

2019



Management Discussion
& Analysis

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

For the three month period ended March 31, 2019



1. READER ADVISORIES

This Management's Discussion & Analysis ("MD&A") was prepared as of May 2, 2019, to assist readers in understanding AutoCanada Inc.'s (the "Company" or "AutoCanada") consolidated financial performance for the three month period March 31, 2019, and significant trends that may affect AutoCanada's future performance. The following discussion and analysis should be read in conjunction with the unaudited condensed interim consolidated financial statements and accompanying notes (the "Interim Consolidated Financial Statements") of AutoCanada as at and for the three month period ended March 31, 2019, the audited annual consolidated financial statements and accompanying notes (the "Consolidated Financial Statements") of AutoCanada as at and for the year ended December 31, 2018, and the MD&A for the year ended December 31, 2018. Results are reported in Canadian dollars. Certain dollars have been rounded to the nearest thousand dollars, unless otherwise stated.

To provide more meaningful information, this MD&A typically refers to the operating results for the three

month period ended March 31, 2019, of the Company, and compares these to the operating results of the Company for the three month period ended March 31, 2018.

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 2018 Annual Information Form, dated March 14, 2019, 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

Adoption of IFRS 16

The Company has adopted IFRS 16 retrospectively on January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific provisions in the new standard. The cumulative effect of initially applying the new standard is recognized on January 1, 2019. The standard introduces a single lessee accounting model and requires a lessee to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The impact on the Company's net income is the recognition of depreciation related to the recorded right-of-use-assets, an interest charge on the lease liability and the reversal of the operating lease expense. Refer to Note 4 of the Condensed Interim Consolidated Financial Statements for the period ended March 31, 2019 regarding the Company's adoption of IFRS 16 Leases on January 1, 2019.

The adoption of IFRS 16 results in a significant increase in EBITDA in 2019 which may not provide for a meaningful comparison to 2018 given that the comparatives for 2018 have not been restated. The adoption of IFRS 16 resulted in the recognition of depreciation expense related to right-of-use-assets of \$6.5 million, lease liability interest charge of \$4.5 million and a reduction to rent expense of \$9.7 million, for the three month period ended March 31, 2019.

Depreciation expense related to right-of-use-assets and lease liability interest are included in the reconciliations presented in Section 6 for EBITDA attributable to AutoCanada shareholders and Adjusted EBITDA attributable to AutoCanada shareholders.

Performance vs. the First Quarter of Prior Year

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

Consolidated Operational Data	Three Months Ended March 31		
	2019	2018	% Change
EBITDA attributable to AutoCanada shareholders ^{1, 2, 4}	16,518	15,694	5.2%
Adjusted EBITDA attributable to AutoCanada shareholders ^{1, 2, 4}	17,808	15,689	13.5%
Net (loss) income attributable to AutoCanada shareholders ¹	(4,127)	4,832	(185.4)%
Adjusted net (loss) earnings attributable to AutoCanada shareholders ^{1, 2}	(3,185)	4,832	(165.9)%
Basic EPS	(0.15)	0.18	(183.3)%
Adjusted diluted EPS ²	(0.12)	0.18	(166.7)%
Weighted average number of shares - Basic	27,418,197	27,388,859	0.1%
Weighted average number of shares - Diluted ³	27,418,197	27,475,458	(0.2)%
New retail vehicles sold (units)	8,002	6,664	20.1%
New fleet vehicles sold (units)	1,064	1,476	(27.9)%
New vehicles sold (units)	9,066	8,140	11.4%
Used retail vehicles sold (units)	5,650	4,527	24.8%
Total vehicles sold	14,716	12,667	16.2%
Revenue	739,371	620,485	19.2%
Gross profit	126,699	104,344	21.4%
Gross profit %	17.1%	16.8%	1.9%
Operating expenses	122,827	95,781	28.2%
Operating expenses % of gross profit	96.9%	91.8%	5.6%
Operating profit	12,310	15,906	(22.6)%
Free cash flow ²	881	(14,388)	(106.1)%
Adjusted free cash flow ²	4,269	3,721	14.7%
Same store new retail vehicles sold (units)	5,669	5,981	(5.2)%
Same store new fleet vehicles sold (units)	963	1,305	(26.2)%
Same store used retail vehicles sold (units)	4,100	4,053	1.2%
Same store total vehicles sold	10,732	11,339	(5.4)%
Same store revenue	549,184	558,166	(1.6)%
Same store gross profit	97,653	95,861	1.9%
Same store gross profit %	17.8%	17.2%	3.5%

¹ Represents the portion attributable to AutoCanada shareholders.

² These financial measures have been calculated as described under "NON-GAAP MEASURES" and should not be considered substitutes or alternatives for GAAP measures. These are not defined terms under IFRS and do not have standard meanings, so may not be a reliable way to compare us to other companies.

³ For the three months ended March 31, 2019, Weighted average number of shares - Diluted, is presented as the same figure as Basic due to an anti-dilutive impact in the quarter.

⁴ For 2019, the adoption of IFRS 16 contributed \$9.6 million to EBITDA attributable to AutoCanada shareholders and Adjusted EBITDA attributable to AutoCanada shareholders. Refer to Section 6, Result of Operations.

