AutoCanada

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the year ended December 31, 2016

AutoCanada

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1. READER ADVISORIES

This Management's Discussion & Analysis ("MD&A") was prepared as of March 16, 2017 to assist readers in understanding AutoCanada Inc.'s (the "Company" or "AutoCanada") consolidated financial performance for the year ended December 31, 2016 and significant trends that may affect AutoCanada's future performance. The following discussion and analysis should be read in conjunction with the audited annual consolidated financial statements and accompanying notes (the "Consolidated Financial Statements") of AutoCanada as at and for the year ended December 31, 2016. Results are reported in Canadian dollars. Certain dollars have been rounded to the nearest thousand dollars, unless otherwise stated. Reference to the notes are to the Notes of the Consolidated Financial Statements of the Company unless otherwise stated.

To provide more meaningful information, this MD&A typically refers to the operating results for the three month period and year ended December 31, 2016 of the Company, and compares these to the operating results of the Company for the three month period and year ended December 31, 2015. Until July 11, 2014, the Company had investments in associates comprised of six General Motors dealerships and accounted for the investments utilizing the equity method, whereby the operating results of these investments were included in one line item on the statement of comprehensive income known as income from investments in associates. As a result, the Company did not incorporate the consolidated results of its investments in associates in its discussion and analysis prior to Q3 2014. On July 11, 2014, the Company completed a business combination under common control, resulting in the accounting consolidation of the results of its investments in associates using the predecessor values method.

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

Additional information regarding our Company, including our 2016 Annual Information Form, dated March 16, 2017, is available on SEDAR at www.sedar.com and our website at www.autocan.ca. Such additional information is not incorporated by reference herein, unless otherwise specified, and should not be deemed to be made part of this MD&A.

2. EXECUTIVE SUMMARY

Performance vs. the Fourth Quarter of Prior Year

The following table summarizes the Company's operations for the quarter as well as year to date results:

	Three months ended December 31			Year ended December 31		
Consolidated Operational Data	**2016**	**2015**	**% Change**	**2016**	**2015**	**% Change**
EBITDA attributable to AutoCanada shareholders	25,260	23,353	8.2%	94,486	89,838	5.2%
Adjusted EBITDA attributable to AutoCanada shareholders	19,038	26,030	(26.9)%	88,809	94,002	(5.5)%
Net earnings attributable to AutoCanada shareholders	13,785	(7,361)	287.3%	2,596	22,821	(88.6)%
Adjusted net earnings attributable to AutoCanada shareholders	7,536	8,610	(12.5)%	39,926	40,343	(1.0)%
Basic EPS	0.50	(0.29)	272.4%	0.09	0.93	(90.3)%
Adjusted diluted EPS	0.27	0.34	(20.6)%	1.45	1.64	(11.0)%
Weighted average number of shares - Basic	27,353,431	25,016,637	9.3%	27,350,555	24,574,022	11.3%
Weighted average number of shares - Diluted	27,469,439	25,110,033	9.4%	27,455,686	24,674,083	11.3%
New retail vehicles sold (units)	7,590	8,016	(5.3)%	32,991	35,323	(6.6)%
New fleet vehicles sold (units)	859	1,194	(28.1)%	7,041	7,134	(1.3)%
Used retail vehicles sold (units)	4,463	4,940	(9.7)%	19,561	20,342	(3.8)%
Total vehicles sold	12,912	14,150	(8.8)%	59,593	62,799	(5.1)%
Revenue	629,274	672,314	(6.4)%	2,891,581	2,903,803	(0.4)%
Gross Profit	116,785	123,922	(5.8)%	486,133	487,709	(0.3)%
Gross Profit %	18.6%	18.4%	1.1%	16.8%	16.8%	0.0%
Operating expenses	97,397	101,310	(3.9)%	400,417	395,877	1.1%
Operating expenses % of Gross Profit	83.4%	81.8%	2.0%	82.4%	81.2%	1.5%
Free cash flow	23,424	9,066	158.4%	96,288	38,675	149.0%
Adjusted free cash flow	13,133	8,078	62.6%	68,566	38,796	76.7%
Same Store New retail vehicles sold (units)	5,924	6,621	(10.5)%	26,333	30,437	(13.5)%
Same Store New fleet vehicles sold (units)	730	1,016	(28.1)%	6,415	6,688	(4.1)%
Same store Used retail vehicles sold (units)	3,791	4,287	(11.6)%	16,840	18,238	(7.7)%
Same Store Total vehicles sold	10,445	11,924	(12.4)%	49,588	55,363	(10.4)%
Same Store Revenue	500,968	556,722	(10.0)%	2,369,549	2,509,677	(5.6)%
Same Store Gross Profit	94,584	100,404	(5.8)%	402,166	425,255	(5.4)%
Same Store Gross Profit %	18.9%	18.0%	5.0%	17.0%	16.9%	0.6%

Industry

The Canadian automotive retail sector increased 2.7% compared to the prior year to 1.9 million unit sales. Although retail Canadian auto sales rose 2.7% from 2015, AutoCanada's performance reflects the heavy weighting of our store count in provinces where new auto sales have declined. During 2016, 51% of our stores were located in Alberta and Saskatchewan, where new vehicle demand declined by 7.1% and 5.4% respectively. By contrast we only generated approximately 7% of our revenue in Ontario where unit sales were up by 6.0% year over year.

For the twelve months ended December 31, 2016, new light vehicle sales in Alberta were down 7.1% year-over-year, while sales in British Columbia were up 5.3%. Our unit sales and financial results in these provinces did not reflect the overall performance of the automotive sector as a whole for several reasons, including the locations of the stores and low store counts in provinces experiencing growth.

Our Performance

Sales

The Company experienced a 6.4% decline in total revenue of $629.3 million for the three month period ended December 31, 2016, as compared to the prior year of $672.3 million. For the year, revenue remained essentially flat decreasing by less than half of a percent to $2,891.6 million. The most significant impact on revenues was the decline in new vehicle sales in Alberta, as our concentration of 24 dealerships in the province represented 40% of our total revenue. Of these dealerships, 11 are domestic brands which are generally our larger volume stores. Domestic brands have experienced a disproportionate amount of downward pressure on sales compared to import brands. Further complicating the sale of new units is the continued difficulty in securing adequate inventories of light duty trucks.

Gross Profit

Management considers gross profit to be a key measure of store sales effectiveness and mix. Our gross profit margin varies with our revenue mix. The sale of new vehicles and used vehicles generally results in lower gross profit margin than sales of parts, service and collision repair, and sales of finance, insurance and other products. As a result, when, parts and service, and finance, insurance and other products revenue increase as a percentage of total revenue, we expect our overall gross profit margin to increase.

Gross profit from the sale of used vehicles depends largely on the ability of our dealerships to effectively manage inventory. Revenues in both new and used vehicles can vary significantly year-over-year as a result of fluctuations in vehicle sales mix. Total gross profit earned decreased by 5.8% and 0.3% for the three months ended December 31, 2016 and full year respectively as a result of lower sales revenues.

In response to the slow economy in our core geographic areas, we have heightened our focus on areas that we can control, by monitoring, improving, and adapting to the trends in the market. During the year, we have reduced used inventory days on hand by reducing the length of time that less desirable used vehicle inventory is held, thereby freeing up additional space for more desirable used vehicles.

Cost Reduction Strategy

In 2016 management undertook a review of headquarters and store operating expenses. We implemented initiatives that have produced savings in the range of $15.0 million, however, these were offset by higher expenses due to the addition of two stores, increased space requirements and temporary increase in executive compensation due to retirement and leadership changes. Management remains focused on improving the efficiency of our store operations, dealer support services and administrative staff.

Intangible Assets and Goodwill Impairment

As a result of the vehicle industry deterioration in 2016, correlated with a decrease in gross profits within dealerships operating in resource based markets, management determined it was prudent to re-evaluate the carrying value of dealerships. Through specific valuation procedures and stress tests, an impairment charge of $54.1 million to intangible assets and goodwill was recorded during the third quarter, relating to 11 dealerships. This charge is non cash in nature and $45.0 million is eligible to be recovered should the results from these dealerships return to previous levels.

Free Cash Flow & Working Capital Management

Free cash flow increased by 158.4% and 149.0% in the fourth quarter and full year respectively over the same periods in 2015. A tax refund of $7.5 million in the third quarter accounted for 19.4% of the year-over-year improvement with a reduced use of our floorplan facilities for the remainder. Our goal is to turn inventory faster by matching inventory to current market trends while managing our floorplan interest expense. Diligent inventory management is especially important in used cars where aged inventory can create a valuation risk and lower margins.

Growth

We continuously monitor our capital plan and have maintained the revised five year capital plan at $145.3 million, from January 1, 2017 through to the end of fiscal 2021. Dealership relocations, renovation projects, and open point opportunities are prudently considered against our growth strategy. We allocate capital to improve existing stores in conjunction with automakers brand image programs and our ability to maximize vehicle sales and service in our market areas.

In 2016 we spent $73.3 million on relocations, renovations and Open Point opportunities. We intend to continue to acquire dealerships that broaden our brand representations as well as meet our goal of greater geographic diversification.

Acquisitions

Our acquisition strategy continues to focus on diversifying across Canada through the acquisition of flagship stores in major markets. Our target acquisitions are not only evaluated in terms of accretion but also for how they will advance our Company, unit sales volumes, and market share. Our ability to generate strong cash flow is a key element in our acquisition plan. Although our pace of acquisitions slowed in 2016, we acquired Wellington Motors and Guelph Hyundai, both in Guelph, Ontario, which is consistent with our goal of providing greater geographic diversification. We believe that we will be able to increase acquisition activity in 2017.

3. OUTLOOK

The outlook regarding new retail vehicle sales in Canada is predicted by independent forecasters to be down 1% - 2%. In Canada, factors contributing to new vehicle sales will vary widely by province and brands.

While new automobile sales in our core Alberta market continued to decline in 2016, AutoCanada is cautiously optimistic that renewed activity in the energy sector will slowly begin to translate favourably into improvements in year-over-year sales figures in the latter half of the year or early 2018. We will remain focused on delivering better financial performance irrespective of the impact of oil prices.

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

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

AutoCanada plans to spend approximately $30.9 million in 2017 on dealership relocations and undertaking expansions. We are under construction on the relocation of Audi Winnipeg, which we anticipate will lead to increased customer traffic and sales. We also plan to begin construction on two new open point locations in Calgary and Ottawa, Ontario.

AutoCanada's five-year capital spending outlook is approximately $145.3 million. This level of spending, along with the Company's current dividend commitments, are expected to be balanced with internally generated cash flow.

4. MARKET

The Company's geographical profile is illustrated below by number of dealerships and revenues and gross profit by province for the years ended December 31, 2016 and December 31, 2015.

	December 31, 2016					
Location of Dealerships	Number of Franchises[1]	Number of Dealerships[1]	Revenue	Revenue % of Total	Gross Profit	Gross Profit % of Total
British Columbia	13	11	578,938	20%	92,404	19%
Alberta	27	24	1,168,334	40%	213,108	44%
Saskatchewan	4	4	236,354	8%	44,977	9%
Manitoba	4	4	182,282	6%	33,789	7%
Ontario	9	8	215,954	8%	31,879	6%
Quebec	4	2	334,255	12%	47,441	10%
Atlantic	2	2	175,464	6%	22,535	5%
Total	63	55	2,891,581	100%	486,133	100%

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

	December 31, 2015					
Location of Dealerships	Number of Franchises[1]	Number of Dealerships[1]	Revenue	Revenue % of Total	Gross Profit	Gross Profit % of Total
British Columbia	13	11	558,717	19%	87,465	18%
Alberta	27	24	1,270,901	44%	222,806	46%
Saskatchewan	4	4	246,477	8%	47,239	10%
Manitoba	4	4	181,265	7%	33,706	7%
Ontario	8	7	156,680	5%	22,580	5%
Quebec	4	2	333,990	12%	50,869	10%
Atlantic	2	2	155,773	5%	23,044	4%
Total	62	54	2,903,803	100%	487,709	100%

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

The Company's manufacturers profile is illustrated below by number of dealerships and revenues by manufacturer for the years ended December 31, 2016 and December 31, 2015.

	December 31, 2016				December 31, 2015			
Manufacturer	Number of Franchises[1]	Number of Dealerships[1]	Revenue	Revenue % of Total	Number of Franchises[1]	Number of Dealerships[1]	Revenue	Revenue % of Total
FCA	23	17	1,285,894	44%	22	16	1,275,689	44%
General Motors	9	9	579,337	20%	9	9	551,800	19%
Hyundai	9	9	218,403	8%	8	8	224,163	8%
Nissan / Infiniti	7	7	241,186	8%	8	8	208,288	7%
Volkswagen / Audi	7	7	187,911	6%	7	7	193,459	6%
BMW / MINI	4	2	334,254	12%	4	2	333,990	12%
Other	4	4	44,596	2%	4	4	116,414	4%
Total	63	55	2,891,581	100%	62	54	2,903,803	100%

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

Performance vs. the Canadian New Vehicle Market

The Canadian automotive retail sector year to date has slightly increased compared to the prior year at 1.9 million unit sales. New light vehicle sales in Alberta for the year ended December 31, 2016 were down 7.1%, and up 5.3% in British Columbia when compared to the same period in 2015. Alberta continues to show declining unit sales in the Canadian automotive retail sector.

The Company's same store unit sales of new vehicles decreased by 10.5% during the three month period ended December 31, 2016, and decreased by 13.5% during the year ended December 31, 2016. The fourth quarter of 2016 continued to be a challenging period for the western Canadian market as well as the Company. Our concentration of dealerships located within Alberta and the resource based economies caused our performance to fall below that of the Canadian average change in light vehicle sales.

The following table summarizes Canadian new light vehicle sales for the years ended December 31, 2016 and December 31, 2015 by Province:

Canadian New Vehicle Sales by Province[1,2]

	2016	2015	Percent Change	Unit Change
British Columbia	218,235	207,163	5.3%	11,072
Alberta	219,421	236,208	(7.1)%	(16,787)
Saskatchewan	50,888	53,793	(5.4)%	(2,905)
Manitoba	55,654	55,820	(0.3)%	(166)
Ontario	806,500	760,521	6.0%	45,979
Quebec	458,287	444,557	3.1%	13,730
Atlantic	139,914	140,423	(0.4)%	(509)
Total	1,948,899	1,898,485	2.7%	50,414

1) DesRosiers Automotive Consultants Inc.
2) Readers are cautioned that the above table includes sales channels that the Company does not fully participate in such as daily rentals, and small and medium size leasing companies that are not part of the franchise dealership network.

List of Dealerships

The following table sets forth the dealerships that we currently own and operate and the date opened or acquired by the Company or its predecessors, organized by location.

Location	Operating Name	Franchise	Year Opened or Acquired	Same Store[1]	Owned or Leased[5]
Wholly-Owned Dealerships:					
Abbotsford, BC	Abbotsford Volkswagen	Volkswagen	2011	Y	Leased
Chilliwack, BC	Chilliwack Volkswagen	Volkswagen	2011	Y	Owned
Kelowna, BC	Okanagan Chrysler Jeep Dodge FIAT	FCA	2003	Y	Leased
Maple Ridge, BC	Maple Ridge Chrysler Jeep Dodge FIAT	FCA	2005	Y	Leased
Maple Ridge, BC	Maple Ridge Volkswagen	Volkswagen	2008	Y	Leased
Prince George, BC	Northland Chrysler Jeep Dodge	FCA	2002	Y	Owned
Prince George, BC	Northland Hyundai	Hyundai	2005	Y	Owned
Prince George, BC	Northland Nissan	Nissan	2007	Y	Owned
Victoria, BC	Victoria Hyundai	Hyundai	2006	Y	Owned
Airdrie, AB	Airdrie Chrysler Jeep Dodge Ram	FCA	2015	Q3 2017	Leased
Calgary, AB	Courtesy Chrysler Dodge	FCA	2013	Y	Leased
Calgary, AB	Calgary Hyundai	Hyundai	2014	Y	Leased
Calgary, AB	Crowfoot Hyundai	Hyundai	2014	Y	Leased
Calgary, AB	Courtesy Mitsubishi	Mitsubishi	2014	Y	Leased
Calgary, AB	Northland Volkswagen	Volkswagen	2014	Y	Leased

Calgary, AB	Fish Creek Nissan	Nissan	2014	Y	Leased
Calgary, AB	Hyatt Infiniti	Infiniti	2014	Y	Leased
Calgary, AB	Tower Chrysler Jeep Dodge Ram	FCA	2014	Y	Leased
Edmonton, AB	Crosstown Chrysler Jeep Dodge FIAT	FCA	1994	Y	Leased
Edmonton, AB	Capital Chrysler Jeep Dodge FIAT	FCA	2003	Y	Leased
Edmonton, AB	North Edmonton Kia	Kia	2014	Y	Owned
Grande Prairie, AB	Grande Prairie Chrysler Jeep Dodge FIAT	FCA	1998	Y	Owned
Grande Prairie, AB	Grande Prairie Hyundai	Hyundai	2005	Y	Owned
Grande Prairie, AB	Grande Prairie Subaru	Subaru	1998	Y	Owned
Grande Prairie, AB	Grande Prairie Mitsubishi	Mitsubishi	2007	Y	Owned
Grande Prairie, AB	Grande Prairie Nissan	Nissan	2007	Y	Owned
Grande Prairie, AB	Grande Prairie Volkswagen	Volkswagen	2013	Y	Owned
Ponoka, AB	Ponoka Chrysler Jeep Dodge	FCA	1998	Y	Owned
Sherwood Park, AB	Sherwood Park Hyundai	Hyundai	2006	Y	Owned
Sherwood Park, AB	Sherwood Park Volkswagen[7]	Volkswagen	2017	Q2 2019	Leased
Saskatoon, SK	Dodge City Chrysler Jeep Dodge Ram	FCA	2014	Y	Leased
Winnipeg, MB	Audi Winnipeg	Audi	2013	Y	Owned
Winnipeg, MB	St. James Volkswagen	Volkswagen	2013	Y	Owned
Winnipeg, MB	Eastern Chrysler Jeep Dodge	FCA	2014	Y	Owned
Cambridge, ON	Cambridge Hyundai	Hyundai	2008	Y	Owned
Mississauga, ON	401 Dixie Hyundai	Hyundai	2008	Y	Leased
Guelph, ON	Guelph Hyundai[6]	Hyundai	2016	Q1 2019	Leased
Guelph, ON	Wellington Motors[4]	FCA	2016	Q4 2018	Leased
Toronto, ON	Toronto Chrysler Jeep Dodge Ram	FCA	2014	Q1 2017	Leased
Moncton, NB	Moncton Chrysler Jeep Dodge	FCA	2001	Y	Owned
Dartmouth, NS	Dartmouth Chrysler Jeep Dodge	FCA	2006	Y	Leased
Equity Investments:					
Duncan, BC	Island Chevrolet Buick GMC	General Motors	2013	Y	Leased
Kelowna, BC	Kelowna Chevrolet	General Motors	2015	Q4 2017	Owned
Edmonton, AB	Lakewood Chevrolet	General Motors	2014	Y	Owned
Sherwood Park, AB	Sherwood Park Chevrolet	General Motors	2012	Y	Leased
Sherwood Park, AB	Sherwood Buick GMC	General Motors	2012	Y	Leased
Spruce Grove, AB	Grove Dodge Chrysler Jeep	FCA	2015	Q1 2018	Leased
North Battleford, SK	Bridges Chevrolet Buick GMC	General Motors	2014	Q1 2017	Owned
Prince Albert, SK	Mann-Northway Auto Source	General Motors	2014	Y	Leased
Saskatoon, SK	Saskatoon Motor Products	General Motors	2014	Y	Leased
Winnipeg, MB	McNaught Cadillac Buick GMC	General Motors	2014	Y	Owned
Laval, QB	BMW Laval and MINI Laval	BMW / MINI	2014	Q1 2017	Owned
Montreal, QB	BMW Canbec and MINI Mont Royal	BMW / MINI	2014	Y	Leased
Ottawa, ON	Hunt Club Nissan	Nissan	2015	Q1 2018	Leased
Ottawa, ON	417 Nissan	Nissan	2015	Q1 2018	Leased
Ottawa, ON	417 Infiniti	Infiniti	2015	Q1 2018	Leased
Dealership Loan Financing:					
Edmonton, AB	Southview Acura[2,3]	Acura	2016	N/A	N/A
Whitby, ON	Whitby Honda	Honda	2015	N/A	N/A

1) *Same store (indicated with the letter "Y" in the table above) means the franchised automobile dealership has been owned for at least 2 full years since acquisition. The dealership is then included in the quarter thereafter, for same store analysis.*
2) *See "ACQUISITIONS, RELOCATIONS AND REAL ESTATE" for more information related to this dealership loan financing arrangement.*
3) *On May 1, 2016, the Company provided financing for Southview Acura in Edmonton, Alberta.*
4) *Effective October 1, 2016, the Company purchased 100% of the voting shares of Wellington Motors in Guelph, Ontario. See "ACQUISITIONS, RELOCATIONS AND REAL ESTATE" for more information on this acquisition.*
5) *This column summarizes whether the dealership property is owned or leased*
6) *On December 19, 2016, the Company purchased substantially all of the operating and fixed assets of Guelph Imported Cars Ltd. in Guelph, Ontario. See " ACQUISITIONS RELOCATIONS AND REAL ESTATE" for more information on this acquisition*
7) *On February 1, 2017, Sherwood Park Volkswagen open point opened for operations.*

5. SELECTED ANNUAL FINANCIAL INFORMATION

The following table shows the results of the Company for the years ended December 31, 2016, December 31, 2015 and December 31, 2014. The results of operations for these years are not necessarily indicative of the results of operations to be expected in any given comparable period.

AutoCanada (in thousands of dollars, except Gross Profit %, Earnings per share, and Operating Data)	2016	2015	2014[4]
Income Statement Data			
New vehicles	1,652,795	1,668,237	1,342,346
Used vehicles	725,430	704,569	495,352
Parts, service and collision repair	382,933	387,614	255,707
Finance, insurance and other	130,423	143,383	121,373
Revenue	2,891,581	2,903,803	2,214,778
New vehicles	118,297	122,408	106,002
Used vehicles	47,192	40,629	29,501
Parts, service and collision repair	201,259	193,868	128,566
Finance, insurance and other	119,385	130,804	109,080
Gross profit	486,133	487,709	373,149
Gross Profit %	16.8%	16.8%	16.8%
Operating expenses	400,417	395,877	290,904
Operating expenses as a % of gross profit	82.4%	81.2%	78.0%
Income from loans to associates	1,165	49	-
Income from investments in associates	-	-	3,490
Impairment (recovery) of intangible assets and goodwill	54,096	18,757	(1,767)
Net earnings attributable to AutoCanada shareholders	2,596	22,821	53,132
Adjusted net earnings attributable to AutoCanada shareholders	39,926	40,343	51,624
EBITDA attributable to AutoCanada shareholders[2]	94,486	89,838	89,434
EBITDA % of Sales[2]	3.3%	3.1%	4.0%
Free cash flow	96,288	38,675	63,723
Adjusted free cash flow	68,566	38,796	62,082
Basic earnings per share	0.09	0.93	2.31
Diluted earnings per share	0.09	0.92	2.30
Basic adjusted earnings per share	1.46	1.64	2.24
Diluted adjusted earnings per share	1.45	1.64	2.23
Dividends declared per share	0.55	1.00	0.94
Operating Data			
Vehicles (new and used) sold	59,593	62,799	52,147
New vehicles sold[3]	40,032	42,457	36,422
New retail vehicles sold[3]	32,991	35,323	30,346
New fleet vehicles sold[3]	7,041	7,134	6,076
Used retail vehicles sold[3]	19,561	20,342	15,725
# of service & collision repair orders completed[3]	863,970	847,702	601,597
Absorption rate[2]	86%	91%	85%
# of dealerships at year end	55	54	48
# of same store dealerships	44	28	23
# of service bays at year end	928	912	822
Same store revenue growth[1]	(5.6)%	(5.9)%	8.9%
Same store gross profit growth[1]	(5.4)%	(11.7)%	7.9%

1) *Same store revenue growth and same store gross profit growth is calculated using franchised automobile dealerships that we have owned for at least 2 full years, which includes the GM stores, as these stores have been treated as acquisitions as at July 11, 2014. Same store growth is in comparison with the same quarter in the prior year.*
2) *EBITDA and absorption rate have been calculated as described under "NON-GAAP MEASURES".*
3) This number includes 100% of vehicles and service and collision repair orders sold by dealerships in which we have less than 100% investment.
4) *In conjunction with the business combination under common control completed on July 11, 2014, the Selected Annual Financial Information of 2014 includes the consolidated results of the Company's GM stores from July 11, 2014.*

6. SELECTED QUARTERLY FINANCIAL INFORMATION

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

(in thousands of dollars, except Gross Profit %, Earnings per share, and Operating Data)	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Income Statement Data								
New vehicles	348,107	444,482	497,025	363,181	368,242	471,018	483,435	345,542
Used vehicles	157,724	179,582	208,016	180,108	167,100	179,270	194,956	163,243
Parts, service and collision repair	92,310	95,585	100,317	94,721	102,220	93,139	99,304	92,951
Finance, insurance and other	31,133	33,529	36,899	28,862	34,752	37,778	39,182	31,671
Revenue	629,274	753,178	842,257	666,872	672,314	781,205	816,877	633,407
New vehicles	25,042	31,578	34,410	27,267	27,482	34,300	34,861	25,765
Used vehicles	10,064	12,950	13,758	10,420	10,326	10,949	11,000	8,354
Parts, service and collision repair	52,957	47,676	52,957	47,669	51,760	48,336	49,859	43,913
Finance, insurance and other	28,722	30,733	33,577	26,353	34,354	35,088	33,955	27,407
Gross profit	116,785	122,937	134,702	111,709	123,922	128,673	129,675	105,439
Gross Profit %	18.6%	16.3%	16.0%	16.8%	18.4%	16.5%	15.9%	16.6%
Operating expenses	97,397	99,041	107,932	96,047	101,310	100,824	100,568	93,175
Operating expenses as a % of gross profit	83.4%	80.6%	80.1%	86.0%	81.8%	78.4%	77.6%	88.4%
(Loss) Income from loans to associates	(367)	607	610	315	49	-	-	-
Impairment of intangible assets and goodwill	-	54,096	-	-	18,757	-	-	-
Net earnings (loss) attributable to AutoCanada shareholders	13,785	(32,619)	14,158	7,272	(7,361)	11,690	13,523	4,969
Adjusted net earnings attributable to AutoCanada shareholders	7,536	10,327	13,466	8,597	8,610	12,535	13,957	5,261
EBITDA attributable to AutoCanada shareholders[2]	25,260	23,842	27,072	18,312	23,353	26,379	27,397	12,687
EBITDA % of Sales[2]	4.0%	3.2%	3.7%	3.2%	3.5%	3.8%	3.8%	2.2%
Free cash flow	23,424	30,897	37,922	4,045	9,066	14,995	17,776	(3,162)
Adjusted free cash flow	13,133	27,766	21,632	6,035	8,078	18,951	19,187	(7,420)
Basic earnings per share	0.50	(1.19)	0.53	0.27	(0.29)	0.48	0.56	0.20
Diluted earnings per share	0.50	(1.19)	0.53	0.27	(0.29)	0.47	0.56	0.20
Basic adjusted earnings per share	0.28	0.38	0.49	0.31	0.34	0.51	0.56	0.22
Dividends declared per share	0.10	0.10	0.10	0.25	0.25	0.25	0.25	0.25
Operating Data								
Vehicles (new and used) sold[3]	12,912	15,955	17,425	13,301	14,150	17,086	17,739	13,824
New vehicles sold[3]	8,449	10,983	12,098	8,502	9,210	12,018	12,296	8,933
New retail vehicles sold[3]	7,590	8,949	9,374	7,078	8,016	9,985	9,929	7,393
New fleet vehicles sold[3]	859	2,034	2,724	1,424	1,194	2,033	2,367	1,540
Used retail vehicles sold[3]	4,463	4,972	5,327	4,799	4,940	5,068	5,443	4,891
# of service and collision repair orders completed[3]	217,418	209,912	227,446	209,194	230,772	202,692	215,142	199,096
Absorption rate[2]	86%	89%	90%	83%	93%	91%	94%	85%
# of dealerships at period end	55	53	53	53	54	50	49	48
# of same store dealerships	44	33	27	27	28	26	24	23
# of service bays at period end	928	898	898	898	912	862	842	822
Same store revenue growth[1]	(10.0)%	(9.2)%	(3.2)%	(3.1)%	(12.1)%	(6.9)%	(2.8)%	(3.5)%
Same store gross profit growth[1]	(5.8)%	(11.0)%	(5.3)%	(5.5)%	(14.3)%	(14.1)%	(11.0)%	(8.5)%

1) *Same store revenue growth and same store gross profit growth is calculated using franchised automobile dealerships that we have owned for at least 2 full years, which includes the GM stores, as these stores have been treated as acquisitions as at July 11, 2014. Same store growth is in comparison with the same quarter in the prior year.*
2) *EBITDA and absorption rate have been calculated as described under "NON-GAAP MEASURES".*
3) *This number includes 100% of vehicles and service and collision repair orders sold by dealerships in which we have less than 100% investment.*
4) *The results from operations historically have been lower in the first and fourth quarters of each year, largely due to consumer purchasing patterns during the holiday season, inclement weather and the reduced number of business days during the holiday season. As a result, our operating results are generally not as strong during the first and fourth quarters than during the other quarters of each fiscal year. The timing of acquisitions may have also caused substantial fluctuations in operating results from quarter to quarter.*

7. RESULTS OF OPERATIONS

Fourth Quarter Operating Results

EBITDA attributable to AutoCanada shareholders for the quarter increased by $1.9 million or 8.2% to $25.3 million, from $23.4 million when compared to the results of the Company for the same period in the prior year. The increase in EBITDA attributable to AutoCanada shareholders for the quarter is due to increased momentum in the retail automotive sector. Adjusted EBITDA attributable to AutoCanada shareholders for the quarter ended December 31, 2016 decreased by $7.0 million or 26.9% from $26.0 million to $19.0 million when compared to the results of the Company for the same quarter in the prior year.

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

(in thousands of dollars)	**2016**	**2015**	**2014**
Period from October 1 to December 31			
Net earnings (loss) attributable to AutoCanada shareholders	13,785	(7,361)	14,240
Impairment (recovery) of intangible assets and goodwill	-	18,126	(1,767)
Income taxes	2,531	3,474	4,998
Depreciation of property and equipment	4,634	4,866	4,179
Interest on long-term indebtedness	4,310	4,248	2,995
EBITDA attributable to AutoCanada shareholders[1]	25,260	23,353	24,645
Add back:			
Share-based compensation attributed to changes in share price	105	(30)	(447)
Revaluation of redemption liabilities	(1,470)	2,566	-
Revaluation of contingent consideration	(4,840)	149	-
Unrealized gain on embedded derivative	(17)	(8)	(3)
Adjusted EBITDA attributable to AutoCanada shareholders[1]	19,038	26,030	24,195

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

Pre-tax earnings attributable to AutoCanada shareholders increased by $20.2 million to $16.3 million for the quarter from net loss $3.9 million in the same period of the prior year. Net earnings attributable to AutoCanada shareholders increased by $21.2 million to $13.8 million in the fourth quarter of 2016 from net loss $7.4 million when compared to the prior year. Income tax expense attributable to AutoCanada shareholders decreased by $1.0 million to $2.5 million in the fourth quarter of 2016 from $3.5 million in the same period of 2015.

Adjusted net earnings attributable to AutoCanada shareholders decreased by $1.1 million or 12.5% to $7.5 million for the quarter from $8.6 million in the same period of the prior year.

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

(in thousands of dollars)	2016	2015	2014
Net earnings (loss) attributable to AutoCanada shareholders	13,785	(7,361)	14,240
Add back:			
Impairment (recovery) of intangible assets and goodwill, net of tax	-	13,286	(1,310)
Share-based compensation attributed to changes in share price, net of tax	78	(22)	(332)
Revaluation of redemption liabilities	(1,470)	2,566	-
Revaluation of contingent consideration	(4,840)	149	-
Unrealized gain on embedded derivative	(17)	(8)	(3)
Adjusted net earnings attributable to AutoCanada shareholders[1]	7,536	8,610	12,595
Weighted average number of shares - Basic	27,353,431	25,016,637	24,410,169
Weighted average number of shares - Diluted	27,469,439	25,110,033	25,190,000
Adjusted net earnings per share attributable to AutoCanada shareholders - Basic[1]	0.28	0.34	0.52
Adjusted net earnings per share attributable to AutoCanada shareholders - Diluted[1]	0.27	0.34	0.50

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

Annual Operating Results

EBITDA attributable to AutoCanada shareholders for the year ended December 31, 2016 increased by $4.7 million or 5.2% to $94.5 million, from $89.8 million when compared to the results of the Company for the same period in the prior year. The increase in EBITDA attributable to AutoCanada shareholders for the year is due to increased momentum in the second half of 2016 compared to the economic decline experienced in the prior year. Adjusted EBITDA attributable to AutoCanada shareholders for the year ended December 31, 2016 decreased by $5.2 million or 5.5% from $94.0 million to $88.8 million when compared to the results of the Company in the prior year.

The following table illustrates EBITDA and adjusted EBITDA attributable to AutoCanada shareholders for the year ended December 31, for the last three years:

(in thousands of dollars)	2016	2015	2014
Period from January 1 to December 31			
Net earnings attributable to AutoCanada shareholders	2,596	22,821	53,132
Impairment (recovery) of intangible assets and goodwill	51,180	18,126	(1,767)
Income taxes	5,826	16,171	17,162
Depreciation of property and equipment	18,432	17,863	13,072
Interest on long-term indebtedness	16,452	14,857	7,835
EBITDA attributable to AutoCanada shareholders[1]	94,486	89,838	89,434
Add back:			
Share-based compensation attributed to changes in share price	(75)	(272)	(291)
Revaluation of redemption liabilities	(765)	4,329	-
Revaluation of contingent consideration	(4,840)	149	-
Unrealized loss (gain) on embedded derivative	3	(42)	18
Adjusted EBITDA attributable to AutoCanada shareholder[1]	88,809	94,002	89,161

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

For the year ended December 31, 2016, pre-tax earnings attributable to AutoCanada shareholders declined by $30.6 million or 78.4% to $8.4 million from $39.0 million in the same period of the prior year. Net earnings attributable to AutoCanada shareholders decreased by $20.2 million or 88.6% to $2.6 million in the year ended December 31, 2016 from $22.8 million when compared to the prior year due to the impairment of intangible assets and goodwill recognized during the year.

Income tax expense attributable to AutoCanada shareholders dropped by $10.4 million to $5.8 million in the year ended December 31, 2016 from $16.2 million in the same period of 2015.

Adjusted net earnings attributable to AutoCanada shareholders declined by $0.4 million or 1.0% to $39.9 million in 2016 from $40.3 million in the prior year.

The following table reconciles net earnings to adjusted net earnings for the year ended December 31:

(in thousands of dollars)	2016	2015	2014
Net earnings attributable to AutoCanada shareholders	2,596	22,821	53,132
Add back:			
Impairment (recovery) of intangible assets and goodwill, net of tax	42,987	13,286	(1,310)
Share-based compensation attributed to changes in share price, net of tax	(55)	(200)	(216)
Revaluation of redemption liabilities	(765)	4,329	-
Revaluation of contingent consideration	(4,840)	149	-
Unrealized loss (gain) on embedded derivative	3	(42)	18
Adjusted net earnings attributable to AutoCanada shareholders[1]	39,926	40,343	51,624
Weighted average number of shares - Basic	27,350,555	24,574,022	23,018,588
Weighted average number of shares - Diluted	27,455,686	24,674,083	23,149,776
Adjusted net earnings per share attributable to AutoCanada shareholders - Basic[1]	1.46	1.64	2.24
Adjusted net earnings per share attributable to AutoCanada shareholders - Diluted[1]	1.45	1.64	2.23

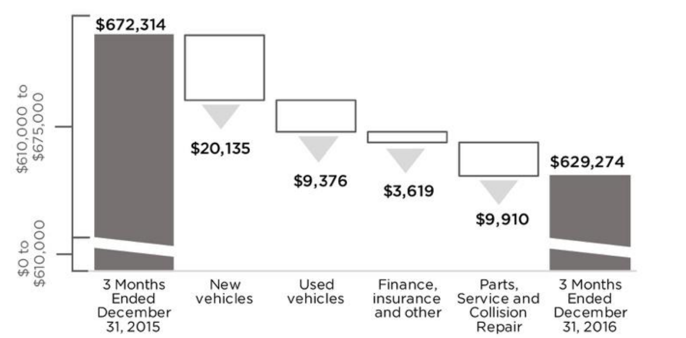
1) *This financial measure is identified and defined under the section "NON-GAAP MEASURES".*

Revenues

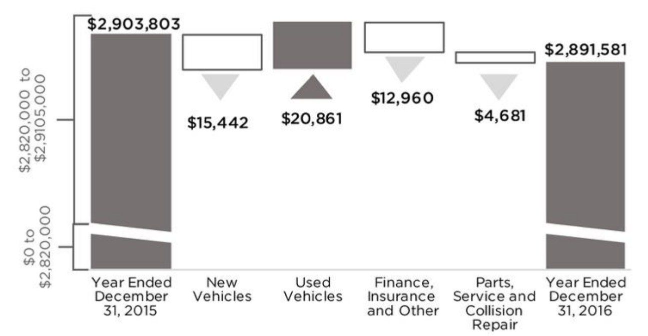
The following table summarizes revenue for the three months and year ended December 31:

	Three Months Ended December 31			Year Ended December 31		
	2016	**2015**	**Change**	**2016**	**2015**	**Change**
	$	**$**	**$**	**$**	**$**	**$**
New vehicles	348,107	368,242	(20,135)	1,652,795	1,668,237	(15,442)
Used vehicles	157,724	167,100	(9,376)	725,430	704,569	20,861
Finance, insurance and other	31,133	34,752	(3,619)	130,423	143,383	(12,960)
Parts, service and collision repair	92,310	102,220	(9,910)	382,933	387,614	(4,681)
	629,274	672,314	(43,040)	2,891,581	2,903,803	(12,222)

Q4 2016 Revenue Changes by Business Line



Full Year 2016 Revenue Changes



New vehicles

New vehicle revenue declined by 5.5% due to a 761 unit or 8.3% drop in volume which was partly offset by a $1,218 or 3.0% increase in revenue per unit for the quarter compared to Q4 2015. New vehicle revenue for the year decreased by 0.9% to $1,652.8 million, despite selling 2,425 fewer new units in 2016. The decreased volume was offset by a $1,995 or 5.1% increase in revenue per unit. The challenging economic environment in our markets in western Canada was largely responsible for the weakness in new vehicle demand. Further complicating the sale of new units is the difficulty in securing adequate inventories of light duty trucks.

Used vehicles

Used vehicle unit sales decreased by 9.7% or 477 units in the fourth quarter compared to the same period in 2015 resulting in a decline of 5.6% in used vehicle revenue. Used vehicle revenue for the year increased by 3.0% to $725.4 million, despite selling 781 fewer units in 2016. Used vehicle revenue for the quarter and the year benefited from increases in per unit revenue of $1,514 and $2,450 respectively.

Finance, insurance and other

Finance, insurance and other revenue is dependent on unit sales, especially new vehicles. Lower new and used car unit sales reduced finance, insurance and other revenue by 10.4% for the quarter compared to Q4 2015, and 9.0% for the year compared to same period of the prior year.

Year-over-year finance, insurance and other revenue decreased by 9.0% in conjunction with a new retail vehicle unit sales decline of 5.5%.

Parts, service and collision repair

The decrease in revenue in the quarter from parts, service and collision repair is due to a quarterly decline in repair orders of 13,354, and a decrease in revenue per order of $18 compared to Q4, 2015.

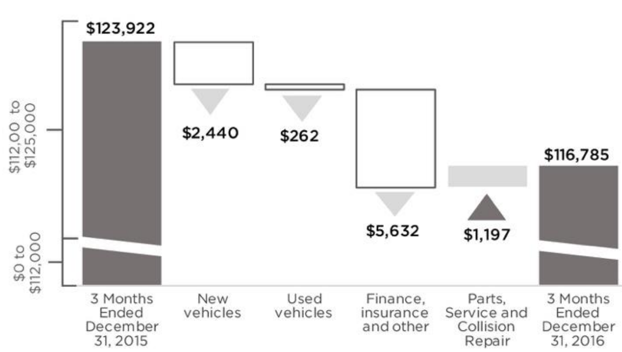
The decrease in revenue in the year from parts, service and collision repair is due to a decrease in revenue per order of $14 offset by an increase in repair orders of 16,268, when compared to the same period of the prior year.

Gross Profit

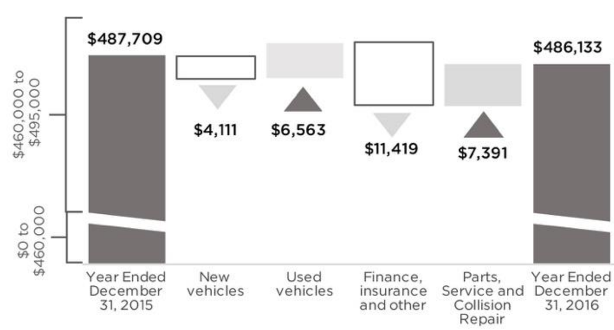
The following table summarizes gross profit for the three months and year ended December 31:

	Three Months Ended December 31			Year Ended December 31		
	2016	2015	Change	2016	2015	Change
	$	$	$	$	$	$
New vehicles	25,042	27,482	(2,440)	118,297	122,408	(4,111)
Used vehicles	10,064	10,326	(262)	47,192	40,629	6,563
Finance, insurance and other	28,722	34,354	(5,632)	119,385	130,804	(11,419)
Parts, service and collision repair	52,957	51,760	1,197	201,259	193,868	7,391
	116,785	123,922	(7,137)	486,133	487,709	(1,576)

Q4 2016 Gross Profit Changes by Business Line



Full Year 2016 Gross Profit Changes by Business Line



New vehicles

The decrease in gross profit in the quarter from new vehicles is due to a quarterly decline in new vehicles sold of 761, and decreased gross profit per unit of $20 compared to Q4, 2015.

The decline in gross profit in the year from new vehicles is due to a decline in new vehicles sold of 2,425, offset by an increase in gross profit per unit of $72 compared to the same period of the prior year. The decrease in units sold is a result of continued weakness in our key markets of Alberta and the interior of British Columbia.

Used vehicles

The decrease in gross profit in the quarter from used vehicles is due to a quarterly decline in used vehicles sold of 477, offset by an increase in gross profit per unit of $165 compared to Q4, 2015.

The increase in gross profit in the year from used vehicles is due to an increase in gross profit per unit of $416, offset by a decline in used vehicles sold of 781 compared to the same period of the prior year. Used vehicle gross profits increased year to date, as a result of increased gross profit per vehicle. This stems from management's focus on tightening inventory, decreasing the length of time that inventory is on hand and increasing turnover. By decreasing the length of time used inventory is available for sale and selling slow-moving inventory at wholesale auctions earlier, we are able to make room on dealership lots to focus on higher quality inventory.

Finance, insurance and other

Finance, insurance and other revenue is dependent on unit sales, especially new vehicles. Lower new and used car unit sales reduced finance, insurance and other gross profit by 16.4% for the quarter compared to Q4 2015, and 8.7% for the year compared to same period of the prior year.

Year-over-year finance, insurance and other gross profit dropped by 8.7% in conjunction with a new retail vehicle unit sales decrease of 5.5%.

Parts, service and collision repair

The increase in revenue in the quarter from parts, service and collision repair is due to an increase in revenue per order of $20, offset by a quarterly decline in repair orders of 13,354 compared to Q4, 2015.

The increase in revenue in the year from parts, service and collision repair is due to an increase in revenue per order of $4 and an increase in repair orders of 16,268 compared to the same period of the prior year.

Operating Expenses

Operating costs consist of four major categories:

Employee costs

Employee costs are the costs associated with employing staff both at the dealerships and at AutoCanada's head office. Dealership employees are largely commission based, resulting in employee costs being largely variable in nature. Our dealership pay structures are tied to meeting sales objectives, maintaining customer satisfaction indices, as well as improving gross profit and net income. There is a balance between reducing staffing levels as a result of business contraction, and maintaining high-performing staff. Due to the competitive nature of the retail automotive industry, additional measures are employed to ensure that the high performing staff are maintained during downtimes. As a result, any drop in gross profit may not be met with a matched decrease in employee costs.

Administrative costs

Administrative costs comprise the remaining costs of running our dealerships. Advertising, utilities, service shop consumables, information processing, insurance, and consulting costs comprise a significant portion of the administrative costs. Administrative costs can be either fixed or variable in nature.

The Company operates a centralized marketing department and information technology departments, both of which provide services to the dealerships in order to leverage the size of the group as a means to lower the operating costs of the dealerships.

Facility lease costs

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

Depreciation of property and equipment

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

Since many operating expenses are variable in nature, Management considers operating expenses as a percentage of gross profit to be a good indicator of expense control. The following tables summarize operating expenses as a percentage of gross profit. When evaluated, operating expenses are broken into their fixed and variable components. Fixed expenses are costs that do not fluctuate with changes in sales volume while variable expenses are costs that vary depending on sales volume.

Operating expenses as a % of Gross Profit	Three Months Ended December 31			Year Ended December 31		
	2016	**2015**	**Change**	**2016**	**2015**	**Change**
Employee costs before management transition costs	51.1%	49.4%	1.7%	50.7%	50.4%	0.3%
Management transition costs	-%	-%	-%	0.5%	-%	0.5%
Administrative costs - Variable	18.0%	18.8%	(0.8)%	17.4%	17.8%	(0.4)%
Total Variable Expenses	69.1%	68.2%	0.9%	68.6%	68.2%	0.4%
Administrative costs - Fixed	5.0%	4.3%	0.7%	4.9%	4.6%	0.3%
Facility lease costs	5.1%	5.1%	-%	4.8%	4.5%	0.3%
Depreciation of property and equipment	4.2%	4.2%	-%	4.1%	3.9%	0.2%
Total fixed expenses	14.3%	13.6%	0.7%	13.8%	13.0%	0.8%
Total operating expenses	83.4%	81.8%	1.6%	82.4%	81.2%	1.2%

Variable Expenses

Employee costs have increased in the quarter due to the additional costs of three dealerships which were acquired in Q4 2015. Management transition costs relate to the management transition announced on March 17, 2016 which occurred in Q2, 2016.

Variable administrative costs declined for both the quarter and the year ended December 31, 2016, as a percentage of gross profit. The decline is a result of our increased focus on cost control over the year.

Fixed Expenses

Fixed administrative costs increased, for both the quarter and year to date, as a percentage of gross profit. The increase is mainly attributable to the increase in property taxes on new property ownership during the year due to two dealership acquisitions in Q4 2016. Facility lease costs and depreciation of property and equipment remained constant for the quarter and year to date, as a percentage of gross profit.

Impairment of intangible assets and goodwill

The Company has a number of franchise agreements for its individual dealerships which it classifies as intangible assets. These intangible assets are tested for impairment at least annually, or more frequently if events or changes in circumstances indicate that they may be impaired. During the third quarter, the Company concluded that an interim test for certain cash generating units (dealerships) was required. As a result of the test performed, the Company recorded an impairment of $54.1 million of intangible assets and goodwill (December 31, 2015 - $18.8 million), as certain cash generating units had actual results that fell short of previous estimates and the outlook for these markets is less robust. Of total impairment, $45.0 million was related to intangible assets impairment and $9.1 million was related to goodwill impairment.

Under IFRS, previously recognized impairment charges, with the exception of impairment charges related to goodwill, may be reversed if the circumstances causing the impairment have improved or are no longer present. If such circumstances change, a new recoverable amount will be calculated and all or part of the impairment charge will be reversed to the extent the recoverable amount exceeds carrying value.

The Company performed a test for all cash generating units for the year ended December 31, 2016. As a result of the test, the Company did not identify any further impairments or recoveries of impairment for the year ended December 31, 2016.

Income Taxes

The following table summarizes income taxes for the three months and year ended December 31:

	Three Months Ended December 31			Year Ended December 31		
	2016	**2015**	**Change**	**2016**	**2015**	**Change**
	$	**$**	**$**	**$**	**$**	**$**
Current tax	(6,157)	(28,279)	22,122	12,316	19,290	(6,974)
Deferred (Recovery of) tax	9,144	17,025	(7,881)	(3,741)	(1,499)	(2,242)
Income tax expense	2,987	(11,254)	(8,267)	8,575	17,791	(9,216)

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual rates used for the year ended December 31, 2016 was 27.2% (December 31, 2015 - 28.2%).

In the year ending December 31, 2016, the Company paid approximately $9.4 million in 2016corporate income taxes and 2017 tax installments. The impairment charge recorded during the year resulted in $9,479 in deferred tax recoveries for the year ended December 31, 2016. The impairment of these assets are non-tax deductible expenses, causing a variance between net income for tax purposes and net income as reported on the Consolidated Statement of Comprehensive Income.

Finance Costs

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

For the quarter ended December 31, 2016, finance costs on our revolving floorplan facilities increased by 9.8% to $3.2 million from $3.0 million compared to Q4 2015, mainly due to increased inventory as a result of two dealership acquisitions completed in the fourth quarter of 2016 along with dealerships acquired mid-way through 2015.

For the year ended December 31, 2016, finance costs on our revolving floorplan facilities decreased by 5.7% to $12.4 million from $13.2 million in the same period of the prior year. Finance costs on long term indebtedness increased by 10.7% compared to the prior year.

Some of our manufacturers provide non-refundable credits on the finance costs for our revolving floorplan facilities to offset the dealership’s cost of inventory that, on average, effectively provide the dealerships with interest-free floorplan financing for the first 45 to 60 days of ownership of each financed vehicle.

Accounting standards require the floorplan credits be accounted for as a reduction in the cost of new vehicle inventory and subsequently a reduction in the cost of sales as vehicles are sold.

Management believes that a comparison of floorplan financing costs to floorplan credits can be used to evaluate the efficiency of our new vehicle sales relative to stocking levels.

The following table details the carrying cost of vehicles based on floorplan interest net of floorplan assistance earned:

	Three Months Ended December 31			Year Ended December 31		
(in thousands of dollars)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Floorplan financing	3,247	2,956	291	12,408	13,160	(752)
Floorplan credits earned	(3,860)	(3,607)	(253)	(14,634)	(14,853)	219
Net carrying cost of vehicle inventory	(613)	(651)	38	(2,226)	(1,693)	(533)

8. SAME STORES RESULTS

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

The dealerships which have been acquired over the past two years are integrating well into their respective platforms and within the Company. Eleven dealerships have been added to same stores in the fourth quarter of 2016. While management is satisfied with the integration of dealerships, 11 of 17 dealerships that have been added to same store in 2016 are located in Alberta. As a result same store sales will be further impacted by the depressed economy Alberta is currently experiencing.

Number of Same Stores by Province

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

	British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	Atlantic	Total
FCA	3	6	1	1	-	-	2	13
Hyundai	2	4	-	-	2	-	-	8
Volkswagen	3	2	-	1	-	-	-	6
Nissan/Infiniti	1	3	-	-	-	-	-	4
Audi	-	-	-	1	-	-	-	1
Mitsubishi	-	2	-	-	-	-	-	2
General Motors	1	3	2	1	-	-	-	7
Subaru	-	1	-	-	-	-	-	1
KIA	-	1	-	-	-	-	-	1
BMW	-	-	-	-	-	1	-	1
Total	10	22	3	4	2	1	2	44

Same Store Revenue and Vehicles Sold

	Three Months Ended December 31			Year Ended December 31		
(in thousands of dollars)	**2016**	**2015**	**% Change**	**2016**	**2015**	**% Change**
Revenue Source						
New vehicles - Retail	244,096	269,056	(9.3)%	1,106,413	1,214,938	(8.9)%
New vehicles - Fleet	26,656	27,764	(4.0)%	228,812	213,173	7.3%
Total New vehicles	270,752	296,820	(8.8)%	1,335,225	1,428,111	(6.5)%
Used vehicles - Retail	93,480	109,899	(14.9)%	411,122	460,237	(10.7)%
Used vehicles - Wholesale	37,223	39,347	(5.4)%	204,470	164,747	24.1%
Total Used vehicles	130,703	149,246	(12.4)%	615,592	624,984	(1.5)%
Finance, insurance and other	27,240	28,345	(3.9)%	112,961	128,270	(11.9)%
Subtotal	428,695	474,411	(9.6)%	2,063,778	2,181,365	(5.4)%
Parts, service and collision repair	72,273	82,311	(12.2)%	305,771	328,312	(6.9)%
Total	500,968	556,722	(10.0)%	2,369,549	2,509,677	(5.6)%
New retail vehicles sold	5,924	6,621	(10.5)%	26,333	30,437	(13.5)%
New fleet vehicles sold	730	1,016	(28.1)%	6,415	6,688	(4.1)%
Used retail vehicles sold	3,791	4,287	(11.6)%	16,840	18,238	(7.7)%
Total	10,445	11,924	(12.4)%	49,588	55,363	(10.4)%
Total vehicles retailed	9,715	10,908	(10.9)%	43,173	48,675	(11.3)%

Revenues - Same Store Analysis

Same store revenue declined by $55.8 million or 10.0%, and $140.1 million or 5.6%, for the three month period and the year ended December 31, 2016 respectively when compared to the same period in the prior year.

Same store new vehicle revenues decreased by $26.1 million or 8.8% for the fourth quarter of 2016 over the prior year due to a drop in new vehicle sales of 983 units or 12.9% offset by an increase in the average revenue per new vehicle sold of $1,824 or 4.7%. Same store new vehicle revenues decreased by $92.9 million or 6.5% for the year ended December 31, 2016 over the same period in the prior year due to a decrease in new vehicle sales of 4,377 units or 11.8% offset by an increase in the average revenue per new vehicle sold of $2,305 or 6.0%.

Same store used vehicle revenues decreased by $18.5 million or 12.4% for the three month period ended December 31, 2016 over the same period in the prior year due to a decrease in used sales of 496 units or 11.6% and a decrease in the average revenue per used vehicle sold of $337 or 1.0%. For the year ended December 31, 2016, used vehicle revenues decreased by $9.4 million or 1.5% due to a decrease in used vehicle sales of 1,398 units or 7.7%, offset by an increase in the average revenue per used vehicle sold of $2,287 or 6.7%.

Same store parts, service and collision repair revenue decreased by $10.0 million or 12.2% for the fourth quarter of 2016 compared to the prior period and was primarily a result of a decrease in overall repair orders completed of 10,231 and a $31 or 7.1% decrease in the average revenue per repair order completed. For the year ended December 31, 2016, parts, service and collision repair revenue decreased by $22.5 million or 6.9%, mainly due to a $18 or 4.0% decrease in the average revenue per repair order completed and a decrease in overall repair orders completed of 21,577.

Same store finance, insurance and other revenue decreased by $1.1 million or 3.9% for the three month period ended December 31, 2016 over the same period in 2015. This was due to a drop in the number of new and used vehicles retailed of 1,193 units, offset by an increase in the average revenue per unit retailed of $614 or 24.6%. For the year ended December 31, 2016, same store finance, insurance and other revenue dropped by $15.3 million or 11.9% over the same period in 2015 mainly due to a decrease in the number of new and used vehicles retailed of 5,502 units, offset by an increase in the average revenue per unit retailed of $31 or 1.2%.

Same Store Gross Profit and Gross Profit Percentage

	Three Months Ended December 31				
	Gross Profit			Gross Profit %	
(in thousands of dollars)	2016	2015	% Change	2016	2015
Revenue Source					
New vehicles - Retail	17,844	20,947	(14.8)%	7.3%	7.8%
New vehicles - Fleet	2,181	1,760	23.9%	8.2%	6.3%
Total New vehicles	20,025	22,707	(11.8)%	7.4%	7.7%
Used vehicles - Retail	7,404	8,090	(8.5)%	7.9%	7.4%
Used vehicles - Wholesale	797	814	(2.1)%	2.1%	2.1%
Total Used vehicles	8,201	8,904	(7.9)%	6.3%	6.0%
Finance, insurance and other	25,030	26,712	(6.3)%	91.9%	94.2%
Subtotal	53,256	58,323	(8.7)%	12.4%	12.3%
Parts, service and collision repair	41,328	42,081	(1.8)%	57.2%	51.1%
Total	94,584	100,404	(5.8)%	18.9%	18.0%

	Year Ended December 31				
	Gross Profit			Gross Profit %	
(in thousands of dollars)	2016	2015	% Change	2016	2015
Revenue Source					
New vehicles - Retail	89,997	98,492	(8.6)%	8.1%	8.1%
New vehicles - Fleet	6,566	6,763	(2.9)%	2.9%	3.2%
Total New vehicles	96,563	105,255	(8.3)%	7.2%	7.4%
Used vehicles - Retail	35,650	34,072	4.6%	8.7%	7.4%
Used vehicles - Wholesale	3,914	2,073	88.8%	1.9%	1.3%
Total Used vehicles	39,564	36,145	9.5%	6.4%	5.8%
Finance, insurance and other	103,311	117,634	(12.2)%	91.5%	91.7%
Subtotal	239,438	259,034	(7.6)%	11.6%	11.9%
Parts, service and collision repair	162,728	166,221	(2.1)%	53.2%	50.6%
Total	402,166	425,255	(5.4)%	17.0%	16.9%

Gross Profit Same Store Analysis

Same store gross profit decreased by $5.8 million or 5.8% and $23.1 million or 5.4% for the three month period and the year ended December 31, 2016 respectively when compared to the same period in the prior year.

Same store new vehicle gross profit declined by $2.7 million or 11.8% in the three month period ended December 31, 2016 when compared to 2015 as a result of a decrease in new vehicle sales of 983 units or 12.9%, offset by an increase in the average gross profit per new vehicle sold of $36 or 1.2%. For the year ended December 31, 2016, new vehicle gross profit decreased by $8.7 million or 8.3% which can be mainly attributed to a decrease in new vehicle sales of 4,377 units or 11.8% offset by an increase in the average gross profit per new vehicle sold of $114 or 4.0%.

Same store used vehicle gross profit dropped by $0.7 million or 7.9% in the three month period ended December 31, 2016 over the prior year. This was due to a decrease in the number of used vehicles sold of 496 units offset by an increase in the average gross profit per used vehicle retailed of $86 or 4.1%. For the year ended December 31, 2016, same store used vehicle gross profits increased by $3.4 million or 9.5% which was mainly due to an increase in the average gross profit per vehicle retailed of $367 or 18.5% offset by a decrease in the number of vehicles retailed of 1,398 units.

Same store parts, service and collision repair gross profit decreased by $0.8 million or 1.8% in the three month period ended December 31, 2016 when compared to the same period in the prior year as a result of a decrease in the number of repair orders completed of 10,231, offset by an increase in the average gross profit per repair order completed of $9 or 4.0%. For the year ended December 31, 2016, parts, service and collision repair gross profit decreased by $3.5 million or 2.1% which can be mainly attributed to a decrease in the number of repair orders completed of 21,577, offset by an increase in the average gross profit per repair order completed of $2 or 0.9%.

Same store finance, insurance and other gross profit decreased by $1.7 million or 6.3% in the three month period ended December 31, 2016 when compared to the prior year as a result a decrease in units retailed of 1,193, offset by an increase in the average gross profit per unit sold of $340. For the year ended December 31, 2016, finance and insurance gross profit decreased by $14.3 million or 12.2% and can be attributed to a decrease in units retailed of 5,502, offset by an increase in the average gross profit per unit sold of $22.

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

	Three Months Ended December 31			Year Ended December 31		
(in thousands of dollars)	**2016**	**2015**	**% Change**	**2016**	**2015**	**% Change**
British Columbia	105,839	120,575	(12.2)%	533,986	545,182	(2.1)%
Alberta	226,407	271,453	(16.6)%	1,068,598	1,206,605	(11.4)%
Manitoba	42,626	41,512	2.7%	182,282	181,265	0.6%
Ontario	14,555	14,057	3.5%	67,293	61,075	10.2%
Other	111,541	109,125	2.2%	517,390	515,550	0.4%
Total	500,968	556,722	(10.0)%	2,369,549	2,509,677	(5.6)%

The following table summarizes same store total gross profit for the three months and year ended December 31, 2016 by Province:

	Three Months Ended December 31			Year Ended December 31		
(in thousands of dollars)	**2016**	**2015**	**% Change**	**2016**	**2015**	**% Change**
British Columbia	18,842	19,213	(1.9)%	84,370	85,214	(1.0)%
Alberta	46,599	49,409	(5.7)%	192,859	210,644	(8.4)%
Manitoba	7,664	8,250	(7.1)%	33,789	33,706	0.2%
Ontario	2,467	2,325	6.1%	9,845	8,591	14.6%
Other	19,012	21,207	(10.4)%	81,303	87,100	(6.7)%
Total	94,584	100,404	(5.8)%	402,166	425,255	(5.4)%

9. ACQUISITIONS, RELOCATIONS AND REAL ESTATE

Dealership Operations and Expansion

AutoCanada's goals are to maximize the profit potential of every store and to generate incremental growth through accretive acquisitions. In 2016 we acquired two stores, and opened a Volkswagen open point in early 2017, bringing the total number of dealerships we operate to 56, representing 64 franchises.

Wellington Motors

Effective October 1, 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. On October 14, 2016, the Company also purchased the dealership land and facilities through a wholly-owned subsidiary, WMG Properties Inc., for $6,799. The acquisition was funded by drawing on the Company's revolving term facility. In 2015, the dealership retailed 968 new vehicles and 402 used vehicles.

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 $9,548. The acquisition was funded by drawing on the Company's revolving term facility. In 2015, the dealership retailed 673 new vehicles and 173 used vehicles.

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

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

Dealership divestiture

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

Dealership Loan Financing – Southview Acura

On May 1, 2016, the Company made a second loan, for $3,120, to PPH Holdings Ltd. ("PPH") to acquire Southview Acura ("Southview"). The Company holds no ownership interest in PPH, which is a company controlled, and formed, by Mr. Patrick Priestner ("Priestner"). The Company has no participation in the equity of PPH or Southview Acura. PPH's principal place of business is Alberta, Canada. Although the Company holds no voting rights in PPH, the Company exercises significant influence by virtue of the existence of its loan and the provision of essential technical information required for operations, as well as through the relationship with Priestner, as AutoCanada's Chair of the Board of Directors. However, the Company does not have the power to make or block key decisions under the terms of the underlying agreements. As a result, the Company accounts for its loan to PPH under the effective interest method and it is carried at amortized cost.

Dealership Open Points

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

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

Volkswagen – Sherwood Park, Alberta

In February 2014, the Company announced that it had been awarded the right to a Volkswagen Open Point dealership in Sherwood Park, Alberta. The Company has constructed an approximately 45,000 square foot facility in Sherwood Park, designed to Volkswagen Canada image standards. The dealership opened on February 1, 2017. The Volkswagen Open Point has a planning potential of 800 new vehicles annually which the Company anticipates achieving in two to three years of operation.

Nissan – Calgary, Alberta

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

Nissan - Ottawa, Ontario

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

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.

Capital Plan

The Company maintains a capital plan for contemplated future capital projects. Details of the capital plan are described below:

Dealership Relocations

Management estimates the total capital requirements of currently planned dealership relocations to be approximately $70.6 million to the end of 2020. The Company expects dealership relocations to provide long term earnings sustainability and result in significant improvements in revenues and overall profitability. Management continually updates its capital plan and as such, the estimates provided may vary as delays occur or projects are added or removed.

Current Dealership Expansion and Imaging Requirements

The Company has identified approximately $56.4 million in capital costs that it may incur in order to expand or renovate various current locations through to the end of 2021. The Company is required by its manufacturers to undertake periodic imaging upgrades to its facilities. Included above are the estimated costs and timing related to the re-imaging requirements by Hyundai Canada. The Company expects re-imaging to attract more customers to its dealerships.

Open Point Opportunities

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

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

(in millions of dollars)	2017	2018	2019	2020	2021	Total
Same Store						
Dealership Relocations	22.3	13.3	33.1	1.8	-	70.5
Current Dealership Expansion and Imaging Requirements	3.3	10.6	-	3.0	9.5	26.4
Capital Plan	25.6	23.9	33.1	4.8	9.5	96.9
Cash Outlay[1]	17.3	11.8	21.1	4.8	9.5	64.5
Non Same Store						
Dealership Relocations	0.1	-	-	-	-	0.1
Current Dealership Expansion and Imaging Requirements	5.2	5.0	4.0	8.0	7.8	30.0
Open Point Opportunities	8.1	6.4	2.1	1.7	-	18.3
Capital Plan	13.4	11.4	6.1	9.7	7.8	48.4
Cash Outlay[1]	13.4	11.4	6.1	9.7	7.8	48.4
Total Capital Plan	39.0	35.3	39.2	14.5	17.3	145.3
Total Cash Outlay[1]	30.7	23.2	27.2	14.5	17.3	112.9

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

During the year, the Company re-examined its planned capital expenditures and has reduced its capital budget. At December 31, 2015, the four year capital plan was $193.8 million. As a result of increased focus on reducing capital expenditures, the five year capital plan at December 31, 2016 is $145.3 million.

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

10. LIQUIDITY AND CAPITAL RESOURCES

Our principal uses of funds are for capital expenditures, repayment of debt, funding the future growth of the Company and paying dividends to Shareholders. We have historically met these requirements by using cash generated from operating activities and through short-term and long-term indebtedness.

Under our franchise agreements, manufacturers require us to maintain a minimum level of working capital. We maintain working capital in excess of manufacturer requirements which may be used for capital expenditures. The Company's analysis of its available capital based on the balance sheet at December 31, 2016 is as follows:

- The Company had drawn $151.1 million on its $250.0 million revolving term facility.

As a result of the above, as at December 31, 2016, the Company currently has approximately $98.9 million in readily available liquidity, not including future retained cash from operations that it may deploy for growth expenditures including acquisitions.

Cash Flow from Operating Activities

Cash flow from operating activities (including changes in non-cash working capital) of the Company for the year ended was $104.7 million (cash provided by operating activities of $76.1 million plus net change in non-cash working capital of $28.6 million) compared to $52.8 million (cash provided by operating activities of $51.5 million plus net change in non-cash working capital of $1.3 million) in the same period of the prior year.

Cash Flow from Investing Activities

For the year ended December 31, 2016, cash flow from investing activities of the Company was a net outflow of $100.9 million as compared to a net outflow of $165.7 million in the same period of the prior year. This is tied to the decreased acquisition activity in 2016 compared to 2015 resulting in less payments for property and equipment, and business acquisition costs.

Cash Flow from Financing Activities

For the year ended December 31, 2016, cash flow from financing activities was a net inflow of $37.8 million as compared to a net inflow of $104.0 million in the same period of 2015. This is primarily due to proceeds from issuance of common shares in 2015 that did not occur in 2016.

Credit Facilities and Floor Plan Financing

Details of the Company's credit facilities and floorplan financing are included in Note 28 of the annual audited consolidated financial statements for the year ended December 31, 2016.

Key Financial Covenants

The Company is required by its debt agreements to comply with several financial covenants. As a result of the amendment to the revolving term facility, the calculation of the financial covenants for our senior secured leverage ratio, adjusted total leverage ratio, and our fixed charge coverage ratio on our syndicated revolver have changed in the year. These changes have resulted in the expansion of the number and type of items that are included in the definition of EBITDA which has improved the Company's covenants. With additional EBITDA included in the calculations, the Company has additional room compared to the previous definition of EBITDA.

The following is a summary of the Company's actual performance against its financial covenants as at December 31, 2016:

Financial Covenant	Requirement	Q4 2016 New[1] Actual Calculation	Q4 2016 Prior[1] Actual Calculation	Q3 2016 New[1] Actual Calculation	Q3 2016 Prior[1] Actual Calculation
Syndicated Revolver:					
Senior Secured Leverage Ratio	Shall not exceed 2.75	1.77	1.98	1.38	1.60
Adjusted Total Leverage Ratio	Shall not exceed 5.00	4.28	4.69	4.12	4.62
Fixed Charge Coverage Ratio	Shall not be less than 1.20	2.96	2.62	2.55	2.17
Current Ratio	Shall not be less than 1.05	1.13	1.13	1.12	1.12
Syndicated Floorplan:					
Current Ratio	Shall not be less than 1.10	1.16	1.16	1.17	1.17
Tangible Net Worth (millions)	Shall not be less than $40 million	$121.9	$121.9	$90.9	$90.9
Debt to Tangible Net Worth	Shall not exceed 7.50	3.31	3.31	4.48	4.48

1) The column "New" shows the calculation based on the Company's amended revolving term facility made in the third quarter of 2016 versus "Prior" which shows the calculation prior to the amendment.

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

As at December 31, 2016, the Company is in compliance with all of its financial covenants.

Financial Instruments

Details of the Company's financial instruments, including risks and uncertainties are included in Note 25 of the annual audited consolidated financial statements for the year ended December 31, 2016.

Growth vs. Non-Growth Capital Expenditures

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

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

(in thousands of dollars)	October 1, 2016 to December 31, 2016	January 1, 2016 to December 31, 2016
Leasehold improvements	261	3,713
Machinery and equipment	644	1,661
Furniture and fixtures	158	1,288
Computer equipment	148	908
Company and lease vehicles	-	9
	1,211	7,579

Amounts relating to the expansion of sales and service capacity are considered growth expenditures. Growth expenditures are discretionary, and represent cash outlays intended to provide additional future cash flows benefit future periods. During the three month period and the year ended December 31, 2016, growth capital expenditures of $9.5 million and $56.0 million were incurred, respectively. These expenditures related primarily to land and buildings that were purchased for future dealership operations during the second and fourth quarter of 2016. Dealership relocations are included as growth expenditures if they contribute to the expansion of sales and service capacity of the dealership.

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

(in thousands of dollars)	October 1, 2016 to December 31, 2016	January 1, 2016 to December 31, 2016
Purchase of property and equipment from the Statement of Cash Flows	10,812	63,702
Purchase of property and equipment from business acquisitions	17,189	17,189
Less: Amounts related to the expansion of sales and service capacity	(26,790)	(73,312)
Purchase of non-growth property and equipment	1,211	7,579

Repairs and maintenance expenditures are expensed as incurred and have been deducted from earnings for the period. Repairs and maintenance expense incurred during the three month period and the year ended December 31, 2016, were $1.7 million and $6.2 million (2015 - $1.7 million and $6.2 million), respectively.

Planned Capital Expenditures

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

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

Financial Position

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

(in thousands of dollars)	Dec. 31, 2016	Sep. 30, 2016	Jun. 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sep. 30, 2015	Jun. 30, 2015	Mar. 31, 2015
Cash and cash equivalents	103,221	96,368	77,582	72,878	62,274	77,071	77,676	66,351
Trade and other receivables	85,587	108,363	115,427	116,092	90,821	118,853	124,683	104,753
Inventories	619,718	597,831	555,957	628,641	596,542	581,258	620,837	625,779
Total Assets	1,600,615	1,547,344	1,548,879	1,578,225	1,532,182	1,508,028	1,517,978	1,449,213
Revolving floorplan facilities	582,695	569,581	532,283	600,578	548,322	550,857	607,694	601,432
Non-current debt and lease obligations	330,351	291,408	295,922	293,273	285,759	313,073	287,202	241,929

Net Working Capital

The automobile manufacturers represented by the Company require the Company to maintain net working capital targets for each individual dealership. At December 31, 2016, the aggregate of the net working capital requirements was approximately $102.4 million. At December 31, 2016, all working capital requirements had been met by each dealership. The working capital requirements imposed by the automobile manufacturers' may limit our ability to fund capital expenditures, acquisitions, dividends, or other commitments in the future if sufficient funds are not generated by the Company. Net working capital, as defined by automobile manufacturers, may not reflect net working capital as determined using GAAP measures. As a result, it is possible that the Company may meet automobile manufacturers' net working capital requirements without having sufficient aggregate working capital using GAAP measures. The Company defines net working capital amounts as current assets less current liabilities as presented in the consolidated financial statements. The net working capital requirements above restrict the Company's ability to transfer funds up from its subsidiaries, as each subsidiary dealership is required to be appropriately capitalized as explained above. In addition, our VCCI Facilities require the VW and Audi dealerships to maintain minimum cash and equity, which also restricts our ability to transfer funds up.

Off Balance Sheet Arrangements

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

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

(in thousands of dollars)	**$**
2017	19,051
2018	16,912
2019	14,486
2020	12,520
2021	12,288
Thereafter	123,489
Total	198,746

Information regarding our contractual obligations with respect to long-term debt, capital lease obligations and other long-term obligations is included in the Liquidity Risk section of Note 25 of the Company's annual consolidated financial statements.

Related Party Transactions

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

Administrative support fees

The Company currently earns administrative support fees from companies controlled by the Chair of the Board of Directors of AutoCanada. The administrative support fees consist of a portion of human resource and fixed costs associated with providing technological and accounting support to these companies. The Company believes that providing support services to these companies provides value to both the companies supported and AutoCanada. By providing support, AutoCanada is able to reduce its overall fixed costs associated with accounting and information technology.

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

Loan to related parties

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

11. OUTSTANDING SHARES

As at December 31, 2016, the Company had 27,459,683 common shares outstanding. Basic and diluted weighted average number of shares outstanding for the year ended December 31, 2016 were 27,350,555 and 27,455,686, respectively. As at December 31, 2016, the value of the shares held in trust was $1.8 million (2015 – $1.3 million) which was comprised of 103,244 (2015 - 70,933) in shares with a nil aggregate cost. As at March 16, 2017, there were 27,459,683 shares issued and outstanding.

12. DIVIDENDS

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

The following table summarizes the dividends declared by the Company in 2016:

Record date	Payment date	Per Share $	Total $
February 29, 2016	March 15, 2016	0.25	6,840
May 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
		0.55	15,046

On February 21, 2017 the Board declared a quarterly eligible dividend of $0.10 per common share on AutoCanada's outstanding Class A shares, payable on March 15, 2017 to shareholders of record at the close of business on February 28, 2017.

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

13. FREE CASH FLOW

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

(in thousands of dollars, except unit and per unit amounts)	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Cash provided by operating activities	24,930	32,594	40,374	6,831	12,420	20,139	21,004	(810)
Deduct:								
Purchase of property and equipment	(1,506)	(1,697)	(2,452)	(2,786)	(3,354)	(5,144)	(3,228)	(2,352)
Free cash flow [1]	23,424	30,897	37,922	4,045	9,066	14,995	17,776	(3,162)
Weighted average shares outstanding at end of period	27,353,431	27,347,585	27,338,767	27,362,440	25,016,637	24,440,080	24,424,598	24,409,574
Free cash flow per share	0.86	1.13	1.39	0.15	0.36	0.61	0.73	(0.13)
Free cash flow - 12 month trailing	96,288	81,930	66,028	45,882	38,675	69,431	60,695	52,780

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

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

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

(in thousands of dollars)	January 1, 2016 to December 31, 2016	January 1, 2015 to December 31, 2015
Trade and other receivables	8,031	1,939
Inventories	(8,765)	(3,584)
Finance lease receivables	1,014	3,271
Other current assets	150	(1,761)
Trade and other payables	2,670	3,959
Revolving floorplan facilities	20,535	(2,867)
Vehicle repurchase obligations	4,948	307
	28,583	1,264

Adjusted Free Cash Flow

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

(in thousands of dollars, except unit and per unit amounts)	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Cash provided by operating activities before changes in non-cash working capital	14,344	28,996	24,050	8,754	11,242	23,082	22,386	(5,221)
Deduct:								
Purchase of non-growth property and equipment	(1,211)	(1,230)	(2,418)	(2,719)	(3,164)	(4,131)	(3,199)	(2,199)
Adjusted free cash flow [1]	13,133	27,766	21,632	6,035	8,078	18,951	19,187	(7,420)
Weighted average shares outstanding at end of period	27,353,431	27,347,585	27,338,767	27,362,440	25,016,637	24,440,080	24,424,598	24,409,574
Adjusted free cash flow per share	0.48	1.02	0.79	0.22	0.32	0.78	0.79	(0.30)
Adjusted free cash flow - 12 month trailing	68,566	63,511	54,696	52,251	38,796	47,840	51,002	47,316

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

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

In the year ending December 31, 2016, the Company paid approximately $9.4 million in 2016 corporate income taxes and 2017 tax installments, which reduced our adjusted free cash flow by this amount. The Company expects the payment of corporate income taxes to have a more significant negative affect on free cash flow and adjusted free cash flow. See "RESULTS FROM OPERATIONS – Income Taxes" for further detail regarding the impact of corporate income taxes on cash flow.

Adjusted Return on Capital Employed

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

(in thousands of dollars, except unit and per unit amounts)	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
EBITDA[1,2]	28,536	26,915	30,845	21,010	23,524	29,487	30,730	13,890
Deduct:								
Depreciation of property and equipment	(4,921)	(4,860)	(4,822)	(4,954)	(5,176)	(5,063)	(4,461)	(4,160)
EBIT[1,2]	23,615	22,055	26,023	16,056	18,348	24,424	26,269	9,730
Average long-term debt	333,310	315,678	310,281	300,520	312,471	314,443	277,571	239,251
Average shareholder's equity	491,026	503,163	516,513	510,595	481,112	447,774	439,711	436,262
Average capital employed[1]	824,336	818,841	826,794	811,115	793,583	762,217	717,282	675,513
Return on capital	2.9%	2.7%	3.1%	2.0%	2.3%	3.2%	3.7%	1.4%
Comparative adjustment[3]	25,959	(13,191)	(13,191)	(13,191)	(13,191)	(17,264)	(17,264)	(17,264)
Adjusted average capital employed[1]	830,720	805,650	813,603	797,924	778,354	744,953	700,018	658,249
Adjusted return on capital employed[1]	2.8%	2.7%	3.2%	2.0%	2.4%	3.3%	3.8%	1.5%
Adjusted return on capital employed - 12 month trailing	10.9%	10.6%	11.2%	11.7%	11.2%	12.7%	15.5%	16.5%

1) These financial measures are identified and defined under the section "NON-GAAP MEASURES".
2) EBITDA and EBIT used in the calculation of Adjusted Return on Capital Employed is calculated using the financial results including non-controlling interests.
3) A comparative adjustment has been made in order to adjust for impairments and reversals of impairments of intangible assets. Due to the increased frequency of impairments and reversals of impairments, Management has provided an adjustment in order to freeze intangible assets at the pre-IFRS amount of $43,700. As a result, all differences from January 1, 2010 forward under IFRS have been adjusted at the post-tax rate at the time the adjustment to the intangible asset carrying amount was made. Management believes that the adjusted return on capital employed provides more useful information about the return on capital employed.

Management believes that Adjusted Return on Capital Employed (see "NON-GAAP MEASURES") is a good measure to evaluate the profitability of our invested capital. As a corporation, Management of AutoCanada may use this measure to compare potential acquisitions and other capital investments against our internally computed cost of capital to determine whether the investment is expected to create value for our shareholders. Management may also use this measure to look at past acquisitions, capital investments and the Company as a whole in order to ensure shareholder value is being achieved by these capital investments.

14. CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICY DEVELOPMENTS

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

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are not yet effective for the period ended December 31, 2016. A listing of the standards issued which are applicable to the Company can be found in Note 4 of the annual consolidated financial statements for the year ended December 31, 2016.

15. DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls & Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in reports filed with securities regulatory authorities is recorded, processed, summarized, and reported on a timely basis, and is accumulated and communicated to the Company's management, including the Chief Executive Office ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosure.

As of December 31, 2016, the Company's management, with participation of the CEO and CFO, evaluated the effectiveness of the design and operation of its disclosure controls and procedures, as defined in National Instrument 52-109 of the Canadian Securities Administrators, and have concluded that the Company's disclosure controls and procedures are effective.

Internal Controls over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal controls over financial reporting. These controls include policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

All control systems contain inherent limitations, no matter how well designed. As a result, the Company's management acknowledges that its internal controls over financial reporting will not prevent or detect all misstatements due to error or fraud. In addition, management's evaluation of controls can provide only reasonable, not absolute, assurance that all control issues that may result in material misstatements, if any, have been detected.

Management, under the supervision of and with the participation of the Company's CEO and CFO, evaluated the effectiveness of the Corporation's internal controls over financial reporting (as defined under national Instrument 52–109 Certification of Disclosure in Issuers' Annual and Interim Filings). In making this evaluation, management used the criteria set forth by the *Committee of Sponsoring Organizations of the Treadway Commissions* ("COSO") in *Internal Control – Integrated Framework (2013)*. Based on that evaluation, management and the CEO and CFO have concluded that, as at December 31, 2016, the Corporation's internal controls over financial reporting were effective. This evaluation took into consideration the Corporation's Corporate Disclosure Policy and the functioning of its Disclosure Policy Committee.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting during the year ended December 31, 2016.

16. RISK FACTORS

We face a number of business risks that could cause our actual results to differ materially from those disclosed in this MD&A (See "FORWARD LOOKING STATEMENTS"). Investors and the public should carefully consider our business risks, other uncertainties and potential events as well as the inherent uncertainty of forward looking statements when making investment decisions with respect to AutoCanada. If any of the business risks identified by AutoCanada were to occur, our business, financial condition, results of operations, cash flows or prospects could be materially adversely affected. In such case, the trading price of our shares could decline. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also adversely affect our business and operations. A comprehensive discussion of the known risk factors of AutoCanada and additional business risks is available in our 2016 Annual Information Form dated March 17, 2016 available on the SEDAR website at www.sedar.com.

17. FORWARD LOOKING STATEMENTS

Certain statements contained in the MD&A are forward-looking statements and information (collectively "forward-looking statements"), within the meaning of the applicable Canadian securities legislation. We hereby provide cautionary statements identifying important factors that could cause our actual results to differ materially from those projected in these forward-looking statements. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "will likely result", "are expected to", "will continue", "is anticipated", "projection", "vision", "goals", "objective", "target", "schedules", "outlook", "anticipate", "expect", "estimate", "could", "should", "plan", "seek", "may", "intend", "likely", "will", "believe", "shall" and similar expressions are not historical facts and are forward-looking and may involve estimates and assumptions and are subject to risks, uncertainties and other factors some of which are beyond our control and difficult to predict. Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. Therefore, any such forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this document.

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

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

18. NON-GAAP MEASURES

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

EBITDA

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

Adjusted EBITDA

Adjusted EBITDA is an indicator of a company's operating performance and ability to incur and service debt. The portion of share-based compensation related to changes in the share price and its impact on the Company's cash-settled portions of its share-based compensation programs, the revaluation of redemption liabilities, and the unrealized gain or loss on embedded derivatives are added back to EBITDA to get to adjusted EBITDA. The Company considers these expenses to be non-cash in nature. The Company believes adjusted EBITDA provides improved continuity with respect to the comparison of our operating results over a period of time. Adjusted EBITDA attributable to AutoCanada shareholders refers to the parent portion of consolidated financial results. Non-controlling interest (the portion of ownership not attributable to the parent) is excluded.

Adjusted net earnings and Adjusted net earnings per share

Adjusted net earnings and adjusted net earnings per share are measures of our profitability. Adjusted net earnings is calculated by adding back the after-tax effect of impairment or reversals of impairment of intangible assets, impairments of goodwill, the revaluation of redemption liabilities, the unrealized gain or loss on embedded derivatives, and the portion of share-based compensation related to changes in the share price and its impact on the Company's cash-settled portions of its share-based compensation programs. The Company considers this expense to be non-cash in nature. Adding back these amounts to net earnings allows Management to assess the net earnings of the Company from ongoing operations. Adjusted net earnings per share is calculated by dividing adjusted net earnings by the weighted-average number of shares outstanding.

EBIT

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

Free Cash Flow

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

Adjusted Free Cash Flow

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

Absorption Rate

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

Average Capital Employed

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

Adjusted Average Capital Employed

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

Return on Capital Employed

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

Adjusted Return on Capital Employed

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

Cautionary Note Regarding Non-GAAP Measures

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

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