2017

AutoCanada

Management Discussion & Analysis

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

For the year ended December 31, 2017

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1. READER ADVISORIES

This Management's Discussion & Analysis ("MD&A") was prepared as of March 15, 2018 to assist readers in understanding AutoCanada Inc.'s (the "Company" or "AutoCanada") consolidated financial performance for the year ended December 31, 2017 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, 2017. 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, 2017 of the Company, and compares these to the operating results of the Company for the three month period and year ended December 31, 2016.

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

Additional information regarding our Company, including our 2017 Annual Information Form, dated March 15, 2018, is available on SEDAR at www.sedar.com and our website www.autocan.ca. Such additional information is not incorporated by reference herein, unless otherwise specified, and should not be deemed to be made part of this MD&A.

2. 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	**2017**	**2016**	**% Change**	**2017**	**2016**	**% Change**
EBITDA attributable to AutoCanada shareholders[1,2]	28,127	25,260	11.3%	111,812	94,486	18.3%
Adjusted EBITDA attributable to AutoCanada shareholders[1,2]	21,880	19,038	14.9%	95,410	88,809	7.4%
Net earnings attributable to AutoCanada shareholders[1,2]	17,089	13,785	24.0%	57,844	2,596	2128.2%
Adjusted net earnings attributable to AutoCanada shareholders[1,2]	8,935	7,536	18.6%	42,665	39,926	6.9%
Basic EPS	0.62	0.50	24.0%	2.11	0.09	2244.4%
Adjusted diluted EPS[2]	0.33	0.27	22.2%	1.55	1.45	6.9%
Weighted average number of shares - Basic	27,389,167	27,353,431	0.1%	27,379,193	27,350,555	0.1%
Weighted average number of shares - Diluted	27,498,724	27,469,439	0.1%	27,473,995	27,455,686	0.1%
New retail vehicles sold (units)	8,444	7,590	11.3%	36,076	32,991	9.4%
New fleet vehicles sold (units)	1,378	859	60.4%	7,697	7,041	9.3%
Used retail vehicles sold (units)	4,653	4,463	4.3%	19,379	19,561	-0.9%
Total vehicles sold	14,475	12,912	12.1%	63,152	59,593	6.0%
Revenue	733,060	629,274	16.5%	3,101,560	2,891,581	7.3%
Gross Profit	125,210	116,785	7.2%	518,629	486,133	6.7%
Gross Profit %	17.1%	18.6%	-8.2%	16.7%	16.8%	-0.5%
Operating expenses	104,626	97,397	7.4%	426,253	400,417	6.5%
Operating expenses % of Gross Profit	83.6%	83.4%	0.2%	82.2%	82.4%	-0.3%
Operating Profit	26,505	20,761	27.7%	118,969	40,912	190.8%
Free cash flow	29,496	23,424	25.9%	72,213	96,288	-25.0%
Adjusted free cash flow	15,996	13,133	21.8%	90,786	68,566	32.4%
Same Store New retail vehicles sold (units)	7,196	6,845	5.1%	31,402	30,422	3.2%
Same Store New fleet vehicles sold (units)	1,349	808	67.0%	7,600	6,932	9.6%
Same Store Used retail vehicles sold (units)	4,051	4,162	-2.7%	17,233	18,560	-7.1%
Same Store Total vehicles sold	12,596	11,815	6.6%	56,235	55,914	0.6%
Same Store Revenue	647,099	582,368	11.1%	2,784,999	2,730,659	2.0%
Same Store Gross Profit	110,249	108,683	1.4%	467,030	459,984	1.5%
Same Store Gross Profit %	17.0%	18.7%	-8.7%	16.8%	16.8%	-0.4%

1 *Represents the portion attributable to AutoCanada Shareholders*
2 *These financial measures have been calculated as described under "NON-GAAP MEASURES".*

2017 Full Year Highlights

- Revenue was \$3.1 billion, up 7.3% compared with 2016. Revenue from same stores was up 2.0% year-over-year.
- Operating expenses of \$426.3 million, as a percentage of gross profit improved to 82.2% from 82.4% in 2016.
- Gross profit was \$518.6 million, up 6.7% compared with 2016, with gross profit as a percentage of revenue relatively flat at 16.7% from 16.8% in 2016.
- Sales of new vehicles were 43,773 in the year, up 9.3% over the prior year. Revenue from the sale of new vehicles was \$1.8 billion, up 10.6% from 2016. New vehicles accounted for 58.9% of the Company's total revenue and 25.3% of gross profit versus 57.2% of revenue and 24.3% of gross profit in 2016.
- Sales of used vehicles were 19,379 in 2017, down 1.0% from last year. Revenue from used vehicle sales was \$716.0 million, down 1.3% from the prior year. Used vehicles accounted for 23.1% of the Company's total revenue and

8.4% of gross profit, versus 25.1% of revenue and 9.7% of gross profit in 2016.

- Parts, service and collision repair generated $416.7 million of revenue, up 8.8% from 2016. This accounted for 13.4% of the Company's total revenue and 41.3% of its gross profit, versus 13.2% of revenue and 41.4% of gross profit in 2016.
- Finance insurance and other generated $141.3 million of revenue, an improvement of 8.6% from 2016. This accounted for 4.6% of the Company's total revenue and 25.0% of its gross profit, up from 4.5% of revenue and 24.6% of profit in 2016.
- EBITDA attributable to AutoCanada shareholders increased by $17.3 million or 18.3% to $111.8 million from $94.5 million in the prior year.
- The Company generated net earnings attributable to AutoCanada shareholders of $57.8 million ($42.7 million on an adjusted basis), or $2.11 per share ($1.56 adjusted) versus $2.6 million in 2016 ($39.9 million adjusted) or $0.09 per share ($1.46 adjusted).

Fourth Quarter Highlights

- Revenue was $733.1 million, up 16.5% compared with the fourth quarter of 2016. Same store revenue growth was up 11.1% in the fourth quarter of this year.
- Operating expenses of $104.6 million, as a percentage of gross profit were up to 83.6% from 83.4% over the same period in 2016.
- Gross profit was $125.2 million, up 7.2% compared with the same quarter in 2016, with gross profit as a percentage of revenue decreasing to 17.1% from 18.6%.
- Operating profit of $26.5 million is up 27.7% from 20.7 million in the fourth quarter of 2016.
- New vehicle sales were 9,822, up 16.3% from same period in 2016. Revenue from the sale of new vehicles was $417.6 million, up 20.0% from same period in 2016. The sale of new vehicles accounted for 57.0% of the Company's total revenue and 24.0% of gross profit versus 55.3% of revenue and 21.4% of gross profit in the fourth quarter of 2016.
- Used vehicle sales were 4,653, up 4.3% from the same quarter last year. Revenue from the sale of used vehicles sales was $175.3 million, up 11.1% from same time last year. The sale of used vehicles accounted for 23.4% of the Company's total revenue and 6.0% of gross profit, versus 21.4% of revenue and 8.6% of gross profit in the fourth quarter of 2016.
- Parts, service and collision repair generated $107.2 million of revenue, up 16.1% from same time 2016. This accounted for 14.6% of the Company's total revenue and 45.5% of its gross profit, versus 14.7% of revenue and 45.3% of gross profit in the same quarter of 2016.
- Finance and insurance generated $33.0 million of revenue, an improvement of 6.1% from same period in 2016. This accounted for 4.5% of the Company's total revenue and 24.5% of its gross profit, down from 4.9% of revenue and 24.6% of profit in the fourth quarter of 2016.
- EBITDA attributable to AutoCanada shareholders increased by $2.9 million or 11.3% to $28.1 million from $25.3 million same time last year.
- The Company generated net earnings attributable to AutoCanada shareholders of $17.1 million ($8.9 million on an adjusted basis), or $0.62 per share ($0.33 adjusted) versus $13.8 million in 2016 ($7.5 million adjusted) or $0.50 per share ($0.28 adjusted).

3. OUTLOOK

The Canadian vehicle market established a new record for sales in 2017, surpassing the previous record set in 2016. Sales topped two million for the first time, with SUVs and trucks accounting for close to 7 out of 10 new vehicles sold in the country. Early projections for 2018 speak of a strong Canadian market continuing – the economy is doing well and interest rates continue to be low, but are expected to increase. For AutoCanada, a strong economy with low unemployment provides a healthy macro environment while the preference for trucks and SUVs sits well with the Company's current product mix.

AutoCanada will continue to add a wide range of new brands and dealerships in new and growing markets. New vehicle sales continue to be the initial touchpoint for building and growing customer relationships, including resale of trade-ins, sale of third-party service or insurance products and recurring service and repair business. Each of the Company's business segments experienced gains in the fourth quarter and throughout 2017, with the exception of a slight downturn of used vehicle sales over the year.

The Company's continued focus on operational excellence resulted in enhanced dealership performance in 2017 and should continue to lead to further improvement in 2018. The Company's multi-location model serves a diversified geographic customer and revenue base while its dealership cluster strategy enables other scalable benefits. The Company's operations continue to be decentralized while it centralizes administration and strategy. It is able to provide strong support to its dealership network through brand team platforms, which are better positioned to meet the needs of both dealers and OEMs. The brand team platform approach had its first full year of operation in 2017 and the Company saw same store sales and profitability both increase.

Growth will continue to be driven by the Company's acquisition strategy. Two single dealership businesses were acquired in 2017, each adding a new OEM relationship (Mercedes-Benz and Mazda) and both joining a cluster of dealerships in the same urban market (Montreal). The Company also strengthened its relationship with General Motors in 2017, a move that should help foster further growth over the long-term. A Public Company Master Agreement (PCMA) permits AutoCanada's direct ownership and voting control of GM Canada dealerships for the first time. On January 2, 2018 the Company closed an agreement with CanadaOne Auto Group, a company controlled by Patrick Priestner, the Company's former CEO and founder. As part of that agreement, AutoCanada assumed control of five of the nine dealerships where it held a majority equity stake with no voting rights and CanadaOne Auto Group bought AutoCanada's interest in the remaining four. Related to this agreement, AutoCanada will see decreases to Revenue, Gross Profit and Unit sales figures, given its divestiture of the four dealerships.

Acquiring new dealerships and effectively integrating them is key to AutoCanada's long-term success. The Company has made significant progress and will continue to look for further incremental improvements related to integration, operating efficiencies and deeper IT and analytical capabilities across its entire network of dealerships. AutoCanada is actively looking to replace General Motors volume and net earnings through GM acquisitions.

In addition to acquisitions, the Company pursues opportunisitic growth through planned capital projects, such as new dealership facilities, current dealership expansion and imaging requirements, and select open point opportunities. As at December 31, 2017, the Company has earmarked $142.7 million over five years for contemplated future capital projects.

While the Auto industry is experiencing disruption including electric vehicles, ride sharing, autonomous vehicles and car ride service providers, AutoCanada considers these changes in the industry to be positive. The company has indicated to our OEM partners that we are prepared to pilot any new trends in the disruption looking for opportunities to improve customer sales and service interaction digitally and at our dealerships.

4. MARKET

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

	December 31, 2017					
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	590,528	19%	95,269	18%
Alberta	28	25	1,224,178	39%	219,738	42%
Saskatchewan	4	4	243,321	8%	45,146	9%
Manitoba	4	4	194,888	6%	35,145	7%
Ontario	9	8	281,562	9%	44,764	9%
Quebec	6	4	420,969	14%	57,955	11%
Atlantic	2	2	146,114	5%	20,612	4%
Total	66	58	3,101,560	100%	518,629	100%

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

	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.*

The Company's manufacturers profile is illustrated below by number of dealerships and revenues by manufacturer for the years ended December 31, 2017 and December 31, 2016.

	December 31, 2017				December 31, 2016			
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	1,246,120	40%	23	17	1,285,894	44%
General Motors	9	9	653,618	21%	9	9	579,337	20%
Hyundai	9	9	240,843	8%	9	9	218,403	8%
Nissan /Infiniti	7	7	234,824	8%	7	7	241,186	8%
Volkswagen / Audi	8	8	256,063	8%	7	7	187,911	6%
BMW / MINI	4	2	352,631	11%	4	2	334,254	12%
Other	6	6	117,461	4%	4	4	44,596	2%
Total	66	58	3,101,560	100%	63	55	2,891,581	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 increased by 4.6% compared to the prior year. New light vehicle sales in Alberta for the year ended December 31, 2017 were up 11.3% and up 7.0% in British Columbia when compared to the prior year.

The Company's same store unit sales of new vehicles increased by 11.7% during the three month period ended December 31, 2017, and increased by 4.4% during the year ended December 31, 2017.

The following table summarizes Canadian new light vehicle sales for the years ended December 31, 2017 and December 31, 2016 by Province:

	Canadian New Vehicle Sales by Province[1,2]			
	2017	**2016**	**Percent Change**	**Unit Change**
British Columbia	233,615	218,235	7.0%	15,380
Alberta	244,302	219,421	11.3%	24,881
Saskatchewan	55,260	50,888	8.6%	4,372
Manitoba	61,661	55,654	10.8%	6,007
Ontario	837,480	806,500	3.8%	30,980
Quebec	462,087	458,287	0.8%	3,800
Atlantic	144,393	139,914	3.2%	4,479
Total	2,038,798	1,948,899	4.6%	89,899

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.*

December Year to Date Canadian New Vehicle Sales by Brand[1,2]

	December 31, 2017	**December 31, 2016**	**Percent Change**	**Unit Change**
Audi	36,077	30,544	18.1%	5,533
BMW	38,562	38,012	1.4%	550
FCA	267,052	277,445	-3.7%	-10,393
General Motors	302,826	267,341	13.3%	35,485
Hyundai	129,348	136,156	-5.0%	-6,808
Infiniti	12,433	12,094	2.8%	339
Kia	76,504	71,670	6.7%	4,834
Mercedes-Benz	51,930	46,445	11.8%	5,485
MINI	7,051	6,609	6.7%	442
Mitsubishi	22,706	22,293	1.9%	413
Nissan	134,244	122,059	10.0%	12,185
Subaru	54,570	50,190	8.7%	4,380
Volkswagen	69,634	60,017	16.0%	9,617
Mazda	74,056	69,210	7.0%	4,846
Total - AutoCanada Brands	1,276,993	1,210,085	5.5%	66,908
Other - Non-AutoCanada Brands	761,805	738,814	3.1%	22,991
Total	2,038,798	1,948,899	4.6%	89,899

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 Stores[1]	Owned or Leased[2]
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 ALFA ROMEO	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	Y	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[4]	Volkswagen	2016	Q2 2019	Owned
Spruce Grove, AB	Grove Dodge Chrysler Jeep	FCA	2015	Q1 2018	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
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
Guelph, ON	Guelph Hyundai	Hyundai	2016	Q1 2019	Owned

Location	Operating Name	Franchise	Year Opened or Acquired	Same Stores[1]	Owned or Leased[2]
Guelph, ON	Wellington Motors	FCA	2016	Q1 2019	Owned
Toronto, ON	Toronto Chrysler Jeep Dodge Ram	FCA	2014	Y	Leased
Montreal, QC	Mercedes-Benz Rive-Sud[5]	Mercedes-Benz	2017	Q2 2019	Leased
Moncton, NB	Moncton Chrysler Jeep Dodge	FCA	2001	Y	Owned
Dartmouth, NS	Dartmouth Chrysler Jeep Dodge	FCA	2006	Y	Leased
Equity Investments:					
Duncan, BC	Island Chevrolet Buick GMC	General Motors	2013	Y	Leased
Kelowna, BC	Kelowna Chevrolet[7]	General Motors	2015	Y	Owned
Edmonton, AB	Lakewood Chevrolet[7]	General Motors	2014	Y	Owned
Sherwood Park, AB	Sherwood Park Chevrolet[7]	General Motors	2012	Y	Leased
Sherwood Park, AB	Sherwood Buick GMC[7]	General Motors	2012	Y	Leased
North Battleford, SK	Bridges Chevrolet Buick GMC	General Motors	2014	Y	Owned
Prince Albert, SK	Mann-Northway Auto Source	General Motors	2014	Y	Leased
Saskatoon, SK	Saskatoon Motor Products	General Motors	2014	Y	Leased
Winnipeg, MB	McNaught Cadillac Buick GMC	General Motors	2014	Y	Owned
Laval, QB	BMW Laval and MINI Laval	BMW / MINI	2014	Y	Owned
Montreal, QB	BMW Canbec and MINI Mont Royal	BMW / MINI	2014	Y	Leased
Montreal, QC	Planète Mazda[6]	Mazda	2017	Q1 2020	Leased
Dealership Loan Financing:					
Edmonton, AB	Southview Acura[3]	Acura	2016	N/A	N/A
Whitby, ON	Whitby Honda[3]	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 *This column summarizes whether the dealership real estate is owned or leased.*

3 *For further detail on dealership loan financing, refer to "LIQUIDITY AND CAPITAL RESOURCES" section under Related Party Transactions.*

4 *On February 1, 2017, Sherwood Park Volkswagen open point opened for operations.*

5 *On May 1, 2017, the Company purchased all of the issued and outstanding shares of Mercedes-Benz Rive-Sud in Montreal, Quebec. See "ACQUISITIONS, RELOCATIONS, AND REAL ESTATE" for more information related to this dealership acquisition.*

6 *On December 1, 2017 the Company purchase 95% of the issued and outstanding shares of Planète Mazda in Montreal, Quebec. See "ACQUISITIONS, RELOCATIONS, AND REAL ESTATE" for more information related to this dealership acquisition.*

7 *On January 2, 2018 as part of the General Motors Transaction (M24) the Company sold 100% of its non-voting equity interests in these locations as disclosed in the annual consolidated financial statements of the company for the year ended December, 31, 2017 (Note 40).*

5. SELECTED ANNUAL FINANCIAL INFORMATION

The following table shows the results of the Company for the years ended December 31, 2017, December 31, 2016 and December 31, 2015. 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)	**2017**	**2016**	**2015**
Income Statement Data			
New vehicles	1,827,559	1,652,795	1,668,237
Used vehicles	716,045	725,430	704,569
Parts, service and collision repair	416,690	382,933	387,614
Finance, insurance and other	141,266	130,423	143,383
Revenue	3,101,560	2,891,581	2,903,803
New vehicles	130,984	118,297	122,408
Used vehicles	43,738	47,192	40,629
Parts, service and collision repair	214,310	201,259	193,868
Finance, insurance and other	129,597	119,385	130,804
Gross profit	518,629	486,133	487,709
Gross Profit %	16.7%	16.8%	16.8%
Operating expenses	426,253	400,417	395,877
Operating expenses as a % of gross profit	82.2%	82.4%	81.2%
Operating Profit[2]	118,969	40,912	78,919
Impairment (recovery) of intangible assets and goodwill	(816)	54,096	18,757
Net earnings attributable to AutoCanada shareholders	57,844	2,596	22,821
Adjusted net earnings attributable to AutoCanada shareholders[2,4]	42,665	39,926	40,343
EBITDA attributable to AutoCanada shareholders[2]	111,812	94,486	89,838
EBITDA % of Sales[2]	3.6%	3.3%	3.1%
Free cash flow[2]	72,213	96,288	38,675
Adjusted free cash flow[2]	90,786	68,566	38,796
Basic earnings per share	2.11	0.09	0.93
Diluted earnings per share	2.11	0.09	0.92
Basic adjusted earnings per share[2,4]	1.56	1.46	1.64
Diluted adjusted earnings per share[2,4]	1.55	1.45	1.64
Dividends declared per share	0.40	0.55	1.00
Operating Data			
Vehicles (new and used) sold	63,152	59,593	62,799
New vehicles sold[3]	43,773	40,032	42,457
New retail vehicles sold[3]	36,076	32,991	35,323
New fleet vehicles sold[3]	7,697	7,041	7,134
Used retail vehicles sold[3]	19,379	19,561	20,342
# of service & collision repair orders completed[3]	870,616	863,970	847,702
Absorption rate[2]	89%	86%	91%
# of dealerships at year end	58	55	54
# of same store dealerships	49	44	28
# of service bays at year end	999	928	912
Same store revenue growth[1]	2.0%	(5.6)%	(5.9)%
Same store gross profit growth[1]	1.5%	(5.4)%	(11.7)%

1 *Same stores revenue growth and same stores gross profit growth is calculated using franchised automobile dealerships that we have owned for at least 2 full years.*
2 *These financial measures 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 Q1 2017, the Company redefined the calculation of adjusted net earnings.*

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 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Income Statement Data								
New vehicles	417,626	497,711	558,682	353,540	348,107	444,482	497,025	363,181
Used vehicles	175,251	192,473	182,913	165,408	157,724	179,582	208,016	180,108
Parts, service and collision repair	107,156	104,816	113,983	90,735	92,310	95,585	100,317	94,721
Finance, insurance and other	33,027	39,571	39,324	29,344	31,133	33,529	36,899	28,862
Revenue	733,060	834,571	894,902	639,027	629,274	753,178	842,257	666,872
New vehicles	30,033	36,806	38,555	25,590	25,042	31,578	34,410	27,267
Used vehicles	7,563	11,140	13,095	11,940	10,064	12,950	13,758	10,420
Parts, service and collision repair	56,915	53,805	56,306	47,284	52,957	47,676	52,957	47,669
Finance, insurance and other	30,699	36,218	35,867	26,813	28,722	30,733	33,577	26,353
Gross profit	125,210	137,969	143,823	111,627	116,785	122,937	134,702	111,709
Gross Profit %	17.1%	16.5%	16.1%	17.5%	18.6%	16.3%	16.0%	16.8%
Operating expenses	104,626	110,560	112,897	98,170	97,397	99,041	107,932	96,047
Operating expenses as a % of gross profit	83.6%	80.1%	78.5%	87.9%	83.4%	80.6%	80.1%	86.0%
Operating profit[2]	26,505	30,287	46,539	15,638	20,761	(28,776)	28,442	20,483
Impairment (recovery) of intangible assets and goodwill	(816)	–	–	–	–	54,096	–	–
Net earnings (loss) attributable to AutoCanada shareholders	17,089	12,100	24,977	3,678	13,785	(32,619)	14,158	7,272
Adjusted net earnings attributable to AutoCanada shareholders [2,4]	8,935	13,581	15,547	4,602	7,536	10,327	15,523	6,253
EBITDA attributable to AutoCanada shareholders [2]	28,127	25,827	43,722	14,136	25,260	23,842	27,072	18,312
EBITDA % of Sales[2]	3.8%	3.1%	4.9%	2.7%	4.5%	3.6%	3.7%	3.2%
Free cash flow[2]	29,496	31,114	10,982	621	23,424	30,897	37,922	4,045
Adjusted free cash flow[2]	15,996	23,296	36,277	15,217	13,133	27,766	21,632	6,035
Basic earnings per share	0.62	0.44	0.91	0.13	0.50	(1.19)	0.53	0.27
Diluted earnings per share	0.62	0.44	0.91	0.13	0.50	(1.19)	0.53	0.27
Basic adjusted earnings per share[2,4]	0.33	0.50	0.57	0.17	0.28	0.38	0.57	0.23
Diluted adjusted earnings per share[2,4]	0.33	0.50	0.57	0.17	0.27	0.38	0.57	0.23
Dividends declared per share	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.25
Operating Data								
Vehicles (new and used) sold[3]	14,475	17,132	18,490	13,055	12,912	15,955	17,425	13,301
New vehicles sold[3]	9,822	12,014	13,429	8,508	8,449	10,983	12,098	8,502
New retail vehicles sold[3]	8,444	10,334	10,545	6,753	7,590	8,949	9,374	7,078
New fleet vehicles sold[3]	1,378	1,680	2,884	1,755	859	2,034	2,724	1,424
Used retail vehicles sold[3]	4,653	5,118	5,061	4,547	4,463	4,972	5,327	4,799
# of service and collision repair orders completed[3]	224,006	220,669	228,872	197,069	217,418	209,912	227,446	209,194
Absorption rate[2]	90%	87%	87%	82%	86%	89%	90%	83%
# of dealerships at period end	58	57	57	56	55	53	53	53
# of same store dealerships[1]	49	48	47	47	44	33	27	27
# of service bays at period end	999	977	977	949	928	898	898	898
Same store revenue growth[1]	11.1%	2.9%	0.1%	(7.1)%	(10.0)%	(9.2)%	(3.2)%	(3.1)%
Same store gross profit growth[1]	1.4%	6.3%	1.1%	(1.2)%	(5.8)%	(11.0)%	(5.3)%	(5.5)%

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. Same store growth is in comparison with the same quarter in the prior year.*
2 *These financial measures 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 Q1 2017, the Company redefined the calculation of adjusted net earnings.*

7. RESULTS OF OPERATIONS

Fourth Quarter Operating Results

EBITDA attributable to AutoCanada shareholders for the quarter increased by $2.9 million or 11.3% to $28.1 million, from $25.3 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 a result of an increase in gross profit as a result of additional stores added since the prior year as well as improved profitability of existing stores.

Adjusted EBITDA attributable to AutoCanada shareholders for the quarter ended December 31, 2017 increased by $2.9 million or 14.9% from $19.0 million to $21.9 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)	2017	2016	2015
Period from October 1 to December 31			
Net earnings (loss) attributable to AutoCanada shareholders	17,089	13,785	(7,361)
Impairment (recovery) of intangible assets and goodwill[2]	(3,136)	–	18,126
Income taxes[2]	4,964	2,531	3,474
Depreciation of property and equipment[2]	4,947	4,634	4,866
Interest on long-term indebtedness[2]	4,263	4,310	4,248
EBITDA attributable to AutoCanada shareholders[1]	28,127	25,260	23,353
Add back:			
Share-based compensation attributed to changes in share price	69	105	(30)
Revaluation of redemption liabilities	(4,397)	(1,470)	2,566
Revaluation of contingent consideration	(416)	(4,840)	149
Unrealized gain on embedded derivative	15	(17)	(8)
Non-recurring settlement income	(1,518)	–	–
Adjusted EBITDA attributable to AutoCanada shareholders[1]	21,880	19,038	26,030

1 *This financial measure is identified and defined under the section "NON-GAAP MEASURES".*
2 *Represents the portion attributable to AutoCanada shareholders.*

Net earnings attributable to AutoCanada shareholders increased by $3.3 million or 24.0% to $17.1 million in the fourth quarter of 2017 from $13.8 million when compared to the prior year. Income tax expense attributable to AutoCanada shareholders increased by $2.5 million to $5.0 million in the fourth quarter of 2017 from $2.5 million in the same period of 2016.

Adjusted net earnings attributable to AutoCanada shareholders increased by $1.4 million or 18.6% to $8.9 million for the quarter from $7.5 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)	2017	2016	2015
Net earnings (loss) attributable to AutoCanada shareholders	17,089	13,785	(7,361)
Add back:			
Impairment (recovery) of intangible assets and goodwill, net of tax	(2,296)	–	13,286
Share-based compensation attributed to changes in share price, net of tax	51	78	(22)
Revaluation of redemption liabilities	(4,397)	(1,470)	2,566
Revaluation of contingent consideration	(416)	(4,840)	149
Unrealized gain on embedded derivative	15	(17)	(8)
Non-recurring settlement income, net of tax	(1,111)	–	–
Adjusted net earnings attributable to AutoCanada shareholders[1,2]	8,935	7,536	8,610
Weighted average number of shares - Basic	27,389,167	27,353,431	25,016,637
Weighted average number of shares - Diluted	27,498,724	27,469,439	25,110,033
Adjusted net earnings per share attributable to AutoCanada shareholders - Basic[1]	0.33	0.28	0.34
Adjusted net earnings per share attributable to AutoCanada shareholders - Diluted[1]	0.33	0.27	0.34

1 *This financial measure is identified and defined under the section "NON-GAAP MEASURES".*
2 *In Q1 2017, the Company redefined the calculation of adjusted net earnings.*

Annual Operating Results

EBITDA attributable to AutoCanada shareholders for the year ended December 31, 2017 increased by $17.3 million or 18.3% to $111.8 million, from $94.5 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 a result of an increase in gross profit as a result of additional stores added since the prior year as well as improved profitability of existing stores.

Adjusted EBITDA attributable to AutoCanada shareholders for the year ended December 31, 2017 increased by $6.6 million or 7.4% from $88.8 million to $95.4 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)	2017	2016	2015
Period from January 1 to December 31			
Net earnings attributable to AutoCanada shareholders	57,844	2,596	22,821
Impairment (recovery) of intangible assets and goodwill	(3,136)	51,180	18,126
Income taxes	19,800	5,826	16,171
Depreciation of property and equipment	19,410	18,432	17,863
Interest on long-term indebtedness	17,894	16,452	14,857
EBITDA attributable to AutoCanada shareholders[1]	111,812	94,486	89,838
Add back:			
Share-based compensation attributed to changes in share price	30	(75)	(272)
Revaluation of redemption liabilities	(2,869)	(765)	4,329
Unrealized loss (gain) on embedded derivative	15	3	(42)
Revaluation of contingent consideration	(416)	(4,840)	149
Non-recurring management transition cost	1,684	–	–
Non-recurring settlement income	(14,846)	–	–
Adjusted EBITDA attributable to AutoCanada shareholder[1]	95,410	88,809	94,002

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

For the year ended December 31, 2017, pre-tax earnings attributable to AutoCanada shareholders increased by $69.2 million to $77.6 million from $8.4 million in the same period of the prior year. Net earnings attributable to AutoCanada shareholders increased by $55.2 million to $57.8 million in the year ended December 31, 2017 from $2.6 million when compared to the prior year due to impairment of intangible assets recognized during the prior year.

Income tax expense attributable to AutoCanada shareholders increased by $14.0 million to $19.8 million in the year ended December 31, 2017 from $5.8 million in the same period of 2016.

Adjusted net earnings attributable to AutoCanada shareholders increased by $2.8 million or 6.9% to $42.7 million in 2017 from $39.9 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)	**2017**	**2016**	**2015**
Net earnings attributable to AutoCanada shareholders	57,844	2,596	22,821
Add back:			
Impairment (recovery) of intangible assets and goodwill, net of tax	(2,295)	42,987	13,286
Share-based compensation attributed to changes in share price, net of tax	22	(55)	(200)
Revaluation of redemption liabilities	(2,869)	(765)	4,329
Revaluation of contingent consideration	(416)	(4,840)	149
Unrealized loss (gain) on embedded derivative	15	3	(42)
Non-recurring management transition cost, net of tax	1,231	–	–
Non-recurring settlement income, net of tax	(10,867)	–	–
Adjusted net earnings attributable to AutoCanada shareholders[1,2]	42,665	39,926	40,343
Weighted average number of shares - Basic	27,379,193	27,350,555	24,574,022
Weighted average number of shares - Diluted	27,473,995	27,455,686	24,674,083
Adjusted net earnings per share attributable to AutoCanada shareholders - Basic[1]	1.56	1.46	1.64
Adjusted net earnings per share attributable to AutoCanada shareholders - Diluted[1]	1.55	1.45	1.64

1 *This financial measure is identified and defined under the section "NON-GAAP MEASURES".*
2 *In Q1 2017, the Company redefined the calculation of adjusted net earnings.*

Revenues

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

	Three Months Ended December 31			Year Ended December 31		
	2017 $	2016 $	Change $	2017 $	2016 $	Change $
New vehicles	417,626	348,107	69,519	1,827,559	1,652,795	174,764
Used vehicles	175,251	157,724	17,527	716,045	725,430	(9,385)
Finance, insurance and other	33,027	31,133	1,894	141,266	130,423	10,843
Parts, service and collision repair	107,156	92,310	14,846	416,690	382,933	33,757
	733,060	629,274	103,786	3,101,560	2,891,581	209,979

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		
	2017 $	2016 $	Change $	2017 $	2016 $	Change $
New vehicles	30,033	25,042	4,991	130,986	118,297	12,689
Used vehicles	7,563	10,064	(2,501)	43,738	47,192	(3,454)
Finance, insurance and other	30,699	28,722	1,977	129,596	119,385	10,211
Parts, service and collision repair	56,915	52,957	3,958	214,309	201,259	13,050
	125,210	116,785	8,425	518,629	486,133	32,496

New vehicles

New vehicle revenue increased by 20.0% for the quarter and 10.6% for the year.

Gross profit increased in the quarter for new vehicles as a result of an increase in new vehicles sold of 1,373, and increased gross profit per unit of $94 compared to Q4, 2016.

The increase in gross profit in the year from new vehicles is due to an increase in new vehicles sold of 3,741 and an increase in gross profit per unit of $37 compared to the same period of the prior year.

Used vehicles

Used vehicle revenue increased by 11.1% for the quarter and incurred a decrease of 1.3% for the year.

The decrease in gross profit in the quarter from used vehicles is due to a decline in gross profit per unit of $630, offset by a quarterly increase in used vehicles sold of 190 compared to Q4, 2016.

The decrease in gross profit in the year from used vehicles is due to a decline in gross profit per unit of $156 and a decline in used vehicles sold of 182 compared to the same period of the prior year.

Finance, insurance and other

Finance and insurance products are sold with both new and used retail vehicles, but a larger proportion are sold in conjunction with new retail vehicles.

Finance and insurance revenue increased by 6.1% for the quarter and 8.3% compared to prior year. This resulted in an increased gross profit of 6.9% for the quarter and 8.6% for the year.

Parts, service and collision repair

Parts, service and collision repair revenues increased by 16.1% in the quarter and 8.8% for the year.

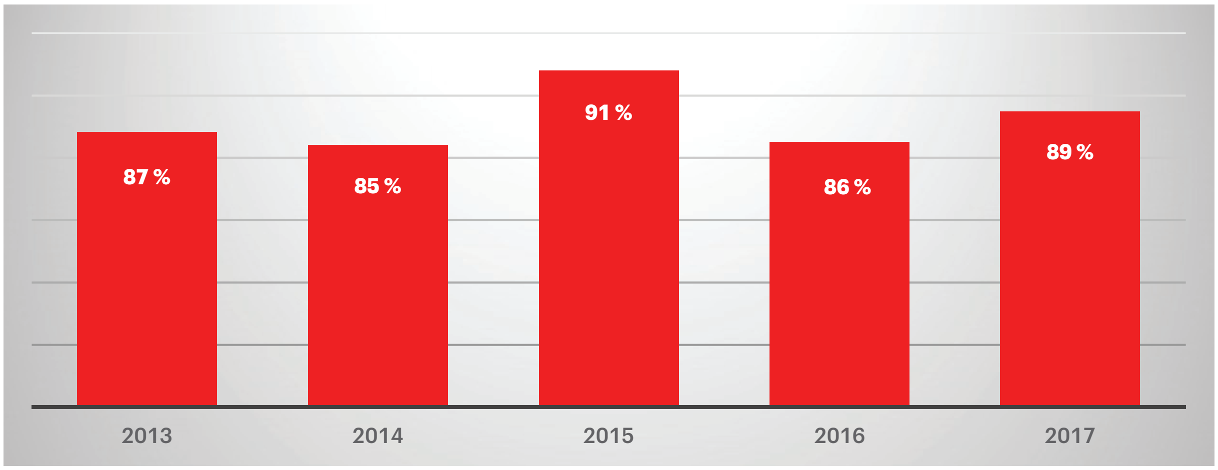
The increase in gross profit in the quarter from parts, service and collision repair is due to an increase in gross profit per order of $11 and a quarterly increase in repair orders of 6,588 compared to Q4, 2016.

The increase in gross profit in the year from parts, service and collision repair is due to an increase in gross profit per order of $13 and an increase in repair orders of 6,646 compared to the same period of the prior year.

Absorption rate[1]

Absorption rate measures 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.

The following table summarizes Absorption rate since the 2013 fiscal year:



The positive change in Absorption rate for fiscal 2017 is a strong indicator that the increase in gross profit for Parts, service and collision repair was greater than the corresponding increase in related departmental and overall dealership fixed expenses.

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

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 substantially variable in nature. Our dealership pay structures are tied to meeting sales objectives, maintaining customer satisfaction indices, as well as improving gross profit and net income.

Administrative costs

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

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, 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		
	2017	2016	Change	2017	2016	Change
Employee costs before management transition costs	50.6%	51.1%	(0.5)%	50.7%	50.7%	–%
Management transition costs	–%	–%	–%	0.3%	0.5%	(0.2)%
Administrative costs - Variable	19.3%	18.0%	1.3%	17.8%	17.4%	0.4%
Total Variable Expenses	69.9%	69.1%	0.8%	68.8%	68.6%	0.2%
Administrative costs - Fixed	4.3%	5.0%	(0.7)%	4.7%	4.9%	(0.2)%
Facility lease costs	5.1%	5.1%	–%	4.7%	4.8%	(0.1)%
Depreciation of property and equipment	4.2%	4.2%	–%	4.0%	4.1%	(0.1)%
Total fixed expenses	13.6%	14.3%	(0.7)%	13.4%	13.8%	(0.4)%
Total operating expenses	83.5%	83.4%	0.1%	82.2%	82.4%	(0.2)%

Total Operating expenses

Total operating expenses remained relatively flat in the quarter and year over year.

Variable Expenses

Total variable expenses for the quarter and year remained relatively flat, changing by 0.8% and 0.2% respectively.

Employee costs have decreased in the quarter by 0.5% of operating expenses as a percentage of gross profit and remained flat versus the previous year.

Variable administrative costs increased 1.3% in the quarter and 0.4% year over year as a percentage of gross profit.

Fixed Expenses

Total fixed expenses for the quarter decreased by 0.7% and the year by 0.4%.

Fixed administrative costs decreased, for both the quarter and year to date, as a percentage of gross profit. Facility lease costs and depreciation of property and equipment saw a 0.1% decrease for the 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.

Under IFRS, previously recognized impairment charges, with the exception of impairment charges related to goodwill, may potentially be reversed if the circumstances causing the impairment have improved or are no longer present. If such circumstances change, a new recoverable amount should be calculated and all or part of the impairment charge should 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, 2017. As a result of the test performed, the Company recorded a recovery of $0.8 million of intangible assets. (2016 impairment of $54.1 million).

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		
	2017 $	2016 $	Change	2017 $	2016 $	Change
Current tax	13,254	(6,157)	19,411	20,901	12,316	8,585
Deferred tax	(8,193)	9,144	(17,337)	1,812	(3,741)	5,553
Income tax expense	5,061	2,987	2,074	22,713	8,575	14,138

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, 2017 was 26.8% (December 31, 2016 - 27.2%).

Finance costs

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

During the quarter ended December 31, 2017, finance costs on our revolving floorplan facilities increased by 28.9% to $4.2 million from $3.2 million compared to Q4 2016, mainly due to increased inventory as a result of the two dealership acquisitions and one open point completed in 2017.

For the year ended December 31, 2017, finance costs on our revolving floorplan facilities increased by 17.0% to $14.5 million from $12.4 million in the same period of the prior year.

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

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

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

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

	Three Months Ended December 31			Year Ended December 31		
(in thousands of dollars)	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Floorplan financing	4,187	3,247	940	14,515	12,408	2,107
Floorplan credits earned	(4,114)	(3,860)	(254)	(17,054)	(14,634)	(2,420)
Net carrying cost of vehicle inventory	73	(613)	686	(2,539)	(2,226)	(313)

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. Five dealerships were added to same stores since the start of 2017. We believe that there continues to be opportunities within these dealerships and continue to dedicate significant resources to newly acquired dealerships to successfully integrate acquisitions in an efficient manner. As a result, we expect to incur additional selling and administrative costs in the future to successfully integrate new dealerships into our model.

Number of Same Stores by Province

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

	British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	Atlantic	Total
FCA	4	7	1	1	1	–	2	16
Hyundai	2	4	–	–	2	–	–	8
General Motors	1	3	3	1	–	–	–	8
Volkswagen	3	2	–	1	–	–	–	6
Nissan/Infiniti	1	3	–	–	–	–	–	4
Mitsubishi	–	2	–	–	–	–	–	2
BMW	–	–	–	–	–	2	–	2
Audi	–	–	–	1	–	–	–	1
Subaru	–	1	–	–	–	–	–	1
KIA	–	1	–	–	–	–	–	1
Total	11	23	4	4	3	2	2	49

Same Store Revenue and Vehicles Sold

	Three Months Ended December 31			Year Ended December 31		
(in thousands of dollars)	**2017**	**2016**	**% Change**	**2017**	**2016**	**% Change**
New vehicles - Retail	305,414	263,304	16.0%	1,320,350	1,279,471	3.2%
New vehicles - Fleet	60,883	55,818	9.1%	320,444	274,973	16.5%
Total New vehicles	366,297	319,122	14.8%	1,640,794	1,554,444	5.6%
Used vehicles - Retail	108,508	104,085	4.2%	451,736	459,887	(1.8)%
Used vehicles - Wholesale	48,866	43,149	13.2%	196,014	230,598	(15.0)%
Total Used vehicles	157,374	147,234	6.9%	647,750	690,485	(6.2)%
Finance, insurance and other	30,367	29,409	3.3%	129,979	123,567	5.2%
Subtotal	554,038	495,765	11.8%	2,418,523	2,368,496	2.1%
Parts, service and collision repair	93,061	86,603	7.5%	366,476	362,163	1.2%
Total	647,099	582,368	11.1%	2,784,999	2,730,659	2.0%
New retail vehicles sold	7,196	6,845	5.1%	31,402	30,422	3.2%
New fleet vehicles sold	1,349	808	67.0%	7,600	6,932	9.6%
Used retail vehicles sold	4,051	4,162	(2.7)%	17,233	18,560	(7.1)%
Total	12,596	11,815	6.6%	56,235	55,914	0.6%
Total vehicles retailed	11,247	11,007	2.2%	48,635	48,982	(0.7)%

Revenues - Same Store Analysis

Same store revenue increased by $64.7 million or 11.1%, and $54.3 million or 2.0%, for the three month period and the year ended December 31, 2017 respectively when compared to the same period in the prior year.

New vehicle revenues increased by $47.2 million or 14.8% for the fourth quarter of 2017 over the prior year due to an increase in new vehicle sales of 892 units or 11.7% and an increase in the average revenue per new vehicle sold of $1,168 or 2.8%. Same store new vehicle revenues increased by $86.4 million or 5.6% for the year ended December 31, 2017 over the same period in the prior year due to a increase in new vehicle sales of 1,648 units or 4.4% and an increase in the average revenue per new vehicle sold of $456 or 1.1%.

Same store used vehicle revenues increased by $10.1 million or 6.9% for the three month period ended December 31, 2017 over the same period in the prior year due to a decrease in used vehicle sales of 111 units or 2.7% offset by a increase in the average revenue per used vehicle sold of $3,473 or 9.8%. For the year ended December 31, 2017, used vehicle revenues decreased by $42.7 million or 6.2% due to a decrease in used vehicle sales of 1,327 units or 7.1%, offset by an increase in the average revenue per used vehicle sold of $385 or 1.0%.

Same store parts, service and collision repair revenue increased by $6.5 million or 7.5% for the fourth quarter of 2017 compared to the prior period. For the year ended December 31, 2017, parts, service and collision repair revenue increased by $4.3 million or 1.2%.

Same store finance, insurance and other revenue increased by $1.0 million or 3.3% for the three month period ended December 31, 2017 over the same period in 2016. For the year ended December 31, 2017, same store finance, insurance and other revenue increased by $6.4 million or 5.2% over the same period in 2016.

Same Store Gross Profit and Gross Profit Percentage

Revenue Source	Three Months Ended December 31				
	Gross Profit			Gross Profit %	
(in thousands of dollars)	**2017**	**2016**	**% Change**	**2017**	**2016**
New vehicles - Retail	24,008	21,389	12.2%	7.9%	8.1%
New vehicles - Fleet	1,677	1,580	6.1%	2.8%	2.8%
Total New vehicles	25,685	22,969	11.8%	7.0%	7.2%
Used vehicles - Retail	6,588	8,220	(19.9)%	6.1%	7.9%
Used vehicles - Wholesale	1,088	1,146	(5.1)%	2.2%	2.7%
Total Used vehicles	7,676	9,366	(18.0)%	4.9%	6.4%
Finance, insurance and other	27,748	26,755	3.7%	91.4%	91.0%
Subtotal	61,109	59,090	3.4%	11.0%	11.9%
Parts, service and collision repair	49,140	49,593	(0.9)%	52.8%	57.3%
Total	110,249	108,683	1.4%	17.0%	18.7%

Revenue Source (in thousands of dollars)	Year Ended December 31 Gross Profit 2017	 2016	 % Change	 Gross Profit % 2017	 2016
New vehicles - Retail	110,168	104,793	5.1%	8.3%	8.1%
New vehicles - Fleet	5,934	6,665	(11.0)%	1.9%	2.9%
Total New vehicles	116,102	111,458	4.2%	7.1%	7.2%
Used vehicles - Retail	36,706	39,667	(7.5)%	8.1%	8.7%
Used vehicles - Wholesale	5,902	5,172	14.1%	3.0%	1.9%
Total Used vehicles	42,608	44,839	(5.0)%	6.6%	6.5%
Finance, insurance and other	118,552	112,777	5.1%	91.2%	91.5%
Subtotal	277,262	269,074	3.0%	11.5%	11.4%
Parts, service and collision repair	189,768	190,910	(0.6)%	51.8%	53.2%
Total	467,030	459,984	1.5%	16.8%	16.8%

Gross Profit - Same Store Analysis

Same store gross profit increased by $1.6 million or 1.4% and $7.0 million or 1.5% for the three month period and the year ended December 31, 2017 respectively when compared to the same period in the prior year.

Same store new vehicle gross profit increased by $2.7 million or 11.8% in the three month period ended December 31, 2017 when compared to 2016 as a result of an increase in new vehicle sales of 892 units or 11.7%, and an increase in the average gross profit per new vehicle sold of $5 or 0.2%. For the year ended December 31, 2017, new vehicle gross profit increased by $4.6 million or 4.2% which can be mainly attributed to a increase in new vehicle sales of 1,648 units or 4.4% offset by an decrease in the average gross profit per new vehicle sold of $7 or 0.2%.

Same store used vehicle gross profit decreased by $1.7 million or 18.0% in the three month period ended December 31, 2017 over the prior year. This was due to a decrease in the number of used vehicles sold of 111 units and an decrease in the average gross profit per used vehicle retailed of $355 or (15.8)%. For the year ended December 31, 2017, same store used vehicle gross profit decreased by $2.2 million or 5.0% which was mainly due to an increase in the average gross profit per vehicle retailed of $57 or 2.4% offset by a decrease in the number of vehicles retailed of 1,327 units.

Same store parts, service and collision repair gross profit decreased by $0.5 million or 0.9% in the three month period ended December 31, 2017 when compared to the same period in the prior year. For the year ended December 31, 2017, parts, service and collision repair gross profit decreased by $1.1 million or 0.6%.

Same store finance and insurance gross profit increased by $1.0 million or 3.7% in the three month period ended December 31, 2017 when compared to the prior year as a result a increase in units retailed of 1,165, offset by an decrease in the average gross profit per unit sold of $188. For the year ended December 31, 2017, finance and insurance gross profit increased by $5.8 million or 5.1% and can be attributed to a increase in units retailed of 583, and an increase in the average gross profit per unit sold of $91.

The following table summarizes same store total revenue for the three months and year ended December 31, 2017 by Province:

(in thousands of dollars)	Three Months Ended December 31			Year Ended December 31		
	2017	2016	% Change	2017	2016	% Change
British Columbia	133,885	116,036	15.4%	590,528	578,938	2.0%
Alberta	259,195	236,376	9.7%	1,148,533	1,121,811	2.4%
Saskatchewan	58,179	54,582	6.6%	243,321	236,354	2.9%
Manitoba	45,688	42,626	7.2%	194,888	182,282	6.9%
Ontario	26,681	21,042	26.8%	108,984	101,555	7.3%
Quebec	93,012	81,198	14.5%	352,631	334,255	5.5%
Atlantic	30,459	30,508	(0.2)%	146,114	175,464	(16.7)%
Total	647,099	582,368	11.1%	2,784,999	2,730,659	2.0%

The following table summarizes same store gross profit for the three months and year ended December 31, 2017 by Province:

(in thousands of dollars)	Three Months Ended December 31			Year Ended December 31		
	2017	2016	% Change	2017	2016	% Change
British Columbia	21,879	20,578	6.3%	95,268	92,404	3.1%
Alberta	49,135	49,817	(1.4)%	206,227	204,034	1.1%
Saskatchewan	10,289	10,625	(3.2)%	45,146	44,977	0.4%
Manitoba	8,142	7,663	6.3%	35,144	33,789	4.0%
Ontario	3,991	3,463	15.2%	15,590	14,804	5.3%
Quebec	12,323	12,045	2.3%	49,043	47,441	3.4%
Atlantic	4,490	4,492	–%	20,612	22,535	(8.5)%
Total	110,249	108,683	1.4%	467,030	459,984	1.5%

9. ACQUISITIONS, RELOCATIONS AND REAL ESTATE

Dealership Operations and Expansion

Our goals are to maximize the profit potential of every store and to generate incremental growth through accretive acquisitions. In 2017 we acquired two stores, and opened a Volkswagen open point in early 2017, bringing the total number of dealerships we operate to 58, representing 66 franchises. We continue to focus on our acquisition strategy, concentrating on growth throughout Canada with a greater diversification in both geography and brand.

The Company is being patient with our acquisition strategy, focusing on acquisitions that are accretive and provide diversity. The Company plans to diversify across Canada through the acquisition of flagship stores in major markets. Management and the Company have excellent relationships with our manufacturer partners, providing the Company with greater opportunities with brands we currently operate.

Mercedes-Benz Rive-Sud

On May 1, 2017, the Company purchased all of the voting shares of 8421722 Canada Inc., which owns and operates a Mercedes-Benz dealership in Montreal, Quebec, along with all of the opearting and fixed assets of 9343091 Canada Inc. which owns and operates the dealership's collision centre (together "Mercedes-Benz Rive-Sud"), for total cash consideration of $16.1 million. The acquisition was funded by drawing on the Company's revolving term facility. This dealership represents our first Mercedes-Benz franchise and we are extremely pleased to have added a top selling luxury brand to our portfolio and look forward to sustained success and growth with Mercedes-Benz.

Planete Mazda

On December 1, 2017, the Company purchased 95% of the issued and outstanding shares of Planete Mazda, which owns and operates a Mazda dealership in Montreal, Quebec, for total cash consideration of $5.8 million. The acquisition was funded by drawing on the Company's revolving term facility. This dealership represents our first Mazda dealership and becomes our 23rd brand.

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. 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.

General Motors Transaction

On December 7, 2017, we announced two new agreements that strengthened our relationship with GM Canada. We executed a Public Company Master Agreement (PCMA) with GM Canada that permits AutoCanada's direct ownership and control of GM Canada dealerships. As part of that agreement, on January 2, 2018 the company closed an agreement with CanadaOne Auto Group, a company controlled by the Company's former CEO and founder, Mr. Patrick Priestner, seeing AutoCanada assume control of five of the nine GM Canada dealerships where it held a majority equity stake with no voting rights, and CanadaOne Auto Group buying AutoCanada's interest in four dealerships. AutoCanada received a one-time net payment of approximately $23 million from CanadaOne Auto Group as part of the transaction.

The New PCMA has allowed AutoCanada to outright own and operate GM dealerships along with our dealer partners. This creates an opportunity for us to evaluate future GM opportunities and further expand our relationship with GM Canada.

Related to the agreement made with CanadaOne Auto Group, we will see decreases to Revenue, Gross Profit, and Unit sales figure in the interim as we evaluate current and future opportunities.

For the year ended December 31, 2017	Revenue	Gross Profit	Proportion of ownership interest[1]	Operating Data: New vehicles sold	New fleet vehicles sold	Used retail vehicles sold	Vehicles (new and used) sold
Kelowna Chevrolet	57,145	8,827	80%	524	334	276	1,134
Lakewood Chevrolet	83,147	12,271	75%	688	661	310	1,659
Sherwood Park Chevrolet	123,590	20,403	31%	1,265	120	675	2,060
Sherwood Park Buick GMC	110,187	17,436	31%	1,067	197	569	1,833
Total	374,069	58,937		3,544	1,312	1,830	6,686

1 *Through the various interest in subsidiaries as disclosed in the annual consolidated financial statements of the company for the year ended December, 31, 2017 (Note 18).*

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. These costs vary by dealership depending upon size and location.

Nissan – Calgary, Alberta

The dealership construction is expected to begin late 2018 with anticipated opening in mid 2019. The dealership will be constructed by a third party and subsequently leased by the Company.

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 $47.3 million to the end of 2021. 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 $78.4 million in capital costs that it may incur in order to expand or renovate various current locations through to the end of 2022. The Company is required by its manufacturers to undertake periodic imaging upgrades to its facilities.

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 point. The Company estimates approximately $17.0 million in capital costs that it may incur by the end of 2019 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 point, 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)	2018	2019	2020	2021	2022	Total
Same Store						
Dealership Relocations	4.8	11.5	14.5	16.5	–	47.3
Current Dealership Expansion and Imaging Requirements	19.4	15.3	8.4	11.5	18.1	72.7
Capital Plan	24.2	26.8	22.9	28.0	–	120.0
Expected to be financed	2.9	8.6	–	–	–	11.5
Cash Outlay[1]	21.3	18.2	22.9	28.0	18.1	108.5
Non Same Store						
Current Dealership Expansion and Imaging Requirements	2.0	1.7	1.0	–	1.0	5.7
Open Point Opportunities	3.9	13.1	–	–	–	17.0
Capital Plan	5.9	14.8	1.0	–	1.0	22.7
Expected to be financed	2.9	8.6	–	–	–	11.5
Cash Outlay[1]	3.0	6.2	1.0	–	1.0	11.2
Total Capital Plan	30.1	41.6	23.9	28.0	19.1	142.7
Total Cash outlay	24.3	24.4	23.9	28.0	19.1	119.7

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

During the year, the Company re-examined its capital expenditures and has reduced its planned capital budgets. At December 31, 2016, the five year capital plan was $145.3 million. As a result of increased focus on reducing capital expenditures, the five year capital plan at December 31, 2017 is $142.7 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 reimaging 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, 2017 is as follows:

- The Company had drawn $143.8 million on its $250.0 million revolving term facility.

As a result of the above, as at December 31, 2017, the Company currently has approximately $106.2 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 $78.8 million (cash provided by operating activities of $94.6 million minus net change in non-cash working capital of $15.8 million) compared to $104.7 million (cash provided by operating activities of $76.1 million plus net change in non-cash working capital of $28.6 million) in the same period of the prior year.

Cash Flow from Investing Activities

For the year ended December 31, 2017, cash flow from investing activities of the Company was a net outflow of $49.2 million as compared to a net outflow of $100.9 million in the same period of the prior year.

Cash Flow from Financing Activities

For the year ended December 31, 2017, cash flow from financing activities was a net outflow of $38.1 million as compared to a net inflow of $37.8 million in the same period of 2016.

Credit Facilities and Floor Plan Financing

Details of the Company's credit facilities and floorplan financing are included in Note 30 of the annual audited consolidated financial statements for the year ended December 31, 2017.

Key Financial Covenants

The Company is required by its debt agreements to comply with several financial covenants.

The following is a summary of the Company's actual performance against its financial covenants as at December 31, 2017:

Financial Covenant	Requirement	Q4 2017 Actual Calculation	Q3 2017 Actual Calculation
Syndicated Revolver:			
Senior Secured Leverage Ratio	Shall not exceed 2.75	1.46	1.44
Adjusted Total Leverage Ratio	Shall not exceed 5.00	3.79	3.76
Fixed Charge Coverage Ratio	Shall not be less than 1.20	2.92	3.55
Current Ratio	Shall not be less than 1.05	1.18	1.13
Syndicated Floorplan:			
Current Ratio	Shall not be less than 1.05	1.12	1.15
Tangible Net Worth (millions)	Shall not be less than $40 million	81.8	87.2
Debt to Tangible Net Worth	Shall not exceed 7.50	5.56	4.59

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, 2017, the Company is in compliance with all of its financial covenants.

Financial Instruments

Details of the Company's financial instruments, including risks and uncertainties are included in Note 27 of the annual audited consolidated financial statements for the year ended December 31, 2017.

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, 2017 to December 31, 2017	January 1, 2017 to December 31, 2017
Leasehold improvements	298	755
Machinery and equipment	409	1,770
Furniture and fixtures	476	872
Computer equipment	307	899
	1,490	4,296

Amounts relating to the expansion of sales and service capacity are considered growth expenditures. Growth expenditures are discretionary, represent cash outlays intended to provide additional future cash flows and are expected to provide benefit in future periods. During the three month period and the year ended December 31, 2017, growth capital expenditures of $7.0 million and $20.5 million were incurred, respectively. These expenditures relate primarily to land and buildings that were purchased for future dealership operations during 2017. 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, 2017 to December 31, 2017**	**January 1, 2017 to December 31, 2017**
Purchase of property and equipment from the Statement of Cash Flows	9,017	24,831
Less: Amounts related to the expansion of sales and service capacity	(7,527)	(20,534)
Purchase of non-growth property and equipment	1,490	4,297

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, 2017, were $1.8 million and $6.9 million (2016 - $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 "GROWTH, ACQUISITIONS, RELOCATIONS AND REAL ESTATE" above.

Financial Position

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

(in thousands of dollars)	**Q4 2017**	**Q3 2017**	**Q2 2017**	**Q1 2017**	**Q4 2016**	**Q3 2016**	**Q2 2016**	**Q1 2016**
Cash and cash equivalents	94,660	104,966	95,417	100,402	103,221	96,368	77,582	72,878
Trade and other receivables	79,931	137,155	157,275	113,688	85,587	108,363	115,427	116,092
Inventories	659,593	636,685	629,171	701,559	619,718	597,831	555,957	628,641
Total Assets	1,761,046	1,693,533	1,698,290	1,707,063	1,600,615	1,547,344	1,548,879	1,578,225
Revolving floorplan facilities	634,655	616,144	624,847	688,173	582,695	569,581	532,283	600,578
Non-current debt and lease obligations	332,450	331,803	338,212	330,563	330,351	291,408	295,922	293,273

Net Working Capital

The automobile manufacturers represented by the Company require the Company to maintain net working capital for each individual dealership. At December 31, 2017, the aggregate of net working capital requirements was approximately $109.0 million. At December 31, 2017, all working capital requirements had been met by each dealership. The working capital requirements imposed by the automobile manufacturers' may limit our ability to fund capital expenditures, acquisitions, dividends, or other commitments in the future if sufficient funds are not generated by the Company. Net working capital, as defined by automobile manufacturers, may not reflect net working capital as determined using GAAP measures. As a result, it is possible that the Company may meet automobile manufacturers' net working capital requirements without having sufficient aggregate working capital using GAAP measures. The Company defines net working capital amounts as current assets less current liabilities as presented in the consolidated financial statements. The net working capital requirements above restrict the Company's ability to transfer funds up from its subsidiaries, as each subsidiary dealership is required to be appropriately capitalized as explained above. In addition, our VCCI Facilities require the VW and Audi dealerships to maintain minimum cash and equity, which also restricts our ability to transfer 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:

2018	18,892
2019	16,429
2020	14,430
2021	14,199
2022	13,731
Thereafter	130,759
Total	208,440

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 27 of the Company's annual consolidated financial statements.

Related Party Transactions

Note 37 of the annual consolidated financial statements of the Company for the year ended December 31, 2017 summarizes the transactions between the Company and its related parties.

Transactions with Companies Controlled by the Former Chair of the Board of Directors of AutoCanada

Until May 5, 2017, Mr. Patrick Priestner was the Chair of AutoCanada and was a related party as a result of his position on the Board of Directors of AutoCanada. Prior to Priestner's retirement on May 5, 2017, the company had financial transactions with entities controlled by Priestner. Priestner is the controlling shareholder of Canada One Auto Group ("COAG") and its subsidiaries, which beneficially own approximately 8.6% (2016 – 8.6%) of the Company's shares. In addition to COAG, Priestner is the controlling shareholder of other companies from which AutoCanada earns administrative fees. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. All significant transactions between AutoCanada and companies controlled by Priestner were approved by the Company's independent members of the Board of Directors. The Company continues to provide services to entities controlled by Priestner, which are provided at market rates.

Loan to related parties

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

11. OUTSTANDING SHARES

As at December 31, 2017, the Company had 27,459,683 common shares outstanding. Basic and diluted weighted average number of shares outstanding for the year ended December 31, 2017 were 27,379,193 and 27,473,995, respectively. As at December 31, 2017, the value of the shares held in trust was $1.8 million (2016 – $1.8 million) which was comprised of 70,783 (2016 - 103,244) in shares with a nil aggregate cost. As at March 15, 2018, 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 2017:

Record date	Payment date	Per Share $	Total $
February 28, 2017	March 15, 2017	0.10	2,735
May 31, 2017	June 15, 2017	0.10	2,739
August 31, 2017	September 15, 2017	0.10	2,739
November 30, 2017	December 15, 2017	0.10	2,739
		0.40	10,952

On February 23, 2018 the Board declared a quarterly eligible dividend of $0.10 per common share on AutoCanada's outstanding Class A shares, payable on March 15, 2018 to shareholders of record at the close of business on March 1, 2018.

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 2017**	**Q3 2017**	**Q2 2017**	**Q1 2017**	**Q4 2016**	**Q3 2016**	**Q2 2016**	**Q1 2016**
Cash provided by operating activities	31,479	32,091	12,255	2,967	24,930	32,594	40,374	6,831
Deduct:								
Purchase of property and equipment	(1,983)	(977)	(1,273)	(2,346)	(1,506)	(1,697)	(2,452)	(2,786)
Free cash flow[1]	29,496	31,114	10,982	621	23,424	30,897	37,922	4,045
Weighted average shares outstanding at end of period	27,389,167	27,389,473	27,378,919	27,358,766	27,353,431	27,347,585	27,338,767	27,362,440
Free cash flow per share	1.08	1.14	0.40	0.02	0.86	1.13	1.39	0.15
Free cash flow - 12 month trailing	72,213	66,141	65,924	92,864	96,288	81,930	66,028	45,882

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

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

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

The following table summarizes the net increase in cash due to changes in non-cash working capital for the years ended December 31, 2017 and December 31, 2016.

(in thousands of dollars)	**January 1, 2017 to December 31, 2017**	**January 1, 2016 to December 31, 2016**
Trade and other receivables	(10,176)	8,031
Inventories	(104,383)	(8,765)
Finance lease receivables	1,978	1,014
Other current assets	2,418	150
Trade and other payables	(18,496)	2,670
Vehicle repurchase obligations	(283)	4,948
Revolving floorplan facilities	113,102	20,535
	(15,840)	28,583

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 2017**	**Q3 2017**	**Q2 2017**	**Q1 2017**	**Q4 2016**	**Q3 2016**	**Q2 2016**	**Q1 2016**
Cash provided by operating activities before changes in non-cash working capital	17,486	24,070	37,355	15,721	14,344	28,996	24,050	8,754
Deduct:								
Purchase of non-growth property and equipment	(1,490)	(774)	(1,078)	(504)	(1,211)	(1,230)	(2,418)	(2,719)
Adjusted free cash flow[1]	15,996	23,296	36,277	15,217	13,133	27,766	21,632	6,035
	27,389,167	27,389,473	27,378,919	27,358,766	27,353,431	27,347,585	27,338,767	27,362,440
Adjusted free cash flow per share	0.58	0.85	1.32	0.56	0.48	1.02	0.79	0.22
Adjusted free cash flow - 12 month trailing	90,786	87,923	92,393	77,748	68,566	63,511	54,696	52,251

[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, 2017, the Company paid approximately $9.9 million in 2016 corporate income taxes and 2017 tax installments. Accordingly, this reduced our adjusted free cash flow by this amount. The Company expects the payment of corporate income taxes to have a more significant negative affect on free cash flow and adjusted free cash flow. See "RESULTS FROM OPERATIONS – Income Taxes" for further detail regarding the impact of corporate income taxes on cash flow.

Adjusted Return on Capital Employed

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

(in thousands of dollars, except unit and per unit amounts)	**Q4 2017**	**Q3 2017**	**Q2 2017**	**Q1 2017**	**Q4 2016**	**Q3 2016**	**Q2 2016**	**Q1 2016**
EBITDA[1,2]	31,124	29,978	47,757	17,228	28,536	26,915	30,845	21,010
Deduct:								
Depreciation of property and equipment	(5,213)	(5,297)	(5,082)	(4,852)	(4,921)	(4,860)	(4,822)	(4,954)
EBIT[1,2]	25,911	24,681	42,675	12,376	23,615	22,055	26,023	16,056
Average long-term debt	339,741	353,315	357,103	351,986	333,310	315,678	310,281	300,520
Average shareholder's equity	534,338	526,209	510,610	498,732	491,026	503,163	516,513	510,595
Average capital employed[1]	874,079	879,524	867,713	850,718	824,336	818,841	826,794	811,115
Return on capital	3.0%	2.8%	4.9%	1.5%	2.9%	2.7%	3.1%	2.0%
Comparative adjustment[3]	24,371	25,959	25,959	25,959	25,959	(13,191)	(13,191)	(13,191)
Adjusted average capital employed[1]	899,244	905,482	893,672	876,677	830,720	805,650	813,603	797,924
Adjusted return on capital employed[1]	2.9%	2.7%	4.8%	1.4%	2.8%	2.7%	3.2%	2.0%
Adjusted return on capital employed - 12 month trailing	12.2%	12.1%	11.8%	9.9%	10.9%	10.6%	11.2%	11.7%

1 *These financial measures are identified and defined under the section "NON-GAAP MEASURES".*

2 *EBITDA and EBIT used in the calculation of Adjusted Return on Capital Employed is calculated using the financial results including non-controlling interests.*

3 *A comparative adjustment has been made in order to adjust for impairments and reversals of impairments of intangible assets. Due to the increased frequency of impairments and reversals of impairments, management has provided an adjustment in order to freeze intangible assets at the pre-IFRS amount of $43,700. As a result, all differences from January 1, 2010 forward under IFRS have been adjusted at the post-tax rate at the time the adjustment to the intangible asset carrying amount was made. Management believes that the adjusted return on capital employed provides more useful information about the return on capital employed.*

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

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 6 of the annual consolidated financial statements for the year ended December 31, 2017.

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, 2017. A listing of the standards issued which are applicable to the Company can be found in Note 5 of the annual consolidated financial statements for the year ended December 31, 2017.

The Company adopted the amendments to IAS 7, Statement of Cash Flows, effective for the annual consolidated financial statements commencing January 1, 2017.

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, 2017, 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, 2017, 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, 2017.

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 2017 Annual Information Form dated March 15, 2018 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:

Operating profit

Operating profit is a measure commonly reported and widely used by investors as an indicator of a company's operating performance. The Company believes Operating profit assists investors in analyzing a company's performance before the costs of debt and other financing, also excluding other gains or losses and income taxes. References to "Operating profit" are to earnings before interest expense interest income, other gains or losses and income taxes.

EBITDA

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

Adjusted EBITDA

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

Adjusted Net Earnings and Adjusted Net Earnings per Share

Adjusted net earnings and adjusted net earnings per share are measures of our profitability. Adjusted net earnings is calculated by adding back the after-tax effect of impairment or reversals of impairment of intangible assets, impairments of goodwill, the revaluation of redemption liabilities, the unrealized gain or loss on embedded derivatives, and the portion of share-based compensation related to changes in the share price and its impact on the Company's cash-settled portions of its share-based compensation programs, gains or losses on dealership divestitures and certain non-recurring items. Adding back these amounts to net earnings allows management to better assess the net earnings of the Company from continuing operations. Adjusted net earnings per share is calculated by dividing adjusted net earnings by the weighted-average number of shares outstanding.

EBIT

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

Free Cash Flow

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

Adjusted Free Cash Flow

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

Absorption Rate

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