2018

AutoCanada

Management Discussion & Analysis

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

For the nine month period ended September 30, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

1. READER ADVISORIES

This Management's Discussion & Analysis ("MD&A") was prepared as of November 8, 2018, to assist readers in understanding AutoCanada Inc.'s (the "Company" or "AutoCanada") consolidated financial performance for the three month period and nine month period ended September 30, 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 and nine month period ended September 30, 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 and nine month period ended September 30, 2018, of the Company, and compares these to the operating results of the Company for the three month period and nine month period ended September 30, 2017.

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 Third Quarter of Prior Year

The following table summarizes the Company's operations for the quarter:

	Three Months Ended September 30		
Consolidated Operational Data	**2018**	**2017**	**% Change**
EBITDA attributable to AutoCanada shareholders[1,2]	10,763	25,827	(58.3)%
Adjusted EBITDA attributable to AutoCanada shareholders[1,2]	13,743	27,229	(49.5)%
Net (loss) income attributable to AutoCanada shareholders[1]	(16,452)	12,100	(236.0)%
Adjusted net earnings attributable to AutoCanada shareholders[1,2]	(556)	13,581	(104.1)%
Basic EPS	(0.60)	0.44	(236.4)%
Adjusted diluted EPS[2]	(0.02)	0.50	(104.0)%
Weighted average number of shares - Basic	27,399,238	27,389,473	0.0%
Weighted average number of shares - Diluted [3]	28,013,586	27,449,849	2.1%
New retail vehicles sold (units)	10,353	10,334	0.2%
New fleet vehicles sold (units)	2,121	1,680	26.3%
New vehicles sold (units)	12,474	12,014	3.8%
Used retail vehicles sold (units)	6,389	5,118	24.8%
Total vehicles sold	18,863	17,132	10.1%
Revenue	866,918	834,571	3.9%
Gross profit	134,835	137,969	(2.3)%
Gross profit %	15.6%	16.5%	(5.9)%
Operating expenses	127,700	110,560	15.5%
Operating expenses % of gross profit	94.7%	80.1%	18.2%
Operating (loss) profit	(6,468)	30,287	(121.4)%
Free cash flow[2]	6,105	31,114	(80.4)%
Adjusted free cash flow[2]	(1,853)	23,296	(108.0)%
Same store new retail vehicles sold (units)	7,224	8,456	(14.6)%
Same store new fleet vehicles sold (units)	2,057	1,396	47.3%
Same store used retail vehicles sold (units)	4,570	4,221	8.3%
Same store total vehicles sold	13,851	14,073	(1.6)%
Same store revenue	654,132	674,060	(3.0)%
Same store gross profit	105,153	114,895	(8.5)%
Same store gross profit %	16.1%	17.0%	(5.7)%

1 Represents the portion attributable to AutoCanada Shareholders.
2 These financial measures have been calculated as described under "NON-GAAP MEASURES".
3 In Q3 2018, Weighted average number of shares - Diluted, differs from the disclosed amounts on the September 30, 2018 Condensed Interim Consolidated Statements of Comprehensive (Loss) Income due to an anti-dilutive impact in the quarter.

2018 Third Quarter Highlights

- Revenue was $866.9 million, up 3.9% compared with the third quarter of 2017. Same store revenue declined by 3.0%.
- Operating expenses were $127.7 million, up 15.5% from the same period last year. Operating expenses as a percentage of gross profit were up to 94.7% from 80.1% in the same period in 2017. Included in operating expenses is management transition costs of $3.25 million, a number of non-recurring expenses such as inventory adjustments, bank and legal fees to amend our credit agreement, and costs associated with implementing our Go Forward Plan.
- Operating expenses in the U.S. Operations exceeded gross profit by $2.2 million. Our U.S. Operations incurred non-recurring expenses of $1.4 million. As a result of a number of steps to improve our U.S. Operations, we expect the gross profit to increase and further reductions in operating expenses by 2019.
- Gross profit was $134.8 million, down 2.3% compared with the same quarter in 2017, with gross profit as a percentage of revenue slightly decreasing to 15.6% from 16.5%. Same store gross profit declined 8.5%.
- New vehicle sales were 12,474, up 3.8% from the same period in 2017. Revenue from the sale of new vehicles was $509.3 million, up 2.3% from the same period in 2017. The sale of new vehicles accounted for 58.7% of the Company's total revenue and 21.6% of gross profit versus 59.6% of revenue and 26.7% of gross profit in the third quarter of 2017.
- Used vehicle sales were 6,389, up 24.8% compared with the same quarter last year. Revenue from the sale of used vehicles was $206.7 million, up 7.4% from the same quarter last year. The sale of used vehicles accounted for 23.8% of the Company's total revenue and 9.6% of gross profit, versus 23.1% of revenue and 8.1% of gross profit in the third quarter of 2017.
- Parts, service and collision repair generated $113.1 million of revenue, up 7.9% from the same period in 2017. This accounted for 13.0% of the Company's total revenue and 42.4% of its gross profit, up from 12.6% of revenue and 39.0% of gross profit in the same quarter of 2017.
- Finance and insurance generated $37.9 million of revenue, a decrease of 4.3% from the same period in 2017. This accounted for 4.4% of the Company's total revenue and 26.3% of its gross profit, down from 4.7% of revenue and in line with 26.3% of gross profit in the third quarter of 2017.
- EBITDA attributable to AutoCanada shareholders decreased to $10.8 million from $25.8 million compared with the same quarter last year.
- Including the impairment of non-financial assets, the Company generated a net loss attributable to AutoCanada shareholders of $(16.5) million (Adjusted net earnings attributable to AutoCanada shareholders of $(0.6) million), or $(0.60) per share (Adjusted net earnings per share attributable to AutoCanada shareholders $(0.02)) versus net income of $12.1 million in 2017 ($13.6 million on an adjusted basis) or $0.44 per share ($0.50 on an adjusted basis).
- Total impairment charges were $19.6 million in the third quarter, or $0.50 basic earnings per share net of tax.

3. OUTLOOK

Several macro-economic factors that created a degree of uncertainty for the auto industry and AutoCanada's business have come into clearer focus over the last quarter. Among these, the successful negotiation of the new United States Canada Mexico Agreement was widely seen as good news for the North American auto industry, minimizing the risk of a trade war in the sector and allowing the industry to continue to operate largely as it has been doing.

Central banks in Canada and the United States have recently raised key interest rates and are expected to do so again in the coming months. Higher rates will adversely impact borrowing expenses on variable interest rate debt such as vehicle floorplan payables, increasing our costs. Monthly loan payments for new and used vehicles are also typically linked to market interest rates, meaning rising interest rates will likely make vehicle ownership less affordable at the same time as other household debt becomes more expensive.

The auto industry in North America is coming off several record-setting years and the sale of new vehicles is trailing where it was at this point last year. While many analysts expect sales to remain healthy, most expect a decline in volume this year. Vehicle leasing and manufacturer incentives remain at high levels, particularly as the new model year rolls out. If those incentives are scaled back, it could impact sales volumes. Of note, however, is that the sale of higher-margin trucks, crossover and sport utility vehicles, in both Canada and the US, continues to increase, as consumers shift away from lower-margin passenger cars. This trend is expected to continue and may generate greater profitability on vehicle sales, even if the overall number of units sold decreases.

The fragmented nature of the automotive dealership sector continues to provide us with the opportunity to scale our geographical presence and drive revenue growth through acquisitions. This is another trend expected to continue and, with a robust pipeline of opportunities under active consideration, we expect to grow our business in this manner in both the short and long-term.