2019 First Quarter Highlights

- Total revenue was \$739.4 million, up 19.2% compared with the first quarter of 2018. The U.S. Operations revenue contribution was \$103.9 million, representing 14% of total revenue.
- Gross profit was \$126.7 million, which includes \$13.7 million gross profit from U.S. Operations. As a percentage of revenue, gross profit increased to 17.1% from 16.8%. Same store gross profit was \$97.7 million, up 1.9% from the same quarter in 2018.
- Operating expenses were \$122.8 million, up 28.2% or \$27.0 million from the same period last year. A large contributor to the increase was the addition of the U.S. Operations as operating expenses in the U.S. Operations amounted to \$21.0 million in the current period.
- Operating expenses as a percentage of gross profit were up to 96.9% from 91.8% in the same period in 2018. Operating expenses in the U.S. Operations exceeded gross profit by \$7.2 million. In addition, the Canadian operating expenses include approximately \$1.3 million of management transition costs.
- New vehicle retail sales, which included 1,511 U.S. retail sales, was 8,002, up 20.1% from the same period in 2018. Revenue from the sale of new retail and fleet vehicles was \$399.0 million, up 18.0% from the same period in 2018. The sale of new retail and fleet vehicles accounted for 54.0% of the Company's total revenue and 21.7% of gross profit, versus 54.5% of revenue and 22.5% of gross profit in the first quarter of 2018.
- Used retail vehicle sales were 5,650, up 24.8% compared with the same quarter last year - 889 of those sales were in our U.S. Operations. Total revenue from the sale of used vehicles was \$188.6 million, up 19.5% from the same quarter last year. The sale of used vehicles accounted for 25.5% of the Company's total revenue and 8.8% of gross profit, versus 25.4% of revenue and 8.2% of gross profit in the first quarter of 2018.
- Total parts, service and collision repair generated \$116.9 million of revenue, up 21.9% from the same period in 2018. This accounted for 13.0% of the Company's total revenue and 44.0% of its gross profit, down from 15.5% of revenue and up from 43.6% of gross profit in the same quarter of 2018. The U.S. Operations parts, service and collision repair revenue was \$16.2 million.
- Total finance and insurance revenue was \$34.9 million, an increase of 21.6% from the same period in 2018. This accounted for 4.7% of the Company's total revenue and 25.5% of its gross profit, in line with 4.6% of revenue and 25.7% of gross profit in the same quarter of 2018. The U.S. Operations finance and insurance revenue was \$4.4 million.
- EBITDA attributable to AutoCanada shareholders was \$16.5 million. The adoption of IFRS 16 has resulted in an increase to EBITDA attributable to AutoCanada shareholders compared to last year as we have not restated 2018 comparatives; this contributed \$9.6 million.
- Adjusted EBITDA attributable to AutoCanada shareholders was \$17.8 million. The adoption of IFRS 16 has resulted in an increase to adjusted EBITDA attributable to AutoCanada shareholders compared to last year as we have not restated 2018 comparatives; this contributed \$9.6 million.
- The Company generated a net loss attributable to AutoCanada shareholders of \$4.1 million (Adjusted net loss attributable to AutoCanada shareholders of \$3.2 million), or \$(0.15) per share (Adjusted net loss per share attributable to AutoCanada shareholders \$(0.12)) versus net income of \$4.8 million in 2018 (\$4.8 million on an adjusted basis) or \$0.18 per share (\$0.18 on an adjusted basis).
- The adoption of IFRS 16 has resulted in an increase to the net loss attributable to AutoCanada shareholders and Adjusted net loss attributable to AutoCanada shareholders compared to last year as we have not restated 2018 comparatives; this contributed \$(0.8) million to the net loss in 2019.
- Included in EBITDA and net earnings is a gain of \$2.7 million from a sale-leaseback transaction in respect of two dealership properties, as well as, a pre-tax gain of \$4.3 million from the sale of Toronto Dodge.
- Adjusted EBITDA attributable to AutoCanada shareholders from the Canadian operations without the pre-tax gains from the sale-leaseback transactions and the sale of Toronto Dodge was \$16.2 million. The adoption of IFRS 16 has resulted in an increase to adjusted EBITDA attributable to AutoCanada shareholders from Canadian operations compared to last year as we have not restated 2018 comparatives; this contributed \$7.6 million.
- Adjusted EBITDA attributable to AutoCanada shareholders from the U.S. operations was negative at \$(5.5) million. The adoption of IFRS 16 has resulted in an increase to adjusted EBITDA attributable to AutoCanada shareholders from U.S. Operations compared to last year as we have not restated 2018 comparatives; this contributed \$2.0 million.

3. OUTLOOK

Macroeconomic factors create a degree of uncertainty for AutoCanada's business. Central banks in Canada and the United States have recently held key interest rates flat but there is a possibility of future interest rate hikes over the next year. Higher rates will adversely impact borrowing expenses on variable interest rate debt such as vehicle floorplan financing, which would increase 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 beginning to trend downwards. While many analysts expect sales to remain healthy, most expect a decline in volume in 2019. Over the last few months, there has been greater concern over the strength of the economy in both Canada and the United States. If these concerns materialize, the volume of vehicle sales could decrease more than analysts expect. New car sales in the U.S. and Canada dropped more than expected during the first quarter of 2019 and many dealers are reacting by shifting to used cars and cutting costs. Some of the blame for the reduction of new car sales over the first quarter is being placed on a severe winter and delayed emergence of spring weather across Canada. While vehicle leasing and manufacturer incentives remain at high levels, if those incentives are scaled back, it could impact sales volumes.

While macroeconomic factors determine total vehicle demand, we expect to deliver materially better results in our Canadian operations as we continue to implement 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 the number of used vehicles we retail. Margins on used vehicles tend to be higher than new vehicles and retailing more vehicles will increase our returns from our finance and insurance and our parts and service lines of business.

We are also optimizing our finance and insurance offerings for used vehicles at our dealerships. We expect to earn a material profit share on these new offerings. We have also created a new special finance division and a new wholesale division. Our new special finance division arranges loans for customers who cannot qualify for traditional loans offered by banks and affiliates of vehicle manufacturers. We expect that our special finance division will continue to increase both new and used vehicle sales at our dealerships and through a recently launched online site (www.rightride.ca). We expect that our new wholesale division will be accretive by taking advantage of the arbitrage opportunities with the sale of used vehicles in different geographical locations. Other aspects of the Company's Go Forward Plan are expected to continue to decrease operational expenses at our dealerships and at our collision centers, as we better leverage our buying power to achieve meaningful cost reductions in our Canadian operations.

The key issue with our U.S. Operations in 2018 and the first quarter of 2019 was the high cost structure. We have designed a go forward plan for our U.S. Operations focusing on reducing the operating expenses in our U.S. dealerships and optimizing our U.S. portfolio with a view to creating a sustainable platform in the U.S.

The fragmented nature of the automotive dealership sector will provide us with the opportunity to diversify our geographical presence and drive earnings growth through accretive acquisitions. While our principal focus at this time is to continue executing our Go Forward Plan and optimizing all of our lines of business, we expect to grow our business by making accretive acquisitions as opportunities may arise.

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 March 31, 2019 and March 31, 2018.

