is supported by a complete management team that provides oversight and management over every facet of the business. While each member of a dealership's management team, other than the financial controllers, reports directly to the dealer principal, they also report to one or more members of our head office senior management team. The financial controllers report directly to the head office finance group. Our reporting structure is designed to facilitate the sharing of ideas and market intelligence in an efficient and effective manner.

Sources of Revenue and Gross Profit

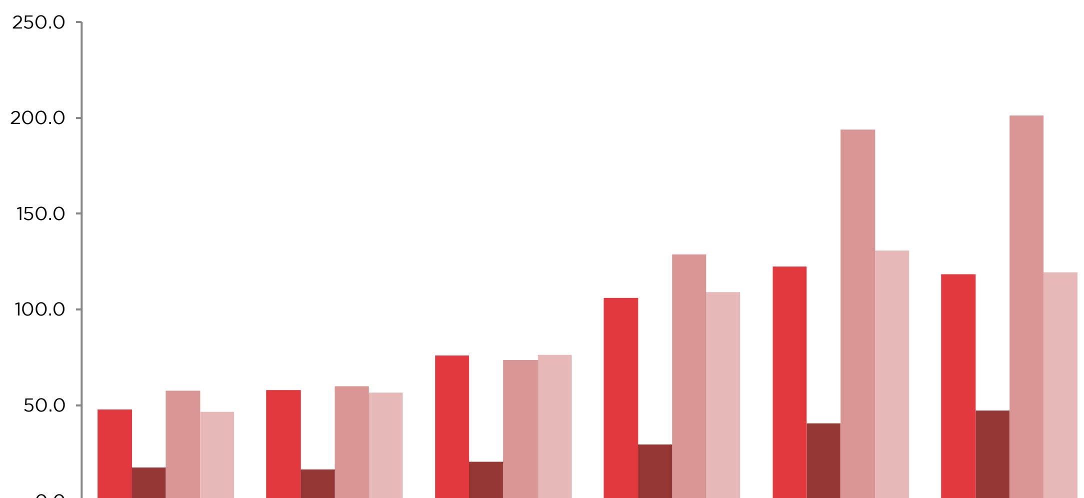
We generate revenues and gross profit from four inter-related business operations: new vehicle sales; used vehicle sales; parts, service and collision repair; and finance and insurance. The following two charts show our revenues and gross profit from the four business operations over the past 6 years.

Revenue by Business Operation
(in millions of dollars)



	2011	2012	2013	2014	2015	2016
New vehicle	640.7	683.0	882.9	1,342.3	1,668.2	1,652.8
Used vehicle	206.0	243.4	300.9	495.4	704.6	725.4
Parts/Service	110.5	114.3	142.3	255.7	387.6	382.9
F&I	51.1	61.2	82.9	121.4	143.4	130.4

Gross Profit by Business Operation
(in millions of dollars)



	2011	2012	2013	2014	2015	2016
New vehicle	47.7	57.8	75.8	106.0	122.4	118.3
Used vehicle	17.4	16.3	20.3	29.5	40.6	47.2
Parts/Service	57.7	59.9	73.7	128.6	193.9	201.3
F&I	46.4	56.4	76.2	109.1	130.8	119.4

New Vehicle Sales

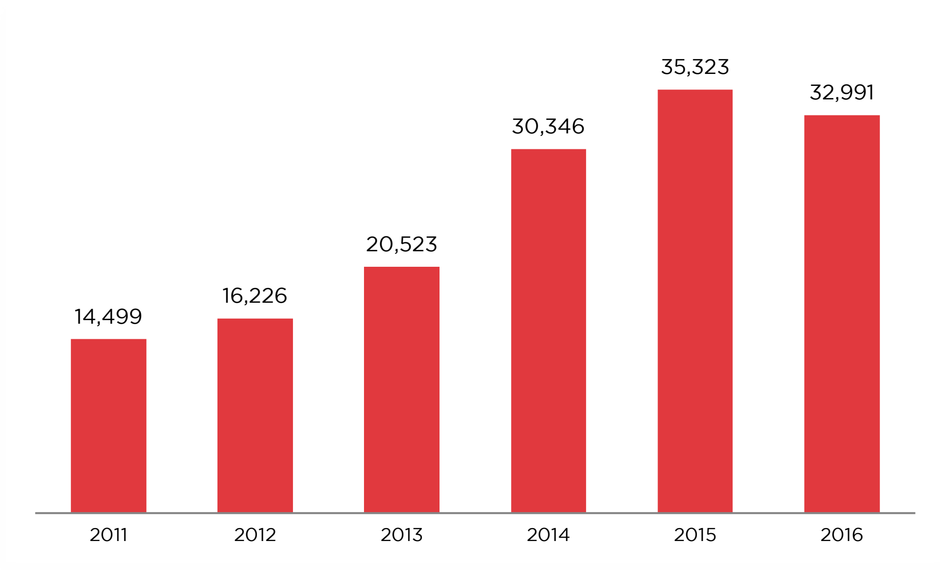
Our retail new vehicle sales include new vehicle sales and other similar agreements, which are made by our franchised automobile dealerships. In addition to the profit from the sale itself, a typical new vehicle sale or lease transaction creates key profit opportunities for our dealerships from the resale of any trade-in vehicle purchased by the dealer, sale of third party finance or lease transactions and vehicle service and insurance contracts in connection with the retail sale, and service and repair of the vehicle during and after the warranty period.

New vehicle leases, which are generally provided by third parties, generally have shorter terms, resulting in customers returning to a dealership more frequently than in the case of financed purchases.

In addition, leases provide us with a source of late-model, off-lease vehicles for our used vehicle inventory. Generally, leased vehicles remain under factory warranty for the term of the lease, allowing franchised automobile dealers to provide repairs and service to the customer throughout the lease term.

The chart below shows our historical retail new vehicle sales over the past six years:

Retail New Vehicle Sales by AutoCanada



We acquire our new vehicle inventory from automobile manufacturers. Automobile manufacturers allocate products among their dealerships based primarily on historical sales volume and planned future sales. We have a team of new vehicle inventory analysts that monitor dealership ordering process (including quantity by model and trim level), inventory stocking levels for in-transit and landed units, inventory turnover and projected days' supply. We believe that our new vehicle analysts provide a valued service to our dealers to prevent ordering which may result in excess supply of vehicles as a result of improper models and trim levels.

We finance our inventory purchases through floorplan financing provided by The Bank of Nova Scotia ("Scotiabank"), Canadian Imperial Bank of Commerce ("CIBC"), Royal Bank of Canada ("RBC"), VW Credit Canada Inc. ("VCCI"), BMW Financial Services Canada ("BMW Financial") and Toronto-Dominion Bank ("TD"). Subject to floorplan limitations imposed by our lenders and our internally imposed days of supply guidelines, inventory selection and management occurs at the franchised automobile dealer level.

Used Vehicle Sales

Used vehicle sales are a key component to the overall success of AutoCanada. Our new vehicle operations provide our used vehicle operations with a large supply of high quality trade-ins and some off-lease vehicles, which are the best sources of attractive used vehicle inventory. Our dealers supplement their used vehicle inventory with purchases at auctions and from wholesalers. Used vehicle sales give us an opportunity to further increase our revenues by aggressively pursuing customer trade-in vehicles, increase service contract sales, provide parts and services required in the maintenance of the vehicle, perform reconditioning work on trade-ins and provide financing to used vehicle purchasers.

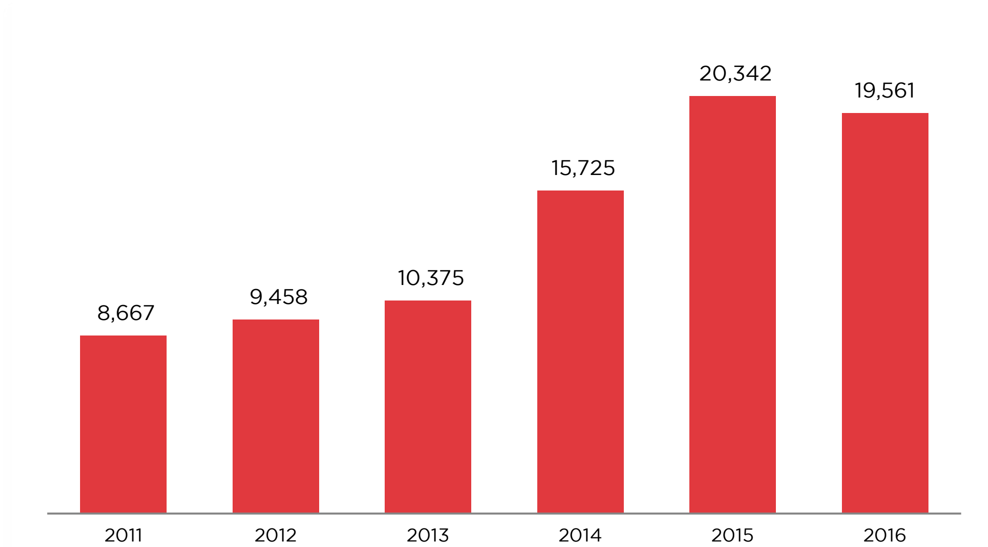
Used vehicles are sold either as retail sales through our franchised dealerships, or as wholesale sales through auction, used vehicle dealerships or vehicle wholesalers. Vehicles that are acquired through trade-in are assessed for certain criteria to determine if it meets our requirements to be sold as a retail unit. Vehicles which do not meet our criteria are sold through wholesale.

We actively manage the quality and age of our used vehicle inventory and monitor our used inventory appraisal values, reconditioning costs, pricing, online marketing, stocking levels, turnover, and return on investment. We believe that monitoring these various processes results in greater sales volumes, higher turnover, and ultimately greater return on investment.

Various manufacturers provide franchised automobile dealers the opportunity to sell certified pre-owned vehicles by participating in automobile manufacturer certification programs. These vehicles are often eligible for new vehicle benefits such as preferred vehicle finance rates, better automobile warranties and an extension of the manufacturer's warranty. Manufacturer certified pre-owned vehicles typically sell at a premium compared to other used vehicles and are available only at franchised automobile dealerships. We believe that an extended manufacturer's warranty increases our potential to retain the pre-owned vehicle purchaser as a future parts and service customer since certified preowned warranty work can only be performed at franchised automobile dealerships.

The chart below shows our historical retail used vehicle sales over the past six years:

Retail Used Vehicle Sales by AutoCanada



Used vehicles are generally offered at our dealerships for an average of approximately 45 days. At the end of 90 days, vehicles which have not been sold to a retail buyer are generally either sold to an outside wholesaler or offered at auction. Certain used vehicles acquired by us as "trade-ins" may not be suitable for sale in our used vehicle business because of their age, mileage or physical condition. Rather than reconditioning these vehicles for resale by us, we typically sell these vehicles immediately in the wholesale or auction market. We do not regularly transfer used vehicles among our dealerships, except to provide balanced inventories of used vehicles at each of our dealerships. We have a team of used inventory analysts that monitor our dealerships' used inventory appraisal values, reconditioning costs, pricing, online marketing, stocking levels, turnover, and return on investment. The used vehicle analysts also monitor the amount of time it takes from purchasing the vehicle at auction or trade-in until the unit is marketed to the public. We believe that monitoring these various processes will result in greater sales volumes, higher turnover, and ultimately greater return on investment.

Parts, Service and Collision Repair

Historically, the automotive repair industry has been highly fragmented, consisting of numerous small, independently owned, service and repair garages, including service and repair facilities as a part of most gasoline service stations. However, management believes that the advanced technology used in vehicles has made it difficult for independent repair shops to have the expertise required to perform higher margin repairs. Most of the service and repair facilities at gasoline service stations have closed as the retail gasoline operators have abandoned this business. We have made investments in training qualified technicians to work in our service and repair facilities.

Additionally, automobile manufacturers generally require warranty work to be performed at their franchised automobile dealerships. We believe that an increasing percentage of all repair work will be performed at dealerships that have the sophisticated equipment and skilled personnel necessary to perform repairs and warranty work on today's complex vehicles.

In addition to training initiatives, many of our markets have been experiencing qualified labour shortages in the parts, service and collision repair business. The sourcing of foreign technicians has provided the Company with the ability to increase its same store service revenues, despite a shortage of skilled labour.

Our profitability in parts, service and collision repair can be attributed to our comprehensive management system, including the use of variable rate pricing structures, cultivation of strong customer relationships through an emphasis on preventive maintenance, and the efficient management of parts inventory.

We use variable rate structures in both the compensation paid to our service employees and the rates charged to our customers that are designed to reflect the difficulty and sophistication of different types of repairs. The percentage mark-ups on parts are also variably priced based on market conditions for different parts.

Our franchised automobile dealers' parts departments support their sales and service departments, selling factory-approved parts for the vehicle makes and models sold by a particular franchised automobile dealer. Parts are either used in repairs made in the service department, sold at retail to customers, or sold at wholesale to independent repair shops and other dealerships.

Certain dealerships have agreements with the automobile manufacturers that provide pricing to support wholesale operations. Our dealers employ parts managers who oversee parts inventories and sales. Our dealers also frequently share parts with each other. We continually monitor our parts inventories and make necessary adjustments frequently.

One of our major goals is to retain each vehicle purchaser as a long-term customer of our parts, service and collision repair department. A substantial number of our customers return to our dealerships for other services after the vehicle warranty expires. Each dealership has systems in place to track customer maintenance records and notify owners of vehicles purchased at the dealerships when their vehicles are due for periodic services. Parts, service and collision repair activities are an integral part of our overall approach to customer service.

Finance and Insurance

Each sale of a vehicle provides us with the opportunity to sell third party purchase and lease financing, extended warranty and insurance products, service contracts and other products.

In return for arranging third party purchase and lease financing for our customers we receive a fee from the third party lender upon completion of the financing. These third party lenders include the automobile manufacturers' captive finance companies and warranty divisions, selected commercial banks and a variety of other third party lenders, including credit unions and regional auto finance lenders. We do not own a finance company and do not retain substantial credit risk after a customer has received financing. Under certain circumstances we can become responsible for the credit obligations of our customers. For example, this would occur where the loan documentation that we have submitted does not meet the lender's requirements as stipulated in their contract with us. If the customer defaults on their loan payments in these cases the related vehicle is assigned to us as security for the loan and we are responsible to ensure collection of the loan or, in the alternative, we can seize the vehicle which is security for the loan. Based on our historical results, this type of default happens infrequently.

We arranged customer financing on a significant portion of the retail vehicles we sold in 2016. In addition to finance commissions, each vehicle sale creates opportunities to sell other profitable products, such as optional life, dismemberment and disability insurance and extended warranties and various other products for the consumer. Our size and volume capabilities enable us to acquire these products at reduced fees compared to the industry average, which results in competitive advantages as well as acquisition related revenue synergies. We also offer our customers a variety of insurance, vehicle warranty and extended protection products in connection with purchases of new and used vehicles, including: service contracts; auto protection insurance; life, disability and dismemberment insurance, as well as lease "wear and tear insurance"; and theft protection.

The finance and insurance products our dealerships currently offer are generally underwritten and administered by independent third parties, including the automobile manufacturers' captive finance companies. Under our arrangements with the providers of these products, we either sell these products on a straight commission basis or participate in future profits, if any, pursuant to a retrospective commission arrangement. We may be charged back for unearned financing fees, insurance or service contract fees in the event of early termination of these contracts by the customers. ACI calculates and accrues a provision for future potential chargebacks based on past experience with the level of chargebacks incurred.

Our historical revenues include revenues from the sale of life, dismemberment and disability insurance contracts to customers when they purchased a vehicle. These insurance policies generally provide for repayment of the vehicle loan or lease if the customer dies or is seriously injured before the loan is fully repaid, or provide for the payment of the monthly loan obligations if the customer is disabled. We receive a fee on each policy sold. In addition, we also participate in the underwriting profits or losses from these insurance contracts.

Locations

ACI reviews in the case of each location whether it wishes to own or lease the land and building. ACI presently leases thirty-two of its dealership properties from third parties, leases two dealership properties from affiliates of COAG (a company which is a significant shareholder of ACI and is controlled by Patrick Priestner, the Chairman of ACI) and owns the remaining dealership properties. The total rent expense in respect of our facilities in our fiscal year ended December 31, 2016 was approximately $20.1 million, of which approximately $2.5 million was paid to wholly owned subsidiaries of COAG.

The following table shows the location of our dealerships as at March 16, 2017.

Automobile Dealership Name and Location	Franchise Represented	Year Established	Year Acquired by ACI
British Columbia			
Abbotsford Volkswagen, Abbotsford	Volkswagen	1986	2011
Chilliwack Volkswagen, Chilliwack	Volkswagen	2002	2011
Don Folk Chevrolet, Kelowna	General Motors	1952	2015
Island GMC Buick, Duncan (2)	General Motors	1971	2013
Maple Ridge Chrysler Jeep Dodge Ram, Maple Ridge	FIAT/Chrysler	1975	2005
Maple Ridge Volkswagen, Maple Ridge	Volkswagen	1999	2008
Northland Chrysler Jeep Dodge Ram, Prince George	Chrysler	1990	2002
Northland Hyundai, Prince George	Hyundai	1990	2005
Northland Nissan, Prince George	Nissan	2007	2007
Okanagan Chrysler Jeep Dodge Ram Fiat, Kelowna	FIAT/Chrysler	1985	2003
Victoria Hyundai, Victoria	Hyundai	1999	2006
Alberta			
Airdrie Chrysler Jeep Dodge Ram, Airdrie	Chrysler	1975	2015
Calgary Hyundai, Calgary	Hyundai	1990	2014
Capital Chrysler Jeep Dodge Ram Fiat, Edmonton (1)	FIAT/Chrysler	1978	2003
Crowfoot Hyundai, Calgary	Hyundai	2005	2014
Courtesy Chrysler Dodge, Calgary	Chrysler	1987	2013
Crosstown Chrysler Jeep Dodge Ram Fiat, Edmonton(1)	FIAT/Chrysler	1951	1994
Fish Creek Nissan, Calgary	Nissan		2014
Grande Prairie Chrysler Jeep Dodge Ram Fiat, Grande Prairie	FIAT/Chrysler	1986	1998
Grande Prairie Hyundai, Grande Prairie	Hyundai	2005	2005
Grande Prairie Mitsubishi, Grande Prairie	Mitsubishi	2007	2007
Grande Prairie Nissan, Grande Prairie	Nissan	1969	2007
Grande Prairie Subaru, Grande Prairie	Subaru	1995	1998
Grande Prairie Volkswagen, Grande Prairie	Volkswagen	1975	2013
Grove Chrysler Jeep Dodge Ram, Spruce Grove	Chrysler		2015
Hyatt Infiniti, Calgary	Infiniti	2001	2014
Hyatt Mitsubishi, Calgary	Mitsubishi	2001	2014
Lakewood Chevrolet, Edmonton (2)	General Motors	1979	2014
North Edmonton Kia, Edmonton	Kia	2014	2014
Northland Volkswagen, Calgary	Volkswagen	1972	2014
Ponoka Chrysler Jeep Dodge Ram, Ponoka	Chrysler	1975	1998
Sherwood Park Hyundai, Sherwood Park	Hyundai	2006	2006
Sherwood Buick GMC, Sherwood Park (2)	General Motors	1983	2012
Sherwood Park Chevrolet, Sherwood Park (2)	General Motors	1977	2012
Sherwood Park Volkswagen, Sherwood Park	Volkswagen	2017	2017
Tower Chrysler Jeep Dodge Ram, Calgary	Chrysler	1976	2014
Saskatchewan			
Dodge City Chrysler Jeep Dodge Ram, Saskatoon	Chrysler	1969	2014
Mann-Northway Auto Source, Prince Albert (2)	General Motors	1914	2014
Bridges Chevrolet Buick GMC, North Battleford (2)	General Motors	1976	2014
Saskatoon Motor Products, Saskatoon (2)	General Motors	1973	2014
Manitoba			
Eastern Chrysler Jeep Dodge, Winnipeg	Chrysler	1946	2013
McNaught Cadillac Buick GMC, Winnipeg (2)	General Motors	1976	2014
Audi Winnipeg, Winnipeg	Audi	1972	2013
St. James Volkswagen, Winnipeg	Volkswagen	1972	2013

Ontario			
401/Dixie Hyundai, Mississauga	Hyundai	1996	2010
417 Infiniti, Ottawa	Infiniti		2015
Wellington Motors, Guelph	FCA		2016
Guelph Hyundai, Guelph	Hyundai		2016
417 Nissan, Ottawa	Nissan		2015
Cambridge Hyundai, Cambridge	Hyundai	1996	2008
Hunt Club Nissan, Ottawa	Nissan		2015
Toronto Chrysler Jeep Dodge Ram, Toronto	Chrysler	1986	2014
Quebec			
BMW Canbec/MINI Mont Royal, Montreal	BMW/MINI	1970	2014
Laval BMW/MINI, Laval	BMW/MINI	1973	2014
New Brunswick			
Moncton Chrysler Jeep Dodge Ram, Moncton	Chrysler	1986	2001
Nova Scotia			
Dartmouth Chrysler Jeep Dodge Ram, Dartmouth	Chrysler	1970	2006

Notes:
(1) **Property leased from affiliates of COAG.**
(2) **Acquired an indirect equity interest**

Each of our leases from affiliates of COAG has been independently reviewed by the independent members of the Company's Board of Directors and provide for market rent as of the date the leases were entered. For this purpose, "market rent" is defined as the rental income that a property would reasonably command in the open market as indicated by current rents being paid for comparable space. The initial terms for these leases expire November 2029 and generally have renewal options of 5 year periods. It is anticipated that all leases with COAG shall be extended by exercising the options.

We lease thirty-two of our dealership facilities from arm's length third parties. The leases for these locations expire between June 2017 and April 2037. We hold options to renew twenty-four of these leases for terms ending in 2049. Management believes it has strong relationships with its landlords.

Acquisitions, Divestitures, Investments and Relocations

The Company currently operates 56 franchised automotive dealerships. At the time of AutoCanada's initial public offering in May of 2006, AutoCanada owned 14 automotive dealerships. Since that time the Company has acquired, opened, or invested in 46 additional dealerships and has sold four of its dealerships.

Guelph Hyundai

On December 19, 2016, the Company purchased substantially all of the operating and fixed assets of Guelph Imported Cars Ltd. ("Guelph Hyundai"), in Guelph, Ontario, for total cash consideration of $4,521. The Company also purchased the dealership land and facilities through a wholly-owned subsidiary, GHM Properties Inc., for $9,541.

Wellington Motors

On October 14, 2016, the Company purchased 100% of the voting shares of Wellington Motors Limited ("Wellington Motors") which owns and operates a Chrysler Dodge Jeep Ram FIAT dealership in Guelph, Ontario, for total cash consideration of $23,880. The Company also purchased the dealership land and facility through a wholly-owned subsidiary, WMG Properties Inc., for $6,836.

Infiniti Nissan

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

PPH Holdings Ltd.

On May 1, 2016, the Company made a second loan for $3,120 to PPH Holdings Ltd. ("PPH") to be used in part for the acquisition of 75% of the common shares of Southview Acura in exchange for the right to 60% of the annual net income. The Company holds no ownership interest in PPH, which is a company controlled, and formed, by Patrick Priestner. The Company has no participation in the equity of PPH.

Although the Company holds no voting rights in PPH the Company exercises significant influence by virtue of the existence of its loan and the provision of essential technical information required for operations, as well as through the relationship with Priestner. However, the Company does not have the power to make or block key decisions under the terms of the underlying agreements. PPH's principal place of business is Alberta, Canada.

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.

ACI will review on a case-by-case basis whether to own or lease a particular dealership facility. In either case, ACI 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. These costs vary by dealership depending upon size and location.

Volkswagen – Sherwood Park, Alberta

In February of 2014, the Company announced that it had been awarded the right to a Volkswagen Open Point dealership in Sherwood Park, Alberta. The Company has completed construction of a 45,000 square foot facility in Sherwood Park, designed to Volkswagen Canada image standards, and operations commenced in February of 2017. The Open Point has a planning potential of 800 new vehicles annually which the Company anticipates achieving in two to three years of operation.

Nissan – Calgary, Alberta

On July 1, 2014, as part of the Company's purchase of the Hyatt Group, the Company acquired the exclusive right to build and operate the Nissan Open Point Dealership in southeast Calgary. The purchase price for this right was $1.5 million, which was satisfied by the issuance of 18,753 ACI shares at a deemed price of $79.99. The dealership construction is now expected to begin in late 2017 with anticipated opening in mid-2018. The dealership will be constructed by a third party and subsequently leased by the Company.

North Winnipeg Kia – Winnipeg, Manitoba

On March 16, 2015 the Company announced that it had signed a Letter of Intent with Kia Canada Inc. ("Kia") which, subject to the completion of requirements and conditions contained in the Letter of Intent, will award AutoCanada an Open Point Kia dealership in Winnipeg, Manitoba. After thorough review, AutoCanada has elected not to proceed with this Open Point dealership.

Barrhaven Nissan – Ottawa, Ontario

On November 1, 2015, as part of the Company's purchase of Hunt Club Nissan Ltd. ("Hunt Club Nissan"), the Company acquired the exclusive right to build and operate a Nissan motor vehicle franchise on a designated property in southwest Ottawa. AutoCanada intends to operate the dealership out of a new facility, designed to Nissan image standards, with construction commenced and anticipated opening in late 2017.

Future Acquisition Opportunities

The Company is very pleased with the continued exceptional performance of its manufacturer partners. Management and the Company have strong relationships with our current manufacturer partners and believe that by performing well, we can build upon our current brand portfolios and may gain the acceptance of other new manufacturers over time.

The Company continues to experience a greater than usual number of expressions of interest in acquisitions than in the past as a result of an increase in prospective sellers and our expanded brand portfolio.

Management believes that the Company has a structure in place that is scalable to allow for the increase in acquisition activity, however, the Company does expect to incur some additional administrative and legal costs as the Company adds additional dealerships.

Capital Plan

Dealership Relocations

Management estimates the total capital requirements of additional planned dealership relocations to be approximately $70.5 million by 2021. As noted above, the Company expects dealership relocations to provide long term earnings sustainability and result in significant improvements in revenues and overall profitability. Management continually updates its capital plan and as such the estimates provided may vary as delays occur or projects are added or removed.

Current Dealership Expansion and Imaging Requirements

The Company has identified approximately $56.5 million in capital costs that it may incur in order to expand or renovate various current locations by 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 would expect re-imaging to attract more customers to its dealerships.

Open Point Opportunities

Management regularly reviews potential Open Point opportunities. If successful in being awarded these opportunities, Management would then estimate additional capital costs in order to construct suitable facilities for Open Points. The Company estimates approximately $18.3 million in capital costs that may be incurred by the first quarter of 2020 related to awarded Open Points. If awarded in the future, Management will provide additional cost estimates and timing of construction. In order to be successful in some opportunities, Management may be required to secure appropriate land for the potential Open Points, in which case, additional land purchase costs may be incurred in the future.

Equity Offerings

On July 11, 2014, the Company completed a public offering by issuing 2,565,000 ACI Shares from treasury at a price of $78.00 per ACI Share to raise gross proceeds of $200.1 million. The equity offering allowed the Company to reduce its revolving credit facility, which provided the Company with further liquidity for the acquisition of dealerships and general corporate and working capital purposes. Concurrently, COAG and its subsidiaries sold, with the full exercise of an over-allotment option, an aggregate of 2,598,500 ACI Shares at a price of $78.00 per share for gross proceeds of $203 million.

On December 14, 2015, the Company completed a public offering by issuing 2,950,000 ACI Shares from treasury at a price of $25.50 per ACI Share to raise gross proceeds of $75.0 million. The equity offering allowed the Company to reduce its revolving credit facility, which provided the Company with further liquidity for the acquisition of dealerships and general corporate and working capital purposes.

Organic Growth

We continue to focus on those areas of our business that enable us to increase the profitability of our operations. Key areas include increasing same store gross profits by controlling expenses and expanding margins at our existing franchised automobile dealerships and those that are integrated into our operations on acquisition.

Targeted Acquisitions

Automobile manufacturers have adopted policies that limit the number of their franchised automobile dealerships we are permitted to own at the metropolitan, regional or national level. We are near the limit imposed by Chrysler Canada on the number of their franchised automobile dealerships that we may own in some provinces and metropolitan areas. See “Automobile Dealership Franchise Agreements – Automobile Manufacturers’ Limitations on Acquisitions”.

We regularly review acquisition opportunities for both domestic and import brand dealerships in various regions in Canada.

Competition

We operate in a highly competitive industry. In each of our markets, consumers have a number of choices in deciding where to purchase a new or used vehicle or where to have a vehicle serviced. According to various industry sources, there are approximately 3,500 franchised automobile dealerships in the retail automotive industry in Canada. In addition, there are numerous independent used vehicle dealers.

New Vehicles – In the new vehicle market, our dealerships compete with other franchised automobile dealerships in their markets. We believe the principal competitive factors in the retail new vehicle business are consumer brand and model preferences, location, quality of facility and service, and price. We are subject to competition from franchised automobile dealers that sell the same brands of new vehicles and other new vehicle brands. We do not have any cost advantage in purchasing new vehicles from the automobile manufacturers.

Used Vehicles - In the used vehicle market, our dealerships compete for the supply and resale of used vehicles with other franchised automobile dealerships, local independent used vehicle dealers, vehicle rental agencies and private sellers. We believe the principal competitive factors in the retail used vehicle business are location, quality of facility and service, the suitability of a franchise to the market in which it is located, price and selection. Improvements in online private sale technologies have inherently increased the competition in the used vehicle market as private sellers now have a more cost-effective medium to sell their vehicles. We believe that auto dealerships have a distinct competitive advantage over private sellers due to our ability to provide multiple sources of financing, the ability to offer extended warranty and our direct access to dealer auctions which offer competitive pricing, and we intend to focus our marketing efforts on these advantages.

Parts, Service and Collision Repair - In the parts, service and collision repair market, our dealerships compete with other franchised automobile dealerships to perform warranty repairs and with franchised and independent service centre chains, and independent repair shops for non-warranty repair and maintenance business. We believe the principal competitive factors in the parts, service and collision repair business are location, quality of facility and service, the use of factory-approved replacement parts, familiarity with an automobile manufacturer's brands and models, convenience, competence of technicians and price.

Finance and Insurance - In the finance and insurance market, we face competition in arranging financing for our customers' vehicle purchases from a broad range of financial institutions. We believe the principal competitive factors in the finance and insurance business are convenience, interest rates and flexibility in contract length. We also face competition in the sale of third party warranty, insurance and other vehicle maintenance and protection products from independent businesses which sell similar products.

Acquisitions - We compete with owners of other franchised automobile dealerships and, in some cases, individual and corporate investors for acquisitions. An acquisition of an existing franchised automobile dealership requires the approval of the automobile manufacturer and the manufacturer may approve our competitors as a purchaser of the dealership rather than us. As noted above, ACI is concerned that brands with which the Company does not currently have a relationship, or who are related to same, continue to be reluctant to entertain a relationship with a public multi-brand dealer group. As a result, management offers no assurance that any manufacturer with whom it does not have a relationship, or who are related to same, will approve the Company as a franchisee.

Our Competitive Strengths

We believe our principal competitive strengths include the following:

Our Multi-Location Automobile Dealership Model

Economies of Scale - Our size and consolidated purchasing power provide both cost and revenue synergies. Cost synergies include achieving lower prices for items such as insurance, advertising, benefit plans and information systems. Revenue synergies include being a preferred provider for retail service and warranty contracts and earning higher commissions on finance and insurance activities.

Decentralized Operations and Centralized Administrative and Strategic Functions – Our organizational structure allows us to provide market specific responses to sales, service, marketing and inventory requirements while benefiting from the resources provided by an experienced and knowledgeable head office executive team.

Best Practices - Our model enables us to benchmark the success of our dealership operations against each other and rapidly implement new and innovative ideas across our dealership group.

Geographic Diversification - Our diversified locations throughout Canada help to mitigate the potential effect of adverse economic conditions in any one region of Canada.

Inventory Management - Operating a number of franchised automobile dealerships allows us to share market information amongst our dealerships selling the same brands and quickly identify any changes in consumer buying patterns.

Ability to Attract and Retain Key Employees - Our size and performance, and geographic and manufacturer diversity allow the Company to attract and retain key employees both at the dealership level and at our head office.

Portfolio of Brands Suited to the Markets in which We Operate

We seek to supply new vehicles of the type and at the price points that we believe are or will be in demand in our markets. We are limited to brands offered by manufacturers who have accepted a public multi-brand dealer group model as a franchisee.

Higher Margin Sales

While new vehicle sales are our most significant source of revenue, we place additional focus on our higher margin sources of revenue, which are the sale of used vehicles, parts, service and collision repair and finance and insurance sales.

We also derive substantial revenues and gross profits from fees and commissions earned on the sale of finance and insurance products, which produce higher margins than sales of new and used vehicles. See "Description of the AutoCanada Business – Sources of Revenue and Gross Profit – Finance and Insurance".

Experienced and Incentivized Senior Management

Our management team has extensive experience and expertise in the retail automotive industry. Patrick Priestner, our Chair, has over 40 years of industry experience, including over 25 years as an owner of franchised automobile dealerships. Steven Landry joined us as Chief Executive Officer in April 2016, and prior to joining AutoCanada, Mr. Landry was the Chief Development Officer for ATCO Ltd & Canadian Utilities Limited. Prior thereto, Mr. Landry spent 27 years at the Chrysler Group where he held various global and executive positions including: Chief Executive Officer and President of DaimlerChrysler Canada, President of Chrysler Europe and Executive Vice President of North America at Chrysler LLC. Tom Orysiuk joined us as Executive Vice-President and Chief Financial Officer in November 2005, was appointed President in January 2011, and was appointed Chief Executive Officer in January 2015; Mr. Orysiuk remains as President after the appointment of Steven Landry as Chief Executive Officer effective April 2016. Prior to joining AutoCanada, Mr. Orysiuk served as Chief Financial Officer of Liquor Stores Income Fund and its predecessor entities. Prior thereto, Mr. Orysiuk held several senior executive and financial positions with over 20 years of experience. See "Directors and Officers — Management Profiles".

At the corporate level, Mr. Priestner, certain members of senior management and a number of our dealer principals have a significant stake in our performance through their indirect ownership, through COAG, of an approximate 8.6% interest in our business as at March 16, 2017. As at March 16, 2017, Mr. Priestner had a controlling interest in COAG of 87.6% and other senior management team members had minority interests in the remaining 12.4% of COAG.

In conjunction with a review by the Board of Directors in June 2011, the Company announced that, in view of the continued resistance of some manufacturers to the public ownership model, the Company could not presume that it would be able to grow with any brands that it currently does not own. As same store future earnings are very much dependent upon the performance of the Company's key employees, including its dealer principals and senior management, the independent members of the Company's Board of Directors, as previously disclosed, agreed to amend its previously announced policy regarding the private purchase of dealerships by Mr. Priestner, such that in the future, Mr. Priestner and senior management would be permitted to privately purchase dealerships which the Company either cannot purchase, or which it chose not to purchase, as a means to better ensure the retention of such employees and to allow for cost saving synergies where the same are available. Although the Company permits private purchases, Management continues to seek approval with OEMs that have not accepted public ownership. Since the adoption of this policy, dealerships purchased privately have been limited to manufacturers that have not accepted public ownership. There has been no change to this policy since first adopted in 2011.

The Company has established the ACI Stock Option Plan under which options may be granted to our directors, officers, employees and consultants, in order to provide an opportunity for these individuals to increase their proprietary interest in our long-term success. Unless otherwise specified by the Board of Directors, Options issued under the Plan vest at a rate of one third on the three subsequent award date anniversaries. All the options must be exercised over specified periods not to exceed ten years from the dates granted. During 2016, a one-time grant of stock options occurred under the Plan.

To ensure the Company's compensation programs are competitive to the market and its peer group, the Company engaged an external consulting firm, Mercer, to provide information in support of the annual executive compensation review. Mercer provides data on the total compensation offered for similar positions in companies of similar size and scope to the Company. During 2014 the Board approved a revised executive compensation program which was effective April 1, 2014. The components of the Company's compensation package for executives are outlined below:

Base Salary: Compensates executives for the leadership and specific skills needed to fulfill their responsibilities.

Hybrid Incentive Plan: Rewards executives for their contribution to the achievement of annual financial and non-financial goals by providing performance-based cash bonuses and links the long term interests of executives and shareholders by rewarding executives for achieving the goals of the Company by awarding long-term equity-based incentives.

The annual incentive plan aims to enhance the link between pay and performance by aligning the financial and operational interest and motivations of the Company's management team with the annual financial returns of the Company. It is designed to motivate management to work toward common annual performance objectives while acknowledging and rewarding individual goal achievement. The plan provides total cash compensation to the senior leadership team that is greater than the median of the companies of similar size and scope where exceptional performance in excess of target objectives is attained. The plan also provides total cash compensation to the senior leadership team that is below the market median in cases where performance objectives are not attained.

The equity-based incentive compensation plan is designed to recognize and reward the impact of longer-term strategic actions undertaken by management and align the interests of the Company's senior leadership team and its shareholders. The program is designed to focus management on successfully implementing the continuing strategic plan of the Company, improve retention of key members of the management team and attract talented individuals to the Company.

In 2011, the Company formalized an appropriate equity-based incentive compensation plan referred to as Share Unit Plan for Employees of AutoCanada Inc. or the "Share Unit Plan". The Share Unit Plan allows for the Compensation Committee of AutoCanada to grant performance-based share units ("PSUs") or restricted share units

("RSUs") to employees of AutoCanada.

Dealer principals are compensated, to a significant extent, on the basis of the financial performance of the franchised automobile dealership for which they are responsible. Our dealer principals participate in an incentive plan that provides for the payment to them of a percentage of the EBITDA of the dealer principal's franchised automobile dealership. The compensation of department managers and salespeople is similarly based upon departmental profitability and individual performance, respectively.

Inventories

Effective management of our inventory levels is critical to our business. Careful monitoring of inventories of new and used vehicles and parts by days of supply, both in units and dollar amount leads to increased profitability by minimizing interest expense incurred from financing our inventory, while maximizing our free cash flow through prudent management of our working capital requirements.

New Vehicles

Automobile manufacturers allocate their budgeted production among franchised automobile dealerships largely based on historical selling patterns of the given dealership. Automobile manufacturers also take into account the dynamics of each marketplace and look to the number of new vehicle registrations by type to assess the automobile manufacturers' expected market share for each of their product offerings. Through their own analysis, automobile manufacturers determine a "minimum sales responsibility" for each of their dealers which is effectively a minimum selling volume.

Although automobile manufacturers determine a targeted volume of product that each dealer is expected to sell, the decision to purchase inventory is the dealer's, subject to meeting the minimum inventory levels required by the franchise or sales and service agreements with the automobile manufacturers. Our dealers prepare an annual plan at the start of each year, which is then revised and updated throughout the year with the filing of monthly plans.

In general, lead times for delivery of new vehicles are expected to be six to eight weeks from the time of placing our order. We generally expect to manage our new vehicle inventory to approximately 75 days' supply (which generally includes approximately 30 days of "in transit" time) although variations are common due to in-transit times to ship vehicles from factories in North America and Asia to our various locations across Canada. During certain times of the year certain plants operated by our OEM's are shut down for maintenance due to declines in market demand or scheduled maintenance. As we become aware of plant closures we occasionally increase inventory of the effected product lines.

We finance our inventory purchases (known in the industry as floorplan financing) through revolving floorplan facilities which we have arranged through a various floorplan lenders, including Scotiabank, CIBC, RBC, VCCI, and BMW Financial and TD Bank. See "Financing - Floorplan Financing". The various floorplan lenders establish credit limits for each of our dealerships based on individual dealership needs.

We are able to mitigate interest expense from floorplan financing by effectively managing new vehicle inventories and turning our inventory regularly through continuing sales and smaller but more frequent orders, while complying with the minimum inventory requirements in our agreements with the automobile manufacturers.

Used Vehicles

Used vehicle inventory is typically acquired either through trade-ins on new or used vehicle sales, lease returns or auctions. In order to facilitate a new vehicle sale, we often take a customer's previously owned vehicle as partial consideration. If the used vehicle fits our criteria for used vehicle inventory, we recondition the vehicle in our service department before returning the vehicle to our sales lot in less than one week. In evaluating used vehicles for our inventory we consider age, brand, mileage and general fit within the respective marketplace. If a trade-in vehicle does not meet our criteria, we typically sell the vehicle to a wholesaler, a used vehicle dealership or through auction.

We acquire a significant amount of our used vehicle inventory through trade-ins and use auctions to supplement this inventory. Most automobile manufacturers regularly conduct closed auctions exclusively for its franchised automobile dealers to purchase off-lease and fleet vehicles. These vehicles typically meet our inventory criteria.

We also acquire vehicles through several other auto auctions. Some of these auctions are limited to franchised automobile dealers, while others are open to all interested parties. The used vehicle inventory at each of our dealerships is monitored at both the dealership and at head office. Our target is to turn our used vehicle inventory every six weeks.

If vehicles are not receiving interest from potential customers, our dealers either reduce the suggested price or sell the vehicle to a wholesaler.

Our used vehicle inventory is financed by a combination of working capital and our revolving floorplan facilities.

Parts Inventory

Each of our franchised automobile dealerships has a parts manager who is responsible for the procurement and management of our parts inventories. We manage our parts inventories to a target of 1.7 months' supply on hand in order to be responsive to our customers' needs while managing our working capital. Each of our dealerships' parts managers monitors inventories for stale parts. Certain automobile manufacturers allow us to return up to six percent of our purchases each year for full refund. The effective identification of stale parts inventory allows us to reduce our working capital requirements. In addition, our parts managers monitor lost sales resulting from not having a customer's requested part in our inventory. Measuring these lost sales enables us to change our stocking patterns and minimize future lost sales while at the same time improving customer service. Our parts inventory is financed by our working capital.

Automobile Dealership Franchise Agreements

Each of our franchised automobile dealerships is operated by one of our subsidiaries pursuant to automobile dealership franchise or sales and service agreements between the applicable automobile manufacturer and the subsidiary. The typical dealership franchise or sales and service agreement specifies the location at which the subsidiary has both the right and obligation to sell the automobile manufacturer's vehicles and related parts and products and to perform certain approved services. The agreement grants the subsidiary the non-exclusive right to use and display the automobile manufacturer's trademarks, service marks and designs in the form and manner approved by the automobile manufacturer. The dealer principal must be an active participant in the business of the subsidiary and its dealership, and must be approved by the automobile manufacturer under the franchise or sales and service agreement for that dealership. The Hyundai Framework Agreement requires us to obtain its approval of the individuals appointed as directors of the general partners of the Dealer LPs operating under dealership agreements with it.

The allocation of new vehicles among franchised automobile dealers is subject to the discretion of the automobile manufacturer, which generally does not guarantee dealers exclusivity within a given territory. An OEM agreement may impose requirements on the franchised automobile dealer concerning such matters as the showrooms, the facilities and equipment for servicing vehicles, the maintenance of minimum levels of vehicles and parts inventories, the maintenance of minimum net working capital, the achievement of certain sales targets, minimum customer service and satisfaction standards and the training of personnel. Compliance with these requirements is closely monitored by the automobile manufacturer. In addition, most automobile manufacturers require each franchised automobile dealer to submit monthly and annual financial statements.

We are subject to additional provisions contained in supplemental agreements, framework agreements or franchise addenda. These agreements impose requirements similar to those discussed above, as well as limitations on changes in our ownership or management and limitations on our market share of total vehicles sold by a particular automobile manufacturer.

Termination or Non-renewal of Franchise Agreements

Our dealership franchise or sales and service agreements are for indefinite terms or specified terms (which may be one year) with automatic renewals for successive terms unless either party elects not to renew the term of the agreement.

Generally, our dealership franchise or sales and service agreements provide for termination by the automobile manufacturer under certain circumstances, including insolvency or bankruptcy of the franchised automobile dealer, failure to adequately operate the franchised automobile dealership, failure to maintain any license, permit or authorization required for the conduct of business, or material breach of other provisions of the agreement.

Provisions Affecting a Change of Control or Ownership

The Chrysler Approval Agreement was restated, effective December 31, 2009, and prohibits a change of control of ACI without the prior approval of Chrysler Canada unless ACI thereafter disposes of the Chrysler Dealer LPs within certain timelines. It also prohibits: (i) a change in control of the Chrysler Holding LP; (ii) the acquisition of more than 10% of ACI Shares by an OEM, or (iii) the sale of all or substantially all of the assets of Chrysler Holding LP or of the shares of any of the general partners of the Chrysler Dealer LPs, except to an affiliate. In addition, COAG has agreed with Chrysler Canada that, without the prior written consent of Chrysler Canada, COAG will not transfer or give control over any ACI Shares that results in COAG holding less than a 5% equity or voting interest in ACI, on a fully-diluted basis, and COAG will not permit a change of control of COAG. Acquisition of ACI Shares by ACI shareholders in violation of these ownership restrictions or actions by COAG under this agreement with Chrysler Canada are generally outside of AutoCanada's control and may result in the termination of one or more franchises, which may have a material and adverse effect on ACI.

Under a supplemental agreement with Nissan Canada if any person or entity acquires more than 20% of ACI, or a group of persons or entities acquire more than 50% of ACI, and, in either case, Nissan Canada, acting reasonably, determines that such persons or entities do not have interests compatible with those of Nissan Canada, or are otherwise not qualified to have an ownership interest in a Nissan or Infiniti dealership, then Nissan Canada shall be entitled to require ACI to divest its ownership interest in those Nissan and Infiniti dealerships owned by ACI.

We may be required to enter into similar agreements with the other automobile manufacturers, or those related to same, with whom we deal or wish to deal.

Our dealership franchise or sales and service agreements require the approval of the applicable automobile manufacturer to any change in the ownership of the franchised automobile dealership.

Actions by our Shareholders or prospective Shareholders that would violate certain of the above restrictions are generally outside of our control. For example, we cannot control a change of control of ACI or the acquisition by another automobile manufacturer of more than 10% of our outstanding ACI Shares. In addition, these restrictions may also limit our ability to finance future acquisitions through the issue of additional ACI Shares or other equity securities. If we are unable to renegotiate these restrictions, we may be inhibited in our ability to acquire additional franchised automobile dealerships. These restrictions also may impede our ability to raise required capital or to issue ACI Shares, or securities exchangeable into ACI Shares, as consideration for future acquisitions.

Although our franchise or sales and service agreements may not be renewed and may be terminated by the automobile manufacturer in certain circumstances, automobile manufacturers have rarely chosen to take such action in the case of well managed and well capitalized dealerships - See "Risk Factors". If any of our franchise or sales and service agreements are terminated, or if certain automobile manufacturers' rights under their agreements with us are triggered, our operations could be significantly compromised.

Indemnities and other Agreements

The Chrysler Approval Agreement and Hyundai Framework Agreement also contain provisions which require us to indemnify the respective automobile manufacturer for breaches of the applicable agreement, for claims made against the automobile manufacturer arising out of the creation of ACI or in respect of the IPO and, in the case of

Hyundai, from any acts or omissions under any applicable securities laws, including any claim arising from any misrepresentation or public oral statement made by us.

In addition, the Hyundai Framework Agreement requires us to obtain Hyundai approval of the individuals appointed as directors of each general partner of the Dealer LPs operating under dealer agreements with it or to issue a 15% interest in the Dealer LP directly or indirectly to the dealer principal of that Dealer LP on terms determined by its general partner. We are also required to maintain directors' and officers' and certain other types of insurance.

Automobile Manufacturers' Limitations on Acquisitions

We are required to obtain the consent of the applicable automobile manufacturer before we can acquire any additional franchised automobile dealerships that can sell the vehicles produced by that automobile manufacturer. Our automobile manufacturers impose limits on the number of franchised automobile dealerships we are permitted to own at the national, regional and metropolitan levels. These limits vary according to the agreements we have with each of the automobile manufacturers but are generally based on fixed numerical limits or on a fixed percentage of the aggregate sales of the automobile manufacturer.

The Chrysler Multi-Dealer Group Policy, which is applicable to all Chrysler dealers, currently limits the number of additional Chrysler Canada franchised automobile dealerships which can be acquired if it would result in the 36 month average sales of new Chrysler Canada vehicles from our dealerships to exceed the following percentages of 36 month average sales of new Chrysler Canada vehicles: 8% of sales in Canada (increased by Chrysler Canada from the original mandate of 5%); 15% of sales in any province; and 30% of sales in a major metropolitan market (as defined in the Multi-Dealer Group Policy), except as approved by Chrysler Canada. At December 31, 2016, our annual average sales of new Chrysler Canada vehicles over the preceding 36 months comprised 6.95% of national sales, 19.46% of sales in Alberta, 15.33% of sales in British Columbia and 35.01% and 33.24% of sales in the major metropolitan markets of Edmonton, and Calgary, Alberta, respectively, (the provinces and major metropolitan area in which we have the highest concentration of Chrysler Canada franchised automobile dealerships).

Subject to Nissan's consent otherwise, the Nissan Multiple Market Ownership Agreement limits ACI's ownership, to that number of Nissan or Infiniti dealerships, which aggregated, do not have sales greater than:

(i) **5% of Nissan's national sales and Infiniti's national sales, respectively;**

(ii) **5% of Nissan's total sales within a Region; and**

(iii) **5% of all Nissan dealerships or 10% of all Infiniti dealerships.**

In addition, ACI shall not own or manage more than one Nissan or Infiniti dealership in a metropolitan market comprised of two to three dealerships of the same brand; more than two Nissan or Infiniti dealerships in a metropolitan market comprised of between four and ten dealerships of the same brand; or more than three Nissan or Infiniti dealerships in a metropolitan market comprised of eleven or more dealerships of the same brand, except as approved by Nissan Canada.

Management believes that all other automobile manufacturers have similar requirements. Unless we renegotiate these agreements or receive the consent of the automobile manufacturers, we may be prevented from making further acquisitions upon reaching the limits provided for in these agreements. We are near or in excess of the sales volume limits imposed by Chrysler Canada which may limit the acquisition of additional Chrysler dealerships in certain provinces and metropolitan areas. The sales volume limits imposed by Chrysler Canada are continuously under review and are subject to amendment. During the previous fiscal year we were approved to acquire additional Chrysler dealerships despite being in excess of the stated limits of the Multi-Dealer Group Policy.

Financing

Floorplan Financing

Franchised automobile dealerships finance their new vehicle inventory (and in some instances a portion of their used vehicle inventory) by way of floorplan financing, which is offered by the automobile manufacturers' captive finance companies, banks and specialty lenders. Although the structures used in floorplan financing vary, a floorplan lender typically finances 100% of the purchase price of a new vehicle from the time of purchase by the dealership (which occurs when production of the new vehicle is completed).

On April 23, 2014, the Company announced that it had increased its existing syndicated floorplan facility (the "Syndicated Floorplan Facility") with Scotiabank and CIBC by $200.0 million, bringing total availability to $550.0 million. All significant terms and conditions of the previous facility remain unchanged. The Syndicated Floorplan Facility bears a rate of Bankers' Acceptance plus 1.15% (2.03% as at December 31, 2016).

The Syndicated Floorplan Facility has been provided to 34 of the 56 dealerships in which AutoCanada operates. The terms and conditions of the facility apply only to the collective group of dealerships which are to be funded (the "Borrowers"). With respect to financial covenants, the Borrowers are required to maintain the following covenants:

(i) **The Tangible Net Worth shall not be less than $40 million;**

(ii) **The ratio of Debt to Tangible Net Worth shall not exceed 7.50x; and**

(iii) **The Current Ratio shall not be less than 1.10x.**

VW Credit Canada Inc. provides revolving floorplan facilities ("VCCI facilities") to finance new and used vehicles for the Company's Volkswagen and Audi dealerships. The VCCI facilities bear interest at the Royal Bank of Canada ("RBC") prime rate for new vehicles and RBC prime rate plus 0.75-1.25% for used vehicles (RBC prime rate was 2.70% at December 31, 2016). The maximum amount of financing provided by the VCCI facilities is $52.8 million. The VCCI facilities are collateralized by all of the dealerships' assets financed by VCCI and all cash and other collateral in the possession of VCCI and general security agreements from the Company's Volkswagen and Audi dealerships. The individual notes payable of the VCCI facilities are due when the related vehicle is sold, as outlined in the agreements with VCCI. The VCCI facilities require maintenance of financial covenants that require all dealerships to maintain minimum cash and equity balances.

BMW Financial, a division of BMW Canada Inc., provides floorplan financing for new and used vehicles for the Company's BMW and MINI dealerships (the "BMW facilities"). The BMW facilities have a current advance limit of $93.6 million. The BMW facilities bear a variable interest rate of prime minus 0.40% per 360-day annum (2.30% at December 31, 2016). The BMW facilities are collateralized by the dealerships' movable and immovable property. The agreement requires the Company to maintain a certain working capital ratio.

RBC provides floorplan financing for new, used and demonstrator vehicles for seven of the Company's General Motors dealerships and one Nissan dealership (the "RBC facilities"). The RBC facilities bear interest rates of RBC's Cost of Funds Rate (1.78% as at December 31, 2016) plus 0.40-0.75% and provide a maximum amount of financing of $134.3 million. The RBC facilities are collateralized by the new, used, and demonstrator inventory financed by RBC and a general security agreement from the General Motors dealerships financed by RBC.

TD provides floorplan financing for new, used and demonstrator vehicles for one of the Company's Chrysler Canada dealerships (the "TD facilities"). The TD facilities bear interest rates of TD Prime Rate (2.70% as at December 31, 2016) minus 0.75% and provide a maximum amount of financing of $21.5 million. The TD facilities are collateralized by the new, used, and demonstrator inventory financed by TD and a general security agreement from the dealership financed by TD.

RBC provides financing for the lease vehicles of two of the Company's GM dealerships (the "RBC lease financing"). The RBC lease financing bears interest at a rate of RBC's CF Rate plus 0.90% (2.68% at December 31, 2016) and provide a maximum amount of financing of $16.0 million, repayable over the terms of the contract in varying amounts of principal. The RBC lease financing is collateralized by the lease vehicles under the related lease agreements.

Scotiabank provides floorplan financing for new, used and demonstrator vehicles for three of the Company's dealerships that fall outside of the Syndicated Floorplan Facility. These facilities bear interest rates of Scotia Fixed Flooring Rate plus 0.93%. The Scotia Fixed Flooring rate was 0.97% at December 31, 2016. The combined total interest rate was 1.90% at December 31, 2016. The maximum amount of financing provided by the facilities for these three dealerships is $50.4 million.

Scotiabank provides financing for the lease vehicles of two of the Company's dealerships (the "Scotiabank lease financing"). The Scotiabank lease financing bears interest at a rate of Scotiabank's CF Rate plus 1.25% (3.47% at December 31, 2016) and provide a maximum amount of financing of $2.5 million, repayable over the terms of the contract in varying amounts of principal. The Scotiabank lease financing is collateralized by the lease vehicles under the related lease agreements.

Our ability to finance our new, used and demonstrator inventory is a significant factor in the Company's liquidity management. The Company is generally able to increase or decrease the number of vehicles it finances, subject to limits imposed by floorplan lenders, as part of its treasury management function. If floorplan limits are reduced, the Company may not be able to maintain its current level of inventories, which may negatively impact our future results. At December 31, 2016 all financial covenants relating to all floorplan financing agreements had been met.

Copies of significant floorplan financing agreements are available for viewing under the Company's profile on SEDAR at www.sedar.com.

Credit Facilities

On March 16, 2017, the Company, through its wholly owned subsidiary, Holdings, executed an Amended and Restated Credit Agreement with HSBC Bank Canada ("HSBC"), Alberta Treasury Branches ("ATB"), and RBC, with HSBC acting as administrative agent to the Credit Agreement. The Credit Agreement provides the Company with a $250 million revolving operating facility that may be used for general corporate purposes, including repayment of existing indebtedness, funding working capital requirements, capital expenditures and financing acquisitions.

Fees and interest on borrowings under the Credit Agreement are subject to a pricing grid whereby the pricing level is determined by the Adjusted Total Leverage Ratio. As at December 31, 2016, the Company was in the first of five tiers of the pricing grid, with the first tier providing interest rates of HSBC's prime rate plus 2.00% (4.70% at December 31, 2016). Amounts drawn under the Credit Agreement as at December 31, 2016 were due May 22, 2018.

The Credit Agreement is collateralized by all of the present and future assets of Holdings and all of its material subsidiaries. As part of priority agreements signed by HSBC, Scotiabank, VCCI, BMW Financial, and the Company, the collateral for the Credit Agreement excludes all new, used and demonstrator inventory financed with Scotiabank, CIBC, VCCI, RBC, BMW Financial and TD revolving floorplan facilities. The material subsidiaries include those subsidiaries of Holdings whose total assets constitute more than 5% of the consolidated assets of Holdings or whose total EBITDA constitutes more than 5% of the consolidated EBITDA of Holdings. Notwithstanding the foregoing, AutoCanada must designate the necessary number of subsidiaries to be a material subsidiary, such that the total assets of all material subsidiaries would constitute more than 80% of the total consolidated assets of Holdings and the total EBITDA of all material subsidiaries would exceed 80% of the consolidated EBITDA of Holdings for the preceding four consecutive fiscal quarters.

The total amount available for borrowing under the Credit Facility is subject to a borrowing base restriction calculated by reference to, among other things, the value of collateralized eligible assets, including cash, accounts receivable, and inventory as well as collateralized real estate

With respect to financial covenants, the Borrowers are required to maintain the following covenants:

(i) The ratio of Senior Secured Leverage shall not exceed 2.75x;

(ii) The ratio of Adjusted Total Leverage shall not exceed 5.00x;

(iii) The ratio of Fixed Charge Coverage shall not be less than 1.20x; and

(iv) The Current Ratio shall not be less than 1.05x.

"Senior Secured Leverage Ratio" means, at any time of determination, the ratio of: (A) Funded Debt to (B)(i) EBITDA; less (ii) Interest Expense in respect of Flooring Debt (to the extent included in EBITDA).

"Adjusted Total Leverage Ratio" means, at any time of determination, in respect of the Secured Entities, the ratio of: (A)(i) all interest bearing Indebtedness (excluding any Flooring Debt); plus (ii) the face amount of all outstanding Letters of Credit; plus (iii) 8 multiplied by Operating Lease payments for the prior four (4) Fiscal Quarters on a Rolling Four Quarter Basis, to (B)(i) EBITDA; plus (ii) Operating Lease payments for the prior four (4) Fiscal Quarters on a Rolling Four Quarter Basis; less (iii) Interest Expense in respect of the Flooring Debt for the prior four (4) Fiscal Quarters on a Rolling Four Quarter Basis.

"Fixed Charge Coverage Ratio" means, at any time of determination, in respect of the Secured Entities, on a Revolving Four Quarter Basis, the ratio of (A) (i) EBITDA; less (ii) Cash Taxes for the Secured Entities; less (iii) Distributions for the Secured Entities, to (B) (i) scheduled principal payments of Indebtedness for the Secured Entities (including Capital Lease payments for the Secured Entities); plus (ii) aggregate cash Interest Expense for the Secured Entities (inclusive of Interest Expense in respect of Flooring Debt).

"Current Ratio" means the ratio of: (A) Current Assets, to (B) Current Liabilities.

Capitalized terms not otherwise defined in this section, including but not limited to EBITDA, have the meaning given in the Credit Agreement, a copy of which is available on SEDAR at www.sedar.com.

Mortgages

VCCI provides the Company with mortgages (the "VCCI Mortgages"), which bear floating rates of interest per annum equal to RBC's prime rate plus 0.15-0.50% (2.85-3.20% at December 31, 2016). The VCCI Mortgages are repayable with blended monthly payments of $0.51 million amortized over a twenty year period with terms expiring between April 2019 and April 2021. The VCCI Mortgages have certain reporting requirements and financial covenants and are collateralized by a general security agreement consisting of a first fixed charge over the properties. At December 31, 2016, the carrying amount of the properties was $34.3 million.

BMW Financial provides the Company with a mortgage (the "BMW Mortgage"), which bears a fixed rate of interest per annum of 3.80%. The BMW Mortgage is repayable with sixty equal blended monthly payments of $124, amortized over a twenty year period with term expiring on December 31, 2019. The BMW Mortgage has certain reporting requirements and is collateralized by the property and any other present and future property, rights and assets, movable or immovable, and a general security agreement consisting of a first fixed charge over the property. At December 31, 2016, the carrying amount of the property was $30.4 million.

In 2012, the Company arranged a mortgage agreement with Servus Credit Union ("Servus"), whereby Servus provided the Company a $6.25 million commercial mortgage (the "Servus Mortgage") to facilitate the purchase of land and building to be used for the operations of the Kia Open Point dealership. The mortgage bears an annual interest rate of 3.90%, fixed, payable and calculated monthly in arrears, originally amortized over a 20 year period with term expiring 5 years after the fund date. The Servus Mortgage requires certain reporting requirements and is collateralized by general security agreement consisting of a first fixed charge over the land and building. With respect to financial covenants, a subsidiary of the Company is required to maintain a minimum annual Debt Service Coverage ratio of 1.25:1.

Marketing

Our advertising and marketing efforts are focused at the local market level, with the aim of building our business with a broad base of repeat, referral and new customers. Our most prevalent advertising mediums are local newspapers, radio, direct mail, and the internet.

Print and Media Advertising

The retail automotive industry has traditionally used locally produced, largely non-professional materials, often developed under the direction of each franchised automobile dealership's dealer principal. We have created common marketing materials for our brand names at some of our dealerships using our own expertise and professional advertising agencies.

Internet and e-Commerce

We believe that the Internet and e-commerce represents a substantial opportunity to build our franchised automobile dealerships' brands and expand the geographic borders of their markets. We use the scope and size of our operations to expand the use of the Internet in our sales of new and used vehicles, as we believe our customers are increasingly using the Internet as a key part of their product research.

Each of our franchised automobile dealerships has established a website that incorporates a professional design to reinforce the dealership's unique brand and advanced functionalities to ensure that the website can hold the attention of customers and perform the informational and interactive functions for which the internet is uniquely suited. Automobile manufacturer website links provide our dealerships with key sources of referrals. Many of our dealerships use the internet to communicate with customers both prior to vehicle purchase and after purchase to coordinate and market maintenance and repair services.

ACI has made significant investments in new technology and improving our websites to better accommodate our customers and improve our marketing and communication with potential customers. Our centralized marketing department has a number of initiatives underway to increase traffic to these sites and improve the functionality of the websites and user friendliness. Our centralized marketing department will continue to be a driving force in lead generation activities and search engine optimization, among other things, for our dealerships.

ACI has also been working with our dealership teams to improve our internet sales processes and ensuring that phone, email and internet leads are being appropriately handled. Our executive team and dealers recognize the importance of our online presence and believe the virtual showroom will be a major contributor to sales in the future. Internet marketing represents a significant opportunity for our dealerships to improve customer relationships and increase sales in all areas of the business.

Management Information Systems

We consolidate financial, accounting and operational data received from our franchised automobile dealerships nationwide through an exclusive private communications network.

Our financial information, operational and accounting data and other related statistical information are consolidated, processed and maintained at our headquarters in Edmonton, Alberta and Maple Ridge, British Columbia on a network of server computers and work stations. There is also an off-site storage maintained by CDK Global (formerly ADP Dealer Services). The flexible nature of our installed network allows for accumulation, processing and distribution of information using CDK and Reynolds and Reynolds computing programs. These two companies provide software for many companies in Canada, including franchised automobile dealerships. All sales and expense information, and other data related to the operations of each of our dealerships are entered at each location. This system allows our senior management to access detailed information on a "real time" basis from all of our dealerships regarding, for example, the makes and models of vehicles in our inventory, the mix of new and used vehicle sales, the number of vehicles being sold or leased, the percentage of vehicles for which we arranged financing or sold ancillary products and services, the profit margins achieved on sales and the relative performances of our dealerships to each other. This information is also available to each of our dealer principals. Reports can be generated that set forth and compare revenue and expense data by department and by dealership, allowing our management to quickly analyze the results of operations, identify trends in the business and focus on areas that require attention or improvement.

We believe that our management information system is a key factor in successfully incorporating newly acquired businesses. Following each acquisition, we install our management information system at the dealership location as soon as possible for the dealership, thereby quickly making financial, accounting and other operational data for that dealership easily accessible to our senior management. With access to this data, we can more efficiently incorporate our operating strategy at the newly acquired dealership. Because our management information system is scalable, we can integrate new acquisitions without significantly increasing the cost of operating the system.

Employees

As of December 31, 2016 we employed approximately 4,250 full time equivalent employees. Management believes that our employee relations are excellent and a strong contributing factor to our success.

Our employees in parts, service and collision repair and sales activities at Moncton Chrysler Jeep Dodge, Maple Ridge Chrysler Jeep Dodge FIAT, Island GMC, Wellington Motors and BMW Canbec are represented by labour unions. The collective bargaining agreement with the union at Moncton Chrysler Jeep Dodge was successfully renegotiated in 2016 and will expire on December 31, 2018. The collective bargaining agreement with the union at BMW Canbec was successfully renegotiated in 2015 and will expire on July 31, 2018. The collective bargaining agreements with the unions at Maple Ridge Chrysler Jeep Dodge, Wellington Motors and Island GMC are currently in the process of being renegotiated.

We have never experienced a strike, lock-out or other labour disturbance

Our Intellectual Property and Proprietary Rights

Registration of the trademark "AutoCanada" and the corresponding logo have been applied for in Canada by ACI. We also own other trademarks, trade names and various domain names, including autocan.ca, autocanada.net and autocanada.biz.

Regulatory Matters and Policies

National Automobile Dealer Arbitration Program ("NADAP")

In addition to our dealership franchise or sales and service agreements, our relationships with automobile manufacturers are governed by NADAP. NADAP is a program organized by the Canadian Vehicle Manufacturers' Association, the Association of International Automobile Manufacturers of Canada and CADA that provides rules for dispute resolution between the automobile manufacturers and the franchised automobile dealers in the Canadian automobile industry.

The NADAP Rules provide for the mediation and arbitration of disputes between an automobile manufacturer and its franchised automobile dealers involving: the interpretation or application of the dealership agreement; the renewal or termination of the dealership agreement; the length of a cure period provided by the automobile manufacturer in light of any franchised automobile dealer deficiencies to be cured; the sale or transfer of the franchised automobile dealership; whether a dealer owes money to an automobile manufacturer (or vice versa); and the decision of an automobile manufacturer to appoint or relocate a dealership into the market of an existing dealer. The NADAP Rules provide that an existing franchised automobile dealer can challenge an automobile manufacturer's proposal to create a new dealership or relocate a dealership, with identical brands, in a location that is within eight kilometres (in metropolitan areas) of the existing dealership's location (20 kilometres if relocated more than two kilometres closer to the existing dealership in non- metropolitan areas). Some of our agreements with the automobile manufacturers contain waivers by us of certain NADAP Rules.

Dealership Code of Conduct

We have developed and implemented a code of conduct that reflects our commitment to conducting our business in accordance with the highest ethical standards. Our code of conduct is intended to provide guidance on recognizing and dealing with ethical issues, provide mechanisms to report unethical conduct, and help foster a culture of honesty, integrity and accountability. The code deals with, among other things, advertising standards, clarity of pricing, sales techniques and standards, customer relationships and other matters. The code of conduct applies to all of our directors, officers and employees and sets policies and standards that go beyond mere compliance with the minimum legal standards. A copy of the code of conduct may be obtained from our website at www.autocan.ca or from SEDAR at www.sedar.com.

Governmental Regulations

A number of federal, provincial and local regulations affect our marketing, selling, financing and servicing of vehicles.

Each of the jurisdictions in which we operate regulates the licensing of franchised automobile dealers. Our dealers and salespeople must be licensed, and must comply with ongoing provincial regulations in order to maintain their licensed status. Dealerships are also generally prohibited under provincial laws from employing individuals in certain automobile repair positions unless the individuals are appropriately certified. In addition, our dealerships are subject to various consumer protection laws which regulate sales transactions and advertising. Dealerships that offer financing products must also comply with regulations concerning matters such as credit agreement provisions, cost of borrowing disclosure and advertising regarding the terms of credit. Other provinces into which we may expand our operations in the future are likely to have similar requirements.

The Provinces of Alberta, British Columbia and Ontario have established self-regulatory bodies which are responsible for licensing automobile dealers and their sales and management personnel, as well as overseeing consumer protection legislation applicable to motor dealers, including standard setting and enforcement, compliance with advertising restrictions, complaint resolution and public industry education. Operating under delegated authority from their respective provincial governments, these bodies administer and enforce compliance with many of the provincial laws which affect the day-to-day operations of automobile dealers.

The sale of third party financing products to our customers is subject to federal and provincial truth-in-lending, consumer leasing, financing regulations, instalment finance laws and insurance laws.

We believe that we comply substantially with all laws and regulations affecting our business and do not have any material liabilities under such laws and regulations and that compliance with all such laws and regulations do not, individually or in the aggregate, have a material adverse effect on our capital expenditures, earnings or competitive position and we do not anticipate that such compliance will have a material effect on us in the future.

Environmental Matters

We are subject to a wide range of environmental laws and regulations, including those governing discharges into the air and water, the storage of petroleum substances and chemicals, the handling and disposal of wastes and the remediation of contamination. As with dealerships generally, and service, parts and collision repair centre operations in particular, our business involves the generation, use, handling and disposal of hazardous or toxic substances and wastes.

Pursuant to these laws, provincial environmental agencies have established approved methods for the handling, storage, treatment, transportation and disposal of regulated substances and wastes with which we must comply.

Our business also involves the use of above ground and underground storage tanks. Under applicable laws and regulations, we are responsible for the proper use, maintenance and abandonment of our regulated storage tanks and for remediation of subsurface soils and groundwater impacted by releases from existing or abandoned storage tanks. In addition to these regulated tanks, we own, operate, or have otherwise closed in-place other underground and above ground devices or containers (such as automotive lifts and service pits) that may not be classified as regulated which could or may have released stored materials into the environment, thereby potentially obligating us to clean up any contaminated soils or groundwater resulting from such releases.

We are also subject to laws and regulations governing remediation of contamination at or from our facilities or to which we send hazardous or toxic substances or wastes for treatment, recycling or disposal.

All dealership locations are subject to the obtaining of Phase I environmental assessments from independent environmental consultants prior to purchase.

Environmental laws and regulations are very complex and it has become difficult for businesses that routinely handle hazardous and non-hazardous wastes to achieve and maintain full compliance with all applicable environmental laws. Like any business involved in the repair and servicing of vehicles, from time to time we experience incidents and encounter conditions that are not in compliance with environmental laws and regulations. However, none of our dealerships have been subject to any material environmental liabilities in the past and we do not anticipate that any material environmental liabilities will be incurred in the future.

Environmental laws and regulations and their interpretation and enforcement are changed frequently and we believe that the trend of more expansive and stricter environmental legislation and regulations is likely to continue. Hence, there can be no assurance that compliance with environmental laws or regulations or the future discovery of unknown environmental conditions will not require additional expenditures by us, or that such expenditures would not be material. See “Risk Factors - Risks Related to Our Business - Governmental Regulations and Environmental Regulation Compliance Costs”

Risk Factors

The risks and uncertainties described below are not the only risks and uncertainties we face. Additional risks and uncertainties not currently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks actually occur, our business, results of operations and financial condition, and the amount of cash available for distribution to our Shareholders, could suffer.

Risks Related to Our Business and the Industry in Which We Operate

Risks Related to the Retail Automotive Industry

Capital Markets

Uncertainty in the capital markets may cause greater difficulty to access capital, as well as possible higher interest rates and less favourable terms.

Economic Conditions

Unfavourable economic conditions may negatively impact ACI's financial viability. A decline in economic conditions could also increase ACI's financing costs, decrease net earnings, limit access to capital markets and negatively impact the availability of credit facilities to ACI.

Currency Fluctuations

Rapid appreciation or depreciation of the Canadian dollar relative to the U.S. dollar impacts the relative price of used and new vehicles, as well as vehicle parts in Canada relative to the U.S., making the same either more attractive, in the case of a depreciation, or less attractive, in the case of appreciation, thus posing risks to some of ACI's operations. In response to the rapid change in the value of the Canadian dollar when compared to the U.S. dollar, manufacturers may or may not adjust prices or incentives to accommodate such changes, and, if adjusted, could amend or discontinue at any time. In addition, such currency appreciation could have a negative impact on businesses that operate in the communities in which ACI's dealerships are located which could in turn, negatively impact the dealerships' performance.

Macroeconomic Factors including Fuel Prices

The current economic environment in Canada, especially with regards to the level of consumer debt, continues to be of concern to the Company, particularly in regard to sales of new and used automobiles. As well, fuel prices have been volatile in the past few months. Continued decline in the price of oil could have a negative impact on the Company as a result of weak economic conditions in the Western Provinces leading to lower vehicle sales. Conversely, increases in gasoline prices could cause a reduction in automobile purchases and/or a shift in buying patterns from light trucks and sport utility vehicles (which typically provide higher margins) to smaller, more economical vehicles (which typically have lower profit margins). In addition, many of our dealerships depend on sales of light trucks and sport utility vehicles for their level of profitability. A continued shift in preferences by consumers for smaller, more economic vehicles may have an adverse effect on our revenues and results of operations.

Overall Consumer Demand

ACI's business is heavily dependent on consumer demand and preferences. ACI's revenues will be materially and adversely affected if there is a severe or sustained downturn in overall levels of consumer spending. Retail vehicle sales are cyclical and historically have experienced periodic downturns characterized by oversupply and weak demand. These cycles are often dependent on general economic conditions and consumer confidence, as well as the level of discretionary personal income and credit availability.

Availability of Consumer Credit

In the event lenders tighten their credit standards or there is a decline in the availability of credit in the lending market (including but not limited to as a result of broader economic conditions), the ability of consumers to purchase vehicles could be limited, which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Substantial Competition in Vehicle Sales and Services

The retail automotive industry is highly competitive. Depending on the geographic market, ACI is in competition with: franchised automobile dealerships in markets that sell the same or similar makes of new and used vehicles offered, in some cases at lower prices than ACI, private market buyers and sellers of used vehicles, service centre chain stores, independent service and repair shops, and other providers of financing and insurance contracts.

ACI is also in competition with regional and national vehicle rental companies that sell their used rental vehicles. ACI may face significant competition while striving to gain market share. Some of ACI's competitors may have greater financial, marketing and personnel resources and lower overhead and sales costs. ACI does not have any cost advantage in purchasing new vehicles from OEMs and may typically rely on advertising, merchandising, sales expertise, service reputation and dealership location in order to sell new vehicles. AutoCanada's OEM Agreements do not grant AutoCanada the exclusive right to sell a manufacturer's product within a given geographic area. ACI's revenues and profitability may be materially and adversely affected if competing dealerships expand their market share or are awarded additional franchises by manufacturers that supply ACI's dealerships.

In addition to competition for vehicle sales, ACI's franchised automobile dealerships compete with other franchised automobile dealerships to perform warranty repairs and with other franchised automobile dealerships, franchised and independent service centre chains and independent garages for non-warranty repair and routine maintenance business. ACI's franchised automobile dealerships compete with other franchised automobile dealerships, service stores and automobile parts retailers in their parts operations. ACI believes that the principal competitive factors in service and parts sales are the quality of customer service, the use of factory-approved replacement parts, familiarity with an OEM's brands and models, convenience, the competence of technicians, location, and price. A number of regional or national chains offer selected parts and services at prices that may be lower than ACI's franchised automobile dealerships' prices. ACI is also in competition with a broad range of financial institutions in arranging financing for customers' vehicle purchases.

Expanded use of the Internet in Sales

The internet has become a significant part of the sales process in our industry. Customers are using the Internet for vehicle price comparisons and related finance and insurance services, which may further reduce margins for new and used vehicles and profits related to the finance and insurance services and products that we provide. If Internet new vehicle sales are allowed to be conducted without the involvement of franchised dealers, our business could be materially adversely impacted. In addition, other franchise groups have aligned themselves with services offered on the Internet or are heavily invested in the development of their own Internet capabilities, which could materially adversely affect our business, results of operations, financial position and cash flows.

Dependence upon Vehicle Sales

The success of ACI's franchised automobile dealerships will depend in large part on the level of vehicle sales generally, and the level of demand for and sales of the brands of vehicles ACI sells. New vehicle sales will generate the majority of ACI's total revenue and lead to sales of higher-margin products, including the sales of used vehicles, parts, service and collision repair operations and finance products. If one or more of the brands that separately or collectively account for a significant percentage of ACI's new vehicle sales suffer from decreasing consumer demand, or are no longer offered for sale by the manufacturers, ACI's new vehicle sales and related revenues may be materially reduced.

Mix of New Vehicles

ACI depends on OEMs to provide a desirable mix of popular new vehicles. OEMs generally allocate their vehicles among their franchised automobile dealerships based on the sales history of each franchised automobile dealership. If ACI's franchised automobile dealerships experience prolonged sales slumps, OEMs may cut back their allotments of popular vehicles to ACI's franchised automobile dealerships and new vehicle sales and profits may decline.

Interest Rates

ACI currently finances purchases of new and, to a lesser extent, used vehicle inventory under a floorplan borrowing arrangement under which ACI is charged interest at floating rates. ACI may obtain capital for acquisitions and for some working capital purposes under a similar arrangement. As a result, ACI's debt service expenses may rise with increases in interest rates. Rising interest rates may also have the effect of depressing demand in the interest rate sensitive aspects of ACI's business, particularly new and used vehicle sales, because many customers finance their vehicle purchases.

As a result, rising interest rates may have the effect of simultaneously increasing costs and reducing revenues.

OEM Incentive Programs

ACI's franchised automobile dealerships depend on OEMs for certain sales incentives, warranties and other programs that are intended to promote and support new vehicle sales. Some key incentive programs will include customer rebates on new vehicles, franchised automobile dealership incentives on new vehicles, special financing or leasing terms, warranties on new and used vehicles and sponsorship of used vehicle sales by authorized new vehicle franchised automobile dealerships.

A reduction or discontinuation of key OEMs' incentive programs may reduce ACI's new vehicle sales volume resulting in decreased vehicle sales and related revenues.

Our OEM partners regularly audit our dealerships to ensure we are in compliance with incentive programs. If our dealerships are found not to be compliant with specific requirements such as documentation and other requirements, our dealerships can be charged back for the amounts claimed under incentive programs. Future chargebacks relating to incentive program claims may have an adverse effect on our future earnings.

Seasonality

The retail automotive industry is subject to seasonal variations in revenues. Demand for vehicles is generally lower during the first and fourth quarters of each year. Accordingly, ACI's revenues and operating results will generally be lower in the first and fourth quarters than in the second and third quarters. Therefore, if conditions surface during the second or third quarters that adversely affect vehicle sales, such as depressed economic conditions or similar adverse conditions, revenues for the year will be disproportionately adversely affected.

Import Product Restrictions and Foreign Trade Risks

A significant portion of ACI's new vehicle business involve the sale of vehicles, parts or vehicles containing parts that are manufactured outside Canada. As a result, ACI's operations are subject to customary risks of importing merchandise, including fluctuations in the relative values of currencies, import duties, exchange controls, trade restrictions, work stoppages and general political and socio-economic conditions in foreign countries. Canada, or the countries from which ACI's products are imported may, from time to time, impose new quotas, duties, tariffs or other restrictions, or adjust presently prevailing quotas, duties or tariffs, which may affect operations and the ability to purchase imported vehicles and/or parts at reasonable prices. These risks could be significantly compounded by the resurgence of protectionist measures by the United States following the recent election of Donald Trump as President.

Risks Related to Our Business

The Loss of Key Personnel and Limited Management and Personnel Resources

ACI's success depends to a significant degree upon the continued contributions of the ACI management team, particularly the senior management and service and sales personnel.

Additionally, OEM franchise agreements may require the prior approval of the applicable OEM before any change is made in franchised automobile dealership general managers. Consequently, the loss of the services of one or more of these key employees may materially impair the efficiency and productivity of operations.

In addition, ACI may need to hire additional managers during expansionary periods. The market for qualified employees in the industry and in the regions in which ACI operates particularly for general managers and sales and service personnel, is highly competitive and may lead to increased labour costs during periods of low unemployment. The loss of the services of key employees or the inability to attract additional qualified managers may adversely affect the ability of ACI's franchised automobile dealerships to conduct their operations in accordance with the standards set by the head office management.

Failure of Our Information Technology Systems

Our information technology systems are important to operating our business efficiently. We employ systems and websites that allow for the secure storage and transmission of customers' proprietary information. The failure of our information technology systems to perform as we anticipate could disrupt our business and could expose us to a risk of loss or misuse of this information, litigation and potential liability.

Our information technology systems may be vulnerable to data protection breaches and cyber- attacks beyond our control and we may not have the resources or technical sophistication to anticipate or prevent rapidly evolving types of cyber-attacks. We invest in security technology to protect our data and business processes against these risks. We also purchase insurance to mitigate the potential financial impact of these risks.

Despite these precautions, we cannot assure that a breach will not occur and any breach or successful attack could have a negative impact on our operations or business reputation.

Unfavourable Conditions in Key Geographic Markets

ACI's performance is subject to local economic, competitive and other conditions prevailing in the particular geographic areas of ACI's franchised automobile dealerships. Because the majority of ACI's dealerships are located in Alberta and British Columbia, their performance may be subject to local economic, competitive and other conditions prevailing in one or both of those provinces.

Ability to Refinance Credit Agreements in the Future

The Credit Agreement provides for maximum credit availability of $250.0 million. At the time the Credit Agreement will become due for repayment, if not extended by the lenders, ACI will be obliged to repay the outstanding amount or seek refinancing which may not be available on favourable terms. If agreement on a new facility is not reached, it may have negative consequences such as:

- **We may be required to dedicate a substantial amount of our cash flow from operations to required payments on indebtedness, thereby reducing the availability of cash flow for working capital, capital expenditures, acquisitions, dividends, and other general activities;**
- **Covenants relating to new credit agreements may limit our ability to obtain financing for working capital, capital expenditures, acquisitions, dividends and other general activities; and**
- **Covenants relating to new credit agreements may limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate.**

ACI also has credit facilities with other Canadian chartered banks and other lenders with respect to the properties it owns. We are subject to liquidity risk if these loans are not refinanced at the end of their respective terms or if the loans cannot be refinanced under favourable terms.

Credit Agreements

The degree to which the ACI and its subsidiaries are currently leveraged or may be leveraged in the future could have important consequences to the ACI shareholders including:

- **ACI's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited;**
- **a significant portion of ACI's cash flow from operations could become dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for future operations;**
- **certain borrowings are at variable rates of interest, which exposes ACI to the risk of increased interest rates; and**
- **ACI may be more vulnerable to economic downturns and be limited in its ability to withstand competitor pressures.**

These factors may increase the sensitivity of the cash available for use on capital expenditures or acquisitions to interest rate variations and could have a negative impact on the ability to make dividend payments to the ACI shareholders.

The Credit Agreement contains numerous restrictive covenants that will limit the discretion of ACI's management with respect to certain business matters. These covenants place significant restrictions on, among other things:

- **the incurrence of additional debt and guarantees of any debt, except purchase money debt to a maximum aggregate amount;**
- **capital expenditures;**
- **the creation of liens;**
- **the payment of dividends;**
- **the ability to make investments and finance acquisitions,**
- **the sale of any of AutoCanada's assets except in the normal course of the operation of the business; and**
- **the merger or consolidation with another entity.**

These restrictions could limit ACI's financial flexibility, prohibit or limit strategic initiatives and limit the ability to grow and respond to competitive changes. ACI may also be prevented from taking advantage of business opportunities that arise because of the restrictions contained in the Credit Agreement. In addition, the Credit Agreement contains a number of financial covenants that require AutoCanada to meet certain financial ratios and financial conditions the effect of which could require ACI to take certain action to reduce ACI's debt or take some other action should ACI not satisfy these financial ratios or tests. These restrictions, and the factors referred to above, may also inhibit ACI from refinancing the Credit Agreement at all or on terms that are favourable to ACI, and could have a negative impact on the ability to make dividend payments to the Shareholders.

ACI may not enter into a reorganization, amalgamation, merger or other similar arrangement with any other person, as defined in the Credit Agreement, as this is an event of default, entitling the lenders to require immediate repayment of the Credit Agreement.

A failure by ACI to comply with the obligations in the Credit Agreement could result in a default which, if not cured or waived, could result in a termination of distributions and permit acceleration of the relevant indebtedness. If the indebtedness under the Credit Agreement were to be accelerated, there can be no assurance that the assets of ACI would be sufficient to repay in full that indebtedness. There can be no assurance that future borrowings or equity financing will be available to ACI or available on acceptable terms, in an amount sufficient to repay this indebtedness or to meet ACI's needs.

ACI's wholesale floorplan financing is provided by Scotiabank, CIBC, RBC, VCCI, TD and BMW Financial. The floorplan lenders provide inventory financing for new and used vehicles through these credit facilities. As standard with all wholesale financing arrangements, our agreement is a discretionary line of credit and may be modified, suspended, or terminated at any time, at our floorplan lenders' sole discretion. Any material modification, suspension or termination of our wholesale floorplan financing may have a material adverse effect on the Company's financial condition.

Liquidity

If we are unable to generate sufficient operating cash flow, we may need to enter into certain extraordinary transactions in order to generate sufficient cash to sustain our operations, which may include, but not be limited to selling certain of our dealerships or other assets and borrowing under our existing credit facilities. There can be no assurance that, if necessary, we will be able to enter into any such transactions in a timely manner or on reasonable terms, if at all. Furthermore, in the event we are required to sell dealership assets to enhance our liquidity, the sale of any material portion of such assets could have an adverse effect on our revenue stream, the size of our operations and certain corporate efficiencies. If we are unable to generate sufficient cash flow or enter into any such transactions in a timely manner, our liquidity may be materially adversely affected.

Governmental Regulations and Environmental Regulation Compliance Costs

ACI is subject to a wide range of federal, provincial and municipal laws and regulations, such as local licensing requirements, consumer protection laws and environmental requirements governing, among other things, discharges into the air and water, above ground and underground storage of petroleum substances and chemicals, handling and disposal of wastes and remediation of contamination arising from spills and releases. ACI is also subject to the rules imposed by self-regulatory authorities in various jurisdictions. If ACI violates these laws and regulations, ACI may be subject to civil and criminal penalties, or a cease and desist order may be issued against the operations that are not or are alleged not to be in compliance. ACI's future acquisitions may also be subject to governmental regulation, including antitrust reviews. ACI believes that all of the franchised automobile dealerships comply in all material respects with all applicable laws and regulations relating to ACI's business, but future laws and regulations may be more stringent and require ACI to incur significant additional costs. See "Description of the AutoCanada Business – Regulatory Matters and Policies" for more information.

Intangible Assets

Intangible assets consist of rights under franchise agreements with automobile manufacturers and are subject to impairment assessments at least annually (or more frequently when events or circumstances indicate that an impairment may have occurred) by applying a fair-value based test. ACI may be required to incur impairment charges in the future which may have a material effect on our results from operations and financial position.

Insurance Coverage

ACI maintains insurance coverage in respect of various potential liabilities, including property losses, business interruption, public liability, automobile liability and crime, in amounts and on such terms as considered appropriate. The aim is to achieve a balanced program of risk management combining both internal risk retention and insurance to protect the company's assets.

Physical assets are insured to their replacement cost in most cases. A substantial Blanket Property limit addresses underinsurance or potential co-insurance penalty risks. Third party liability limits are reviewed annually and limits of insurance are purchased in proportion with Canadian exposures in these areas. For these areas of insurance, ACI employs a prudent retention program per occurrence which results in reliable insurance protection married with economics of cost. Over the past few years, the insurance market has faced significant losses as a result of hail storms (resulting in insurance claims by dealerships). This has forced many insurers and reinsurers to abandon hail coverage in some of ACI's markets.

Facing questionable future availability of coverage and potential exposure to significant losses, ACI has instituted a self-insurance program, a first in Canada. This self-insurance program is combined with excess insurance placement to manage its hail risk (for catastrophic events). ACI has entered into a long-term commitment with a world ranked insurer to achieve stability in managing our hail exposure going forward.

Notwithstanding well thought out risk management techniques, not all losses are insurable and not all claims are paid. Even “All Risks” policies carry conditions and exclusions. However, ACI has chosen a professional brokerage firm on whose expertise we rely in assessing our exposures. This brokerage, unlike other firms in Canada, does not limit its liability to redress unpaid claims due to human error. We are confident in this firm’s ability to advise us, to represent us knowledgably to our insurers, and to stand behind their products.

Furthermore, the impact of certain weather and other natural disasters, including but not limited to hail storms, floods, tornadoes, hurricanes, earthquakes, may negatively impact the business operations of our dealerships. These events may not be insurable, wholly, or in part, and the impact to the Company could be financially significant.

Governmental Laws and Regulations

The automotive retailing industry is subject to a wide range of laws and regulations. With respect to motor vehicle sales, leasing, and the sale of finance, insurance, and other products at ACI stores, ACI will be subject to various laws and regulations, the violation of which could subject ACI to lawsuits or government investigations and adverse publicity. The violation of laws and regulations may also jeopardize relationships with various stakeholders, which could result in inability to operate under the present conditions and would adversely affect operations.

Advertising Regulations

Advertising in our business is subject to numerous federal, provincial and local laws and regulations. These laws and regulations address unfair, deceptive and/or fraudulent trade practices.

Claims arising out of actual or alleged violations of law may be asserted against us or any of our dealers by individuals, either individually or through class actions, or by governmental entities in civil or criminal investigations and proceedings. Such actions may expose us to substantial monetary damages and legal defense costs, injunctive relief and criminal and civil fines and penalties.

Risks Related to Our Acquisition Strategy

Restrictions Imposed by OEMs on Acquisitions

ACI is required to obtain the consent of the applicable OEM before acquiring any additional franchised automobile dealerships. The Company will consider acquisition opportunities if a favourable opportunity presents itself and if the acquisition would provide incremental value to the Company. Brands with which the Company does not currently have a relationship, or who are related to same, continue to be reluctant to entertain a relationship with a public multi-brand dealer group. As a result, management offers no assurance that any manufacturer with whom it does not have a relationship, or who are related to same, will approve the Company as a franchisee. Obtaining OEM consent for acquisitions may also take a significant amount of time, which may negatively affect the ability to acquire an attractive target. In addition, under an applicable franchise agreement, an OEM may have a right of first refusal to acquire a franchised automobile dealership that ACI seeks to acquire. Many OEMs place limits on the total number of franchises, or the market share of its vehicles, that any group of affiliated franchised automobile dealerships may obtain. The OEMs have also placed generic limits on the number of franchises or share of total franchises or vehicle sales maintained by an affiliated franchised automobile dealership group on a national, regional or local basis. OEMs may also tailor these types of restrictions to particular franchised automobile dealership groups. ACI may have difficulty in obtaining additional franchises from OEMs once franchise limits have been reached.

As a condition to granting their consent to acquisitions, OEMs may impose additional restrictions. OEMs’ restrictions typically prohibit changes of control or extraordinary corporate transactions such as mergers, sales of a substantial amount of assets or the removal of a dealer principal without the consent of the OEM and the use of franchised automobile dealership facilities to sell or service new vehicles of other OEMs. OEMs may direct ACI to apply resources to capital projects that ACI may not otherwise have chosen to participate in. OEMs may direct ACI to implement costly capital improvements to franchised automobile dealerships as a condition for maintaining existing franchise agreements with them. OEMs also typically require that their franchises meet specific standards of appearance. These factors, either alone or in combination, could cause ACI to divert financial resources to capital projects from uses that management believes may be of higher long-term value.

Integration of Acquisitions

ACI's growth depends in large part on the ability to acquire additional franchised automobile dealerships, manage expansion, control costs in operations and integrate acquired franchised automobile dealerships. In pursuing this strategy of acquiring other franchised automobile dealerships, ACI faces risks commonly encountered with growth through acquisition strategies. These risks include, but are not limited to, incurring significantly higher capital expenditures and operating expenses, failing to integrate the operations and personnel of the acquired franchised automobile dealerships, entering new markets with which ACI is unfamiliar, incurring undiscovered liabilities at acquired franchised automobile dealerships, disrupting ongoing business, diverting management resources, failing to maintain uniform standards, controls and policies, impairing relationships with employees, OEMs and customers as a result of changes in management, causing increased expenses for accounting and computer systems, failing to obtain OEMs' consents to acquisitions of additional franchises, and incorrectly valuing acquired entities.

ACI may not adequately anticipate all the demands that growth will impose on personnel, procedures and structures, including financial and reporting control systems, data processing systems and management structure. Moreover, failure to retain qualified management personnel at any acquired franchised automobile dealership may increase the risk associated with integrating the acquired franchised automobile dealership. If ACI cannot adequately anticipate and respond to these demands, ACI may fail to realize acquisition synergies and resources will be focused on incorporating new operations into ACI's structure rather than on areas that may be more profitable. In addition, although ACI will conduct a prudent level of investigation regarding the operating condition of the businesses purchased, in light of the circumstances of each transaction, there is an unavoidable level of risk that remains regarding the actual operating condition of these businesses.

Until ACI assumes operating control of such business assets, ACI may not be able to ascertain the actual value of the acquired entity.

Open Point Locations

The success and profitability of our Open Point locations depends on a number of factors, including consumer demographics, consumer shopping patterns, the condition of local property markets, availability of real estate financing, taxes, zoning and environmental issues. If we fail to profitably operate these Open Points once they open, our financial performance could be adversely affected.

Financing Constraints and Limitations on Capital Resources

There is substantial indebtedness represented by the floorplan financing used to finance new and used vehicle inventories. This debt is repayable on demand and in the event that repayment is demanded, ACI cannot provide assurances that ACI could find an alternative floorplan provider.

We have financed our past acquisitions from a combination of the cash flow from our operations and borrowings under our credit arrangements. If the financing of acquisitions through the use of cash flow from operations or borrowings is not available due to constraints, the Company may also finance through the issuance of common shares, preferred shares, convertible debt or private debt offerings. The use of any of these sources of financing could have the effect of reducing earnings per share. We may not be able to obtain financing in the future due to the market price of our common shares and overall market conditions. Furthermore, using cash to complete acquisitions could substantially limit our operating or financial flexibility. Substantially all of the assets of our dealerships are pledged to secure the indebtedness under our Credit Agreement and our floorplan financing indebtedness. These pledges may limit our ability to borrow from other sources in order to fund our acquisitions.

Management cannot determine the costs of equity at a future point in time and if new equity cannot be issued at a favourable cost, ACI may not be able to continue to grow through acquisitions or through opening new dealerships.

Competition with Other Franchised Automobile Dealerships

ACI believes that the Canadian retail automotive market is fragmented and offers many potential acquisition candidates that meet acquisition target criteria. However, ACI will compete with other franchised automobile dealerships, some of which may have greater financial and other resources. In addition, ACI will compete with other franchised automobile dealerships and private investors to acquire other franchised automobile dealerships, and this competition for attractive acquisition targets may result in fewer acquisition opportunities and increased acquisition costs. ACI will have to forego acquisition opportunities to the extent that acquisitions cannot be negotiated on acceptable terms.

Chairman's Continued Investment in Dealerships and the Company

GM Canada requires Mr. Pat Priestner, Chairman of the Board of Directors of the Company, to purchase a 15% equity interest, and have 100% voting control of GM dealerships. Chrysler Canada imposes minimum shareholdings requirements of Mr. Priestner. Honda Canada requires Mr. Priestner to maintain 100% voting and equity ownership of Whitby-Oshawa Honda and Southview Acura, which are entities that the Company has advanced debt financing in exchange for a proportionate share of the annual net income.

As a result, under the Company's current share structure, whereby Mr. Priestner and senior management control less than 51% of the voting securities of the Company, the success and ability of the Company to grow with certain brands is dependent upon the efforts, abilities, and continued willingness of Mr. Priestner to invest personally in such brands and in partnership with the Company. The ability of the Company to invest in additional dealerships of certain brands is, in general, another risk factor that could materially impact our results and ability to grow, which risk could be compounded by the planned retirement of Mr. Priestner from the Board of Directors of the Company in May 2017. The Company continues to seek approval from OEMs that have not permitted outright dealership ownership by public companies.

Risks Related to Our Dependence on Automobile Manufacturers

Adverse Conditions Affecting One or More OEMs

The success of ACI's franchised automobile dealerships depends to a great extent on OEMs' financial condition, marketing efforts, vehicle design, production capabilities, reputation, management, and labour relations. Adverse conditions affecting these and other important aspects of OEMs' operations and public relations may adversely affect the ability to market vehicles to the public and, as a result, significantly and detrimentally affect profitability. Similarly, the late delivery of vehicles from OEMs, which sometimes occurs during periods of new product introductions, can lead to reduced sales during those periods. ACI has no control over labour disturbances at any OEMs, and labour disturbances at OEMs may restrict the supply of new vehicles, and therefore have an adverse effect upon operations.

Certain of our manufacturers have extensive global sales operations and from time to time may, in the case of certain models, face situations where global demand exceeds global supply thereby constraining the ability of the Canadian arm of the manufacturer from securing adequate supply of popular vehicles which may adversely impact our financial performance.

Governmental Regulations Related to Fuel Economy Standards and Greenhouse Gases

Federal regulations in the United States around fuel economy standards and "greenhouse gas" emissions have continued to increase. New requirements may adversely affect any manufacturer's ability to profitably design, market, produce and distribute vehicles that comply with such regulations. We could be adversely impacted in our ability to market and sell these vehicles at affordable prices and in our ability to finance these inventories. These regulations could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Ability of Automotive Manufacturers to Deliver High Quality, Defect-Free Vehicles

We depend on our manufacturers to deliver high-quality, defect-free vehicles. If manufacturers experience future quality issues, our financial performance may be adversely impacted. In addition, the discontinuance of a particular brand could negatively impact our revenues and profitability.

AutoCanada Automobile Dealership Franchise Agreements

Each of AutoCanada's franchised automobile dealerships operates under the terms of an OEM Agreement with the OEM of each vehicle brand it carries. AutoCanada's franchised automobile dealerships may obtain new vehicles from OEMs, sell new vehicles and display OEMs' trademarks only to the extent permitted under these agreements. As a result of AutoCanada's dependence on the rights under these agreements, OEMs exercise a great deal of control over the day-to-day operations and the terms of an OEM Agreement implicate key aspects of operations, acquisition strategy and capital spending. Each of the OEM Agreements provides the OEM with the right to terminate the agreement under specified circumstances and, in certain agreements, to elect not to renew the agreement on an annual basis.

The OEM Agreements include provisions that permit the OEM to terminate the agreement or direct AutoCanada to divest the subject franchised automobile dealerships if the franchised automobile dealership undergoes a change of control or if the dealer principal named in the agreement changes without the approval of the OEM. However, historically in the franchised automobile dealership industry, in the case of well managed and well capitalized dealerships, the OEM Agreements are rarely terminated involuntarily or not renewed by the manufacturer.

In the event that a breach of the provisions in OEM Agreement, ACI may be required to sell franchised automobile dealerships operating under agreements with the OEMs to purchasers approved by the OEMs, or the agreement may be terminated by the manufacturer. The OEM Agreement also provides the OEM with the right to purchase from AutoCanada any franchise that AutoCanada seeks to sell. Provisions such as these may provide OEMs with superior bargaining positions in the event that they seek to terminate franchise agreements or renegotiate the agreements on terms that are disadvantageous to ACI. ACI's results of operations may be materially and adversely affected to the extent that franchise rights become compromised or operations restricted due to the terms of an OEM Agreement or if ACI loses substantial franchises.

Relationships with Automobile Manufacturers

We depend on the manufacturers to provide us with a desirable mix of new vehicles. The most popular vehicles usually produce the highest profit margins and are frequently in short supply. If a relationship with a manufacturer deteriorates we may not be able to obtain sufficient quantities of popular models, therefore our profitability could be materially affected.

Manufacturers exert significant control over our stores through the terms and conditions of their franchise agreements. Such agreements contain provisions for termination or non-renewal for a variety of causes, including customer satisfaction scores and sales and financial performance. We cannot assure that our stores will be able to fully comply with these provisions in the future; therefore it is possible that manufacturers could terminate or fail to renew franchise agreements for one or more of our stores. Any such action, although we have not experienced this action in the past, could result in a material adverse effect on our business, results of operations, financial condition and cash flows.

Restrictions on Ownership Thresholds and the Sale of AutoCanada's Business

ACI has entered into the Chrysler Approval Agreement, the Hyundai Framework Agreement and the Nissan Ownership Agreement. See *Description of the AutoCanada Business – Automotive Dealership Franchise Agreements – Provisions Affecting a Change of Control or Ownership* for a full description of the Chrysler Approval Agreement and its related risks to the Company.

The Hyundai Framework Agreement requires AutoCanada to obtain its approval of the individuals appointed as directors of the general partners of the Dealer LPs operating under dealership agreements with it. These restrictions may affect the marketability of ACI's business as a going concern, or the ability to introduce other investors into parts of the business.

Under the Nissan Ownership Agreement, if any person or entity acquires more than 20% of AutoCanada, or a group of persons or entities acquire more than 50% of AutoCanada, and, in either case, Nissan Canada, acting reasonably, determines that such persons or entities do not have interests compatible with those of Nissan Canada, or are otherwise not qualified to have an ownership interest in a Nissan or Infiniti dealership, then Nissan Canada shall be entitled to require AutoCanada to divest its ownership interest in those Nissan and Infiniti dealerships owned by AutoCanada. Moreover, if AutoCanada is unable to obtain the requisite approval to a change of control or sale of the business in a timely manner AutoCanada may not be able to take advantage of a market opportunity. These restrictions may also prevent or deter prospective acquirers from acquiring control of ACI and, therefore, may materially and adversely impact the value of ACI Shares.

ACI expects that other OEMs may require similar agreements.

Maintenance of Minimum Working Capital

The OEM Agreements require AutoCanada to maintain a specified minimum amount of working capital at each of AutoCanada's franchised automobile dealerships, and prohibit any distribution by a franchised automobile dealership if these minimum working capital requirements are not maintained. Compliance with these minimum working capital requirements may affect the amount of cash available to pay dividends on the ACI Shares.

Risks Related to ACI's Shares

Payment of Dividends

As a corporation, ACI's dividend policy is at the discretion of the Board of Directors. Future dividends will depend on results of operations, cash requirements, financial condition, contractual restrictions, business opportunities, provisions of applicable law and other factors that the board of directors may deem relevant. Accordingly, the payment of dividends by ACI and the level thereof will be uncertain.

The ability of the Dealer LPs and other subsidiaries to make advances and distributions to ACI to enable ACI to make dividend payments to Shareholders is subject to applicable laws and contractual restrictions contained in various agreements.

Unpredictability and Volatility of ACI Shares

The market price of ACI Shares could be subject to significant fluctuations in response to variations in quarterly operating results, dividends, and other factors. In addition, industry specific fluctuations in the stock market may adversely affect the market price of the ACI Shares regardless of operating performance. There can be no assurance that the price of the ACI Shares will remain at current levels. In addition, the securities markets have experienced significant price and volume fluctuations from time to time in recent years that often have been unrelated or disproportionate to the operating performance of particular issuers.

These broad fluctuations may adversely affect the market price of the ACI Shares.

Dilution

ACI is authorized to issue an unlimited number of ACI Shares and an unlimited number of preferred shares issuable in series for consideration and on terms and conditions as established by the board of directors of ACI without the approval of its shareholders. The Shareholders have no pre-emptive rights in connection with such further issues.

Substantial Interest of COAG

COAG owns 8.6% of the total issued and outstanding ACI Shares on a fully-diluted basis. As a result, COAG has substantial influence over AutoCanada's affairs and business.

This concentration of ownership, as well as various provisions contained in the OEM Agreements, could have the effect of discouraging, delaying or preventing a change in control of ACI or unsolicited acquisition proposals that an ACI shareholder might consider favourable. These provisions include ownership requirements and limits and approval rights with respect to the composition of the board of directors of the general partners of certain of the Dealer LPs along with the board of directors of other subsidiaries.

Thus, the concentration of ownership and such provisions may materially and adversely impact the value of the ACI Shares.

Capital Structure

AutoCanada Inc.

The authorized capital of ACI consists of an unlimited number of common shares and an unlimited number of preferred shares.

Common Shares

Holders of ACI Shares are entitled to receive notice of and to attend and vote at all meetings of shareholders, except meetings at which only holders of a specified class of shares are entitled to vote. Holders of ACI Shares are also entitled to receive any dividend declared by the Board of Directors of ACI on the common shares and, subject to the rights of any other class of shares of ACI, to receive the remaining property of ACI upon dissolution in equal rank with the holders of all other ACI Shares.

Preferred Shares

The preferred shares may from time to time be issued in one or more series, and the Board of Directors may fix from time to time before such issue the number of preferred shares which is to comprise each series and the designation, rights, privileges, restrictions and conditions attached to each series of preferred shares including, without limiting the generality of the foregoing, any voting rights, the rate or amount of dividends or the method of calculating dividends, the dates of payment thereof, the terms and conditions of redemption, purchase and conversion if any, and any sinking fund or other provision. With respect to the payment of dividends and distribution of assets in the event of liquidation, dissolution or winding-up of ACI, whether voluntary or involuntary, the preferred shares are entitled to preference over the ACI Shares and any other shares ranking junior to the preferred shares from time to time and may also be given such other preferences over the ACI Shares and any other shares ranking junior to the preferred shares as may be determined at the time of creation of such series. There are currently no preferred shares issued.

Senior Unsecured Notes

On May 22, 2014, the Company completed a private placement of $150 million aggregate principal amount of Senior Unsecured Notes. The Senior Unsecured Notes bear interest at 5.625% per annum, payable semi-annually on May 25 and November 25 of each year, and mature on May 25, 2021.

At any time prior to May 25, 2017, the Company may redeem the Senior Unsecured Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Senior Unsecured Notes being redeemed plus accrued but unpaid interest, if any, to, but not including, the redemption date plus the Applicable Premium. "Applicable Premium" means, with respect to a Senior Note at any Redemption Date, the greater of (i) 1.0% of the principal amount of such Senior Note and (ii) the excess of (A) the present value at such Redemption Date of (i) the redemption price of the Senior Note at May 25, 2017 plus (ii) all required interest payments due on the Senior Note through May 25, 2017 (excluding accrued but unpaid interest to the Redemption Date), computed using a discount rate equal to Government of Canada Rate (determined on the second Business Day immediately preceding the Redemption Date) as of such Redemption Date plus 50 basis points; over (B) the then outstanding principal amount of the Senior Note.

The Company may also, at any time prior to May 25, 2017, on one or more occasions, redeem up to 35% of the aggregate principal amount of the Senior Unsecured Notes with the net cash proceeds from certain equity offerings at a redemption price equal to 105.625% of the principal amount of the Senior Unsecured Notes being redeemed, plus accrued and unpaid interest, if any, to the applicable redemption date.

At any time on or after May 25, 2017, the Company may redeem the Senior Unsecured Notes, in whole or in part, at the following redemption prices, in each case plus accrued and unpaid interest, if any, to the applicable redemption date, if redeemed during the twelve month period beginning on May 25 of each of the following years: 2017 – 104.219%; 2018 – 102.813%; 2019 – 101.406%; and 2020 and thereafter – 100.000%.

If the Company undergoes certain changes of control, each holder of the Senior Unsecured Notes has the right to require the Company to offer to repurchase the Senior Unsecured Notes from such holders at a purchase price equal to 101% of the aggregate principal amount of the Senior Unsecured Notes so repurchased plus accrued and unpaid interest to, but not including, the date of repurchase.

The Senior Unsecured Notes are senior unsecured obligations of the Company and are guaranteed, jointly and severally, on a senior unsecured basis by the Company's current and future material subsidiaries that are or become guarantors under the Credit Agreement (the "Guarantors").

The Senior Unsecured Notes rank (i) equally in right of payment with all existing and future senior indebtedness of the Company and the Guarantors that is not expressly subordinated in right of payment to the Senior Unsecured Notes and (ii) senior in right of payment to all existing and future indebtedness of the Company that is expressly subordinated in right of payment to the Senior Unsecured Notes. The Senior Unsecured Notes are effectively subordinated to any secured debt and other secured obligations of the Company and the Guarantors, including under the Credit Agreement and Syndicated Floorplan Facility, to the extent of the value of the assets securing such secured debt or other obligations. The Senior Unsecured Notes are structurally subordinated to all existing and future obligations, including indebtedness and trade payables, of any of the Company's subsidiaries that are not Guarantors.

The Senior Unsecured Notes were issued pursuant to an indenture (the "Indenture") dated May 22, 2014 between the Company, Valiant Trust Company, as trustee, and the Guarantors. Subject to certain exceptions and qualifications set forth in the Indenture, the Senior Unsecured Notes limit the ability of the Company and certain of its subsidiaries that are considered to be "restricted subsidiaries" to, among other things (i) make restricted payments; (ii) incur additional indebtedness and issue disqualified or preferred stock; (iv) create or permit to exist liens; (v) create or permit to exist restrictions on the ability of the restricted subsidiaries to make certain payments and distributions; (vi) make certain dispositions and transfers of assets; (vii) engage in amalgamations, mergers or consolidations; and (viii) engage in certain transactions with affiliates.

Capitalized terms not otherwise defined in this section have the meaning given in the Indenture, a copy of which is available on SEDAR at www.sedar.com

Credit Ratings

The following information relating to the Company's credit ratings is provided as it relates to the Company's financing costs, liquidity and operations. Specifically, credit ratings affect the Company's ability to obtain short-term and long-term financing and the cost of such financing. A reduction in the current rating on the Company's debt by its rating agencies, particularly a downgrade below current ratings, or a negative change in the Company's ratings outlook could adversely affect the Company's cost of financing and its access to sources of liquidity and capital.

The Company has been evaluated and assigned an overall issuer credit rating of "BB-" with a stable outlook and the Senior Unsecured Notes have been assigned a "B" rating, both issued by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies (Canada) Corporation ("S&P").

An S&P issuer credit rating is a forward-looking opinion about an obligor's overall creditworthiness in order to pay its financial obligations. S&P's opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they come due. It does not apply to any specific financial obligation, as it does not take into account the nature of and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the obligation. A BB rating is the fifth highest of ten major rating categories used by S&P in its long-term issuer credit rating scale. Generally, these major rating categories may be modified by the addition of a “+” or “-” to show relative standing within the category, while the absence of either a “+” or “-” designation indicates the rating is in the middle of the category. Obligors rated BB, B, CCC, and CC are regarded as having significant speculative characteristics. BB indicates the least degree of speculation and CC the highest. While such obligors will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions. An obligor rated BB is less vulnerable in the near term than other lower-rated obligors, however, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions which could lead to the obligor’s inadequate capacity to meet its financial commitments. The Company’s long-term issuer credit rating has been assigned a stable outlook by S&P. An S&P rating outlook assesses the potential direction of a long-term credit rating over the intermediate term (typically six months to two years). In determining a rating outlook, consideration is given to any changes in the economic and/or fundamental business conditions. A stable outlook means that a rating is not likely to change.

S&P rates long-term debt instruments by rating categories ranging from a high of "AAA" to a low of "D". Generally, these major rating categories may be modified by the addition of a “+” or “-” to show relative standing within the category, while the absence of either a “+” or “-” designation indicates the rating is in the middle of the category. According to S&P, an obligation rated “B” is more vulnerable to non-payment than higher-rated obligations, but the issuer currently has the capacity to meet its financial commitment on the obligation. However, exposure to adverse business, financial, or economic conditions, will likely impair the issuer’s capacity or willingness to meet its financial commitments on the obligation.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issuer of securities. The credit ratings accorded to the Senior Unsecured Notes are not recommendations to purchase, hold or sell such securities and are not a comment upon the market price of the Company's securities or their suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant. A revision or withdrawal of a credit rating could have a material adverse effect on the pricing or liquidity of the Senior Unsecured Notes or the ACI Shares in any secondary markets. The Company does not undertake any obligation to maintain the ratings or to advise holders of the Senior Unsecured Notes or ACI shares of any change in ratings.

The Company has made payments in the ordinary course to S&P in connection with the assignment of the rating on the Company and the Senior Unsecured Notes.

Dividends/Distributions

Dividend Policy

Management reviews ACI’s financial results on a monthly basis. The Board of Directors of ACI reviews the financial results on a quarterly basis, or as requested by Management, and determine whether a dividend shall be declared and paid based on a number of factors.

On February 21, 2017, the Board declared a quarterly eligible dividend of $0.10 on each issued and outstanding ACI Share. The dividend was eligible to shareholders of record on February 28, 2017 and was paid on March 15, 2017.

Regarding dividends, the Board of Directors remain committed to providing investors with an attractive dividend which it continues to review on a regular basis in the context of a number of factors, including acquisition opportunities. Our ability to pay dividends and the actual amount of such dividends will be dependent upon, among other things, our financial performance, our debt covenants and obligations, our ability to refinance our debt obligations on similar terms and at similar interest rates, our working capital requirements, our future tax obligations, our future capital requirements, and the Company's growth prospects.

As per the terms of the Credit Agreement, we are restricted from declaring dividends if we are in breach of our 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.

Historical Distributions

The following table summarizes the dividends declared by ACI from January 1, 2014 to December 31, 2016 on ACI Shares.

(In thousands of dollars)		Per share	Total
Record date	**Payment date**	**$**	**$**
February 28, 2014	March 17, 2014	0.22	4,760
May 30, 2014	June 16, 2014	0.23	5,022
August 29, 2014	September 15, 2014	0.24	5,858
November 28, 2014	December 15, 2014	0.25	6,105
February 28, 2015	March 16, 2015	0.25	6,102
May 31, 2015	June 15, 2015	0.25	6,111
August 31, 2015	September 15, 2015	0.25	6,110
November 30, 2015	December 15, 2015	0.25	6,109
February 29, 2016	March 15, 2016	0.25	6,840
May 31, 2016	June 15, 2016	0.10	2,735
August 31, 2016	September 15, 2016	0.10	2,735
November 30, 2016	December 15, 2016	0.10	2,736

Market For Securities

Trading Price and Volume

AutoCanada's shares are listed and posted for trading on the Toronto Stock Exchange under the symbol "ACQ". The following table sets forth certain trading information for the ACI Shares on the TSX for the most recently completed financial year based on information from the Historical Data Access section of the TSX website, believed to be reliable by ACI:

	Month	High ($)	Low ($)	Close ($)	Volume (shares)
2016	January	25.00	19.35	19.88	4,812,401
	February	20.10	16.20	16.64	3,752,621
	March	21.64	16.06	18.22	6,982,970
	April	21.55	17.75	20.53	2,497,821
	May	22.42	18.55	21.57	2,671,441
	June	22.60	20.50	22.15	1,968,170
	July	23.31	21.00	21.25	1,909,386
	August	23.35	19.93	22.82	1,874,221
	September	23.32	20.95	22.15	1,232,934
	October	25.40	21.93	22.05	1,671,743
	November	22.35	19.06	20.26	2,246,863
	December	23.90	19.96	23.12	1,873,474

Prior Sales

For information in respect of options to purchase common shares of the Company, common shares issued upon the exercise of options and other share based payments, see the Share-Based Payments note to the 2016 audited Consolidated Financial Statements, which is incorporated by reference into this AIF and available on SEDAR at www.sedar.com.

Directors and Officers

The following table sets forth the name, place of residence, positions for each of the directors and officers of ACI, together with their principal occupations during the last five years. The directors of ACI shall hold office until the next annual meeting of shareholders or until their respective successors have been duly elected or appointed.

Name and Province or State, and Country of Residence	Position	Principal Occupation
GORDON R. BAREFOOT, FCA, FCPA, ICD.D(1) British Columbia, Canada	Lead Director since December 31, 2009; Director since May 11, 2006	• **Executive Chairman, Corix Infrastructure Inc.; Interim CEO, Corix Infrastructure Inc. (February – September 2016)** • **Director, FWS Group**
MICHAEL H. ROSS, CMA, CPA, CMC, CPHR, ICD.D(2) Alberta, Canada	Director since May 9, 2007	• **President, M. H. Ross Management Ltd.; prior thereto Chief Executive Officer, Conroy Ross Partners** • **Lead Director, Camex Equipment Sales & Rentals Inc.** • **Lead Director, FYi Doctors** • **Director, Fountain Tire** • **Director, Norseman Group Ltd.** • **Director, G2 Integrated Solutions Holdings, LLC** • **Director, Imagine Health Centres**
DENNIS S. DESROSIERS(2) Ontario, Canada	Director since May 9, 2007	• **President, DesRosiers Automotive Consultants Inc.**
BARRY L. JAMES, FCA, FCPA, ICD.D(1) (2) Alberta, Canada	Director since November 6, 2014	• **President, Barry L James Advisory Services Ltd. prior thereto Partner, PricewaterhouseCoopers LLP** • **Director and Audit Committee Chair, Corus Entertainment** • **Director, Audit Committee Chair and Risk Committee, ATB Financial** • **Audit Committee Chair, Province of Alberta** • **Governor, University of Alberta** • **Senator, University of Alberta**

Name and Province or State, and Country of Residence	Position	Principal Occupation
MARYANN N. KELLER[1] [2] Connecticut, USA	Director since May 11, 2015	• **Founder/Principal, Maryann Keller & Associates since 2000** • **Board Director, DriveTime Automotive Group**
PATRICK J. PRIESTNER Alberta, Canada	Director, since May 11, 2006; Executive Chair from January 1, 2015 – March 31, 2016; non-executive Chair since April 1, 2016	• **Chief Executive Officer from May 2006 to December 2014; Prior to November 2005, President and Dealer Principal at COAG since 1993** • **Former Director, Rocky Mountain Dealerships Inc.**
STEVEN J. LANDRY Alberta, Canada	Director and Chief Executive Officer since April 1, 2016	• **Prior thereto Chief Development Officer, ATCO Group Inc. from 2015 – 2016; prior thereto President & CEO, DaimlerChrysler Canada**
THOMAS L. ORYSIUK, CA, CPA Alberta, Canada	President since April 1, 2016; President and Chief Executive Officer January 1, 2015 – March 31, 2016. Director since May 13, 2011. President since January 13, 2011	• **Prior thereto Executive Vice-President and Chief Financial Officer since November 2005**
CHRISTOPHER T. J. BURROWS, CA, CPA, CPHR, ICD.D Alberta, Canada	Vice President and Chief Financial Officer since September 1, 2014	• **Prior thereto Vice President & Chief Financial Officer, K-Bro Linen Inc. from 2010 to 2014**
ERIN D. OOR, LLB. Alberta, Canada	Vice President, Corporate Development and Administration since January 1, 2015. Vice President, Administration & General Counsel since June 2, 2014	• **General Counsel and General Manager at Unified Alloys (Ontario) Ltd. From 2012 to 2014; Vice President and General Counsel at Voodoovox Inc. from 2007 to 2012** • **Member of Law Society of Alberta; Member of Law Society of Upper Canada**

Notes:
[1] *Member of the audit committee of ACI.*
[2] *Member of the governance and compensation committee of ACI.*

As of March 16, 2017, directors and executive officers of ACI, as a group, beneficially own or control or direct, directly or indirectly (including indirect ownership through COAG), an aggregate of 2,642,627 ACI Shares, representing approximately 9.6% of the issued and outstanding ACI Shares.

Corporate Cease Trade Orders or Bankruptcies

To the knowledge of the Company no director or executive officer of the Company is, or within the ten years prior to the date hereof, has been, a trustee, director, chief executive officer or chief financial officer of any company that, while that person was acting in that capacity: (i) was the subject of a cease trade order or similar order, or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; or (ii) was subject to a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days that was issued after such person ceased to be a trustee, director, chief executive officer or chief financial officer and which resulted from an event that occurred while such person was acting in the capacity of a trustee, director, chief executive officer or chief financial officer.

To the knowledge of the Company, other than as disclosed herein, no director or executive officer of the Company, or a Shareholder holding a sufficient number of ACI shares to affect materially the control of the Company, is, or within the ten years prior to the date hereof, has been, a trustee, director or executive officer of any company that, while that person was acting in that capacity or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Mr. Barefoot was a Director of EarthFirst Canada Inc. until mid-November 2009. EarthFirst Canada Inc. sought creditor protection in November 2008 and through a court approved process successfully settled with creditors in November 2009. Effective March 2, 2010, EarthFirst Canada Inc. amalgamated with Maxim Power Corp. In addition, Mr. Barefoot was previously a Director of ISE Limited and resigned from this position in February 2011. ISE Limited was a Cayman Island corporation with an operating company in San Diego, United States. In 2010, ISE Limited was delisted as it sought creditor protection under Chapter 11. The assets of ISE Limited have since been sold.

Penalties or Sanctions

To the knowledge of the Company, no director or executive officer of the Company or a Shareholder holding a sufficient number of ACI shares to affect materially the control of ACI has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities authority, or any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Personal Bankruptcies

To the knowledge of the Company, no director or executive officer of the Company or a Shareholder holding a sufficient number of ACI shares to affect materially the control of ACI has, within the ten years prior to the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or became subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold such person's assets.

Conflicts of Interest

The officers and directors of ACI may also become officers and/or directors of other companies engaged in the automotive industry generally and which may own interests in automotive dealerships in which ACI holds or may in the future, hold an interest. As a result, situations may arise where the interests of such directors and officers conflict with their interests as directors and officers of other companies. In the case of the directors, the resolution of such conflicts is governed by applicable corporate laws which require that directors act honestly, in good faith and with a view to the best interests of ACI and, in respect of the *Canada Business Corporations Act*, ACI's governing statute, that directors declare, and refrain from voting on, any matter in which a director may have a conflict of interest.

AUDIT COMMITTEE INFORMATION

Charter of the Audit Committee

The audit committee charter of ACI is attached as Schedule B to this AIF.

Composition of the Audit Committee

The audit committee of ACI consists of Barry James, Gordon Barefoot, and Maryann Keller.

Each member of the audit committee of ACI is independent and financially literate; as such terms are defined in *National Instrument 52-110 – Audit Committees* ("NI 52-110").

Relevant Education and Experience

The education and experience of each audit committee member of ACI that is relevant to the performance of his responsibilities as an audit committee member is described below:

Barry James – Mr. James is the President of Barry L James Advisory Services Ltd. and is currently contracted as the Chief Corporate Development Officer to Lloyd Sadd Insurance Brokers Ltd. Mr. James was previously Managing Partner of the Edmonton office of PricewaterhouseCoopers LLP, a position he held for ten years. Barry received a Bachelor of Commerce (with Distinction) degree from the University of Alberta in 1980, qualified as a Chartered Accountant in 1983 and became a Fellow of the Chartered Accountants in 2007. He joined PwC in 1977 and was admitted to the partnership in 1989. He was the Managing Partner of the Edmonton office from July 2001 to June 2011. Mr. James is currently a Minister-appointed member of the University of Alberta Board, the University of Alberta Senate and the Chair of the Audit Committee of the Province of Alberta, a member of the University of Alberta Hospital Foundation Board and the Alberta Chapter of the World Presidents' Organization. He also sits on the Boards of Corus Entertainment and ATB Financial, serving as Audit Committee Chair to both organizations. He has served as Chair of the Stollery Children's Hospital Foundation and on the Board of Directors of the Edmonton Convention Centre Authority, the Forest Industry Suppliers' Association of Alberta, the Edmonton Space and Science Foundation (TELUS World of Science) and the Support Network Foundation. Mr. James's education and experience provide him with the necessary knowledge and ability to fulfill the requirements as the chair of the audit committee.

Gordon Barefoot – Mr. Barefoot is a Chartered Accountant. Mr. Barefoot was, until November, 2005, the Senior Vice President, Finance & Chief Financial Officer of Terasen Inc. where he served in various senior executive positions since July 1998. Mr. Barefoot is currently a member of the audit committee of one other private entities. Mr. Barefoot also served on the board of directors of Nventa Biopharmaceuticals Corporation until June 2008 and the board of directors of ISE Limited until February 2010, both reporting issuers. Prior to joining Terasen, Mr. Barefoot was a partner of Ernst & Young, where, during a 20 year career, he worked with a variety of clients in a broad range of industries. Each of the foregoing positions required Mr. Barefoot to have an understanding of, and assess, accounting principles, including in the context of estimates, accruals and reserves, as well as have an understanding of internal controls and procedures for financial reporting. The positions also required Mr. Barefoot to prepare, analyze and evaluate financial statements and supervise others who prepared analyzed and evaluated financial statements. Mr. Barefoot also participates in accounting seminars and programs to help maintain the skill and knowledge necessary to perform his duties as a member of the audit committee.

Maryann Keller – Ms. Keller has over 40 years of experience in the automotive industry. She is a Board member of DriveTime Automotive Group, a national dealership group in the USA, and Lee Auto Malls, a regional dealership group in Maine, USA, and is the Principal of Maryann Keller & Associates LLC, an automotive consultancy company.

Previously she served on the Board of Directors of Sonic Automotive and Lithia Motors, public dealership groups in the USA. She has a Bachelor of Science from Rutgers University and a Master of Business Administration from Baruch College. Ms. Keller's education and experience provide her with the necessary knowledge and ability to fulfill the requirements of a member of the audit committee.

Reliance on Exemptions

At no time since the commencement of the Company's most recently completed financial year has the Company relied upon an exemption, in whole or in part, from NI 52-110 other than the exemption in Section 2.4 (*De-Minimus Non-audit Services*) of NI 52-110.

Prior Approval of Policies and Procedures

The audit committee of ACI must pre-approve all non-audit services to be provided to ACI or its subsidiaries by ACI's external auditor, other than non-audit services where:

(a) **the aggregate amount of all such non-audit services that were not pre-approved is reasonably expected to constitute no more than five per cent of the total amount of fees paid by ACI and its subsidiaries to ACI's external auditor during the fiscal year in which the services are provided;**

(b) **ACI or its subsidiaries, as the case may be, did not recognize the services as non-audit services at the time of the engagement; and**

(c) **the services are promptly brought to the attention of the audit committee of ACI and approved, prior to the completion of the audit, by the audit committee of ACI or by one or more of its members to whom authority to grant such approvals had been delegated by the audit committee of ACI.**

Audit Committee Oversight

At no time since the beginning of the Company's most recently completed financial year has a recommendation of the audit committee of ACI to nominate or compensate an external auditor not been adopted by the board of directors.

External Auditor Service Fees (by category)

The following table sets forth, by category, the fees billed by PricewaterhouseCoopers LLP, ACI's auditors, for the years ended December 31:

Fee category	2016	2015
Audit fees	$493,118	$628,455
Audit-related fees	$325,357	$389,720
Tax fees	$91,143	$162,721
All other fees	$0	$85,000
Total	$909,618	$1,265,896

"**Audit fees**" include all fees paid to PricewaterhouseCoopers LLP for the audit of the annual consolidated financial statements and acquisition related testing.

"**Audit-related fees**" include all fees paid to PricewaterhouseCoopers LLP for the review of the interim financial statements, securities offerings, other assurance review engagements and other services in connection with regulatory filings.

"**Tax fees**" consist of all fees paid to PricewaterhouseCoopers LLP for tax compliance matters.

"**All other fees**" " consist of all fees paid to PricewaterhouseCoopers LLP for securities consulting services.

Legal Proceedings and Regulatory Actions

From time to time, we are named in claims involving the manufacture of vehicles, contractual disputes and other matters arising in the ordinary course of our business. Currently, no legal proceedings are pending against us that, in management's opinion, could be expected to have a material adverse effect on our business, financial condition or results of operations.

In addition, we are not aware of any penalties or sanctions imposed against us by a court relating to securities legislation or by a securities regulatory authority during our financial year ended December 31, 2016 or any other penalties or sanctions imposed by a court or regulatory body against us that would likely be considered important to a reasonable investor in making an investment decision, and we have not entered into any settlement agreements with a court relating to securities legislation or with a securities regulatory authority during our financial year ended December 31, 2016.

Because of their vehicle inventory and the nature of their business, franchised automobile dealerships generally require significant levels of insurance covering a broad variety of risks. Our insurance program includes three umbrella policies with a total per occurrence and aggregate limit of $15 million. We also have insurance on our leased property, comprehensive coverage for our vehicle inventory, garage liability and general liability insurance, employee dishonesty insurance and errors and omissions insurance in connection with our vehicle sales and financing activities.

Interest of Management and Others in Material Transactions

Other than as described in this AIF under the headings "Description of the AutoCanada Business – Acquisitions and Relocations" and "Description of the AutoCanada Business – Locations", none of the Company's directors, executive officers or persons or companies that beneficially own or control or direct, directly or indirectly or a combination of both, more than 10% of ACI's common shares, or their associates and affiliates, had any material interest, direct or indirect, in any transaction with the Company within the three most recently completed financial years or during the current financial year that has materially affected or would reasonably be expected to materially affect the Company.

Transfer Agent and Registrar

The transfer agent and registrar for the ACI Shares is Computershare Trust Company at its principal offices in Calgary, Alberta and Toronto, Ontario.

Material Contracts

The only material contracts entered into by the Company and within the most recently completed financial year, or before the most recently completed financial year, and which remain in effect, are as follows:

1. **Chrysler Standard Dealer Sales and Service Agreement and Additional Terms has been signed by each dealership and sets out the terms under which each dealership may sell new Chrysler, Dodge and Jeep vehicles;**
2. **The Credit Agreement described under "Financing – Credit Facilities";**
3. **the Chrysler Approval Agreement;**
4. **the Hyundai Framework Agreement;**
5. **the Nissan Multiple Market Ownership Agreement;**
6. **the Floorplan Lender Facilities;**
7. **the VCCI Facilities; and**
8. **the Indenture relating to the Senior Unsecured Notes.**

The contracts listed above are filed on SEDAR at www.sedar.com.

Interest of Experts

There is no person or company whose profession or business gives authority to a statement made by such person or company and who is named as having prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing, made under NI 51-102 by ACI during, or related to, its most recently completed financial year other than PricewaterhouseCoopers LLP, the external auditors of ACI.

PricewaterhouseCoopers LLP has advised that they are independent within the meaning of the Rules of Professional Conduct of the Institute of Charted Accountants (Alberta).

Additional Information

Additional information relating to us may be found on SEDAR at www.sedar.com. Additional information, including directors' and officers' remuneration and indebtedness, principal holders of our securities and securities authorized for issuance under equity compensation plans, as applicable, will be contained in our information circular for the annual meeting of Shareholders to be held on May 5, 2017. Additional financial information is provided in our audited consolidated financial statements and management's discussion and analysis for our most recently completed financial year.

Schedule A – Glossary of Terms

"**ACI**" or the "**Company**" means AutoCanada Inc., a corporation incorporated under the CBCA;

"**ACI Share**" means a common share in the capital of ACI;

"**ACI Stock Option Plan**" or the "**Plan**" means the stock option plan of ACI;

"**affiliate**" has the meaning provided for in the CBCA;

"**AIF**" means this annual information form of the Company for the year ended December 31, 2016;

"**AutoCanada**" means the AutoCanada Inc. and its interests in its subsidiaries, the Holding LPs, the Dealer LPs and any other franchised automobile dealership owned or operated by the foregoing parties;

"**AutoCanada GP**" means AutoCanada GP Inc., a corporation incorporated under the CBCA;

"**CADA**" means Canadian Automobile Dealers Association;

"**CBCA**" means the *Canada Business Corporations Act* and the regulations thereto, as amended;

"**CDK**" means CDK Dealer Services Ltd. (formerly ADP Dealer Services Ltd.);

"**Chrysler Canada**" means FCA Canada Inc., formerly known as DaimlerChrysler Canada Inc.;

"**COAG**" means Canada One Auto Group Ltd., a company controlled by Mr. Patrick Priestner, the Executive Chairman of AutoCanada;

"**Credit Agreement**" means the credit facility agreement between AutoCanada and a syndicate of Canadian chartered banks, as amended;

"**Dealer GPs**" means a corporation incorporated under the CBCA to operate as a general partner of each Dealer LP;

"**Dealer LPs**" means the limited partnerships established under the laws of the Province of Manitoba to carry on the business of owning and operating one of AutoCanada LP's franchised automobile dealerships, as well as activities ancillary thereto;

"**Dealer principal**" means an individual, approved by the automobile manufacturer, who is responsible for the day to day management and operations of a franchised automobile dealership;

"**floorplan financing**" is a type of asset-based financing used by franchised automobile dealerships to finance their new (and in some instances used) vehicle inventories. See "Financing – Floorplan Financing";

"**Floorplan Lender Facilities**" means the agreement between AutoCanada and a syndicate of Canadian chartered banks;

"**fully-diluted**" in respect to the number of securities of any person to be issued and outstanding at such time means the number of such securities of such person that would be issued and outstanding at such time if all rights to acquire or be issued such securities under all issued and outstanding rights of conversion, exchange, issue or purchase had been exercised at such time;

"**Fund**" means the former AutoCanada Income Fund, an unincorporated, open-ended trust established under the laws of the Province of Alberta;

"**GAAP**" means generally accepted accounting principles in Canada;

"**Holding GPs**" means the corporations incorporated under the CBCA to operate as a general partner of each Holding LP;

"**Holding LPs**" means the limited partnerships established under the laws of the Province of Manitoba to carry on certain franchised automobile dealerships of AutoCanada, as well as activities ancillary thereto, following the Arrangement;

"**Holdings**" means AutoCanada Holdings Inc., a corporation incorporated under the CBCA;

"**Hyundai**" means Hyundai Auto Canada, a division of Hyundai Motor America, a California corporation;

"**Hyundai Framework Agreement"** means the framework agreement dated April 28, 2006, as amended on April 2, 2007, among Hyundai Auto Canada Corp. (by way of assignment from Hyundai Auto Canada), the Company, COAG and certain Dealer LP's;

"**IPO**" means the initial public offering of trust units issued and sold by the former Fund (including the over-allotment option);

"**Management**" mean the executive officers of ACI;

"**Mitsubishi**" means Mitsubishi Motor Sales of Canada, Inc.;

"**NADAP Rules**" means the rules adopted by the Canadian Vehicle Manufacturer's Association, the Association of International Automobile Manufacturers of Canada and CADA that provide for dispute resolution between the automobile manufacturers and the franchised automobile dealerships in the Canadian automobile industry;

"**NI 51-102**" means National Instrument 51-102 – Continuous Disclosure Obligations issued by the Canadian Securities Administrators;

"**Nissan Multiple Market Ownership Agreement"** means the multiple market ownership agreement dated March 20, 2008, between Nissan Canada Inc. and ACI;

"**OEM**" means original equipment manufacturers;

"**OEM Agreements**" means the dealership franchise or sales and service agreements entered into by each of the Dealer LPs with the applicable OEM;

"**Open Point**" means a new franchised automobile dealership opened, or to be opened, pursuant to the right to open a new franchised automobile dealership in a specific location granted to a dealer by an automobile manufacturer;

"**Reynolds and Reynolds**" means the Reynolds and Reynolds Company;

"**Senior Unsecured Notes**" means the $150.0 million aggregate principal amount of 5.625% senior unsecured notes sold by the Company and due May 25, 2021;

"**Shareholders**" mean the holders of common shares of ACI;

"**Subaru**" means Subaru Canada Inc.;

"**Subsidiary**" has the meaning provided for in the CBCA, read as if the word "body corporate" includes a trust, partnership, limited liability company or other form of business organization;

"**Trust**" means the former AutoCanada Operating Trust, an unincorporated, open-ended trust established under the laws of the Province of Alberta;

"**TSX**" means the Toronto Stock Exchange;

"**VCCI Facilities**" means the agreement dated November 9, 2011, between AutoCanada and VW Credit Canada Inc.; and

"**VW Canada**" means Volkswagen Canada Inc.

Schedule B – Audit Committee Charter

The term "**ACI**" refers to AutoCanada Inc., the term "**Board**" refers to the board of directors of ACI. The term "**Governance Agreements**" refers to the corporate bylaws of ACI.

PURPOSE

The Audit Committee (the "**Committee**") is a standing committee appointed by the Board to assist the Board in fulfilling its oversight responsibilities with respect to ACI's financial reporting including responsibility to:

- oversee the integrity of ACI's consolidated financial statements and financial reporting process, including the audit process and ACI's internal accounting controls and procedures and compliance with related legal and regulatory requirements;
- oversee the qualifications and independence of ACI's external auditors;
- oversee the work of ACI's financial management and external auditors in these areas; and
- provide an open avenue of communication between the Company and the external auditors of the Company.

In addition, the Committee will review and/or approve any other matter specifically delegated to the Committee by the Board.

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's consolidated financial statements are complete and accurate or are in accordance with GAAP and applicable rules and regulations. These are the responsibilities of Management and the Company's external auditors. The Committee, its Chair and any Committee members identified as having accounting or related financial expertise are members of the Board, appointed to the Committee to provide broad oversight of the financial, risk and control related activities of the Company, and are specifically not accountable or responsible for the day-to-day operation or performance of such activities. Although the designation of a Committee member as having accounting or related financial expertise for disclosure purposes or otherwise is based on that individual's education and experience, which that individual will bring to bear in carrying out his or her duties on the Committee, such designation does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the Committee and Board in the absence of such designation. Rather, the role of a Committee member who is identified as having accounting or related financial expertise, like the role of all Committee members, is to oversee the process, not to certify or guarantee the internal or external audit of the Company's financial information or public disclosure

COMPOSITION AND PROCEDURES

In addition to the procedures and powers set out in any resolution of the Board, the Committee will have the following composition and procedures:

1. Composition

The Committee shall consist of no fewer than three members. None of the members of the Committee shall be an officer or employee of ACI or any of their respective subsidiaries and each member of the Committee shall be an "independent director" (in accordance with the definition of "independent director" from time to time under the requirements or guidelines for audit committee service under applicable securities laws and the rules of any stock exchange on which ACI's shares are listed for trading). A minimum of two-thirds of the members of the Committee shall constitute a quorum of the Committee.

At the time of the annual appointment of the members of the Committee, the Board shall appoint a Chair of the Committee. The Chair shall be a member of the Committee and shall preside over all Committee meetings including ensuring compliance with this Charter. The Chair may vote on any matter requiring a vote by the Committee and shall provide a second vote in the case of a tie vote.

2. Appointment and Replacement of Committee Members

Any member of the Committee may be removed or replaced at any time by ordinary resolution of the Board and shall automatically cease to be a member of the Committee upon ceasing to be a member of the Board. The Board may fill vacancies on the Committee by election from among its members. The Board shall fill any vacancy if the membership of the Committee is less than three directors. If and whenever a vacancy shall exist on the Committee, the remaining members may exercise all its power so long as a quorum remains in office. Subject to the foregoing, the members of the Committee shall be elected by the Board annually and each member of the Committee shall hold office as such until the next annual meeting of shareholders after his or her election or until his or her successor shall be duly elected.

3. Financial literacy

All members of the Committee must be "financially literate" (as that term is interpreted by the Board in its reasonable judgment or as may be defined from time to time under the requirements or guidelines for audit committee service under securities laws and the rules of any stock exchange on which ACI's shares are listed for trading) or must become financially literate within a reasonable period of time after his or her appointment to the Committee

4. Separate Executive Meetings

The Committee will endeavour to meet at least once every quarter, and more often as warranted, with the Chief Financial Officer of ACI and the external auditors in separate executive sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately.

5. Professional Assistance

The Committee may retain special legal, accounting, financial or other consultants to advise the Committee at ACI's expense.

6. Reliance

Absent actual knowledge to the contrary (which will be promptly reported to the Board), each member of the Committee shall be entitled to rely on (i) the integrity of those persons or organizations within and outside ACI from which it receives information, (ii) the accuracy of the financial and other information provided to the Committee by such persons or organizations and (iii) representations made by senior management of the Company and the external auditors, as to any information, technology, internal audit and other non-audit services provided by the external auditors to ACI and its subsidiaries.

7. Review of Charter

The Committee will periodically review and reassess the adequacy of this Charter as it deems appropriate and recommend changes to the Board. The Committee will evaluate its performance with reference to this Charter. The Committee will approve the form of disclosure of this Charter, where required by applicable securities laws or regulatory requirements, in the annual proxy circular or annual report of ACI.

8. Delegation

The Committee may delegate from time to time to any person or committee of persons any of the Committee's responsibilities that lawfully may be delegated.

9. Reporting to the Board

The Committee will report through the Committee Chair to the Board following meetings of the Committee on matters considered by the Committee, its activities and compliance with this Charter. The person designated as secretary shall prepare minutes of all meetings to be filed in the corporate records.

SPECIFIC MANDATES OF THE COMMITTEE

The Committee will:

A. In Respect of ACI's External Auditors

1) review the performance of the external auditors (including the lead partner of the independent audit team) of ACI who are accountable to the Committee and the Board. Make recommendations to the Board as to the reappointment or appointment of the external auditors of ACI to be proposed in ACI's proxy circular for shareholder approval and shall have authority to terminate the external auditors;

2) review the reasons for any proposed change in the external auditors of ACI which is not initiated by the Committee or Board and any other significant issues related to the change, including the response of the incumbent auditors, and enquire as to the qualifications of the proposed replacement auditors before making its recommendation to the Board;

3) recommend to the Board the terms of engagement and the compensation to be paid by ACI to ACI's external auditors;

4) review the independence of ACI's external auditors, including a written report from the external auditors respecting their independence and consideration of applicable auditor independence standards;

5) approve in advance all permitted non-audit services to be provided to ACI or any of its affiliates by the external auditors or any of their affiliates, subject to any de minimus exception allowed by applicable law; the Committee may delegate to one or more designated members of the Committee the authority to grant pre-approvals required by this subsection;

6) review the disclosure with respect to its pre-approval of audit and non- audit services provided by ACI's external auditors;

7) approve any hiring by ACI or its subsidiaries of employees or former employees of ACI's external auditors;

8) review a written or oral report describing:
   a) critical accounting policies and practices to be used ACI's financial statement;
   b) alternative treatments of financial alternative treatments of financial information within IFRS that have been discussed with management and that are significant to ACI's consolidated financial statements, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditors; and
   c) other material written communication between ACI's external auditors and management, such as any management letter or schedule of unadjusted differences;

9) review with the external auditors and management the general audit approach and scope of proposed audit of the consolidated financial statements of ACI, the objectives, staffing, locations, co-ordination and reliance upon management in the

audit, the overall audit plans, the audit procedures to be used and the timing and estimated budgets of the audits;

10) if a review engagement report is requested of the external auditors, review such report before the release of ACI's interim consolidated financial statements; and

11) discuss with the external auditors any difficulties or disputes that arose with management during the course of the audit, any restrictions on the scope of activities or access to requested information and the adequacy of management's responses in correcting audit-related deficiencies.

B. In Respect of ACI's Financial Disclosure

1) review with the external auditors and Management:

ACI's audited consolidated financial statements and the notes and Managements' Discussion and Analysis relating to such consolidated financial statements, the annual report, the annual information form, the financial information of ACI contained in any prospectus or information circular or other disclosure documents or regulatory filings of ACI, the recommendations for approval of each of the foregoing from each of the Chairman of the Board, CEO and CFO and based on such recommendations provide, where applicable, its own recommendations to the Board for their approval and release of each of the foregoing to the public;

a) ACI's interim consolidated financial statements and the notes and Managements' Discussion and Analysis relating to such consolidated financial statements, the recommendations for approval of each of the foregoing from each of the Chairman of the Board, CEO and CFO and based on such recommendations provide, where applicable, its own recommendations to the Board for their approval and release of each of the foregoing to the public;

b) the quality, appropriateness and acceptability of ACI's accounting principles and practices used in its financial reporting, changes in ACI's accounting principles or practices and the application of particular accounting principles and disclosure practices by Management to new transactions or events;

c) all significant financial reporting issues and judgments made in connection with the preparation of ACI's consolidated financial statements, including the effects of alternative methods in respect of any matter considered significant by the external auditor within IFRS on the consolidated financial statements and any "second opinions" sought by Management from an independent or other audit firm or advisor with respect to the accounting treatment of a particular item;

e) the effect of regulatory and accounting initiatives on ACI's consolidated financial statements and other financial disclosures;

f) any reserves, accruals, provisions or estimates that may have a significant effect upon the consolidated financial statements of ACI;

g) the use of special purpose entities and the business purpose and economic effect of off balance sheet transactions, arrangements, obligations, guarantees and other relationships of ACI and their impact on the reported financial results of ACI;

h) any legal matter, claim or contingency that could have a significant impact on the consolidated financial statements, ACI's compliance policies and any material reports, inquiries or other correspondence received from regulators or governmental agencies and the manner in which any such legal matter, claim or contingency has been disclosed in ACI's consolidated financial statements;

i) review the treatment for financial reporting purposes of any significant transactions that are not a normal part of ACI's operations; and

j) the use of any "pro forma" or "adjusted" information not in accordance with IFRS.

2) review and resolve disagreements between Management and ACI's external auditors regarding financial reporting or the application of any accounting principles or practices;

3) review earnings press releases, as well as financial information and earnings guidance provided to analysts and ratings agencies, it being understood that such discussions may, in the discretion of the Committee, be done generally (i.e., by discussing the types of information to be disclosed and the type of presentation to be made) and that the Committee need not discuss in advance each earnings release or each instance in which ACI gives earning guidance;

4) establish and monitor procedures for the receipt and treatment of complaints received by ACI regarding accounting, internal accounting controls or audit matters and the anonymous submission by employees of concerns regarding questionable accounting or auditing matters and review periodically with the Management these procedures and any significant complaints received;

5) receive from the CEO and the CFO a certificate certifying in respect of each annual and interim report the matters such officers are required to certify in connection with the filing of such reports under applicable securities laws; and

6) review and discuss ACI's major financial risk exposures and the steps taken to monitor and control such exposures, including the use of any financial derivatives and hedging activities.

C. In Respect of Insurance

1) review periodically insurance programs relating to ACI and its investments.

D. In Respect of Internal Controls

1) review the adequacy and effectiveness of ACI's internal accounting and financial controls based on recommendations from Management and the external auditors for the improvement of accounting practices and internal controls;

2) review Management's assessment of the effectiveness of internal control over financial reporting as of the end of each fiscal year; and

3) oversee compliance with internal controls.

E. In respect of Other Items

1) on an annual basis review and assess committee member attendance and performance and report thereon to the Board and review this Charter and, if required implement amendments to this Charter;

2) on an annual basis review the dividend reinvestment plan and normal course issuer bid if any; and,

3) on a quarterly basis review compliance with Disclosure Policy of the Company.

AutoCanada

AutoCanada Inc.
200 - 15511 123 Avenue NW
Edmonton, AB T5V 0C3
www.autocan.ca