While macro-economic factors determine total vehicle demand, we expect to deliver materially better results as we embark on our Go Forward Plan, even if the broader industry faces varying headwinds. This will come through a combination of focusing on less cyclical parts of our business and on lines of our business that generate higher margins. As part of our Go Forward Plan, we expect to materially increase our returns from used car sales, parts, service and collision, and finance and insurance. With regard to finance and insurance, we are optimizing our offerings at our dealerships and online. Other aspects of the Company's Go Forward Plan are expected to lead to an increase in vehicle sales and decrease in operational expenses as the Company better leverages its buying power to achieve meaningful cost reductions.

4. MARKET

The Company's geographical profile is illustrated below by number of dealerships and revenues and gross profit by province and state for the three month periods ended September 30, 2018 and September 30, 2017.

	Three Months Ended September 30, 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	142,780	17%	20,791	16%
Alberta	25	22	237,970	27%	42,287	31%
Saskatchewan	4	4	63,097	7%	10,566	8%
Manitoba	4	4	52,861	6%	9,044	7%
Ontario	9	8	84,182	10%	11,907	9%
Quebec	6	4	114,228	13%	16,671	12%
Atlantic	2	2	31,160	4%	4,619	3%
Illinois	15	9	140,640	16%	18,950	14%
Total	77	63	866,918	100%	134,835	100%

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

	Three Months Ended September 30, 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	147,251	18%	24,849	18%
Alberta	28	25	337,170	41%	58,988	43%
Saskatchewan	4	4	60,188	7%	11,533	8%
Manitoba	4	4	58,040	7%	9,705	7%
Ontario	9	8	77,528	9%	12,002	9%
Quebec	5	3	118,688	14%	15,503	11%
Atlantic	2	2	35,706	4%	5,389	4%
Total	65	57	834,571	100%	137,969	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 September 30, 2018 and September 30, 2017.

	Three Months Ended September 30, 2018				Three Months Ended September 30, 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	308,879	36%	23	17	302,202	36%
General Motors	8	7	99,000	11%	9	9	176,776	21%
Hyundai	11	11	91,389	11%	9	9	57,332	7%
Nissan / Infiniti	7	7	77,826	9%	7	7	86,704	10%
Volkswagen / Audi	8	8	72,606	8%	8	8	80,060	10%
BMW / MINI	4	2	81,946	9%	4	2	93,409	11%
Other	16	11	135,272	16%	5	5	38,088	5%
Total	77	63	866,918	100%	65	57	834,571	100%

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

Canadian New Vehicle Sales by Province[1,2]

	2018	2017	Percent Change	Unit Change
British Columbia	172,268	181,540	(5.1)%	(9,272)
Alberta	181,121	190,175	(4.8)%	(9,054)
Saskatchewan	38,269	42,843	(10.7)%	(4,574)
Manitoba	53,771	46,885	14.7%	6,886
Ontario	659,290	652,001	1.1%	7,289
Quebec	355,842	362,715	(1.9)%	(6,873)
Atlantic	105,349	115,525	(8.8)%	(10,176)
Total	1,565,910	1,591,684	(1.6)%	(25,774)

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.*

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

	September 30, 2018	September 30, 2017	Percent Change	Unit Change
Audi	29,094	27,952	4.1%	1,142
BMW	29,737	28,532	4.2%	1,205
FCA	185,931	213,133	(12.8)%	(27,202)
General Motors	231,795	232,566	(0.3)%	(771)
Hyundai	99,638	103,232	(3.5)%	(3,594)
Infiniti	9,707	9,536	1.8%	171
Kia	57,781	59,751	(3.3)%	(1,970)
Mazda	58,786	57,010	3.1%	1,776
Mercedes-Benz	37,944	39,530	(4.0)%	(1,586)
MINI	5,297	5,188	2.1%	109
Mitsubishi	20,086	17,487	14.9%	2,599
Nissan	106,278	104,788	1.4%	1,490
Subaru	43,577	40,976	6.3%	2,601
Volkswagen	54,363	52,785	3.0%	1,578
Total – AutoCanada Brands	970,014	992,466	(2.3)%	(22,452)
Other – Non-AutoCanada Brands	595,896	599,218	(0.6)%	(3,322)
Total	1,565,910	1,591,684	(1.6)%	(25,774)

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

List of Dealerships

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

Location	Operating Name	Franchise	Year Opened or Acquired	Same Stores[1]	Owned or Leased[2]
Wholly-Owned Dealerships:					
Abbotsford, BC	Abbotsford Volkswagen	Volkswagen	2011	Y	Leased
Chilliwack, BC	Chilliwack Volkswagen	Volkswagen	2011	Y	Owned
Kelowna, BC	Okanagan Chrysler Jeep Dodge FIAT	FCA	2003	Y	Leased
Maple Ridge, BC	Maple Ridge Chrysler Jeep Dodge FIAT ALFA ROMEO	FCA	2005	Y	Leased

Location	Operating Name	Franchise	Year Opened or Acquired	Same Stores[1]	Owned or Leased[2]
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
Edmonton, AB	Mercedes-Benz Heritage Valley[4]	Mercedes-Benz	2018	Q4 2020	Leased
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	Leased
Spruce Grove, AB	Grove Dodge Chrysler Jeep	FCA	2015	Y	Leased
Saskatoon, SK	Dodge City Chrysler Jeep Dodge Ram	FCA	2014	Y	Leased
Winnipeg, MB	Audi Winnipeg	Audi	2013	Y	Owned
Winnipeg, MB	St. James Volkswagen	Volkswagen	2013	Y	Owned
Winnipeg, MB	Eastern Chrysler Jeep Dodge	FCA	2014	Y	Owned
Cambridge, ON	Cambridge Hyundai	Hyundai	2008	Y	Owned
Mississauga, ON	401 Dixie Hyundai	Hyundai	2008	Y	Leased
Guelph, ON	Guelph Hyundai	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
Chicago, IL	Grossinger City Cadillac	General Motors	2018	Q3 2020	Leased
Chicago, IL	Grossinger City Chevrolet	General Motors	2018	Q3 2020	Leased

Location	Operating Name	Franchise	Year Opened or Acquired	Same Stores[1]	Owned or Leased[2]
Chicago, IL	Grossinger City Toyota	Toyota	2018	Q3 2020	Leased
Chicago, IL	North City Honda	Honda	2018	Q3 2020	Owned
Lincolnwood, IL	Grossinger Hyundai Palatine	Hyundai	2018	Q3 2020	Leased
Lincolnwood, IL	Grossinger Kia	Kia	2018	Q3 2020	Leased
Lincolnwood, IL	Grossinger Toyota North	Toyota	2018	Q3 2020	Leased
Bloomington/ Normal, IL	Grossinger Motors[3]	Various	2018	Q3 2020	Leased
Palatine, IL	Grossinger Palatine Chevrolet	General Motors	2018	Q3 2020	Leased
Majority Owned:					
Duncan, BC	Island Chevrolet Buick GMC	General Motors	2013	Y	Leased
North Battleford, SK	Bridges Chevrolet Buick GMC	General Motors	2014	Y	Owned
Prince Albert, SK	Mann-Northway Auto Source	General Motors	2014	Y	Leased
Saskatoon, SK	Saskatoon Motor Products	General Motors	2014	Y	Leased
Winnipeg, MB	McNaught Cadillac Buick GMC	General Motors	2014	Y	Owned
Laval, QC	BMW Laval and MINI Laval	BMW / MINI	2014	Y	Leased
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 two 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.*

3 *This store consists of the following franchises: Audi, Mercedes-Benz, Lincoln, Subaru, Volkswagen, Volvo*

4 *On October 1, 2018, the Company acquired shares of Mercedes-Benz Heritage Valley. See "ACQUISITIONS, RELOCATIONS AND REAL ESTATE" for more information related to this dealership acquisition.*

5. SELECTED QUARTERLY FINANCIAL INFORMATION

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

(in thousands of dollars, except Gross Profit %, Earnings per share, and Operating Data)	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Income Statement Data								
New vehicles	509,281	522,150	338,016	417,626	497,711	558,682	353,540	348,107
Used vehicles	206,668	198,597	157,901	175,251	192,473	182,913	165,408	157,724
Parts, service and collision repair	113,087	121,476	95,893	107,156	104,816	113,983	90,735	92,310
Finance, insurance and other	37,882	38,365	28,675	33,027	39,571	39,324	29,344	31,133
Revenue	866,918	880,588	620,485	733,060	834,571	894,902	639,027	629,274
New vehicles	29,150	30,648	23,473	30,033	36,806	38,555	25,590	25,042
Used vehicles	12,955	13,173	8,562	7,563	11,140	13,095	11,940	10,064
Parts, service and collision repair	57,206	60,868	45,533	56,915	53,805	56,306	47,284	52,957
Finance, insurance and other	35,524	35,891	26,776	30,699	36,218	35,867	26,813	28,722
Gross Profit	134,835	140,580	104,344	125,210	137,969	143,823	111,627	116,785
Gross profit %	15.6%	16.0%	16.8%	17.1%	16.5%	16.1%	17.5%	18.6%
Operating expenses	127,700	128,700	95,781	104,626	110,560	112,897	98,170	97,397
Operating expenses as a% of gross profit	94.7%	91.5%	91.8%	83.6%	80.1%	78.5%	87.9%	83.4%
Operating (loss) profit	(6,468)	(43,927)	15,906	26,505	30,287	46,539	15,638	20,761
Impairment (recovery) of non-financial assets	19,569	58,097	—	(816)	—	—	—	—
Net (loss) income attributable to AutoCanada shareholders	(16,452)	(41,348)	4,832	17,089	12,100	24,978	3,678	13,785
Adjusted net earnings attributable to AutoCanada shareholders[2,4,6]	(556)	3,311	4,832	8,935	13,581	15,547	4,602	7,536
EBITDA attributable to AutoCanada shareholders[2]	10,763	10,831	15,694	28,127	25,827	43,722	14,136	25,260
EBITDA attributable to AutoCanada shareholders as a % of sales[2]	1.2%	1.2%	2.5%	3.8%	3.1%	4.9%	2.7%	4.5%
Free cash flow[2]	6,105	(14,639)	(14,388)	29,496	31,114	10,982	621	23,424
Adjusted free cash flow[2]	(1,853)	(4,540)	3,721	15,996	23,296	36,277	15,217	13,133
Basic earnings per share	(0.60)	(1.51)	0.18	0.62	0.44	0.91	0.13	0.50
Diluted earnings per share	(0.60)	(1.51)	0.18	0.62	0.44	0.91	0.13	0.50
Basic adjusted earnings per share[2,4,6]	(0.02)	0.12	0.18	0.33	0.50	0.57	0.17	0.28
Diluted adjusted earnings per share[2,4,6]	(0.02)	0.12	0.18	0.33	0.50	0.57	0.17	0.27
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]	18,863	18,519	12,667	14,475	17,132	18,490	13,055	12,912
New vehicles sold[3]	12,474	12,506	8,140	9,822	12,014	13,429	8,508	8,449
New retail vehicles sold[3]	10,353	10,264	6,664	8,444	10,334	10,545	6,753	7,590
New fleet vehicles sold[3]	2,121	2,242	1,476	1,378	1,680	2,884	1,755	859
Used retail vehicles sold[3]	6,389	6,013	4,527	4,653	5,118	5,061	4,547	4,463
# of service and collision repair orders completed[3]	241,103	248,167	180,429	224,006	220,669	228,872	197,069	217,418
Absorption rate[2]	82%	88%	84%	90%	87%	87%	82%	86%
# of dealerships at period end	63	63	54	58	57	57	56	55
# of same stores dealerships[1]	49	49	49	49	48	47	47	44
# of service bays at period end	1,106	1,106	906	999	977	977	949	928
Same stores revenue growth[1]	(3.0)%	(5.1)%	4.6%	11.1%	2.9%	0.1%	(7.1)%	(10.0)%
Same stores gross profit growth[1]	(8.5)%	(4.3)%	1.0%	1.4%	6.3%	1.1%	(1.2)%	(5.8)%

1 *Same store revenue growth and Same stores gross profit growth is calculated using franchised automobile dealerships that we have owned for at least two 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 may have also caused significant fluctuations in operating results from quarter to quarter.*
6 *These Q2 2018 numbers have been restated from those presented in our second quarter MD&A due to a previous computation error.*

6. RESULTS OF OPERATIONS

Third Quarter Operating Results

EBITDA attributable to AutoCanada shareholders for the quarter decreased by $15.1 million or 58.3% to $10.8 million, from $25.8 million when compared to the results of the Company for the same period in the prior year. Adjusted EBITDA attributable to AutoCanada shareholders for the quarter ended September 30, 2018, decreased by $13.5 million or 49.5% from $27.2 million to $13.7 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 September 30, for the last three years of operations:

(in thousands of dollars)	2018	2017	2016
Period from July 1 to September 30			
Net (loss) income attributable to AutoCanada shareholders	(16,452)	12,100	(32,619)
Impairment of non-financial assets, net[2]	18,765	—	51,180
Income taxes[2]	(2,173)	4,332	(3,418)
Depreciation of property and equipment[2]	5,665	5,037	4,575
Interest on long-term indebtedness[2]	4,958	4,358	4,124
EBITDA attributable to AutoCanada shareholders[1]	10,763	25,827	23,842
Add back:			
Share-based compensation attributed to changes in share price	(270)	(297)	(299)
Revaluation of redemption liabilities	—	1,699	179
Management transition costs	3,250	—	—
Adjusted EBITDA attributable to AutoCanada shareholders[1]	13,743	27,229	23,722

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

2 Represents the portion attributable to AutoCanada shareholders.

Pre-tax earnings attributable to AutoCanada shareholders decreased by $35.1 million or 213.3% to $(18.6) million for the quarter from $16.4 million in the same period of the prior year. Net earnings attributable to AutoCanada shareholders decreased by $28.6 million or 236.0% to $(16.5) million in the third quarter of 2018 from $12.1 million when compared to the prior year. Income tax expense attributable to AutoCanada shareholders decreased by $6.5 million to $(2.2) million in the third quarter of 2018 from $4.3 million in the same period of 2017.

Adjusted net earnings attributable to AutoCanada shareholders decreased by $14.0 million or 103.4% to $(0.6) million for the quarter from $13.6 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 September 30, for the last three years of operations:

(in thousands of dollars)	2018	2017	2016
Net (loss) earnings attributable to AutoCanada shareholders	(16,452)	12,100	(32,619)
Add back:			
Impairment of non-financial assets, net of tax	13,717	—	42,987
Share-based compensation attributed to changes in share price, net of tax	(197)	(218)	(220)
Revaluation of redemption liabilities	—	1,699	179
Management transition costs, net of tax	2,376	—	—
Adjusted net earnings attributable to AutoCanada shareholders[1]	(556)	13,581	10,327
Weighted average number of shares - Basic	27,399,238	27,389,473	27,347,585
Weighted average number of shares - Diluted [2]	28,013,586	27,449,849	27,508,975
Adjusted net earnings per share attributable to AutoCanada shareholders - Basic[1]	(0.02)	0.50	0.38
Adjusted net earnings per share attributable to AutoCanada shareholders - Diluted[1]	(0.02)	0.50	0.38

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

2 In Q3 2018, Weighted average number of shares - Diluted, differs from the disclosed amounts on the September 30, 2018 Condensed Interim Consolidated Statements of Comprehensive (Loss) Income due to an anti-dilutive impact in the quarter.