Three Months Ended March 31, 2019						
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	107,705	15%	18,285	14%
Alberta	23	20	225,508	30%	45,990	36%
Saskatchewan	4	4	57,085	8%	10,332	8%
Manitoba	4	4	45,150	6%	8,433	7%
Ontario	9	8	72,628	10%	11,668	9%
Quebec	6	4	97,761	13%	15,292	12%
Atlantic	2	2	29,599	4%	2,967	2%
Illinois	15	14	103,935	14%	13,732	11%
Total	75	66	739,371	100%	126,699	100%

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

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

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

The Company's manufacturer profile is illustrated below by number of dealerships and revenues by manufacturer for the three month periods ended March 31, 2019 and March 31, 2018.

Manufacturer	Three Months Ended March 31, 2019				Three Months Ended March 31, 2018			
	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	22	16	267,487	36%	23	17	285,352	46%
General Motors	8	7	78,875	11%	5	5	58,256	9%
Hyundai	11	11	75,954	10%	9	9	41,995	7%
Nissan / Infiniti	7	7	48,981	7%	7	7	69,882	11%
Volkswagen / Audi	8	8	60,408	8%	8	8	59,690	10%
BMW / MINI	4	2	67,678	9%	4	2	64,958	10%
Other	15	15	139,988	19%	6	6	40,352	7%
Total	75	66	739,371	100%	62	54	620,485	100%

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

Performance vs. the Canadian New Vehicle Market

The Canadian automotive retail sector for the three month period ended March 31, 2019 decreased by (4.1)% compared to the prior year. Larger declines were seen in Manitoba and Alberta where new vehicle sales for the period were down (27.7)% and (5.7)%, respectively. For the three month period ended March 31, 2019, 36.6% (in 2018 - 41.8%) of the Company's revenues were generated in Manitoba and Alberta.

Canadian New Vehicle Sales by Province^{1,2}

	2019	2018	Percent Change	Unit Change
British Columbia	47,748	50,338	(5.1)%	(2,590)
Alberta	48,552	51,484	(5.7)%	(2,932)
Saskatchewan	10,597	10,524	0.7%	73
Manitoba	11,831	16,358	(27.7)%	(4,527)
Ontario	177,165	180,809	(2.0)%	(3,644)
Quebec	89,878	94,729	(5.1)%	(4,851)
Atlantic	25,694	25,016	2.7%	678
Total	411,465	429,258	(4.1)%	(17,793)

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}

	March 31, 2019	March 31, 2018	Percent Change	Unit Change
Audi	6,404	7,936	(19.3)%	(1,532)
BMW	7,516	8,210	(8.5)%	(694)
FCA	54,336	61,082	(11.0)%	(6,746)
Ford	62,319	61,012	2.1%	1,307
GM	55,260	64,931	(14.9)%	(9,671)
Hyundai	24,263	21,314	13.8%	2,949
Infiniti	2,890	2,855	1.2%	35
Mazda	13,819	16,075	(14.0)%	(2,256)
Mercedes-Benz	10,232	12,072	(15.2)%	(1,840)
MINI	1,139	1,257	(9.4)%	(118)
Nissan	28,655	30,986	(7.5)%	(2,331)
Subaru	10,992	11,305	(2.8)%	(313)
Volkswagen	13,906	13,940	(0.2)%	(34)
Total - AutoCanada Brands	291,731	312,975	(6.8)%	(21,244)
Other - Non-AutoCanada Brands	119,734	116,283	3.0%	3,451
Total	411,465	429,258	(4.1)%	(17,793)

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	Owned
Chilliwack, BC	Chilliwack Volkswagen	Volkswagen	2011	Y	Leased
Kelowna, BC	Okanagan Chrysler Jeep Dodge FIAT	FCA	2003	Y	Leased
Maple Ridge, BC	Maple Ridge Chrysler Jeep Dodge FIAT ALFA ROMEO	FCA	2005	Y	Leased
Maple Ridge, BC	Maple Ridge Volkswagen	Volkswagen	2008	Y	Leased
Prince George, BC	Northland Chrysler Jeep Dodge	FCA	2002	Y	Owned
Prince George, BC	Northland Hyundai	Hyundai	2005	Y	Owned
Prince George, BC	Northland Nissan	Nissan	2007	Y	Owned
Victoria, BC	Victoria Hyundai	Hyundai	2006	Y	Owned
Airdrie, AB	Airdrie Chrysler Jeep Dodge Ram	FCA	2015	Y	Leased
Calgary, AB	Courtesy Chrysler Dodge	FCA	2013	Y	Leased
Calgary, AB	Calgary Hyundai	Hyundai	2014	Y	Leased
Calgary, AB	Crowfoot Hyundai	Hyundai	2014	Y	Leased
Calgary, AB	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	Mercedes-Benz Heritage Valley	Mercedes-Benz	2018	Q1 2021	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 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	Leased
Winnipeg, MB	St. James Volkswagen	Volkswagen	2013	Y	Leased
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	Y	Owned
Guelph, ON	Wellington Motors	FCA	2016	Y	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
Windsor, ON	Rose City Ford	Ford	2018	Q1 2021	Leased
Montreal, QB	Mercedes-Benz Rive-Sud	Mercedes-Benz	2017	Q4 2019	Leased
Moncton, NB	Moncton Chrysler Jeep Dodge	FCA	2001	Y	Owned

Location	Operating Name	Franchise	Year Opened or Acquired	Same Stores ¹	Owned or Leased ²
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
Chicago, IL	Grossinger City Toyota	Toyota	2018	Q3 2020	Leased
Chicago, IL	North City Honda	Honda	2018	Q3 2020	Leased
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	Leased
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. If the dealership is not indicated with the letter "Y", in the indicated quarter is the first quarter in which the dealership will be included for Same Store analysis.

² This column summarizes whether the dealership property is owned or leased.

³ This dealership consists of the following individual storefronts and franchises: Audi, Mercedes-Benz, Lincoln, Subaru, Volkswagen and Volvo.

5. SELECTED QUARTERLY FINANCIAL INFORMATION

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

(in thousands of dollars, except Gross Profit %, Earnings per share, and Operating Data)	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Income Statement Data								
New vehicles	398,983	432,756	509,281	522,150	338,016	417,626	497,711	558,682
Used vehicles	188,619	192,988	206,668	198,597	157,901	175,251	192,473	182,913
Parts, service and collision repair	116,902	121,304	113,087	121,476	95,893	107,156	104,816	113,983
Finance, insurance and other	34,867	35,742	37,882	38,365	28,675	33,027	39,571	39,324
Revenue	739,371	782,790	866,918	880,588	620,485	733,060	834,571	894,902
New vehicles	27,527	25,861	29,150	30,648	23,473	30,033	36,806	38,555
Used vehicles	11,112	8,637	12,955	13,173	8,562	7,563	11,140	13,095
Parts, service and collision repair	55,744	60,380	57,206	60,868	45,533	56,915	53,805	56,306
Finance, insurance and other	32,316	33,326	35,524	35,891	26,776	30,699	36,218	35,867
Gross Profit	126,699	128,204	134,835	140,580	104,344	125,210	137,969	143,823
Gross profit %	17.1%	16.4%	15.6%	16.0%	16.8%	17.1%	16.5%	16.1%
Operating expenses ⁷	122,827	125,039	126,492	127,492	95,781	104,626	110,560	112,897
Operating expenses as a% of gross profit ⁷	96.9%	97.5%	93.8%	90.7%	91.8%	83.6%	80.1%	78.5%
Operating profit (loss) ⁷	12,310	(576)	(5,259)	(42,719)	15,906	26,505	30,287	46,539
Impairment (recovery) of non-financial assets ⁷	—	23,828	19,569	58,097	—	(816)	—	—
Net (loss) income attributable to AutoCanada shareholders ⁷	(4,127)	(32,886)	(15,563)	(40,458)	4,832	17,089	12,100	24,978
Adjusted net (loss) earnings attributable to AutoCanada shareholders ^{2, 4, 6, 7, 8}	(3,185)	(9,299)	333	5,298	4,832	8,935	13,581	15,547
EBITDA attributable to AutoCanada shareholders ^{2, 7, 9}	16,518	16,521	11,972	12,042	15,694	28,127	25,827	43,722
EBITDA attributable to AutoCanada shareholders as a % of sales ^{2, 7, 9}	2.2%	2.1%	1.4%	1.4%	2.5%	3.8%	3.1%	4.9%
Free cash flow ^{2, 7}	881	(9,677)	6,992.88	(11,731.12)	(14,388)	29,496	31,114	10,982
Adjusted free cash flow ^{2, 7}	4,269	12,573	(965)	(5,672)	3,721	15,996	23,296	36,277
Basic earnings per share ⁷	(0.15)	(0.98)	(0.57)	(1.48)	0.18	0.62	0.44	0.91
Diluted earnings per share ⁷	(0.15)	(0.98)	(0.57)	(1.48)	0.18	0.62	0.44	0.91
Basic adjusted earnings per share ^{2, 4, 6, 7, 8}	(0.12)	(0.34)	0.01	0.19	0.18	0.33	0.50	0.57
Diluted adjusted earnings per share ^{2, 4, 6, 7, 8}	(0.12)	(0.34)	0.01	0.19	0.18	0.33	0.50	0.57
Dividends declared per share	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Operating Data								
Vehicles (new and used) sold ³	14,716	16,024	18,863	18,519	12,667	14,475	17,132	18,490
New vehicles sold ³	9,066	10,331	12,474	12,506	8,140	9,822	12,014	13,429
New retail vehicles sold ³	8,002	9,214	10,353	10,264	6,664	8,444	10,334	10,545
New fleet vehicles sold ³	1,064	1,117	2,121	2,242	1,476	1,378	1,680	2,884
Used retail vehicles sold ³	5,650	5,693	6,389	6,013	4,527	4,653	5,118	5,061
# of service and collision repair orders completed ³	213,672	245,682	241,103	248,167	180,429	224,006	220,669	228,872
Absorption rate ²	86%	87%	82%	88%	84%	90%	87%	87%
# of dealerships at period end	66	68	63	63	54	58	57	57
# of same stores dealerships ¹	48	47	49	49	49	49	48	47
# of service bays at period end	1,113	1,157	1,106	1,106	906	999	977	977
Same stores revenue growth ¹	(1.6)%	(3.0)%	(3)%	(5.1)%	4.6%	11.1%	2.9%	0.1%
Same stores gross profit growth ¹	1.9%	(3.0)%	(8.5)%	(4.3)%	1.0%	1.4%	6.3%	1.1%

- 1 Same stores 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 to include the effect of dealership divestitures.
- 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.
- 7 In Q1 2019 and Q4 2018, the Company recorded adjustments related to the fair value of certain assets acquired and liabilities assumed as part of the Grossinger Auto Group acquisition. The results as disclosed for Q2 2018, Q3 2018 and Q4 2018 have been restated as if the fair value changes to net identifiable assets had been completed as of the acquisition date. Refer to Note 16 of the Annual Consolidated Financial Statements for the year ended December 31, 2018 and Note 11 of the Condensed Interim Consolidated Financial Statements for the period ended March 31, 2019.
- 8 In Q4 2018, the Company adjusted the definition of adjusted EBITDA and adjusted net earnings to include non-recurring legal and loss provisions related to dealership fraud. As a result, the figures for Q2 2018 have been adjusted from previously presented figures.
- 9 For 2019, the adoption of IFRS 16 contributed \$9.6 million to EBITDA attributable to AutoCanada shareholders and Adjusted EBITDA attributable to AutoCanada shareholders. Refer to Section 6, Result of Operations.

6. RESULTS OF OPERATIONS

Adoption of IFRS 16

The adoption of IFRS 16 results in a significant increase in EBITDA in 2019 which may not provide for a meaningful comparison to 2018 given that the comparatives for 2018 have not been restated. The adoption of IFRS 16 resulted in amounts attributable to AutoCanada shareholders for the recognition of depreciation expense related to right-of-use-assets of \$6.4 million, lease liability interest charge of \$4.3 million and a reduction to rent expense of \$9.6 million, for the three month period ended March 31, 2019.

First Quarter Operating Results

EBITDA and Adjusted EBITDA attributable to AutoCanada shareholders

When compared to the results of the Company for the same period in the prior year, EBITDA attributable to AutoCanada shareholders for the quarter increased by \$0.8 million or 5.2% to \$16.5 million. Adjusted EBITDA attributable to AutoCanada shareholders for the quarter ended March 31, 2019, increased by \$2.1 million or 13.5% from \$15.7 million to \$17.8 million, when compared to the results of the Company for the same quarter in the prior year. However, the increase to EBITDA is solely attributable to the adoption of IFRS 16.

The adoption of IFRS 16 has resulted in an increase to EBITDA attributable to AutoCanada shareholders and adjusted EBITDA attributable to AutoCanada shareholders compared to last year as we have not restated 2018 comparatives; this contributed \$9.6 million.

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

(in thousands of dollars)	2019	2018	2017
Period from January 1 to March 31			
Net (loss) income attributable to AutoCanada shareholders	(4,127)	4,832	3,678
Income taxes ²	434	1,860	1,249
Depreciation of property and equipment ²	4,790	4,936	4,596
Interest on long-term indebtedness ²	4,712	4,066	4,613
Depreciation of right-of-use assets ^{2,3}	6,374	—	—
Interest on lease liabilities ^{2,3}	4,335	—	—
EBITDA attributable to AutoCanada shareholders ¹	16,518	15,694	14,136
Add back:			
Share-based compensation attributed to changes in share price	—	(20)	4
Revaluation of redemption liabilities	—	—	(310)
Management transition costs	1,290	—	1,684
Revaluation of contingent consideration	—	15	—
Settlement income	—	—	—
Adjusted EBITDA attributable to AutoCanada shareholders ¹	17,808	15,689	15,514

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

² Represents the portion attributable to AutoCanada shareholders.

³ These line items relate to the Adoption of IFRS 16 in 2019 and have been included in order to present the resulting financial measures on a consistent basis as defined within Section 17 - Non-GAAP Measures. They have been presented separately for ease of identification.

⁴ For 2019, the adoption of IFRS 16 contributed \$9.6 million to EBITDA attributable to AutoCanada shareholders and Adjusted EBITDA attributable to AutoCanada shareholders.

Net earnings and Adjusted net earnings attributable to AutoCanada shareholders

Net earnings attributable to AutoCanada shareholders decreased by \$9.0 million to \$(4.1) million in the first quarter of 2019 from \$4.8 million when compared to the prior year.

Adjusted net earnings attributable to AutoCanada shareholders decreased by \$8.0 million or 165.9% to \$(3.2) million for the quarter from \$4.8 million in the same period of the prior year.

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

(in thousands of dollars)	2019	2018	2017
Net (loss) earnings attributable to AutoCanada shareholders	(4,127)	4,832	3,678
Add back:			
Share-based compensation attributed to changes in share price, net of tax	—	(15)	3
Revaluation of redemption liabilities	—	—	(310)
Management transition costs, net of tax	942	—	1,231
Revaluation of contingent consideration	—	15	—
Adjusted net earnings attributable to AutoCanada shareholders¹	(3,185)	4,832	4,602
Weighted average number of shares - Basic	27,418,197	27,388,859	27,358,766
Weighted average number of shares - Diluted ²	27,418,197	27,475,458	27,509,758
Adjusted net earnings per share attributable to AutoCanada shareholders Basic¹	(0.12)	0.18	0.17
Adjusted net earnings per share attributable to AutoCanada shareholders Diluted^{1,2}	(0.12)	0.18	0.17

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

2 For the three months ended March 31, 2019, Weighted average number of shares - Diluted, is presented as the same figure as Basic due to an anti-dilutive impact in the quarter.

Revenues

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

	2019 \$	2018 \$	Change \$	Change %
New vehicles	398,983	338,016	60,967	18.0%
Used vehicles	188,619	157,901	30,718	19.5%
Parts, service and collision repair	116,902	95,893	21,009	21.9%
Finance, insurance and other	34,867	28,675	6,192	21.6%
Total revenue	739,371	620,485	118,886	19.2%

Gross Profit

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

	2019 \$	2018 \$	Change \$	Change %
New vehicles	27,527	23,473	4,054	17.3%
Used vehicles	11,112	8,562	2,550	29.8%
Parts, service and collision repair	55,744	45,533	10,211	22.4%
Finance, insurance and other	32,316	26,776	5,540	20.7%
Total gross profit	126,699	104,344	22,355	21.4%

New vehicles

The increase in gross profit from new vehicles for the three month period ended March 31, 2019 is due to an increase in gross profit per unit of \$153 and an increase in new vehicles sold of 926, compared to the same period of the prior year.

Used vehicles

The increase in gross profit in the quarter from used vehicles is due to an increase in used vehicles sold of 1,123 and an increase in gross profit per unit of \$75.

Finance, insurance and other

Finance and insurance products are sold with both new and used vehicles. The quarterly year-over-year finance, insurance and other revenue increased by 21.6%. Finance and insurance gross per vehicle decreased by 1.1% or \$26, to \$2,367 in the quarter, from \$2,393 in the same period of the prior year.

Parts, service and collision repair

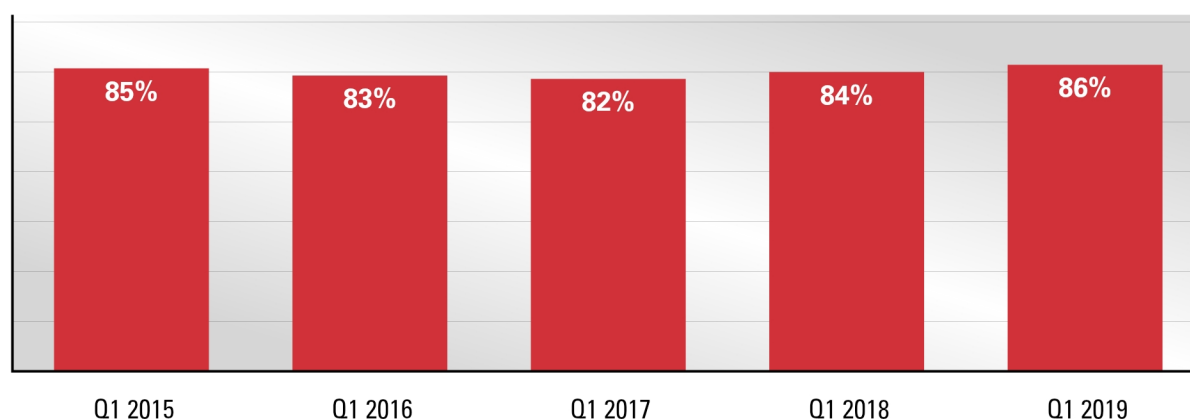
Gross profit in the quarter from parts, service and collision repair increased by 22.4% which is due to an increase in repair orders of 33,243.

Absorption rate¹

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.

Over the past five years, the absorption rate for the period ending March 31 has ranged between a low of 82% in 2017 to a high of 86% in 2019. For the period ended March 31, 2019, the Company had an absorption rate of 86%. The higher absorption rate indicates that our dealerships are actively managing expenses and increasing gross profit in fixed operations.

The following table summarizes absorption rate since the Q1 2015 period:



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

Operating expenses

Operating costs consist of four major categories:

Employee costs

Employee costs are the costs associated with employing staff both at the dealerships and at AutoCanada's head office. Dealership employees are largely commission based, resulting in employee costs being largely variable in nature. Our dealership pay structures are tied to meeting sales objectives, maintaining customer satisfaction indices, as well as improving gross profit and net income.

Administrative costs

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

Facility lease costs

Facility lease costs relate to the cost of leasing dealership facilities not owned by AutoCanada. Facility lease costs are fixed in nature as lease contracts are based on the market value of the property and are long-term. Under IFRS 16, which was adopted on January 1, 2019, lease costs are no longer applicable. Refer to Note 4 of the Condensed Interim Consolidated Financial Statements for the period ended March 31, 2019 regarding the Company's adoption of IFRS 16 Leases on January 1, 2019.

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 adoption of IFRS 16 resulted in the recognition of depreciation expense related to right-of-use-assets of \$6.5 million, lease liability interest charge of \$4.5 million and a reduction to rent expense of \$9.7 million, for the three month period ended March 31, 2019. The impact on operating expenses in 2019 is the addition of depreciation related to the right-of-use-assets and the removal of facility lease costs.

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.

Operating expense as a % of Gross Profit	Three Months Ended March 31		
	2019	2018	Change
Employee costs before management transition costs	53.8%	54.9%	(1.1)%
Management transition costs	1.0%	—%	1.0%
Administrative costs - Variable	26.6%	19.6%	7.0%
Total variable expenses	81.4%	74.5%	6.9%
Administrative costs - Fixed	6.5%	6.8%	(0.3)%
Facility lease costs ¹	—%	5.7%	(5.7)%
Fixed expenses before depreciation	6.5%	12.5%	(6.0)%
Operating expenses before depreciation	87.9%	87.0%	0.9%
Depreciation of property and equipment	3.9%	4.8%	(0.9)%
Depreciation of right-of-use assets ¹	5.2%	—%	5.2%
Total fixed expenses	15.6%	17.3%	(1.7)%
Total operating expenses	97.0%	91.8%	5.2%

¹ Facility lease costs for 2019 are presented as \$nil. Under IFRS 16, facility lease costs are presented as a depreciation expense related to right-of-use-assets and a lease liability interest charge. Refer to Note 4 of the Condensed Interim Consolidated Financial Statements for the period ended March 31, 2019 regarding the Company's adoption of IFRS 16 Leases on January 1, 2019.

Total Operating Expenses

Total operating expenses have increased in the quarter by \$27.0 million, compared to the same period of the prior year. Operating expenses as a percentage of gross profit have increased by 5.2% in the quarter. A large contributor to the increase was the addition of U.S. Operations in April 2018 — as operating expenses in the U.S. Operations amounted to \$21.0 million in the current period.

Variable Expenses

Total variable expenses for the quarter have increased by 6.9%, as compared to the same period of the prior year. Employee costs have decreased in the quarter by 0.1%, as compared to the same period of the prior year.

Variable administrative costs increased by \$13.2 million, which relates to expenses incurred in the U.S. Operations that were not present in the comparative period. As a percentage of gross profit, variable administrative costs increased by 7.0% for the quarter ended March 31, 2019.

Fixed Expenses

Total fixed expenses for the quarter decreased by 1.7%, as compared to the same period of the prior year.

Fixed administrative costs increased by \$1.2 million, which is 0.3% on a year-over-year basis for the quarter, as a percentage of gross profit.

Income Taxes

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

	2019 \$	2018 \$
Current tax	2,607	2,802
Deferred tax	(2,135)	(800)
Income tax (recovery) expense	472	2,002

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 year ended March 31, 2019 was 27.0% (2018 - 26.8%).

Finance costs

The Company incurs finance costs on its revolving floorplan facilities, long-term indebtedness, banking arrangements and lease liabilities under IFRS 16.

During the three month period ended March 31, 2019, finance costs on our revolving floorplan facilities increased by 24.4% to \$5.9 million from \$4.7 million, in the same period of the prior year, due to the addition of the U.S. Operations, increased interest rates and higher inventory levels.

The following table details the floorplan interest during the three month period ended March 31:

(in thousands of dollars)	Three Months Ended March 31		
	2019	2018	Change
Floorplan financing	5,852	4,705	1,147

Canada and U.S. Segmented Operating Results

The following table shows the segmented operating results for the Company for the three months ended March 31, 2019. Figures for the three months ended March 31, 2018 include only results from Canada as the Company did not have U.S. Operations at that time.

	Three Months Ended March 31, 2019			Three Months Ended March 31, 2018 - Canada only
	Canada \$	U.S. \$	Total \$	Total \$
New vehicles	340,161	58,822	398,983	338,016
Used vehicles	164,061	24,558	188,619	157,901
Parts, service and collision repair	100,739	16,163	116,902	95,893
Finance, insurance and other	30,476	4,391	34,867	28,675
Total revenue	635,437	103,934	739,371	620,485
New vehicles	27,667	(140)	27,527	23,473
Used vehicles	10,068	1,044	11,112	8,562
Parts, service and collision repair	47,052	8,692	55,744	45,533
Finance, insurance and other	28,180	4,136	32,316	26,776
Total gross profit	112,967	13,732	126,699	104,344
Employee costs	58,844	10,590	69,434	57,294
Administrative costs	33,556	8,382	41,938	27,522
Facility lease costs ²	—	—	—	5,923
Depreciation of property and equipment	4,472	442	4,914	5,042
Depreciation of right-of-use assets ²	4,987	1,554	6,541	—
Total operating expenses	101,859	20,968	122,827	95,781
Operating profit (loss) before other income	11,108	(7,236)	3,872	8,563
Operating data				
Vehicles (new and used) sold ¹	12,311	2,405	14,716	12,667
New vehicles sold ¹	7,550	1,516	9,066	8,140
New retail vehicles sold ¹	6,491	1,511	8,002	6,664
New fleet vehicles sold ¹	1,059	5	1,064	1,476
Used retail vehicles sold ¹	4,761	889	5,650	4,527
# of service and collision repair orders completed ¹	174,482	39,190	213,672	180,429
# of dealerships at period end	52	14	66	54
# of service bays at period end	913	200	1,113	906

¹ This number includes 100% of vehicles and service and collision repair orders sold by dealerships in which we have less than 100% investment.

² Facility lease costs for 2019 are presented as nil. Under IFRS 16 facility lease costs are presented as a depreciation expense related to right-of-use-assets and a lease liability interest charge. Refer to Note 4 of the Condensed Interim Consolidated Financial Statements for the period ended March 31, 2019 regarding the Company's adoption of IFRS 16 Leases on January 1, 2019.

The following table shows the segmented operating expenses as a percentage of gross profit.

The Company has adopted IFRS 16 retrospectively on January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific provisions in the new standard.

Operating expense as a % of Gross Profit	Three Months Ended March 31, 2019			Three Months Ended March 31, 2018 - Canada only
	Canada	U.S.	Total	Total
Operating expenses as a % of gross profit				
Employee costs before management transition costs	51.0%	76.9%	53.8%	54.9%
Management transition costs	1.1%	0.2%	1.0%	0.0%
Administrative costs - Variable	23.7%	50.3%	26.6%	19.6%
Total variable expenses	75.8%	127.4%	81.4%	74.5%
Administrative costs - Fixed	6.0%	10.8%	6.5%	6.8%
Facility lease costs ¹	—%	—%	—%	5.7%
Fixed expenses before depreciation	6.0%	10.8%	6.5%	12.5%
Operating expenses before depreciation	81.8%	138.2%	87.9%	87.0%
Depreciation of property and equipment	4.0%	3.2%	3.9%	4.8%
Depreciation of right-of-use assets ¹	4.4%	11.3%	5.2%	—%
Total fixed expenses	14.4%	25.3%	15.6%	17.3%
Total operating expenses	90.2%	152.7%	97.0%	91.8%

¹ Facility lease costs for 2019 are presented as \$nil. Under IFRS 16 facility lease costs are presented as a depreciation expense related to right-of-use-assets and a lease liability interest charge. Refer to Note 4 of the Condensed Interim Consolidated Financial Statements for the period ended March 31, 2019 regarding the Company's adoption of IFRS 16 Leases on January 1, 2019.

The following table illustrates the segmented EBITDA and adjusted EBITDA attributable to AutoCanada shareholders for the three month period ended March 31, 2019:

(in thousands of dollars)	Three Months Ended March 31, 2019			Three Months Ended March 31, 2018 - Canada only
	Canada	U.S.	Total	Total
Period from January 1 to March 31				
Net (loss) income attributable to AutoCanada shareholders	5,893	(10,020)	(4,127)	4,832
Income taxes ²	434	—	434	1,860
Depreciation of property and equipment ²	4,348	442	4,790	4,936
Interest on long-term indebtedness ²	2,976	1,736	4,712	4,066
Depreciation of right-of-use assets ^{2,3}	4,820	1,554	6,374	—
Interest on lease liabilities ^{2,3}	3,533	802	4,335	—
EBITDA attributable to AutoCanada shareholders¹	22,004	(5,486)	16,518	15,694
Add back:				
Share-based compensation attributed to changes in share price	—	—	—	(20)
Management transition costs	1,256	34	1,290	—
Revaluation of contingent consideration	—	—	—	15
Adjusted EBITDA attributable to AutoCanada shareholders^{1,4}	23,260	(5,452)	17,808	15,689

- 1 This financial measure is identified and defined under the section "NON-GAAP MEASURES".
- 2 Represents the portion attributable to AutoCanada shareholders.
- 3 These line items relate to the Adoption of IFRS 16 in 2019 and have been included in order to present the resulting financial measures on a consistent basis as defined within Section 17 - Non-GAAP Measures. They have been presented separately for ease of identification.
- 4 For 2019, the adoption of IFRS 16 contributed \$7.6 million to Canada and \$2.0 million to U.S. respectively for EBITDA attributable to AutoCanada shareholders and Adjusted EBITDA attributable to AutoCanada.

The following table reconciles segmented net earnings to adjusted net earnings for the three month period ended March 31, 2019:

(in thousands of dollars)	Three Months Ended March 31, 2019			Three Months Ended March 31, 2018 - Canada only
	Canada	U.S.	Total	Total
Net (loss) earnings attributable to AutoCanada shareholders	5,893	(10,020)	(4,127)	4,832
Add back:				
Share-based compensation attributed to changes in share price, net of tax	—	—	—	(15)
Management transition costs, net of tax	917	25	942	—
Revaluation of contingent consideration	—	—	—	15
Adjusted net earnings attributable to AutoCanada shareholders¹	6,810	(9,995)	(3,185)	4,832
Weighted average number of shares - Basic			27,418,197	27,388,859
Weighted average number of shares - Diluted ³			27,418,197	27,475,458
Adjusted net earnings per share attributable to AutoCanada shareholders Basic¹	0.25	(0.36)	(0.12)	0.18
Adjusted net earnings per share attributable to AutoCanada shareholders Diluted^{1,3}	0.25	(0.36)	(0.12)	0.18

- 1 This financial measure is identified and defined under the section "NON-GAAP MEASURES".
- 2 Represents the portion attributable to AutoCanada shareholders.
- 3 For the three months ended March 31, 2019, Weighted average number of shares - Diluted, is presented as the same figure as Basic due to an anti-dilutive impact in the quarter.

7. SAME STORE RESULTS

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

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 Store by Province

The following table summarizes the number of same store for the three month period ended March 31, 2019 by Province:

	British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	Atlantic	Total
FCA	3	8	1	1	1	—	2	16
Hyundai	2	4	—	—	3	—	—	9
General Motors	1	—	3	1	—	—	—	5
Volkswagen	3	2	—	1	—	—	—	6
Nissan/Infiniti	1	3	—	—	3	—	—	7
BMW/MINI	—	—	—	—	—	2	—	2
Audi	—	—	—	1	—	—	—	1
Subaru	—	1	—	—	—	—	—	1
Total	10	18	4	4	7	2	2	47

Same Store Revenue and Vehicles Sold

(in thousands of dollars)	Three Months Ended March 31		
	2019	2018	% Change
Revenue Source			
New vehicles - Retail	247,000	247,310	(0.1)%
New vehicles - Fleet	42,366	53,829	(21.3)%
Total New vehicles	289,366	301,139	(3.9)%
Used vehicles - Retail	118,814	103,262	15.1%
Used vehicles - Wholesale	26,165	41,411	(36.8)%
Total Used vehicles	144,979	144,673	0.2%
Finance, insurance and other	27,801	26,703	4.1%
Subtotal	462,146	472,515	(2.2)%
Parts, service and collision repair	87,038	85,651	1.6%
Total	549,184	558,166	(1.6)%
New retail vehicles sold (units)	5,669	5,981	(5.2)%
New fleet vehicles sold (units)	963	1,305	(26.2)%
Used retail vehicles sold (units)	4,100	4,053	1.2%
Total	10,732	11,339	(5.4)%
Total vehicles retailed (units)	9,769	10,034	(2.6)%

Revenues - Same Store Analysis

Same store revenue decreased by \$9.0 million or 1.6%, for the three month period ended March 31, 2019 when compared to the same period in the prior year.

Same store new vehicle revenues decreased by \$11.8 million or 3.9% for the first quarter of 2019 over the prior year, which was primarily related to fleet sales which decreased by \$11.5 million. Total new vehicle units saw a decrease of 654 units of which 342 were fleet units. Average revenue per unit saw an increase per new vehicle sold of \$2,301 or 5.6%.

Same store used vehicle revenues increased by \$0.3 million or 0.2% for the three month period ended March 31, 2019, over the same period in the prior year due to an increase in retail used car volume by 47 units or 1.2%, coupled with an increase in the average revenue per used vehicle sold of \$3,501 or 13.7%.

Used vehicle wholesale revenue has decreased due to management's focus on retailing used vehicles versus wholesale. More retail sales give our dealerships the opportunity for finance and insurance income as well as the opportunity to earn used vehicle customers business going forward for our parts, service and collision departments.

Same store parts, service and collision repair revenue increased by \$1.4 million or 1.6% for the first quarter of 2019 compared to the prior period.

Same store finance, insurance and other revenue increased by \$1.1 million or 4.1% for the three month period ended March 31, 2019 over the same period in 2018. This was achieved despite a decrease in the number of new and used vehicles retailed of 265 units. Overall, we saw an increase in the average revenue per unit retailed of \$185 or 6.9%.

Same Store Gross Profit and Gross Profit Percentage

(in thousands of dollars)	Three Months Ended March 31				
	Gross Profit			Gross Profit %	
	2019	2018	% Change	2019	2018
Revenue Source					
New vehicles - Retail	18,150	19,885	(8.7)%	7.3%	8.0%
New vehicles - Fleet	1,249	1,126	10.9%	2.9%	2.1%
Total New vehicles	19,399	21,011	(7.7)%	6.7%	7.0%
Used vehicles - Retail	9,927	8,295	19.7%	8.4%	8.0%
Used vehicles - Wholesale	783	780	0.4%	3.0%	1.9%
Total Used vehicles	10,710	9,075	18.0%	7.4%	6.3%
Finance, insurance and other	25,673	24,841	3.3%	92.3%	93.0%
Subtotal	55,782	54,927	1.6%	12.1%	11.6%
Parts, service and collision repair	41,871	40,934	2.3%	48.1%	47.8%
Total	97,653	95,861	1.9%	17.8%	17.2%

Gross Profit - Same Store Analysis

Same store gross profit increased by \$1.8 million or 1.9% for the three month period ended March 31, 2019 when compared to the same period in the prior year.

Same store new vehicle gross profit decreased by \$1.6 million or 7.7% in the three month period ended March 31, 2019, when compared to 2018, as a result of a decrease in new vehicle sales of 654 units or 9.0%, offset by an increase in the average gross profit per new vehicle sold of \$41 or 1.4%.

Same store used vehicle gross profit increased by \$1.6 million or 18.0% in the three month period ended March 31, 2019 over the prior year. This was the result of an increased focus on retailing used units and reducing wholesale activities. As a result, there was an

increase in the average gross profit per used vehicle retailed of \$373 or 16.7% and an increase in the number of used vehicles sold of 47 units or 1.2%.

Same store parts, service and collision repair gross profit increased by \$0.9 million or 2.3% in the three month period ended March 31, 2019, when compared to the same period in the prior year.

Same store finance and insurance gross profit increased by \$0.8 million or 3.3% in the three month period ended March 31, 2019, when compared to the prior year, as a result of an increase in the average gross profit per unit sold of \$152 or 6.2%.

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

(in thousands of dollars)	Three Months Ended March 31		
	2019	2018	% Change
British Columbia	107,706	122,364	(12.0)%
Alberta	189,758	199,693	(5.0)%
Saskatchewan	57,085	51,980	9.8%
Manitoba	45,150	42,176	7.1%
Ontario	51,881	48,648	6.6%
Quebec	67,678	64,373	5.1%
Atlantic	29,926	28,932	3.4%
Total	549,184	558,166	(1.6)%

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

(in thousands of dollars)	Three Months Ended March 31		
	2019	2018	% Change
British Columbia	18,285	19,427	(5.9)%
Alberta	36,887	35,367	4.3%
Saskatchewan	10,332	10,243	0.9%
Manitoba	8,433	7,749	8.8%
Ontario	8,863	8,361	6.0%
Quebec	10,690	10,787	(0.9)%
Atlantic	4,163	3,927	6.0%
Total	97,653	95,861	1.9%

8. ACQUISITIONS, DIVESTITURES, 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. We currently operate 66 dealerships, representing 75 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 diversification or other strategic benefits. 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.

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.

Costs relating to open points are significant, and vary by dealership depending upon size and location. We generally believe that Open Points can be very costly given the time it takes to establish the business in the first couple of years of operation. However, in some cases, an Open Point can be very strategic.

Dealership Divestiture

On March 3, 2019, the Company sold substantially all of the operating and fixed assets of Toronto Dodge located in Toronto, Ontario, for cash consideration. