2018

AutoCanada

2018 First Quarter Report

2018 First Quarter Report

Table of Contents

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

For the three month period ended March 31, 2018

1. READER ADVISORIES

This Management's Discussion & Analysis ("MD&A") was prepared as of May 3, 2018 to assist readers in understanding AutoCanada Inc.'s (the "Company" or "AutoCanada") consolidated financial performance for the three month period ended March 31, 2018 and significant trends that may affect AutoCanada's future performance. The following discussion and analysis should be read in conjunction with the unaudited condensed interim consolidated financial statements and accompanying notes (the "Interim Consolidated Financial Statements") of AutoCanada as at and for the three month period ended March 31, 2018, 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, and MD&A 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.

To provide more meaningful information, this MD&A typically refers to the operating results for the three month period ended March 31, 2018 of the Company, and compares these to the operating results of the Company for the three month period ended March 31, 2017.

AutoCanada entered into a definitive agreement to purchase the Illionois based Grossinger Auto Group which closed subsequent to the period ended March 31, 2018 and therefore is not reflected in the figures reported herein.

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 First 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 March 31		
Consolidated Operational Data	**2018**	**2017**	**% Change**
EBITDA attributable to AutoCanada shareholders[1,2]	15,694	14,136	11.0%
Adjusted EBITDA attributable to AutoCanada shareholders[1,2]	15,689	15,514	1.1%
Net earnings attributable to AutoCanada shareholders[1,2]	4,832	3,678	31.4%
Adjusted net earnings attributable to AutoCanada shareholders [1,2]	4,832	4,602	5.0%
Basic EPS	0.18	0.13	38.5%
Adjusted diluted EPS[2]	0.18	0.17	5.9%
Weighted average number of shares – Basic	27,388,859	27,358,766	0.1%
Weighted average number of shares – Diluted	27,475,458	27,509,758	-0.1%
New retail vehicles sold (units)	6,664	6,753	-1.3%
New fleet vehicles sold (units)	1,476	1,755	-15.9%
New vehicles sold (units)	8,140	8,508	-4.3%
Used retail vehicles sold (units)	4,527	4,547	-0.4%
Total vehicles sold	12,667	13,055	-3.0%
Revenue	620,485	639,027	-2.9%
Gross Profit	104,344	111,627	-6.5%
Gross Profit %	16.8%	17.5%	-3.9%
Operating expenses	95,781	98,170	-2.4%
Operating expenses % of Gross Profit	91.8%	87.9%	4.4%
Operating Profit	15,906	15,638	1.7%
Free cash flow[2]	(14,388)	621	-2416.9%
Adjusted free cash flow[2]	3,721	15,217	-75.5%
Same Store New retail vehicles sold (units)	5,902	5,752	2.6%
Same Store New fleet vehicles sold (units)	1,454	1,331	9.2%
Same store Used retail vehicles sold (units)	4,051	3,977	1.9%
Same Store Total vehicles sold	11,407	11,060	3.1%
Same Store Revenue	562,151	537,173	4.6%
Same Store Gross Profit	95,518	94,601	1.0%
Same Store Gross Profit %	17.0%	17.6%	-3.5%

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

2018 First Quarter Highlights

- Same store revenue of $562.1 million, up 4.6% in the first quarter of this year from the same period last year. Total revenue of $620.5 million, down 2.9% compared with the first quarter of 2017.
- Same store gross profit was $95.5 million, up 1.0% compared with the same quarter in 2017, with total gross profit of $104.3, down as a percentage of revenue decreasing to 16.8% from 17.5%.
- Same store unit sales and revenue from new vehicle sales were up 3.9% and 4.1%, respectively, year over year. The same-store positive performance was driven by increases in both volume and average revenue per vehicle sold. Total new vehicle sales were 8,140, down 4.3% from the same period in 2017. Total revenue from the sale of new vehicles was $338.0 million, down 4.4% from the same period in 2017. The sale of new vehicles accounted for 54.5% of the Company's total revenue and 22.5% of gross profit versus 55.3% of revenue and 22.9% of gross profit in the first quarter of 2017.
- For same store, unit sales and revenue from used vehicle sales were up 1.9% and 1.1%, respectively, year over year. Total used vehicle sales were 4,527, largely flat compared with the same quarter last year. Total revenue from the sale of used vehicles sales was $157.9 million, down 4.5% from same time last year. The sale of used vehicles accounted for 25.4% of the Company's total revenue and 8.2% of gross profit, versus 25.9% of revenue and 10.7% of gross profit in the first quarter of 2017.
- Same store parts, service and collision repair revenue grew by 11.8%. While the number of service and collision repair orders completed in the quarter declined year over year, the average price of those orders went up, driving an overall increase in revenue for this segment. Total parts, service and collision repair generated $95.9 million of revenue, up 5.7% from same time 2017. This accounted for 15.5% of the Company's total revenue and 43.6% of its gross profit, up from 14.2% of revenue and 42.4% of gross profit in the same quarter of 2017.
- On the same-store basis, revenue from finance and insurance grew by 9.0% and by 6.6% per retail vehicle sold. Total finance and insurance generated $28.7 million of revenue, a decrease of 2.3% from same period in 2017. This accounted for 4.6% of the Company's total revenue and 25.7% of its gross profit, flat from 4.6% of revenue and up from 24.0% of profit in the first quarter of 2017.
- Operating expenses were $95.8 million, down 2.4% from the same period last year. Operating expenses as a percentage of gross profit were up to 91.8% from 87.9% over the same period in 2017.
- EBITDA attributable to AutoCanada shareholders increased by 11.0% to $15.7 million from same time last year.
- The Company generated net earnings attributable to AutoCanada shareholders of $4.8 million ($4.8 million on an adjusted basis), or $0.18 per share ($0.18 adjusted) versus $3.7 million in 2017 ($4.6 million adjusted) or $0.13 per share ($0.17 adjusted).

3. OUTLOOK

New vehicle sales in Canada began 2018 at a stronger pace than 2017's record breaking year. While many do not expect that trend to continue throughout 2018 (as March figures showed their first year-over-year decline), the year is expected to be strong by historical standards. The shift to higher margin light trucks and SUVs has also continued, with light trucks accounting for 71.8% of vehicle sales in Canada, thus far in 2018.

First quarter US new vehicle sales are up more than 80,000 units over 2017, as sales were helped by a strong economy with low unemployment and continued OEM incentives. Light trucks accounted for more than two-thirds of vehicle sales in the quarter.

Through a series of recent acquisitions, AutoCanada's regional weighting has shifted away from Alberta, though the province does continue to play an important part in the Company's results.

Subsequent to the first quarter of 2018, the Company closed the previously announced acquisition of the Illinois-based Grossinger Auto Group. This acquisition has added a well-established business to AutoCanada's network and is expected to be accretive to the Company's earnings. It has brought new valuable OEM relationships and broadened AutoCanada's geographical reach and brand diversification through adding a combination of domestic, import and luxury dealerships to its portfolio.

The Company believes its capital allocation strategy and funds, including bank credit agreements in place, are flexible and efficient, and provide enough capacity for operating and capital expenditures, as well as corporate (e.g. acquisitions) purposes for the foreseeable future.

4. MARKET

The Company's geographical profile is illustrated below by number of dealerships and revenues and gross profit by province for the three month periods ended March 31, 2018 and March 31, 2017.

	March 31, 2018					
Location of Dealerships	Number of Franchises[1]	Number of Dealerships[1]	Revenue	Revenue % of Total	Gross Profit	Gross Profit % of Total
British Columbia	12	10	122,461	20%	19,443	19%
Alberta	25	22	216,908	35%	38,476	37%
Saskatchewan	4	4	51,980	8%	10,243	10%
Manitoba	4	4	42,175	7%	7,749	7%
Ontario	9	8	62,684	10%	9,680	9%
Quebec	6	4	95,378	15%	14,826	14%
Atlantic	2	2	28,899	5%	3,927	4%
Total	62	54	620,485	100%	104,344	100%

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

	March 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	124,753	20%	21,143	19%
Alberta	28	25	269,944	42%	48,146	43%
Saskatchewan	4	4	57,805	9%	11,013	10%
Manitoba	4	4	38,995	6%	8,028	7%
Ontario	9	8	54,323	8%	8,937	8%
Quebec	4	2	62,346	10%	9,666	9%
Atlantic	2	2	30,861	5%	4,694	4%
Total	64	56	639,027	100%	111,627	100%

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

The Company's manufacturers profile is illustrated below by number of dealerships and revenues by manufacturer for the three month periods ended March 31, 2018 and March 31, 2017.

	March 31, 2018				March 31, 2017			
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	285,352	46%	23	17	268,283	42%
General Motors	5	5	58,256	9%	9	9	141,777	22%
Hyundai	9	9	41,995	7%	9	9	42,718	7%
Nissan /Infiniti	7	7	69,882	11%	7	7	67,982	11%
Volkswagen / Audi	8	8	59,690	10%	8	8	40,928	6%
BMW / MINI	4	2	64,958	10%	4	2	62,346	10%
Other	6	6	40,352	7%	4	4	14,993	2%
Total	62	54	620,485	100%	64	56	639,027	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 1.8% compared to the prior year. New light vehicle sales in Alberta and Saskatchewan for the quarter ended March 31, 2018 were down 3.5% and 16.9%, respectively when compared to the same period in 2017. The decline in new vehicle sales in Western Canada during the period ended March 31, 2018 is partially due to prolonged winter weather conditions when compared to the same period in 2017.

The Company's same stores unit sales of new retail vehicles increased by 2.6% during the three month period ended March 31, 2018 compared to the same period of the prior year.

Canadian New Vehicle Sales by Province [1,2]

	2018	2017	Percent Change	Unit Change
British Columbia	50,338	50,251	0.2%	87
Alberta	51,484	53,342	(3.5)%	(1,858)
Saskatchewan	10,524	12,659	(16.9)%	(2,135)
Manitoba	16,358	12,698	28.8%	3,660
Ontario	180,809	172,665	4.7%	8,144
Quebec	94,729	92,994	1.9%	1,735
Atlantic	25,016	26,909	(7.0)%	(1,893)
Total	429,258	421,518	1.8%	7,740

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.*

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

	March 31, 2018	March 31, 2017	Percent Change	Unit Change
Audi	7,936	6,887	15.2%	1,049
BMW	8,210	7,855	4.5%	355
FCA	61,082	64,089	-4.7%	-3,007
General Motors	64,931	61,248	6.0%	3,683
Hyundai	21,314	24,128	-11.7%	-2,814
Infiniti	2,855	2,800	2.0%	55
Kia	13,882	13,775	0.8%	107
Mercedes-Benz	12,072	12,413	-2.7%	-341
MINI	1,257	1,156	8.7%	101
Mitsubishi	5,558	4,439	25.2%	1,119
Nissan	30,986	30,836	0.5%	150
Subaru	11,305	10,422	8.5%	883
Volkswagen	13,940	10,311	35.2%	3,629
Mazda	16,075	15,484	3.8%	591
Total - AutoCanada Brands	271,403	265,843	2.1%	5,560
Other - Non-AutoCanada Brands	157,855	155,675	1.4%	2,180
Total	429,258	421,518	1.8%	7,740

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
Duncan, BC	Island Chevrolet Buick GMC	General Motors	2013	Y	Leased
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	Volkswagen	2017	Q2 2019	Owned
Spruce Grove, AB	Grove Dodge Chrysler Jeep	FCA	2015	Y	Leased
North Battleford, SK	Bridges Chevrolet Buick GMC	General Motors	2014	Y	Owned
Saskatoon, SK	Dodge City Chrysler Jeep Dodge Ram	FCA	2014	Y	Leased
Winnipeg, MB	McNaught Cadillac Buick GMC	General Motors	2014	Y	Owned
Winnipeg, MB	Audi Winnipeg	Audi	2013	Y	Owned
Winnipeg, MB	St. James Volkswagen	Volkswagen	2013	Y	Owned

Location	Operating Name	Franchise	Year Opened or Acquired	Same Stores[1]	Owned or Leased[2]
Winnipeg, MB	Eastern Chrysler Jeep Dodge	FCA	2014	Y	Owned
Cambridge, ON	Cambridge Hyundai	Hyundai	2008	Y	Owned
Mississauga, ON	401 Dixie Hyundai	Hyundai	2008	Y	Leased
Guelph, ON	Guelph Hyundai	Hyundai	2016	Q1 2019	Owned
Guelph, ON	Wellington Motors	FCA	2016	Q4 2018	Owned
Ottawa, ON	Hunt Club Nissan	Nissan	2015	Y	Leased
Ottawa, ON	417 Nissan	Nissan	2015	Y	Leased
Ottawa, ON	417 Infiniti	Infiniti	2015	Y	Leased
Toronto, ON	Toronto Chrysler Jeep Dodge Ram	FCA	2014	Y	Leased
Montreal, QB	Mercedes-Benz Rive-Sud	Mercedes-Benz	2017	Q3 2019	Leased
Moncton, NB	Moncton Chrysler Jeep Dodge	FCA	2001	Y	Owned
Dartmouth, NS	Dartmouth Chrysler Jeep Dodge	FCA	2006	Y	Leased
Majority Owned:					
Prince Albert, SK	Mann-Northway Auto Source	General Motors	2014	Y	Leased
Saskatoon, SK	Saskatoon Motor Products	General Motors	2014	Y	Leased
Laval, QC	BMW Laval and MINI Laval	BMW / MINI	2014	Y	Owned
Montreal, QC	BMW Canbec and MINI Mont Royal	BMW / MINI	2014	Y	Leased
Montreal, QC	Planete Mazda	Mazda	2017	Q1 2020	Leased

1 *Same Stores (indicated with the letter "Y" in the table above) means the franchised automobile dealership has been owned for at least 2 full years since acquisition. The dealership is then included in the quarter thereafter, for Same Stores analysis.*
2 *This column summarizes whether the dealership property is owned or leased.*

5. SELECTED QUARTERLY FINANCIAL INFORMATION

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

(in thousands of dollars, except Gross Profit %, Earnings per share, and Operating Data)	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016
Income Statement Data								
New vehicles	338,016	417,626	497,711	558,682	353,540	348,107	444,482	497,025
Used vehicles	157,901	175,251	192,473	182,913	165,408	157,724	179,582	208,016
Parts, service and collision repair	95,893	107,156	104,816	113,983	90,735	92,310	95,585	100,317
Finance, insurance and other	28,675	33,027	39,571	39,324	29,344	31,133	33,529	36,899
Revenue	620,485	733,060	834,571	894,902	639,027	629,274	753,178	842,257
New vehicles	23,473	30,033	36,806	38,555	25,590	25,042	31,578	34,410
Used vehicles	8,562	7,563	11,140	13,095	11,940	10,064	12,950	13,758
Parts, service and collision repair	45,533	56,915	53,805	56,306	47,284	52,957	47,676	52,957
Finance, insurance and other	26,776	30,699	36,218	35,867	26,813	28,722	30,733	33,577
Gross profit	104,344	125,210	137,969	143,823	111,627	116,785	122,937	134,702
Gross Profit %	16.8%	17.1%	16.5%	16.1%	17.5%	18.6%	16.3%	16.0%
Operating expenses	95,781	104,626	110,560	112,897	98,170	97,397	99,041	107,932
Operating expenses as a % of gross profit	91.8%	83.6%	80.1%	78.5%	87.9%	83.4%	80.6%	80.1%
Operating profit[2]	15,906	26,505	30,287	46,539	15,638	20,761	(28,776)	28,442
(Recovery) impairment of intangible assets and goodwill	–	(816)	–	–	–	–	54,096	–
Net earnings (loss) attributable to AutoCanada shareholders	4,832	17,089	12,100	24,977	3,678	13,785	(32,619)	14,158
Adjusted net earnings attributable to AutoCanada shareholders[2,4]	4,832	8,935	13,581	15,547	4,602	7,536	10,327	15,523
EBITDA attributable to AutoCanada shareholders[2]	15,694	28,127	25,827	43,722	14,136	25,260	23,842	27,072
EBITDA attributable to AutoCanada shareholders as a % of Sales[2]	2.5%	3.8%	3.1%	4.9%	2.7%	4.5%	3.6%	3.7%
Free cash flow[2]	(14,388)	29,496	31,114	10,982	621	23,424	30,897	37,922
Adjusted free cash flow[2]	3,721	15,996	23,296	36,277	15,217	13,133	27,766	21,632
Basic earnings (loss) per share	0.18	0.62	0.44	0.91	0.13	0.50	(1.19)	0.53
Diluted earnings (loss) per share	0.18	0.62	0.44	0.91	0.13	0.50	(1.19)	0.53
Basic adjusted earnings per share[2,4]	0.18	0.33	0.50	0.57	0.17	0.28	0.38	0.57
Diluted adjusted earnings per share[2,4]	0.18	0.33	0.50	0.57	0.17	0.27	0.38	0.57
Dividends declared per share	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Operating Data								
Vehicles (new and used) sold[3]	12,667	14,475	17,132	18,490	13,055	12,912	15,955	17,425
New vehicles sold[3]	8,140	9,822	12,014	13,429	8,508	8,449	10,983	12,098
New retail vehicles sold[3]	6,664	8,444	10,334	10,545	6,753	7,590	8,949	9,374
New fleet vehicles sold[3]	1,476	1,378	1,680	2,884	1,755	859	2,034	2,724
Used retail vehicles sold[3]	4,527	4,653	5,118	5,061	4,547	4,463	4,972	5,327
# of service and collision repair orders completed[3]	180,429	224,006	220,669	228,872	197,069	217,418	209,912	227,446
Absorption rate[2]	84%	90%	87%	87%	82%	86%	89%	90%
# of dealerships at period end	54	58	57	57	56	55	53	53
# of same stores dealerships[1]	49	49	48	47	47	44	33	27
# of service bays at period end	906	999	977	977	949	928	898	898
Same stores revenue growth[1]	4.6%	11.1%	2.9%	0.1%	(7.1)%	(10.0)%	(9.2)%	(3.2)%
Same stores gross profit growth[1]	1.0%	1.4%	6.3%	1.1%	(1.2)%	(5.8)%	(11.0)%	(5.3)%

1 *Same store revenue growth and Same stores gross profit growth is calculated using franchised automobile dealerships that we have owned for at least 2 full years. Same stores 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 these dealerships in which we have less than 100% investment.*
4 *In Q1 2018, the Company redefined the calculation of adjusted net earnings.*
5 *The results from operations have historically been lower in the first and fourth quarters of each year, largely due to consumer purchasing patterns during the holiday season, inclement weather and the reduced number of business days during the holiday season. As a result, our financial performance is generally not as strong during the first and fourth quarters than during the other quarters of each fiscal year. The timing of acquisitions and divestitures may have also caused significant fluctuations in operating results from quarter to quarter.*

6. RESULTS OF OPERATIONS

First Quarter Operating Results

EBITDA attributable to AutoCanada shareholders for the quarter increased by $1.6 million or 11.0% to $15.7 million, from $14.1 million when compared to the results of the Company for the same period in the prior year. The increase in EBITDA attributable to AutoCanada shareholders for the quarter is partially due to the gain on the divesture of four dealerships. Adjusted EBITDA attributable to AutoCanada shareholders for the quarter ended March 31, 2018 increased by $0.2 million or 1.1% from $15.5 million to $15.7 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 March 31, for the last three years of operations:

(in thousands of dollars)	**2018**	**2017**	**2016**
Period from January 1 to March 31			
Net earnings attributable to AutoCanada shareholders	4,832	3,678	7,272
Income taxes[2]	1,860	1,249	2,477
Depreciation of property and equipment[2]	4,936	4,596	4,687
Interest on long-term indebtedness[2]	4,066	4,613	3,876
EBITDA attributable to AutoCanada shareholders[1]	15,694	14,136	18,312
Add back:			
Share-based compensation attributed to changes in share price	(20)	4	59
Revaluation of redemption liabilities	–	(310)	1,262
Revaluation of contingent consideration	15	–	–
Unrealized gain on embedded derivative	–	–	20
Non-recurring management transition costs	–	1,684	–
Adjusted EBITDA attributable to AutoCanada shareholders[1,3]	15,689	15,514	19,653

1 *This financial measure is identified and defined under the section "NON-GAAP MEASURES".*
2 *Represents the portion attributable to AutoCanada shareholders.*
3 *In Q1 2018, the company redefined the calculation of adjusted EBITDA to include the effect of dealership divestitures. As a result, the value presented for Q1 2016 has been restated as presented above.*

Pre-tax earnings attributable to AutoCanada shareholders was flat for the quarter compared to the same period of the prior year. Net earnings attributable to AutoCanada shareholders increased by $1.2 million or 31.4% to $4.8 million in the first quarter of 2018 from $3.7 million when compared to the prior year.

Income tax expense attributable to AutoCanada shareholders increased by $0.6 million to $1.9 million in the first quarter of 2018 from $1.2 million in the same period of 2017.

Adjusted net earnings attributable to AutoCanada shareholders increased by $0.2 million or 5.0% to $4.8 million for the quarter from $4.6 million in the same period of the prior year.

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

(in thousands of dollars)	2018	2017	2016
Net earnings attributable to AutoCanada shareholders	4,832	3,678	7,272
Add back:			
Share-based compensation attributed to changes in share price, net of tax	(15)	3	43
Revaluation of redemption liabilities	–	(310)	1,262
Unrealized gain on embedded derivative	–	–	20
Revaluation of contingent consideration	15	–	–
Non-recurring management transition costs	–	1,231	–
Adjusted net earnings attributable to AutoCanada shareholders[1,2]	4,832	4,602	8,597
Weighted average number of shares - Basic	27,388,859	27,358,766	27,362,440
Weighted average number of shares - Diluted	27,475,458	27,509,758	27,427,695
Adjusted net earnings per share attributable to AutoCanada shareholders - Basic[1]	0.18	0.17	0.31
Adjusted net earnings per share attributable to AutoCanada shareholders - Diluted[1]	0.18	0.17	0.31

1 *This financial measure is identified and defined under the section "NON-GAAP MEASURES".*
2 *In Q1 2018, the company redefined the calculation of adjusted net earnings to include the effect of dealership divestitures. As a result, the value presented for Q1 2016 has been restated as presented above.*

Revenues

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

	2018 $	2017 $	Change $
New vehicles	338,016	353,540	(15,524)
Used vehicles	157,901	165,408	(7,507)
Parts, service and collision repair	95,893	90,735	5,158
Finance, insurance and other	28,675	29,344	(669)
Total Revenue	620,485	639,027	(18,542)

Gross Profit

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

	2018 $	2017 $	Change $
New vehicles	23,473	25,590	(2,117)
Used vehicles	8,562	11,940	(3,377)
Parts, service and collision repair	45,533	26,813	(1,751)
Finance, insurance and other	26,776	47,284	(39)
Total Gross Profit	104,344	111,627	(7,284)

New vehicles

New vehicle revenue decreased by 4.4% for the quarter in part due to the decrease in new vehicles sold when compared to the same period of the prior year.

The Gross profit decrease in the quarter from new vehicles is partially due to a quarterly decrease in gross profit per unit of $124, and a decrease in new vehicles sold of 368 compared to the same period of the prior year.

Used vehicles

Used vehicle revenue decreased by 4.5% for the quarter in part due to fewer dealerships when compared to the same period of the prior year. The decrease in gross profit in the quarter from used vehicles is due to a decline in gross profit per unit of $734.

Finance, insurance and other

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

Finance and insurance revenue and gross profit remained relatively constant compared to the same period in the prior year, with a decrease in revenue of 2.3% and no change in gross profit percentage.

Parts, service and collision repair

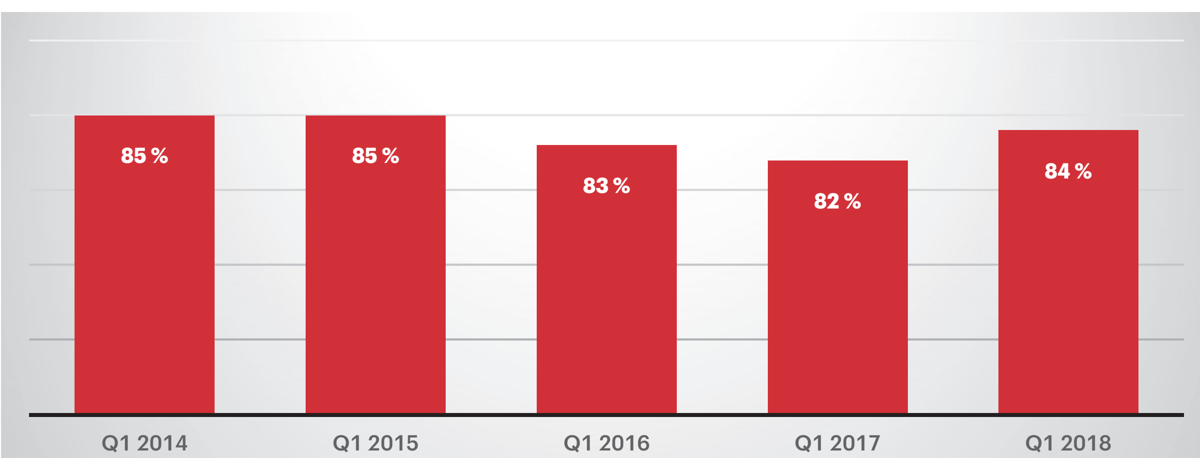
Parts, service and collision repair revenues increased by 5.7% in the quarter

Gross profit in the quarter from parts, service and collision repair decreased by 3.7% which is due to a decrease in repair orders of 16,640 partially offset by an increase in gross profit per order of $12 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 Q1 2014 period:



Over the past five years the absorption rate for the period ending March 31 has ranged between 85% to a low of 82% in 2017. For the period ended March 31, 2018, an absorption rate of 84% has been achieved which shows a recovery over both 2016 and 2017 comparable periods. This is an 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 largely variable in nature. Our dealership pay structures are tied to meeting sales objectives, maintaining customer satisfaction indices, as well as improving gross profit and net income.

Administrative costs

Administrative costs comprise the remaining costs of running our dealerships. Advertising, utilities, service shop consumables, information processing, insurance, and consulting costs comprise a significant portion of the administrative costs. Administrative costs can be either fixed or variable in nature. The Company 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 table summarizes operating expenses as a percentage of gross profit, broken into their fixed and variable components. Fixed expenses are costs that do not fluctuate with changes in sales volume while variable expenses are costs that vary depending on sales volume.

	Three Months Ended March 31		
	2018	**2017**	**Change**
Employee costs before management transition costs	54.9%	53.2%	1.7%
Management transition costs	–%	1.5%	(1.5)%
Administrative costs - Variable	19.6%	17.9%	1.7%
Total Variable Expenses	74.5%	72.6%	1.9%
Administrative costs - Fixed	6.8%	5.8%	1.0%
Facility lease costs	5.7%	5.1%	0.6%
Depreciation of property and equipment	4.8%	4.4%	0.4%
Total fixed expenses	17.3%	15.3%	2.0%
Total operating expenses	91.8%	87.9%	3.9%

Total Operating Expenses

Total operating expenses have decreased by $2.4 million compared to the previous period of the prior year, however operating expenses as a percentage of gross profit have increased by 3.9% in the quarter.

Variable Expenses

Total variable expenses for the quarter have increased by 1.9% in the quarter.

Employee costs for the quarter decreased by $3.8 million compared to Q1 2017 but as a percentage of gross profit increased in the quarter by 1.7%.

Variable Administrative costs increased by $0.3 million which is largely attributed to acquisition costs incurred in the current quarter. As a percentage of gross profit, variable administrative costs increased by 1.7% for the quarter ended March 31, 2018.

Fixed Expenses

Total fixed expenses for the quarter increased by 2.0%.

Fixed administrative costs increased by $0.6 million which is 1.0% for the quarter, as a percentage of gross profit. The increase was related to increased property taxes and utility expenses during the quarter when compared to prior period. Facility lease costs and depreciation of property and equipment saw a 0.6% and 0.4% increase, respectively, for the quarter.

Income Taxes

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

	2018 $	**2017 $**
Current tax	2,801	4,487
Recovery of deferred tax	(800)	(2,492)
Income tax expense	2,001	1,995

Income tax expense is recognized based on Management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual rates used for the three month period ended March 31, 2018 was 26.9% (March 31, 2017 - 26.9%).

Finance costs

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

During the three month period ended March 31, 2018, finance costs on our revolving floorplan facilities increased by 42.8% to $4.7 million from $3.3 million in the same period of the prior year, mainly due to increased interest rates.

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 March 31		
(in thousands of dollars)	**2018**	**2017**	**Change**
Floorplan financing	4,705	3,295	1,410
Floorplan credits earned	(3,201)	(3,714)	513
Net carrying cost of vehicle inventory	1,504	(419)	1,923

7. SAME STORES RESULTS

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

The dealerships which have been acquired over the past two years are integrating well into their respective platforms and within the Company. Four dealerships have been added to same stores in the first quarter of 2018. We are satisfied with the integration of dealerships and continue to dedicate significant resources to newly acquired dealerships in order to successfully integrate acquisitions in an efficient manner. As a result, we expect to incur additional selling and administrative costs in the future in order to successfully integrate new dealerships into our model.

Number of Same Stores by Province

The following table summarizes the number of same stores for the period ended March 31, 2018 by Province:

	British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	Atlantic	Total
FCA	3	8	1	1	1	–	2	16
Hyundai	2	4	–	–	2	–	–	8
General Motors	1	–	3	1	–	–	–	5
Volkswagen	3	2	–	1	–	–	–	6
Nissan/Infiniti	1	3	–	–	3	–	–	7
Mitsubishi	–	2	–	–	–	–	–	2
BMW/MINI	–	–	–	–	–	2	–	2
Audi	–	–	–	1	–	–	–	1
Subaru	–	1	–	–	–	–	–	1
KIA	–	1	–	–	–	–	–	1
Total	10	21	4	4	6	2	2	49

Same Stores Revenue and Vehicles Sold

	Three Months Ended March 31		
(in thousands of dollars)	**2018**	**2017**	**% Change**
Revenue Source			
New vehicles - Retail	245,958	243,468	1.0%
New vehicles - Fleet	59,298	49,680	19.4%
Total New vehicles	305,256	293,148	4.1%
Used vehicles - Retail	103,136	99,979	3.2%
Used vehicles - Wholesale	41,220	42,752	(3.6)%
Total Used vehicles	144,356	142,731	1.1%
Finance, insurance and other	27,141	24,892	9.0%
Subtotal	476,753	460,771	3.5%
Parts, service and collision repair	85,398	76,402	11.8%
Total	562,151	537,173	4.6%
New retail vehicles sold (units)	5,902	5,752	2.6%
New fleet vehicles sold (units)	1,454	1,331	9.2%
Used retail vehicles sold (units)	4,051	3,977	1.9%
Total	11,407	11,060	3.1%
Total vehicles retailed (units)	9,953	9,729	2.3%

Revenues - Same Stores Analysis

Same stores revenue increased by $25.0 million or 4.6%, for the three month period ended March 31, 2018 respectively when compared to the same period in the prior year.

New vehicle revenues increased by $12.1 million or 4.1% for the first quarter of 2018 over the prior year due to an increase in new vehicle sales of 273 units or 3.9% and a increase in the average revenue per new vehicle sold of $110 or 0.3%.

Same stores used vehicle revenues increased by $1.6 million or 1.1% for the three month period ended March 31, 2018 over the same period in the prior year due to a increase in used vehicle sales of 74 units or 1.9% and a decrease in the average revenue per used vehicle sold of $254 or 0.7%.

Same stores parts, service and collision repair revenue increased by $9.0 million or 11.8% for the first quarter of 2018 compared to the prior period and was primarily a result of a $64 or 14.0% increase in the average revenue per repair order completed and a decrease in overall repair orders completed of 3,102.

Same stores finance, insurance and other revenue increased by $2.2 million or 9.0% for the three month period ended March 31, 2018 over the same period in 2017. This was due to an increase in the number of new and used vehicles retailed of 187 units, coupled with an increase in the average revenue per unit retailed of$179 or 7.0%.

Same Stores Gross Profit and Gross Profit Percentage

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

	Three Months Ended March 31				
	Gross Profit			Gross Profit %	
(in thousands of dollars)	2018	2017	% Change	2018	2017
Revenue Source					
New vehicles - Retail	19,988	20,042	(0.3)%	8.1%	8.2%
New vehicles - Fleet	1,120	1,585	(29.3)%	1.9%	3.2%
Total New vehicles	21,108	21,627	(2.4)%	6.9%	7.4%
Used vehicles - Retail	7,148	9,088	(21.3)%	6.9%	9.0%
Used vehicles - Wholesale	814	1,137	(28.4)%	2.0%	2.7%
Total Used vehicles	7,962	10,225	(22.1)%	5.5%	7.2%
Finance, insurance and other	25,348	22,756	11.4%	93.4%	91.4%
Subtotal	54,418	54,608	(0.3)%	11.4%	11.9%
Parts, service and collision repair	41,100	39,993	2.8%	48.1%	52.3%
Total	95,518	94,601	1.0%	17.0%	17.6%

Gross Profit - Same Stores Analysis

Same stores gross profit increased by $0.9 million or 1.0% for the three month period ended March 31, 2018 respectively when compared to the same period in the prior year.

New vehicle gross profit decreased by $0.5 million or 2.4% in the three month period ended March 31, 2018 when compared to 2017 as a result of a increase in new vehicle sales of 273 units or 3.9%, and a decrease in the average gross profit per new vehicle sold of $184 or 6.0%.

Used vehicle gross profit decreased by $2.3 million or 22.1% in the three month period ended March 31, 2018 over the prior year. This was due to a decrease in the average gross profit per used vehicle retailed of $606 or 23.6%, offset by an increase in the number of used vehicles sold of 74 units or 1.9%.

Parts, service and collision repair gross profit increased by $1.1 million or 2.8% in the three month period ended March 31, 2018 when compared to the same period in the prior year despite a decrease in the number of repair orders completed of 3,102.

Finance and insurance gross profit increased by $2.6 million or 11.4% in the three month period ended March 31, 2018 when compared to the prior year as a result of an increase in new and used units retailed of 224, coupled with an increase in the average gross profit per unit sold of $217 or 9.3%.

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

	Three Months Ended March 31		
(in thousands of dollars)	**2018**	**2017**	**% Change**
British Columbia	122,461	110,977	10.3%
Alberta	207,643	199,854	3.9%
Saskatchewan	51,980	57,805	(10.1)%
Manitoba	42,175	38,995	8.2%
Ontario	44,036	36,254	21.5%
Quebec	64,958	62,429	4.1%
Atlantic	28,898	30,859	(6.4)%
Total	562,151	537,173	4.6%

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

	Three Months Ended March 31		
(in thousands of dollars)	**2018**	**2017**	**% Change**
British Columbia	19,436	19,250	1.0%
Alberta	36,743	36,035	2.0%
Saskatchewan	10,243	11,013	(7.0)%
Manitoba	7,749	8,028	(3.5)%
Ontario	6,633	5,862	13.2%
Quebec	10,787	9,721	11.0%
Atlantic	3,927	4,692	(16.3)%
Total	95,518	94,601	1.0%

8. ACQUISITIONS, RELOCATIONS AND REAL ESTATE

Dealership Operations and Expansion

Our goals are to maximize the profit potential of every store and to generate incremental growth through accretive acquisitions. With the addition of our first U.S market acquisition after the quarter, we now currently operate 68 dealerships, representing 27 brands. We continue with our acquisition strategy, focusing on a greater diversification in both geography and brand. The Company is being patient with our acquisition strategy, searching for acquisitions that are accretive and provide diversity. The Company plans to diversify its geographies 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.

Grossinger Auto Group

On March 22, 2018, the Company entered into a definitive agreement to purchase the Illinois based Grossinger Auto Group, which owns and operates eight dealerships in Metro Chicago plus six luxury/premium brands in an automall in nearby Bloomington/Normal, IL. The Company paid C$135 million (US$105 million) for Grossinger, including approximately C$10 million of land and building, and will finance the transaction through a combination of funds drawn on the recently announced syndicated credit facility, proceeds from the repayment of Loans to associate and payments received from the Company's recent divesture of dealerships in Canada. In 2017, Grossinger retailed 14,930 new and used vehicles and generated revenue of US$401 million (C$513 million). The acquisition diversifies the Company's portfolio by adding four new brands - Toyota, Honda, Lincoln and Volvo - and extends its geographical presence into the U.S. for the first time.

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

AutoCanada continues to diligently evaluate acquisition opportunities. We believe that we have sufficient capital to be able to acquire stores that meet our specific criteria in 2018. Our focus remains on flagship stores in each market and we look to acquire or create clusters of dealerships in key urban markets.

General Motors Transaction

On January 2, 2018, we executed 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, with AutoCanada assuming 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.

The New PCMA allows 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, which resulted in the divestiture of four GM dealerships, our March 31, 2018 results reported a decrease to Revenue, Gross Profit, and Unit sales.

Dealership Open Points

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

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

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 $34.2 million to the end of 2022. 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 $66.9 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 points. The Company currently estimates approximately $16.6 million in capital costs that it may incur by the end of 2019 related to currently awarded Open Points. If awarded in the future, Management will provide additional cost estimates and timing of construction. In order to be successful in some opportunities, Management may be required to secure appropriate land for the potential open points, in which case, additional land purchase costs may be incurred 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	2.7	0.5	14.5	16.5	–	34.2
Dealership expansion and imaging requirements	16.3	17.4	8.4	13.7	11.1	66.9
Capital Plan	19.0	17.9	22.9	30.2	11.1	101.1
Expected to be financed	2.6	8.6	–	–	–	11.2
Cash outlay[1]	16.4	9.3	22.9	30.2	11.1	89.9
Non Same Store						
Dealership expansion and imaging requirements	7.2	6.4	4.0	0.7	1.2	19.5
Open point opportunities	3.5	13.1	–	–	–	16.6
Capital Plan	10.7	19.5	4.0	0.7	1.2	36.1
Expected to be financed	6.5	12.1	2.3	0.5	–	21.4
Cash outlay[1]	4.2	7.4	1.7	0.2	1.2	14.7
Total Capital Plan	29.7	37.4	26.9	30.9	12.3	137.2
Total Cash outlay	20.6	16.7	24.6	30.4	12.3	104.6

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

The five year capital plan at March 31, 2018 is $137.2 million for contemplated future capital projects remaining.

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

9. LIQUIDITY AND CAPITAL RESOURCES

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

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 March 31, 2018 is as follows:

- The Company had drawn $117.8 million on its $250.0 million revolving term facility.

As a result of the above, as at March 31, 2018, the Company currently has approximately $132.2 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 three month period ended March 31, 2018 was a net outflow of $13.1 million (cash provided by operating activities of $4.9 million less negative net change in non-cash working capital of $18.0 million) compared to an inflow of $3.0 million (cash provided by operating activities of $15.8 million less negative net change in non-cash working capital of $12.8 million) in the same period of the prior year.

Cash Flow from Investing Activities

For the three month period ended March 31, 2018, cash flow from investing activities of the Company was $27.3 million as compared to a net outflow of $5.0 million in the same period of the prior year.

Cash Flow from Financing Activities

For the three month period ended March 31, 2018, cash flow from financing activities was a net outflow of $28.6 million as compared to a net outflow of $3.8 million in the same period of 2017.

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. Updates to credit facilities and floorplan financing are included in Note 18 of the interim consolidated financial statements for the three month period ended March 31, 2018.

On April 12, 2018, the Company completed a $1,080 million syndicated credit agreement with the Bank of Nova Scotia ("Scotiabank"), the Canadian Imperial Bank of Commerce ("CIBC"), the Royal Bank of Canada ("RBC"), HSBC and Alberta Treasury Branch ("ATB"), with Scotiabank serving as the administrative agent for the Facility. The three-year Credit agreement provides the company with a $660 million facility for floorplan and lease financing of new, used and demonstrator vehicles, a $350 million facility for the financing of acquisitions and capital expenditures and a $70 million facility for general corporate purposes.

Key Financial Covenants

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

The following is a summary of the Company's actual performance against its financial covenants as at March 31, 2018:

Financial Covenant	Requirement	Q1 2018 Calculation	Q4 2017 Calculation
Syndicated Revolver:			
Senior Secured Leverage Ratio	Shall not exceed 2.75	1.23	1.46
Adjusted Total Leverage Ratio	Shall not exceed 5.00	3.64	3.79
Fixed Charge Coverage Ratio	Shall not be less than 1.20	2.33	2.92
Current Ratio	Shall not be less than 1.05	1.14	1.18
Syndicated Floorplan:			
Current Ratio	Shall not be less than 1.05	1.11	1.12
Tangible Net Worth (millions)	Shall not be less than $40 million	80.9	81.8
Debt to Tangible Net Worth	Shall not exceed 7.50	5.93	5.56

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

As at March 31, 2018, 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. There have been no significant changes to the Company's financial instruments since that time.

Growth vs. Non-Growth Capital Expenditures

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

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

(in thousands of dollars)	**January 1, 2018 to March 31, 2018**	**January 1, 2017 to March 31 2017**
Leasehold improvements	195	–
Machinery and equipment	429	290
Furniture and fixtures	240	107
Computer equipment	357	107
	1,221	504

Amounts relating to the expansion of sales and service capacity are considered growth expenditures. Growth expenditures are discretionary, represent cash outlays intended to provide additional future cash flows and are expected to provide benefit in future periods. Dealership relocations are included as growth expenditures if they contribute to the expansion of sales and service capacity of the dealership. During the three month period ended March 31, 2018, growth capital expenditures of $5.7 million were incurred. These expenditures related primarily to building construction costs purchased for future dealership operations during the first quarter of 2018.

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

(in thousands of dollars)	**January 1, 2018 to March 31, 2018**	**January 1, 2017 to March 31, 2017**
Purchase of property and equipment from the Statement of Cash Flows	7,615	4,844
Less: Amounts related to the expansion of sales and service capacity	(6,394)	(4,340)
Purchase of non-growth property and equipment	1,221	504

Repairs and maintenance expenditures are expensed as incurred and have been deducted from earnings for the period. Repairs and maintenance expense incurred during the three month period ended March 31, 2018 were $1.6 million (2017 - $1.6 million).

Planned Capital Expenditures

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

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

Financial Position

The following table shows selected audited balances of the Company (in thousands) for December 31, 2017 and December 31, 2016, as well as unaudited balances of the Company at March 31, 2018, September 30, 2017, June 30, 2017, March 31, 2017, September 30, 2016, and June 30, 2016:

(in thousands of dollars)	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016
Cash and cash equivalents	81,177	94,660	104,966	95,417	100,402	103,221	96,368	77,582
Trade and other receivables	130,388	79,931	137,155	157,275	113,688	85,587	108,363	115,427
Inventories	694,691	659,593	636,685	629,171	701,559	619,718	597,831	555,957
Total Assets	1,670,224	1,761,046	1,693,533	1,698,290	1,707,063	1,600,615	1,547,344	1,548,879
Revolving floorplan facilities	690,163	634,655	616,144	624,847	688,173	582,695	569,581	532,283
Non-current debt and lease obligations	307,152	332,450	331,803	338,212	330,563	330,351	291,408	295,922

Net Working Capital

The automobile manufacturers represented by the Company require the Company to maintain net working capital for each individual dealership. At March 31, 2018, the aggregate of net working capital requirements was approximately $124.5 million. At March 31, 2018, all working capital requirements had been met by each dealership. The working capital requirements imposed by the automobile manufacturers' may limit our ability to fund capital expenditures, acquisitions, dividends, or other commitments in the future if sufficient funds are not generated by the Company. Net working capital, as defined by automobile manufacturers, may not reflect net working capital as determined using GAAP measures. As a result, it is possible that the Company may meet automobile manufacturers' net working capital requirements without having sufficient aggregate working capital using GAAP measures. The Company defines net working capital amounts as current assets less current liabilities as presented in the consolidated financial statements.

The net working capital requirements above restrict the Company's ability to transfer funds up from its subsidiaries, as each subsidiary dealership is required to be appropriately capitalized as explained above. In addition, our VCCI Facilities require the VW and Audi dealerships to maintain minimum cash and equity, which also restricts our ability to transfer and consolidate funds.

Off Balance Sheet Arrangements

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

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

2018	14,169
2019	16,429
2020	14,430
2021	14,199
2022	13,731
Thereafter	130,759
Total	203,717

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.

10. OUTSTANDING SHARES

As at March 31, 2018, the Company had 27,459,683 common shares outstanding. Basic and diluted weighted average number of shares outstanding for the three month period ended March 31, 2018 were 27,388,859 and 27,475,458, respectively. As at March 31, 2018, the value of the shares held in trust was $1.8 million (2017 – $2.1 million) which was comprised of 71,120 (2017 - 95,123) in shares with a nil aggregate cost. As at May 3, 2018, there were 27,459,683 shares issued and outstanding.

11. DIVIDENDS

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

The following table summarizes the dividends declared by the Company in 2018:

Record date	Payment date	Per Share $	Total $
March 1, 2018	March 15, 2018	0.10	2,739

On May 3, 2018 the Board declared a quarterly eligible dividend of $0.10 per common share on AutoCanada's outstanding Class A shares, payable on June 15, 2018 to shareholders of record at the close of business on May 31, 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 its covenants.

12. FREE CASH FLOW

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

(in thousands of dollars, except unit and per unit amounts)	**Q1 2018**	**Q4 2017**	**Q3 2017**	**Q2 2017**	**Q1 2017**	**Q4 2016**	**Q3 2016**	**Q2 2016**
Cash provided by operating activities	(13,106)	31,479	32,091	12,255	2,967	24,930	32,594	40,374
Deduct:								
Purchase of property and equipment	(1,282)	(1,983)	(977)	(1,273)	(2,346)	(1,506)	(1,697)	(2,452)
Free cash flow[1]	(14,388)	29,496	31,114	10,982	621	23,424	30,897	37,922
Weighted average shares outstanding at end of period	27,388,859	27,389,167	27,389,473	27,378,919	27,358,766	27,353,431	27,347,585	27,388,767
Free cash flow per share	(0.53)	1.08	1.14	0.40	0.02	0.86	1.13	1.39
Free cash flow - 12 month trailing	57,204	72,213	66,141	65,924	92,864	96,288	81,930	66,028

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 decrease in cash due to changes in non-cash working capital for the three month periods ended March 31, 2018 and March 31, 2017:

(in thousands of dollars)	**January 1, 2018 to March 31, 2018**	**January 1, 2017 to March 31, 2017**
Trade and other receivables	(50,090)	(28,101)
Inventories	(36,020)	(82,837)
Current tax recoverable	(12,753)	–
Other current assets	(3,765)	(427)
Trade and other payables	26,622	(6,522)
Vehicle repurchase obligations	2,450	(345)
Revolving floorplan facilities	55,508	105,478
	(18,048)	(12,754)

Adjusted Free Cash Flow

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

(in thousands of dollars, except unit and per unit amounts)	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016
Cash provided by operating activities before changes in non-cash working capital	4,942	17,486	24,070	37,355	15,721	14,344	28,996	24,050
Deduct:								
Purchase of non-growth property and equipment	(1,221)	(1,490)	(774)	(1,078)	(504)	(1,211)	(1,230)	(2,418)
Adjusted free cash flow[1]	3,721	15,996	23,296	36,277	15,217	13,133	27,766	21,632
Weighted average shares outstanding at end of period	27,388,859	27,389,167	27,389,473	27,378,919	27,358,766	27,353,431	27,347,585	27,388,767
Adjusted free cash flow per share	0.14	0.58	0.85	1.32	0.56	0.48	1.02	0.79
Adjusted free cash flow - 12 month trailing	79,290	90,786	87,923	92,393	77,748	68,566	63,511	54,696

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 three month period ending March 31, 2018, the Company paid approximately $2.6 million in 2018 tax installments (2017 - $2.8 million). Accordingly, this reduced our adjusted free cash flow by this amount. The Company expects the payment of corporate income taxes to have a more significant negative affect on free cash flow and adjusted free cash flow. See "RESULTS FROM OPERATIONS – Income Taxes" for further detail regarding the impact of corporate income taxes on cash flow.

Adjusted Return on Capital Employed

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

(in thousands of dollars, except unit and per unit amounts)	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016
EBITDA[1,2]	16,253	31,124	29,978	47,757	17,228	28,536	26,915	30,845
Deduct:								
Depreciation of property and equipment	(5,042)	(5,213)	(5,297)	(5,082)	(4,852)	(4,921)	(4,860)	(4,822)
EBIT[1,2]	11,211	25,911	24,681	42,675	12,376	23,615	22,055	26,023
Average long-term debt	322,377	339,741	353,315	357,103	351,986	333,310	315,678	310,281
Average shareholder's equity	534,379	534,338	526,209	510,610	498,732	491,026	503,163	516,513
Average capital employed[1]	856,756	874,079	879,524	867,713	850,718	824,336	818,841	826,794
Return on capital	1.3%	3.0%	2.8%	4.9%	1.5%	2.9%	2.7%	3.1%
Comparative adjustment[3]	24,371	24,371	25,959	25,959	25,959	25,959	(13,191)	(13,191)
Adjusted average capital employed[1]	881,126	899,244	905,482	893,672	876,677	830,720	805,650	813,603
Adjusted return on capital employed[1]	1.3%	2.9%	2.7%	4.8%	1.4%	2.8%	2.7%	3.2%
Adjusted return on capital employed - 12 month trailing	11.9%	12.2%	12.1%	11.8%	9.9%	10.9%	10.6%	11.2%

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.

13. CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICY DEVELOPMENTS

A complete listing of critical accounting policies, estimates, judgments and measurement uncertainty can be found in Notes 3 and 6 of the annual consolidated financial statements for the year ended December 31, 2017. Updates related to the Condensed Interim Consolidated Financial Statements are disclosed in Note 5.

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are not yet effective for the period ended March 31, 2018. 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 IFRS 9, *Financial Instruments*, and IFRS 15, *Revenue from contracts with customers*, effective for the interim and annual consolidated financial statements commencing January 1, 2018. The amended standards do not have a material impact on the financial statements and are further explained in Note 4 of the Condensed Consolidated Financial Statements for the period ended March 31, 2018.

14. DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended March 31, 2018, there were no changes in the Company's disclosure controls or internal controls over financial reporting that materially affected, or would be reasonable likely to materially affect, such controls.

15. RISK FACTORS

We face a number of business risks that could cause our actual results to differ materially from those disclosed in this MD&A (See "FORWARD LOOKING STATEMENTS"). Investors and the public should carefully consider our business risks, other uncertainties and potential events as well as the inherent uncertainty of forward looking statements when making investment decisions with respect to AutoCanada. If any of the business risks identified by AutoCanada were to occur, our business, financial condition, results of operations, cash flows or prospects could be materially adversely affected. In such case, the trading price of our shares could decline. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also adversely affect our business and operations. A comprehensive discussion of the known risk factors of AutoCanada and additional business risks is available in our 2017 Annual Information Form dated March 15, 2018 available on the SEDAR website at www.sedar.com.

16. FORWARD-LOOKING STATEMENTS

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

Details of the Company's material forward-looking statements are included in the Company's most recent Annual Information Form. The Company's most recent Annual Information Form and other documents filed with securities regulatory authorities (accessible through the SEDAR website www.sedar.com) 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, and the unrealized gain or loss on embedded derivatives are added back to EBITDA to get to adjusted EBITDA. The Company considers these expenses to be non-cash in nature. The Company believes adjusted EBITDA provides improved continuity with respect to the comparison of our operating results over a period of time. Adjusted EBITDA attributable to AutoCanada shareholders refers to the parent portion of consolidated financial results. Non-controlling interest (the portion of ownership not attributable to the parent) is excluded.

Adjusted net earnings and Adjusted net earnings per share

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

EBIT

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

Free Cash Flow

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

Adjusted Free Cash Flow

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

Absorption Rate

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

Average Capital Employed

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

Adjusted Average Capital Employed

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

Return on Capital Employed

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

Adjusted Return on Capital Employed

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

Cautionary Note Regarding Non-GAAP Measures

Operating Profit, 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 Operating profit, EBITDA, EBIT, Free Cash Flow, Absorption Rate, Average Capital Employed, Return on Capital Employed. Adjusted Average Capital Employed and Adjusted Return on Capital Employed may differ from the methods used by other issuers. Therefore, the Company's EBITDA, EBIT, Free Cash Flow, Absorption Rate, Average Capital Employed, Return on Capital Employed, Adjusted Average Capital Employed and Adjusted Return on Capital Employed may not be comparable to similar measures presented by other issuers.

Condensed Interim Consolidated Financial Statements (Unaudited)

March 31, 2018

AutoCanada Inc.

Condensed Interim Consolidated Statements of Comprehensive Income

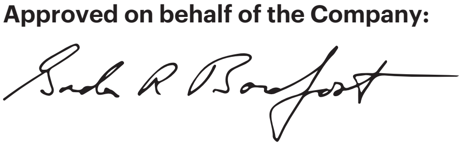
(Unaudited)

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

	Three month period ended March 31, 2018 $	Three month period ended March 31, 2017 $
Revenue (Note 6)	620,485	639,027
Cost of sales (Note 7)	(516,141)	(527,400)
Gross profit	104,344	111,627
Operating expenses (Note 8)	(95,781)	(98,170)
Operating profit before other income	8,563	13,457
Lease and other income, net	2,144	1,756
Gain on disposal of assets, net (Note 11)	4,905	80
Income from loans to associates (Note 16)	294	345
Operating Profit	15,906	15,638
Finance costs (Note 9)	(9,703)	(8,648)
Finance income (Note 9)	263	450
Other gains	539	310
Net income for the period before taxation	7,005	7,750
Income taxes (Note 10)	2,001	1,995
Net and comprehensive income for the period	5,004	5,755
Net and comprehensive income for the period attributable to:		
AutoCanada shareholders	4,832	3,678
Non-controlling interests	172	2,077
	5,004	5,755
Net earnings per share attributable to AutoCanada shareholders		
Basic	0.18	0.13
Diluted	0.18	0.13
Weighted average shares		
Basic (Note 21)	27,388,859	27,358,766
Diluted (Note 21)	27,475,458	27,509,758

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

Approved on behalf of the Company:



Gordon R. Barefoot, Director

Barry L. James, Director

AutoCanada Inc.

Condensed Interim Consolidated Statements of Financial Position
(in thousands of Canadian dollars)

	March 31, 2018 (Unaudited) $	December 31, 2017 $
ASSETS		
Current assets		
Cash and cash equivalents (Note 12)	81,177	94,660
Trade and other receivables (Note 13)	130,388	79,931
Inventories (Note 14)	694,691	659,593
Current tax recoverable	4,283	–
Other current assets	7,402	3,593
Asset held for sale (Note 11)	1,557	163,642
	919,498	1,001,419
Restricted cash (Note 12)	9,985	4,106
Property and equipment (Note 15)	353,831	350,354
Loans to associate (Note 16)	–	18,100
Other long-term assets	4,923	5,080
Intangible assets	359,996	359,996
Goodwill	21,991	21,991
	1,670,224	1,761,046
LIABILITIES		
Current liabilities		
Bank indebtedness (Note 12)	450	136
Trade and other payables (Note 17)	91,281	63,295
Revolving floorplan facilities (Note 18)	690,163	634,655
Current tax payable	–	9,033
Vehicle repurchase obligations	8,961	6,511
Current indebtedness (Note 18)	2,484	2,666
Current portion of redemption liabilities	14,941	16,300
Liabilities held for sale (Note 11)	–	132,683
	808,280	865,279
Long-term indebtedness (Note 18)	307,152	332,450
Deferred income tax	25,866	25,710
	1,141,298	1,223,439
EQUITY		
Attributable to AutoCanada shareholders	514,867	488,272
Attributable to Non-controlling interests	14,059	49,335
	528,926	537,607
	1,670,224	1,761,046

Commitments (Note 19)

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

AutoCanada Inc.

Condensed Interim Consolidated Statements of Changes in Equity

(Unaudited)

(in thousands of Canadian dollars)

	Attributable to AutoCanada shareholders					
	Share capital $	Contributed surplus $	(Accumulated deficit)/Retained earnings $	Total $	Non-controlling interests $	Total equity $
Balance at December 31, 2017, as originally presented	508,768	5,389	(25,885)	488,272	49,335	537,607
Change in accounting policy (Note 4)	–	–	367	367	–	367
Balance, January 1, 2018	508,768	5,389	(25,518)	488,639	49,335	537,974
Net and comprehensive income	–	–	4,832	4,832	172	5,004
Dividends declared on common shares (Note 21)	–	–	(2,739)	(2,739)	–	(2,739)
Acquisition of non-controlling interest (Note 11)	–	–	(2,675)	(2,675)	(14,674)	(17,349)
Divesture of subsidiary (Note 11)	–	–	–	–	(20,774)	(20,774)
Derecognition of redemption liability upon divesture of subsidiary (Note 11)	–	–	26,404	26,404	–	26,404
Dividends reinvested (Note 21)	(7)	–	–	(7)	–	(7)
Share-based compensation	–	413	–	413	–	413
Balance, March 31, 2018	508,761	5,802	304	514,867	14,059	528,926

	Attributable to AutoCanada shareholders					
	Share capital $	Contributed surplus $	Accumulated deficit $	Total $	Non-controlling interests $	Total equity $
Balance, December 31, 2016	507,886	5,223	(73,028)	440,081	57,511	497,592
Net and comprehensive income	–	–	3,678	3,678	2,077	5,755
Dividends declared on common shares (Note 21)	–	–	(2,736)	(2,736)	–	(2,736)
Dividends declared by subsidiaries to non-controlling interests	–	–	–	–	(1,151)	(1,151)
Dividends reinvested (Note 21)	(10)	–	–	(10)	–	(10)
Treasury shares settled (Note 21)	223	(223)	–	–	–	–
Share-based compensation	–	421	–	421	–	421
Balance, March 31, 2017	508,099	5,421	(72,086)	441,434	58,437	499,871

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

AutoCanada Inc.

Condensed Interim Consolidated Statement of Cash Flows

(Unaudited)

(in thousands of Canadian dollars)

	Three month period ended March 31, 2018	Three month period ended March 31, 2017
Cash provided by (used in):		
Operating activities		
Net and comprehensive income	5,004	5,755
Income taxes (Note 10)	2,001	1,995
Amortization of prepaid rent	113	113
Depreciation of property and equipment (Note 8)	5,042	4,852
Gain on disposal of assets (Note 11)	(4,905)	(80)
Share-based compensation - equity-settled	413	421
Share-based compensation - cash-settled	417	163
Revaluation of contingent consideration	15	–
Revaluation of redemption liability	–	(310)
Unrealized gain on foreign currency exchange	(554)	–
Income taxes (paid) recovered	(2,604)	2,812
Net change in non-cash working capital (Note 22)	(18,048)	(12,754)
	(13,106)	2,967
Investing activities		
Addition to restricted cash (Note 12)	(5,879)	(16)
Purchases of property and equipment (Note 15)	(7,615)	(4,844)
Proceeds on sale of property and equipment	81	156
Income from loans to associate (Note 16)	(294)	(345)
Proceeds from divestiture of investments in subsidiaries (Note 11)	41,017	–
	27,310	(5,049)
Financing activities		
Proceeds from indebtedness	12,381	20,158
Repayment of indebtedness	(37,876)	(20,247)
Common shares (repurchased) settled, net (Note 21)	(7)	213
Dividends paid on common shares (Note 21)	(2,739)	(2,736)
Acquisition of non-controlling interests (Note 11)	(18,708)	–
Distributions paid to non-controlling interests by subsidiaries	–	(1,151)
Proceeds from loans to associate (Note 16)	18,394	–
	(28,555)	(3,763)
Effect of exchange rate changes on cash and cash equivalents	554	–
Net (decrease) in cash and cash equivalents	(13,797)	(5,845)
Cash and cash equivalents at beginning of period (Note 12)	94,524	102,995
Cash and cash equivalents at end of period (Note 12)	80,727	97,150

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

AutoCanada Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Period Ended March 31, 2018
(Unaudited)
(in thousands of Canadian dollars except for share and per share amounts)

1 General Information

AutoCanada Inc. ("AutoCanada" or the "Company") is incorporated in Alberta, Canada with common shares listed on the Toronto Stock Exchange ("TSX") under the symbol of "ACQ". The business of AutoCanada, held in its subsidiaries, is the operation of franchised automobile dealerships in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, Nova Scotia and New Brunswick. The Company offers a diversified range of automotive products and services, including new vehicles, used vehicles, vehicle leasing, vehicle parts, vehicle maintenance and collision repair services, extended service contracts, vehicle protection products and other after-market products. The Company also arranges financing and insurance for vehicle purchases by its customers through third-party finance and insurance sources. The address of its registered office is 200, 15511 123 Avenue NW, Edmonton, Alberta, Canada, T5V 0C3.

2 Basis of presentation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including *IAS 34*, *Interim Financial Reporting*, and Canadian Generally Accepted Accounting Principles ("GAAP") as set out in the CPA Canada Handbook - Accounting ("CPA Handbook").

The condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2017, which have been prepared in accordance with IFRS as issued by the IASB.

These financial statements were approved by the Board of Directors on May 3, 2018.

3. Significant accounting policies

The significant accounting policies used in the preparation of these condensed interim consolidated financial statements are the same accounting policies and methods of computation as disclosed in the consolidated annual financial statements for the year ended December 31, 2017, except for the adoption of new and amended standards as described in note 4.

Impact of standards issued but not yet applied:

IFRS 16 – Leases

IFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

The standard will primarily affect the accounting for the Company's operating leases. The Company has not yet quantified its lease related assets and liabilities or determined the impact on operating results and the classification of cash flows.

The standard is mandatory and will be adopted by the Company commencing with the interim period beginning January 1, 2019.

4 New accounting pronouncements adopted in 2018

IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of lAS 39 that relates to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The standard was adopted on January 1, 2018, with the only impact being with respect to revising the Company's impairment methodology for its trade and other receivables.

The Company applies the simplified approach to measuring expected credit losses, which uses a lifetime expected credit loss allowance for all trade receivables. In accordance with the transitional provisions of IFRS 9, comparative figures have not been restated and the cumulative impact of adoption has been reflected in opening retained earnings of the current year. This has resulted in an increase to retained earnings as at January 1, 2018 of $367.

IFRS 15 Revenue from contracts with customers

The Company adopted IFRS 15 Revenue from contracts with customers, effective January 1, 2018. We have considered factors such as customer contracts with unique revenue recognition considerations, the nature and type of goods and services we offer, the degree to which contracts include multiple performance obligations or variable consideration, and the pattern in which revenue is currently recognized, among other things.

The adoption of IFRS 15 resulted in certain procedural changes in our accounting for revenue, however our accounting policies and the timing of revenue recognition for all revenue streams remains the same.

5 Critical accounting estimates, judgments & measurement uncertainty

The critical accounting estimates, judgments, and measurement uncertainty used in the preparation of these condensed interim consolidated financial statements are the same as disclosed in the consolidated annual financial statements for the year ended December 31, 2017, other than with respect to the following:

(a) Investments in subsidiaries

On January 2, 2018 the Company reorganized its ownership interest in its investees acquiring the majority of the voting shares of certain investees as described in note 11. The Company has updated its assessment of the relationship between Mr. Patrick Priestner ("Priestner") and the Company as it relates to its investment in these investees. As a result of the reassessment it was concluded that the Company continues to control these investees as a result of owning the majority of the voting shares.

(b) Loans to associate

On March 31, 2018, the Company terminated its loans to PPH Holdings Ltd. ("PPH") and all amounts outstanding under loan were repaid in full. The Company has updated its assessment of the relationship between Priestner and the Company as it relates to PPH and it was concluded that AutoCanada does not control and should not consolidate PPH as these loans have been terminated as described in note 16.

6 Revenue

	Three month period ended March 31, 2018 $	Three month period ended March 31, 2017 $
New vehicles	338,016	353,540
Used vehicles	157,901	165,408
Finance, insurance and other	28,675	29,344
Parts, service and collision repair	95,893	90,735
	620,485	639,027

7 Cost of sales

	Three month period ended March 31, 2018 $	Three month period ended March 31, 2017 $
New vehicles	314,543	327,950
Used vehicles	149,339	153,468
Finance, insurance and other	1,899	2,531
Parts, service and collision repair	50,360	43,451
	516,141	527,400

8 Operating expenses

	Three month period ended March 31, 2018 $	Three month period ended March 31, 2017 $
Employee costs[1]	57,294	61,088
Administrative costs[2]	27,522	26,547
Facility lease costs	5,923	5,683
Depreciation of property and equipment	5,042	4,852
	95,781	98,170

1 *2017 Employee costs includes management transition expenses related to the departure of the Company's former President.*
2 *Administrative costs include professional fees, consulting services, technology-related expenses, marketing, and other general and administrative costs.*

9 Finance costs and finance income

	Three month period ended March 31, 2018 $	Three month period ended March 31, 2017 $
Finance costs:		
Interest on long-term indebtedness	4,206	4,626
Floorplan financing	4,705	3,295
Other interest expense	792	727
	9,703	8,648
Finance income:		
Short-term bank deposits	(263)	(450)

Cash interest paid during the three month period ended March 31, 2018 was $7,495 (2017 - $6,509).

10 Taxation

Components of income tax expense were as follows:

	Three month period ended March 31, 2018 $	Three month period ended March 31, 2017 $
Current tax	2,801	4,487
Deferred tax	(800)	(2,492)
Total income tax expense	2,001	1,995

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual statutory rates used for the period ended March 31, 2018 was 26.9% (March 31, 2017 - 26.9%).

11 Transactions with non-controlling interests

Acquisition of non-controlling interest

On January 2, 2018 the Company acquired the remaining 20% of issued shares of Green Isle G Auto Holdings Inc., 20% of issued shares of Waverley BG Holdings Inc. and 20% of issued shares of NBFG Holdings Inc., and 17.6% of issued shares in Prairie Auto Holdings Ltd. for cash consideration of $18,708. Immediately prior to the purchase, the carrying amount of the existing non-controlling interests of Green Isle G Auto Holdings Inc., Waverley BG Holdings Inc. NBFG Holdings Inc., and Prairie Auto Holdings Ltd. was $14,674. The Company recognized a decrease in non-controlling interests of $14,674 and a decrease in equity attributable to owners of the Company of $2,675.

The effect on the equity attributable to the owners of AutoCanada during the period is summarized as follows:

	January 2, 2018 $
Carrying amount of non-controlling interests	**14,674**
Total consideration paid to non-controlling interests	**(17,349)**
Decrease in equity attributable to AutoCanada shareholders	**(2,675)**

In combination with the above transaction redemption liabilities in the amount of $1,359 were settled during the period.

Divestiture of subsidiaries

On January 2, 2018, the Company sold its 31% interest in Dealer Holdings Ltd., its 80% interest in DFC Holdings Inc., and its 75% interest in LWD Holdings Ltd. for cash consideration of $41,017. Immediately prior to the divestiture, the carrying amount of the existing non-controlling interests in Dealer Holdings Ltd., DFC Holdings Inc., and LWD Holdings Ltd. was $20,774. The Company recognized a decrease in non-controlling interests of $20,774 and a pre-tax gain attributable to AutoCanada shareholders of $4,842.

The breakdown of the transaction was as follows:

	January 2, 2018 $
Assets held for sale	163,228
Liabilities held for sale	(132,683)
Derecognition of redemption liability	26,404
Derecognition of non-controlling interests	(20,774)
Net assets disposed of	36,175
Net proceeds on divestiture	41,017
Net gain on divestiture	4,842

The net gain on divestiture is included in the Gain on disposal of assets on the Statements of Comprehensive Income.

12 Cash and cash equivalents

	March 31, 2018 $	December 31, 2017 $
Cash at bank and on hand	53,402	61,167
Short-term deposits	27,775	33,493
Cash and cash equivalents (excluding bank indebtedness)	81,177	94,660
Bank indebtedness	(450)	(136)
Cash and cash equivalents	80,727	94,524
Restricted cash	9,985	4,106
Cash and cash equivalents and restricted cash	90,712	98,630

13 Trade and other receivables

	March 31, 2018 $	December 31, 2017 $
Trade receivables	128,598	77,851
Less: Expected loss allowance	(2,069)	(2,545)
Net trade receivables	126,529	75,306
Other receivables	3,859	4,625
Trade and other receivables	130,388	79,931

14 Inventories

	March 31, 2018 $	December 31, 2017 $
New vehicles	546,613	513,237
Demonstrator vehicles	50,414	47,873
Used vehicles	69,816	70,544
Parts and accessories	27,848	27,939
	694,691	659,593

During the three month period ended March 31, 2018, $503,409 of inventory (2017 - $520,726) was expensed as cost of goods sold which included net recovery of write-downs on used vehicles of $153 (2017 - net write-downs of $598). During the three month period ended March 31, 2018, $1,258 of demonstrator expense (2017 - $1,738) was included in administration costs. During the three month period ended March 31, 2018, demonstrator reserves decreased by $23 (2017 - increased by $901). As at March 31, 2018, the Company had recorded reserves for inventory write-downs of $7,315 (2017 - $5,439).

15 Property and equipment

During the three month period ended March 31, 2018, the Company purchased $7,615 (2017 - $4,844) of property and equipment including land and building additions of $6,334 (2017 - $2,499) to be used for dealership relocations, dealership re-imaging, and dealership open points.

16 Loans to associate

PPH Holdings Ltd.

The Company loaned funds to PPH to acquire Whitby Oshawa Honda and Southview Acura. The Company holds no ownership interest in PPH. The Company has no participation in the equity of PPH, Whitby, or Southview.

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

	March 31, 2017 $	December 31, 2017 $
Outstanding, beginning of year	18,100	14,726
Accrued interest income	124	674
Accrued licensing fees	170	2,327
Additional advances	–	373
Loan payments	(18,394)	–
Outstanding, end of period	–	18,100

As of March 31, 2018 the loans to PPH were terminated and all associated interest and licensing fees ceased as of the same date.

17 Trade and other payables

	March 31, 2018 $	December 31, 2017 $
Trade payables	49,045	24,561
Accruals and provisions	13,682	11,365
Sales tax payable	7,815	4,833
Wages and withholding taxes payable	20,739	22,536
	91,281	63,295

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

	Finance and insurance [1] $	Other $	Total $
January 1, 2018	1,631	689	2,320
Provisions arising during the period	212	229	441
Amounts expired or disbursed	(524)	(552)	(1,076)
March 31, 2018	1,319	366	1,685

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

18 Indebtedness

	March 31, 2018 $	December 31, 2017 $
Revolving floorplan facilities		
Revolving floorplan facilities - Syndicate	458,852	420,629
Revolving floorplan facilities - VCCI (i)	24,121	39,302
Revolving floorplan facilities - BMW Financial	87,528	62,386
Revolving floorplan facilities - RBC	42,966	124,422
Revolving floorplan facilities - Scotiabank	44,017	43,372
Revolving floorplan facilities - Toronto-Dominion Bank	11,021	11,580
Revolving floorplan facilities - Mercedes-Benz Financial	21,658	17,378
	690,163	719,069
Held for sale (Note 11)	–	84,414
Carrying value	**690,163**	**634,655**
Indebtedness		
Senior unsecured notes		
Senior unsecured notes	149,739	149,739
Embedded derivative	(6)	(6)
Unamortized deferred financing costs	(1,700)	(1,834)
	148,033	147,899
HSBC revolving term facility		
HSBC revolving term facility	117,763	143,830
Unamortized deferred financing costs	(693)	(598)
	117,070	143,232
Other debt:		
Lease financing - RBC	–	6,689
Lease financing - Scotiabank	1,250	1,058
Servus mortgage	5,007	5,071
VCCI mortgages	17,624	17,863
BMW mortgage	18,478	18,677
Other long-term debt	2,174	1,510
Total indebtedness	309,636	341,999
Held for sale (Note 11)	–	6,883
Carrying value	**309,636**	**335,116**
Current indebtedness	**2,484**	**2,666**
Long-term indebtedness	**307,152**	**332,450**

Updates to the terms and conditions of outstanding loans disclosed at December 31, 2017 are as follows:

(i) The Revolving floorplan facilities - VCCI provides a maximum amount of financing of $74,230 as at March 31, 2018 ($77,480 as at December 31, 2017).

19 Commitments

At March 31, 2018, the Company is committed to capital expenditure obligations in the amount of $12,840 (December 31, 2017 - $4,225) related to dealership relocations, dealership re-imaging, and dealership Open Points with expected completion of these commitments during the year.

20 Share-based payments

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

Restricted Share Units (RSUs)

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

	March 31, 2018 Number of RSUs	March 31, 2018 Amount $	March 31, 2017 Number of RSUs	March 31, 2017 Amount $
Outstanding, beginning of the period	20,032	454	33,676	779
Settled - equity	(4,080)	(84)	(27,075)	(642)
Settled - cash	(4,080)	(84)	(18,050)	(428)
Granted	33,862	693	31,044	738
Dividends reinvested	96	2	145	3
Impact of movements in share price	–	38	–	(7)
Outstanding, end of the period	45,830	1,019	19,740	443

Deferred Share Units (DSUs)

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

	March 31, 2018 Number of DSUs	March 31, 2018 Amount $	March 31, 2017 Number of DSUs	March 31, 2017 Amount $
Outstanding, beginning of the period	49,716	1,126	34,731	824
Granted	3,499	76	2,632	66
Dividends reinvested	255	5	162	4
Impact of movements in share price	–	(18)	–	(52)
Outstanding, end of the period	53,470	1,189	37,525	842

Stock Option Plan

The following table shows the change in the number of stock options for the three month period ended March 31, 2018:

	Average exercise price per share option $	Share options #
Outstanding, beginning of the period	18.68	420,000
Granted	18.68	–
Exercised	18.68	–
Forfeited	18.68	–
Outstanding, end of the period	18.68	420,000
Vested and exercisable, end of the period	18.68	213,332

During the three month period ended March 31, 2018, no options were exercised or expired.

The following table shows the expiry date and exercise price for the share options outstanding for the three month period ended March 31, 2018:

Grant date	Expiry date	Excercise price $	Share options March 31, 2017 #
April 1, 2016	March 31, 2026	18.68	420,000
Weighted average remaining contractual life of options outstanding, end of the period			8.00 years

During the three month period ended March 31, 2018, expenses of $172 (2017 - $332) and recoveries of $nil (2017 - $249) arose as a result of the options issued.

21 Share capital

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

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

	March 31, 2018 Number of shares	March 31, 2018 $	March 31, 2017 Number of shares	March 31, 2017 $
Outstanding, beginning of the period	27,388,900	508,768	27,356,439	507,886
Dividends reinvested	(337)	(7)	(429)	(10)
Treasury shares settled	–	–	8,550	223
Outstanding, end of the period	27,388,563	508,761	27,364,560	508,099

As at March 31, 2018, 71,120 (2017 - 95,123) common shares were held in trust for the Restricted Share Unit Plan, resulting in a total of 27,459,683 (2017 - 27,459,683) common shares issued.

Dividends

Dividends are discretionary and are determined based on a number of factors. Dividends are subject to approval of the Board of Directors. During the three month period ended March March 31, 2018, eligible dividends totaling $0.10 (2017 - $0.10) per common share were declared and paid, resulting in total payments of $2,739 (2017 - $2,736).

Earnings per share

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

The following table shows the weighted-average number of shares outstanding for the three month periods ended:

	Three month period ended March 31, 2018	Three month period ended March 31, 2017
Basic	27,388,859	27,358,766
Effect of dilution from RSUs	24,416	34,800
Effect of dilution from stock options	62,183	116,192
Diluted	27,475,458	27,509,758

22 Net change in non-cash working capital

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

	Three month period ended March 31, 2018 $	Three month period ended March 31, 2017 $
Trade and other receivables	(50,090)	(28,101)
Inventories	(36,020)	(82,837)
Current tax recoverable/payable	(12,753)	–
Other current assets	(3,765)	(427)
Trade and other payables	26,622	(6,522)
Vehicle repurchase obligations	2,450	(345)
Revolving floorplan facilities	55,508	105,478
	(18,048)	(12,754)

23 Seasonal nature of the business

The Company's results from operations for the period ended March 31, 2018 are not necessarily indicative of the results that may be expected for the full year due to seasonal variations in sales levels. The results from operations of the Company have historically been lower in the first and fourth quarters of each year, largely due to consumer purchasing patterns during the holiday season, inclement weather and the number of business days during the period. As a result, the Company's financial performance is generally not as strong during the first and fourth quarters than during the other quarters of each fiscal year. The timing of acquisitions and divestitures may also cause substantial fluctuations in operating results from quarter to quarter.

24 Subsequent Events

Syndicated Credit Facility

On April 12, 2018, the Company completed a $1,080,000 syndicated credit agreement with the Bank of Nova Scotia ("Scotiabank"), the Canadian Imperial Bank of Commerce ("CIBC"), the Royal Bank of Canada ("RBC"), HSBC and Alberta Treasury Brach ("ATB"), with Scotiabank serving as the administrative agent for the Facility. The three-year Credit agreement provides the company with a $660,000 facility for floorplan and lease financing of new, used and demonstrator vehicles, a $350,000 facility for the financing of acquisitions and capital expenditures and a $70,000 facility for general corporate purposes.

Acquisition of Grossinger Auto Group of dealerships

Between the period of April 9, 2018 and April 23, 2018, the Company purchased substantially all of the operating and fixed assets of Grossinger City Autocorp Inc. (“Grossinger City Toyota”), Grossinger City Autoplex Inc. (“Grossinger City Chevrolet” and “Grossinger City Cadillac”), Grossinger Imports Inc. (“Grossinger Honda”), Grossinger North Autocorp Inc. (“Grossinger Toyota North”), Grossinger Autoplex Inc. (“Grossinger Hyundai North” and “Grossinger Kia”), Grossinger Chevrolet Inc. (“Grossinger Chevrolet Palatine”), Grossinger Hyundai of Palatine Inc. (“Grossinger Hyundai Palatine”) and Grossinger Motors Inc. (“Audi Bloomington-Normal”, “Lincoln Bloomington-Normal”, “Mercedes Bloomington-Normal”, “Subaru Bloomington-Normal”, “Volvo Bloomington-Normal” and “Volkswagen Bloomington-Normal”), herein referred to as the “Grossinger Auto Group”, located in Chicago, Illinois and Bloomington-Normal, Illinois for total cash consideration of approximately $135,000. The Company did not acquire the land and buildings associated with the dealerships, other than with respect to Grossinger Imports Inc., which was allocated a value of $10,000. The Company has entered into lease arrangements for the balance of the facilities. The purchase price of the Grossinger Auto Group is financed through a combination of funds drawn on the newly enacted Syndicated Credit Facility, proceeds from the repayment of Loans to associate and proceeds from the Company’s recent divestiture of dealerships in Canada. The Company has not yet completed a provisional allocation of the purchase price to the net assets acquired.

Dividends

On May 3, 2018, the Board of Directors of the Company declared a quarterly eligible dividend of $0.10 (2017 - $0.10) per common share on the Company’s outstanding Class A common shares, payable on June 15, 2018 to shareholders of record at the close of business on May 31, 2018.

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