Year to Date Operating Results

EBITDA attributable to AutoCanada shareholders for the nine month period ended September 30, 2018, decreased by $46.4 million or 55.4% to $37.3 million, from $83.6 million when compared to the results of the Company for the same period in the prior year.

Adjusted EBITDA attributable to AutoCanada shareholders for the nine month period ended September 30, 2018, decreased by $30.8 million or 41.9% from $73.5 million to $42.7 million when compared to the results of the Company in the prior year.

The following table illustrates EBITDA and adjusted EBITDA attributable to AutoCanada shareholders for the nine month period ended September 30 for the last three years of operations:

(in thousands of dollars)	2018	2017	2016
Period from January 1 to September 30			
Net (loss) income attributable to AutoCanada shareholders	(52,968)	40,756	(11,189)
Impairment of non-financial assets, net[2]	77,219	—	51,180
Income taxes[2]	(16,431)	14,835	3,296
Depreciation of property and equipment[2]	15,159	14,464	13,798
Interest on long-term indebtedness[2]	14,309	13,591	12,141
EBITDA attributable to AutoCanada shareholders[1]	37,288	83,646	69,226
Add back:			
Share-based compensation attributed to changes in share price	(792)	(39)	(181)
Revaluation of redemption liabilities	—	1,528	705
Unrealized gain on embedded derivative	—	—	20
Management transition cost	7,767	1,684	2,700
Revaluation of contingent consideration	15	—	—
Settlement income	(1,603)	(13,328)	—
Adjusted EBITDA attributable to AutoCanada shareholders[1, 3, 4]	42,675	73,491	72,470

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 Q3 2016 has been restated as presented above.

4 In Q1 2018, the Company redefined the calculation of adjusted EBITDA to remove the effect of management transition costs. As a result, the value presented for Q3 2016 has been restated as presented above.

For the nine month period ended September 30, 2018, pre-tax earnings attributable to AutoCanada shareholders decreased by $125.0 million or 224.8% to $(69.4) million from $55.6 million in the same period of the prior year. Net earnings attributable to AutoCanada shareholders decreased by $93.7 million or 230.0% to $(53.0) million in the nine month period ended September 30, 2018, from $40.8 million when compared to the prior year. Income tax expense attributable to AutoCanada shareholders decreased by $31.3 million to $(16.4) million in the nine month period ended September 30, 2018, from $14.8 million in the same period of 2017.

The following table reconciles net earnings to adjusted net earnings for the nine month period ended September 30, 2018, for the last three years of operations:

(in thousands of dollars)	2018	2017	2016
Net (loss) earnings attributable to AutoCanada shareholders	(52,968)	40,756	(11,189)
Add back:			
Impairment of non-financial assets, net of tax	56,610	—	42,987
Share-based compensation attributed to changes in share price, net of tax	(579)	(29)	(133)
Revaluation of redemption liabilities	—	1,528	705
Unrealized loss (gain) on embedded derivative	—	—	20
Management transition cost, net of tax	5,682	1,231	2,057
Revaluation of contingent consideration	15	—	—
Settlement income, net of tax	(1,173)	(9,756)	—
Adjusted net earnings attributable to AutoCanada shareholders[1, 3, 4]	7,587	33,730	34,447
Weighted average number of shares - Basic	27,392,943	27,375,832	24,349,590
Weighted average number of shares - Diluted [2]	28,168,096	27,463,474	27,463,324
Adjusted net earnings per share attributable to AutoCanada shareholders - Basic[1]	0.28	1.23	1.18
Adjusted net earnings per share attributable to AutoCanada shareholders - Diluted[1]	0.27	1.23	1.18

1 *This financial measure is identified and defined under the section "NON-GAAP MEASURES".*
2 *In Q3 2018, Weighted average number of shares - Diluted , differs from the disclosed amounts on the September 30, 2018 Condensed Interim Consolidated Statements of Comprehensive (Loss) Income due to an anti-dilutive impact in the quarter.*
3 *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 Q3 2016 has been restated as presented above.*
4 *In Q1 2018, the Company redefined the calculation of adjusted net earnings to remove the effect of management transition costs. As a result, the value presented for Q3 2016 has been restated as presented above.*

Revenues

The following table summarizes revenue for the three month periods and nine month periods ended September 30:

	Three Months Ended September 30		
	2018 $	**2017 $**	**Change $**
New vehicles	509,281	497,711	11,570
Used vehicles	206,668	192,473	14,195
Finance, insurance and other	37,882	39,571	(1,689)
Parts, service and collision repair	113,087	104,816	8,271
Total Revenue	866,918	834,571	32,347

	Nine Months Ended September 30		
	2018 $	**2017 $**	**Change $**
New vehicles	1,369,447	1,409,933	(40,486)
Used vehicles	563,166	540,794	22,372
Finance, insurance and other	104,922	108,239	(3,317)
Parts, service and collision repair	330,456	309,534	20,922
Total Revenue	2,367,991	2,368,500	(509)

Gross Profit

The following table summarizes gross profit for the three month periods and nine month periods ended September 30:

	Three Months Ended September 30		
	2018 $	2017 $	Change $
New vehicles	29,150	36,806	(7,656)
Used vehicles	12,955	11,140	1,815
Finance, insurance and other	35,524	36,218	(694)
Parts, service and collision repair	57,206	53,805	3,401
Total Gross Profit	134,835	137,969	(3,134)

	Nine Months Ended September 30		
	2018 $	2017 $	Change $
New vehicles	83,270	100,951	(17,681)
Used vehicles	34,690	36,175	(1,485)
Finance, insurance and other	98,191	98,898	(707)
Parts, service and collision repair	163,608	157,395	6,213
Total Gross Profit	379,759	393,419	(13,660)

New vehicles

New vehicle revenue increased by 2.3%.

The gross profit decrease in the quarter from new vehicles is partially due a quarterly decrease in gross profit per unit of $727, and is slightly offset by an increase in new vehicles sold of 460 compared to the same period of the prior year.

The $40.5 million year-over-year decrease in revenue for the nine month period ended September 30 from new vehicles is due to a decrease in new vehicles sold of 831 and a decrease in revenue per unit of $180 compared to the same period of the prior year.

Used vehicles

Used vehicle revenue increased by 7.4%.

The increase in gross profit in the quarter from used vehicles is due to an increase in used vehicles sold of 1,271, offset by a decrease in gross profit per unit of $149.

The $22.4 million year-over-year increase in revenue for the nine month period ended September 30 from used vehicles is due to an increase in used vehicles sold of 2,203, offset by a decrease in revenue per unit of $3,457 compared to the same period of the prior year.

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. The quarterly year-over-year finance, insurance and other revenue decreased by 4.3% while new retail vehicle units sold increased by 0.2%. Finance and insurance revenue per vehicle sold has decreased by 1.9% or $298, to $2,263 in the quarter, from $2,561 in the same period of the prior year.

The year-over-year finance, insurance and other revenue for the nine month period ended September 30 decreased by 3.1% while new retail vehicle units sold decreased by 1.3%. Finance and insurance revenue per vehicle sold has decreased by 0.4%, or $182, to $2,373 in the quarter, from $2,555 in the same period in the prior year.

Parts, service and collision repair

Parts, service and collision repair revenues increased by 7.9% in the quarter.

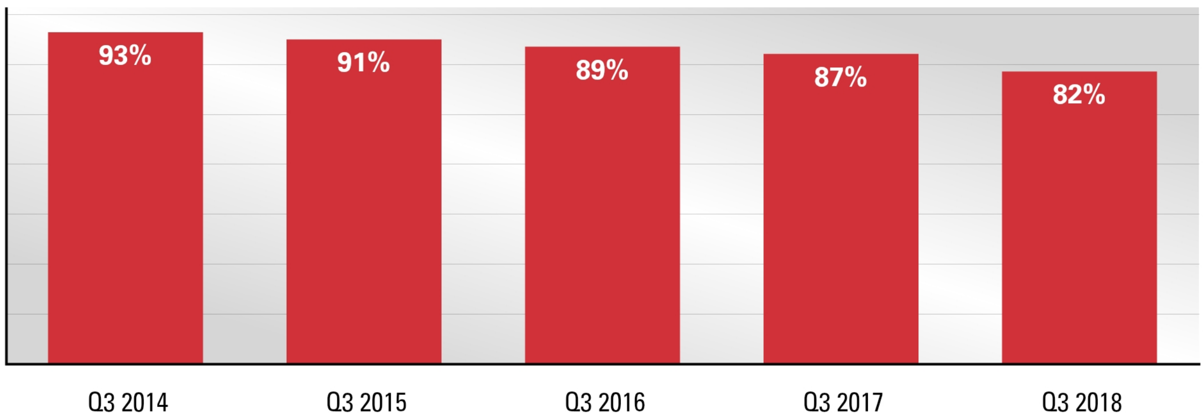
Gross profit in the quarter from parts, service and collision repair increased by 6.3% which is due to an increase in repair orders of 20,434.

The increase in revenue for the nine month period ended September 30 from parts, service and collision repair is due to an increase in revenue per order of $15, and an increase in repair orders of 23,089 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 Q3 2014 period:



1 *This financial measure has been calculated as described under "NON-GAAP MEASURES".*

Over the past five years the absorption rate for the period ending September 30 has ranged between 93% to a low of 82% in 2018. For the period ended September 30, 2018, the Company had an absorption rate of 82% This is an indicator that the increase in gross profit for parts, service and collision repair was less than the corresponding increase in related departmental and overall dealership fixed expenses.

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 Company calculates its operating expenses as a percentage of gross margin excluding and including depreciation, and believes the percentage excluding depreciation is a more accurate measure of operating performance.

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 September 30			Nine Months Ended September 30		
	2018	2017	Change	2018	2017	Change
Employee costs before management transition costs	52.6%	49.5%	3.1%	52.3%	50.8%	1.5%
Management transition costs	2.4%	0.0%	2.4%	2.0%	0.4%	1.6%
Administrative costs - Variable	23.6%	17.5%	6.1%	22.9%	17.2%	5.7%
Total Variable Expenses	78.6%	67.0%	11.6%	77.2%	68.4%	8.8%
Administrative costs - Fixed	5.6%	4.5%	1.1%	5.8%	4.9%	0.9%
Facility lease costs	6.2%	4.8%	1.4%	5.6%	4.6%	1.0%
Fixed expenses before Depreciation	11.8%	9.3%	2.5%	11.4%	9.5%	1.9%
Operating expenses before depreciation	90.4%	76.3%	14.1%	88.6%	77.9%	10.7%
Depreciation of property and equipment	4.3%	3.8%	0.5%	4.1%	3.9%	0.2%
Total fixed expenses	16.1%	13.1%	3.0%	15.5%	13.4%	2.1%
Total operating expenses	94.7%	80.1%	14.6%	92.7%	81.8%	10.9%

Total Operating Expenses

Total operating expenses have increased in the quarter by $17.1 million compared to the previous period of the prior year. Operating expenses as a percentage of gross profit have increased by 14.6% in the quarter. Included in operating expenses is management transition costs of $3.25 million, a number of non-recurring expenses such as Canadian and U.S. inventory adjustments, bank and legal fees to amend our credit agreement, and costs associated with implementing our Go Forward Plan.

Variable Expenses

Total variable expenses for the quarter have increased by 11.6% in the quarter.

Employee costs have increased in the quarter by 5.5% mainly due to additional management transition costs. This accounts for 2.4% of operating expenses as a percentage of gross profit. Excluding management transition costs, employee costs have increased by 3.1%.

Variable Administrative costs increased by $7.0 million of which the majority relates to expenses incurred in the U.S. operations which was not present in the comparative period. As a percentage of gross profit, variable administrative costs increased by 6.1% for the quarter ended September 30, 2018.

For the nine month period ended September 30, 2018, employee costs have increased by 3.1% of operating expenses as a percentage of gross profit. Excluding management transition costs, employee cost have increased by 1.5%, as a percentage of gross profit.

For the nine month period ended September 30, 2018, variable administrative costs increased by 5.7% compared to the same period of the prior year, as a percentage of gross profit.

Fixed Expenses

Total fixed expenses for the quarter increased by 3.0%.

Fixed administrative costs increased by $1.6 million which is 1.1% for the quarter, as a percentage of gross profit. The increase was related to increased insurance and utility expenses during the quarter when compared to prior period. Facility lease costs and depreciation of property and equipment saw a 1.4% increase and a 0.5% increase, respectively, for the quarter.

For the nine month period ended September 30, 2018, fixed administrative costs increased by 0.9%, facility lease costs increased by 1.0% and depreciation of property and equipment increased by 0.2%, as a percentage of gross profit.

Income Taxes

The following table summarizes income taxes for the three month periods and nine month periods ended September 30:

	Three Months Ended September 30	
	2018 $	2017 $
Current tax	2,772	1,888
Deferred tax	(4,881)	3,522
Income tax (recovery) expense	(2,109)	5,410

	Nine Months Ended September 30	
	2018 $	2017 $
Current tax	9,777	7,647
Deferred tax	(25,776)	10,005
Income tax (recovery) expense	(15,999)	17,652

Income tax (recovery) 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 rate used for the period ended September 30, 2018 was 26.9% (2017 - 26.8%).

Finance costs

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

During the three month period ended September 30, 2018, finance costs on our revolving floorplan facilities increased by 61.4% to $5.9 million from $3.6 million in the same period of the prior year, mainly due to increased interest rates.

During the nine month period ended September 30, 2018, finance costs on our revolving term facilities increased by $5.9 million to $16.2 million from $10.3 million in the same period of the prior year.

Some of our manufacturers provide non-refundable credits on the finance costs for our revolving floorplan facilities. This reduces the dealerships' cost of inventory by partially offsetting the floorplan financing expense.

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 September 30			Nine Months Ended September 30		
(in thousands of dollars)	**2018**	**2017**	**Change**	**2018**	**2017**	**Change**
Floorplan financing	5,853	3,626	2,227	16,245	10,328	5,917
Floorplan credits earned	(4,105)	(4,545)	440	(11,202)	(12,939)	1,737
Net carrying cost of vehicle inventory	1,748	(919)	2,667	5,043	(2,611)	7,654

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.

We 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 September 30, 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	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 September 30			Nine Months Ended September 30		
(in thousands of dollars)	**2018**	**2017**	**% Change**	**2018**	**2017**	**% Change**
Revenue Source						
New vehicles - Retail	304,086	321,919	(5.5)%	878,998	935,934	(6.1)%
New vehicles - Fleet	82,318	75,687	8.8%	235,142	216,447	8.6%
Total New vehicles	386,404	397,606	(2.8)%	1,114,140	1,152,381	(3.3)%
Used vehicles - Retail	116,245	109,485	6.2%	337,005	319,508	5.5%
Used vehicles - Wholesale	36,078	49,095	(26.5)%	117,949	136,200	(13.4)%
Total Used vehicles	152,323	158,580	(3.9)%	454,954	455,708	(0.2)%
Finance, insurance and other	30,583	32,727	(6.6)%	90,127	91,249	(1.2)%
Subtotal	569,310	588,913	(3.3)%	1,659,221	1,699,338	(2.4)%
Parts, service and collision repair	84,822	85,147	(0.4)%	264,479	256,580	3.1%
Total	654,132	674,060	(3.0)%	1,923,700	1,955,918	(1.6)%
New retail vehicles sold (units)	7,224	8,456	(14.6)%	20,816	23,095	(9.9)%
New fleet vehicles sold (units)	2,057	1,396	47.3%	5,714	5,210	9.7%
Used retail vehicles sold (units)	4,570	4,221	8.3%	13,222	12,532	5.5%
Total	13,851	14,073	(1.6)%	39,752	40,837	(2.7)%
Total vehicles retailed (units)	11,794	12,677	(7.0)%	34,038	35,627	(4.5)%

Revenues - Same Stores Analysis

Same stores revenue decreased by $19.9 million or 3.0%, for the three month period ended September 30, 2018, respectively when compared to the same period in the prior year.

New vehicle revenues decreased by $11.2 million or 2.8% for the third quarter of 2018 over the prior year due to a decrease in new vehicle sales of 571 units or 5.8%, offset by an increase in the average revenue per new vehicle sold of $1,276 or 3.2%.

Same Stores new vehicle revenues decreased by $38.2 million or 3.3% for the nine month period ended September 30, 2018, over the same period in the prior year due to a decrease in new vehicle sales of 1,775 units or 6.3%, offset by an increase in the average revenue per new vehicle sold of $1,282 or 3.2%.

Same stores used vehicle revenues decreased by $6.3 million or 3.9% for the three month period ended September 30, 2018, over the same period in the prior year due to a decrease in the average revenue per used vehicle sold of $4,238 or 11.3%. Retail used car volume increased in used vehicle sales of 349 units or 8.3%.

For the nine month period ended September 30, 2018, used vehicle revenues decreased by $0.8 million or 0.2% due to a decrease in the average revenue per used vehicle sold of $1,955 or 5.4%, offset by an increase in used vehicle sales of 690 units or 5.5%.

Same stores parts, service and collision repair revenue decreased by $0.3 million or 0.4% for the third quarter of 2018 compared to the prior period.

For the nine month period ended September 30, 2018, parts, service and collision repair revenue increased by $7.9 million or 3.1%, mainly due to a $17 or 3.6% increase in the average revenue per repair order and offset by a decrease in overall repair orders completed of 2,681.

Same stores finance, insurance and other revenue decreased by $2.1 million or 6.6% for the three month period ended September 30, 2018 over the same period in 2017. This was due to a decrease in the number of new and used vehicles retailed of 883 units, offset by an increase in the average revenue per unit retailed of $11 or 0.4%.

For the nine month period ended September 30, 2018, Same Stores finance, insurance and other revenue decreased by $1.1 million or 1.2% over the same period in 2017 mainly due to a decrease in the number of new and used vehicles retailed of 1,589 units, offset by an increase in the average revenue per unit retailed of $87 or 3.4%.

Same Stores Gross Profit and Gross Profit Percentage

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

	Three Months Ended September 30				
	Gross Profit			Gross Profit %	
(in thousands of dollars)	**2018**	**2017**	**% Change**	**2018**	**2017**
Revenue Source					
New vehicles - Retail	21,636	28,806	(24.9)%	7.1%	8.9%
New vehicles - Fleet	1,411	668	111.2%	1.7%	0.9%
Total New vehicles	23,047	29,474	(21.8)%	6.0%	7.4%
Used vehicles - Retail	9,730	9,176	6.0%	8.4%	8.4%
Used vehicles - Wholesale	1,181	1,412	(16.4)%	3.3%	2.9%
Total Used vehicles	10,911	10,588	3.1%	7.2%	6.7%
Finance, insurance and other	28,420	30,362	(6.4)%	92.9%	92.8%
Subtotal	62,378	70,424	(11.4)%	11.0%	12.0%
Parts, service and collision repair	42,775	44,471	(3.8)%	50.4%	52.2%
Total	105,153	114,895	(8.5)%	16.1%	17.0%

(in thousands of dollars)	Nine Months Ended September 30				
	Gross Profit			Gross Profit %	
	2018	2017	% Change	2018	2017
Revenue Source					
New vehicles - Retail	66,531	78,285	(15.0)%	7.6%	8.4%
New vehicles - Fleet	4,355	3,668	18.7%	1.9%	1.7%
Total New vehicles	70,886	81,953	(13.5)%	6.4%	7.1%
Used vehicles - Retail	26,407	27,450	(3.8)%	7.8%	8.6%
Used vehicles - Wholesale	3,128	4,826	(35.2)%	2.7%	3.5%
Total Used vehicles	29,535	32,276	(8.5)%	6.5%	7.1%
Finance, insurance and other	83,853	84,015	(0.2)%	93.0%	92.1%
Subtotal	184,274	198,244	(7.0)%	11.1%	11.7%
Parts, service and collision repair	131,830	131,397	0.3%	49.8%	51.2%
Total	316,104	329,641	(4.1)%	16.4%	16.9%

Gross Profit - Same Stores Analysis

Same stores gross profit decreased by $9.7 million or 8.5% for the three month period ended September 30, 2018, respectively when compared to the same period in the prior year.

New vehicle gross profit decreased by $6.4 million or 21.8% in the three month period ended September 30, 2018, when compared to 2017, as a result of a decrease in new vehicle sales of 571 units or 5.8%, and a decrease in the average gross profit per new vehicle sold of $508 or 17.0%.

For the nine month period ended September 30, 2018, new vehicle gross profit decreased by $11.1 million or 13.5% which can be mainly attributed to a decrease in new vehicle sales of 1,775 units or 6.3% and a decrease in the average gross profit per new vehicle sold of $223 or 7.7%.

Used vehicle gross profit increased by $0.3 million or 3.1% in the three month period ended September 30, 2018 over the prior year. This was due to an increase in the number of used vehicles sold of 349 units or 8.3%, offset by a decrease in the average gross profit per used vehicle retailed of $121 or 4.8%.

For the nine month period ended September 30, 2018, Same Stores used vehicle gross profits decreased by $2.7 million or 8.5% which was mainly due to an decrease in the average gross profit per vehicle retailed of $342 or 13.3%, offset by an increase in the number of vehicles retailed of 690 units.

Parts, service and collision repair gross profit decreased by $1.7 million or 3.8% in the three month period ended September 30, 2018, when compared to the same period in the prior year despite an increase in the number of repair orders completed of 818.

For the nine month period ended September 30, 2018, parts, service and collision repair gross profit increased by $0.4 million or 0.3% which can be mainly attributed to an increase in the average gross profit per repair order completed of $2 or 0.8%, offset by a decrease in the number of repair orders completed of 2,681.

Finance and insurance gross profit decreased by $1.9 million or 6.4% in the three month period ended September 30, 2018, when compared to the prior year, as a result of a decrease in units retailed of 883, offset by an increase in the average gross profit per unit sold of $15 or 0.6%.

For the nine month period ended September 30, 2018, finance and insurance gross profit decreased by $0.2 million or 0.2% and can be attributed to a decrease in units retailed of 1,589 offset by an increase in the average gross profit per unit sold of $105.

The following table summarizes same stores total revenue for the three month periods and nine month periods ended September 30 by Province:

	Three Months Ended September 30			Nine Months Ended September 30		
(in thousands of dollars)	**2018**	**2017**	**% Change**	**2018**	**2017**	**% Change**
British Columbia	142,780	133,948	6.6%	407,780	411,557	(0.9)%
Alberta	223,934	236,404	(5.3)%	668,819	687,036	(2.7)%
Saskatchewan	63,097	60,713	3.9%	184,793	185,139	(0.2)%
Manitoba	52,861	58,333	(9.4)%	149,151	149,277	(0.1)%
Ontario	58,586	55,420	5.7%	163,040	147,508	10.5%
Quebec	81,946	93,535	(12.4)%	257,239	259,745	(1.0)%
Atlantic	30,928	35,707	(13.4)%	92,878	115,656	(19.7)%
Total	654,132	674,060	(3.0)%	1,923,700	1,955,918	(1.6)%

The following table summarizes same stores gross profit for the three month periods and nine month periods ended September 30 by Province:

	Three Months Ended September 30			Nine Months Ended September 30		
(in thousands of dollars)	**2018**	**2017**	**% Change**	**2018**	**2017**	**% Change**
British Columbia	20,791	22,612	(8.1)%	61,487	66,501	(7.5)%
Alberta	40,321	43,697	(7.7)%	121,199	125,834	(3.7)%
Saskatchewan	10,566	12,179	(13.2)%	32,371	34,857	(7.1)%
Manitoba	9,044	9,928	(8.9)%	26,356	27,009	(2.4)%
Ontario	7,822	7,738	1.1%	23,017	21,804	5.6%
Quebec	12,067	13,352	(9.6)%	38,559	37,514	2.8%
Atlantic	4,542	5,389	(15.7)%	13,115	16,122	(18.7)%
Total	105,153	114,895	(8.5)%	316,104	329,641	(4.1)%

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 US market acquisition during the second quarter and the acquisition of Mercedes-Benz Heritage Valley after the third quarter, we now currently operate 64 dealerships, representing 78 franchises. We continue to focus on our acquisition strategy, focusing on a greater diversification in both geography and brand. The Company is being patient with our acquisition strategy, focusing on acquisitions that are accretive and provide diversity. Management and the Company have excellent relationships with our manufacturer partners, providing the Company with greater opportunities with brands we currently operate. Management and the Company believe we have established good relationships with manufacturers of brands we do not currently operate and expect to have opportunities with many of these brands in the near future.

Mercedes-Benz Heritage Valley

On October 1, 2018, the Company purchased 100% of the issued and outstanding shares of Ericksen M-B Ltd., which owns and operates a Mercedes-Benz dealership in Edmonton, Alberta for total cash consideration of $23.9 million. The acquisition was funded by the sale of real estate as part of a sale-leaseback transaction which closed in Q3. In 2017, the dealership retailed 1,288 new and used vehicles and generated revenue of $87.5 million.

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 will have sufficient capital to be able to acquire stores that meet our specific criteria in 2018 and 2019. Our focus will be on acquiring stores that are highly accretive to our earnings and provide diversity in terms of both geography and brand.

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 and opportunity for us to evaluate future GM opportunities and further expand our relationship with GM Canada.

Dealership Open Points

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

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.

Sale-Leaseback Transaction

On September 28, 2018, the Company executed an agreement to sell and subsequently leaseback the BMW Laval and Sherwood Park Volkswagen dealership properties to Automotive Properties Real Estate Investment Trust for a purchase price of $55.5 million. On the transaction, the Company recognized a gain of $4.6 million.

The net proceeds of the transaction were used to fund the acquisition of Mercedes-Benz Heritage Valley and to repay the existing mortgages on the properties.

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 $61.0 million to the end of 2021. The Company expects dealership relocations to provide long term earnings sustainability and result in significant improvements in revenues and overall profitability. Management continually updates its capital plan and as such the estimates provided may vary as delays occur or projects are added or removed.

Current Dealership Expansion and Imaging Requirements

The Company has identified approximately $83.5 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 $15.2 million in capital costs that it may incur by the end of 2020 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	9.1	10.2	26.8	14.9	—	61.0
Dealership Expansion and Imaging Requirements	0.3	1.2	8.4	17.5	9.1	36.5
Capital Plan	9.4	11.4	35.2	32.4	9.1	97.5
Expected to be financed	1.0	8.9	0.2	—	—	10.1
Cash Outlay[1]	8.4	2.5	35.0	32.4	9.1	87.4
Non Same Store						
Dealership Expansion and Imaging Requirements	1.9	23.8	4.7	15.6	1.0	47.0
Open Point Opportunities	1.6	13.3	0.3	—	—	15.2
Capital Plan	3.5	37.1	5.0	15.6	1.0	62.2
Expected to be financed	3.0	26.6	2.1	9.0	—	40.7
Cash Outlay[1]	0.5	10.5	2.9	6.6	1.0	21.5
Total Capital Plan	12.9	48.5	40.2	48.0	10.1	159.7
Total Cash outlay	8.9	13.0	37.9	39.0	10.1	108.9

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

The five year capital plan at September 30, 2018 is $159.7 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 future expenditures prior to the allocation of funds. Timing of dealership relocations is determined based on the dealership's current performance, the market, and expected return on invested capital. It is expected that a dealership relocation will result in improved performance and increased profitability.

9. LIQUIDITY AND CAPITAL RESOURCES

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

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 September 30, 2018, is as follows:

- The Company had drawn $205.0 million on its $420.0 million revolving term facility.

As a result of the above, as at September 30, 2018, the Company currently has approximately $215.0 million in readily available liquidity, not including future retained cash from operations, that it may deploy for growth expenditures including acquisitions. However, the Company's ability to borrow under this facility requires it to comply with its financial covenants. In spite of this, the Company believes it has sufficient resources to make accretive acquisitions.

Cash Flow from Operating Activities

Cash provided by operating activities (including changes in non-cash working capital) of the Company for the three month period ended September 30, 2018, was $8.5 million (cash provided by operating activities of $0.5 million combined with a net change in non-cash working capital of $8.0 million) compared to $32.1 million (cash provided by operating activities of $24.1 million combined with a change in non-cash working capital of $8.0 million) in the same period of the prior year.

Cash Flow from Investing Activities

For the three month period ended September 30, 2018, cash flow used in investing activities of the Company was $53.9 million as compared $(3.6) million in the same period of the prior year.

Cash Flow from Financing Activities

For the three month period ended September 30, 2018, cash flow used in financing activities was $(64.0) million as compared to $(23.8) 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 Consolidated Financial Statements for the year ended December 31, 2017. Updates to credit facilities and floorplan financing are included in Note 21 of the Interim Consolidated Financial Statements for the three month periods and nine month periods ended September 30, 2018.

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 September 30, 2018:

Financial Covenant	Requirement	Q3 2018 Calculation
Syndicated Revolver:		
Senior Funded Debt to EBITDA Ratio	Shall not exceed 2.75	2.22
Total Funded Debt to EBITDA Ratio	Shall not exceed 4.50	3.81
Fixed Charge Coverage Ratio	Shall not be less than 1.20	1.72
Current Ratio	Shall not be less than 1.05	1.13

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

As at September 30, 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)	July 1, 2018 to September 30, 2018	January 1, 2018 to September 30, 2018
Leasehold improvements	551	1,357
Machinery and equipment	419	3,599
Furniture and fixtures	617	1,844
Computer equipment	809	1,358
	2,396	8,158

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 and nine month period ended September 30, 2018, growth capital expenditures of $1.5 million and $11.7 million were incurred, respectively. These expenditures related primarily to building construction costs purchased for future dealership operations.

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)	July 1, 2018 to September 30, 2018	January 1, 2018 to September 30, 2018
Purchase of property and equipment from the Statement of Cash Flows	3,880	19,823
Less: Amounts related to the expansion of sales and service capacity	(1,484)	(11,665)
Purchase of non-growth property and equipment	2,396	8,158

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 periods and nine month periods ended September 30, 2018, were $1.9 million and $5.0 million (2017 - $1.7 million and 5.2 million), respectively.

Planned Capital Expenditures

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

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

Financial Position

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

(in thousands of dollars)	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016
Cash and cash equivalents	41,610	43,483	81,177	94,660	104,966	95,417	100,402	103,221
Trade and other receivables	151,408	153,418	130,388	79,931	137,155	157,275	113,688	85,587
Inventories	795,554	791,243	694,691	659,593	636,685	629,171	701,559	619,718
Total Assets	1,773,743	1,839,094	1,670,224	1,761,046	1,693,533	1,698,290	1,707,063	1,600,615
Revolving floorplan facilities	799,526	789,134	690,163	634,655	616,144	624,847	688,173	582,695
Long-term indebtedness	353,389	413,519	307,152	332,450	331,803	338,212	330,563	330,351

Net Working Capital

The automobile manufacturers represented by the Company require the Company to maintain net working capital for each individual dealership. At September 30, 2018, the aggregate of net working capital requirements was approximately $122.0 million. 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.

10. OUTSTANDING SHARES

As at September 30, 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 September 30, 2018, were 27,399,238 and 28,013,586, respectively. In Q3 2018, Weighted average number of shares - Diluted differs from the disclosed amounts on the September 30, 2018 Condensed Interim Consolidated Statements of Comprehensive (Loss) Income due to an anti-dilutive impact in the quarter.

As at September 30, 2018, the value of the shares held in trust was $1.1 million (2017 – $1.9 million) which was comprised of 42,197 (2017 - 70,481) in shares with a $nil aggregate cost. As at November 8, 2018, there were 27,459,683 shares issued and outstanding.

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	6,859
2019	24,923
2020	22,498
2021	20,873
2022	19,906
Thereafter	202,284
Total	297,343

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.

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
May 31, 2018	June 15, 2018	0.10	2,739
August 31, 2018	September 15, 2018	0.10	2,739
		0.30	8,217

On November 8, 2018, the Board declared a quarterly eligible dividend of $0.10 per common share on AutoCanada's outstanding Class A shares, payable on December 15, 2018 to shareholders of record at the close of business on November 30, 2018.

As per the terms of the Scotiabank 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)	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Cash provided by operating activities	8,501	(10,075)	(13,106)	31,479	32,091	12,255	2,967	24,930
Deduct:								
Purchase of non-growth property and equipment	(2,396)	(4,564)	(1,282)	(1,983)	(977)	(1,273)	(2,346)	(1,506)
Free cash flow[1]	6,105	(14,639)	(14,388)	29,496	31,114	10,982	621	23,424
Weighted average shares outstanding at end of period	27,399,238	27,390,620	27,388,859	27,389,167	27,389,473	27,378,919	27,358,766	27,353,431
Free cash flow per share	0.22	(0.53)	(0.53)	1.08	1.14	0.40	0.02	0.86
Free cash flow - 12 month trailing	6,574	31,584	57,204	72,213	66,141	65,924	92,864	96,288

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 nine month periods ended September 30, 2018 and September 30, 2017:

(in thousands of dollars)	January 1, 2018 to September 30, 2018	January 1, 2017 to September 30, 2017
Trade and other receivables	(71,266)	(46,418)
Inventories	(60,036)	(4,333)
Finance lease receivables	137	(3,419)
Current tax recoverable	(12,042)	—
Other current assets	(5,580)	(1,460)
Trade and other payables	43,360	9,154
Vehicle repurchase obligations	3,494	1,232
Revolving floorplan facilities	81,767	15,411
	(20,166)	(29,833)

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)	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Cash provided by operating activities before changes in non-cash working capital	543	1	4,942	17,486	24,070	37,355	15,721	14,344
Deduct:								
Purchase of non-growth property and equipment	(2,396)	(4,541)	(1,221)	(1,490)	(774)	(1,078)	(504)	(1,211)
Adjusted free cash flow[1]	(1,853)	(4,540)	3,721	15,996	23,296	36,277	15,217	13,133
Weighted average shares outstanding at end of period	27,399,238	27,390,620	27,388,859	27,389,167	27,389,473	27,378,919	27,358,766	27,353,431
Adjusted free cash flow per share	(0.07)	(0.17)	0.14	0.58	0.85	1.32	0.56	0.48
Adjusted free cash flow - 12 month trailing	13,324	38,474	79,290	90,786	87,923	92,393	77,748	68,566

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 also 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 nine month period ending September 30, 2018, the Company paid approximately $10.1 million in 2018 tax installments (2017 - $5.9 million in income tax installments). Accordingly, this reduced our adjusted free cash flow by this amount. 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)	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
EBITDA[1,2]	11,997	11,694	16,253	31,124	29,978	47,757	17,228	28,536
Deduct:								
Depreciation of property and equipment	(5,794)	(4,647)	(5,042)	(5,213)	(5,297)	(5,082)	(4,852)	(4,921)
EBIT[1,2]	6,203	7,047	11,211	25,911	24,681	42,675	12,376	23,615
Average long-term debt	386,390	363,433	322,377	339,741	353,315	357,103	351,986	333,310
Average shareholder's equity	485,067	512,193	534,379	534,338	526,209	510,610	498,732	491,026
Average capital employed[1]	871,458	875,626	856,756	874,079	879,524	867,713	850,718	824,336
Return on capital	0.7%	0.8%	1.3%	3.0%	2.8%	4.9%	1.5%	2.9%
Comparative adjustment[3]	42,358	43,332	24,371	24,371	25,959	25,959	25,959	25,959
Adjusted average capital employed[1]	914,303	909,477	881,126	899,244	905,482	893,672	876,677	830,720
Adjusted return on capital employed[1]	0.7%	0.8%	1.3%	2.9%	2.7%	4.8%	1.4%	2.8%
Adjusted return on capital employed - 12 month trailing	5.5%	7.6%	11.9%	12.2%	12.1%	11.8%	9.9%	10.9%

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 Consolidated Financial Statements for the year ended December 31, 2017. Updates related to the 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 September 30, 2018. A listing of the standards issued which are applicable to the Company can be found in Note 5 of the 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 amendment standards do not have a material impact on the financial statements and are further explained in Note 4 of the Interim Consolidated Financial Statements for the period ended September 30, 2018.

14. DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended September 30, 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", including "with respect to", "among other things", "future performance", "expense reductions" and the "Go Forward Plan"), 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.

17. NON-GAAP MEASURES

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

Operating (loss) 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, contingent considerations, the unrealized gain or loss on embedded derivatives, management transition costs, and settlement income are added back to EBITDA to get to adjusted EBITDA. 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, Adjusted net earnings per share and Adjusted diluted net earnings per share

Adjusted net earnings, Adjusted net earnings per share and Adjusted diluted 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, impairment of other assets, the revaluation of redemption liabilities, the unrealized gain or loss on embedded derivatives, management transition costs, settlement income 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. Adjusted diluted net earnings per share is calculated by dividing adjusted net earnings by the diluted 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.

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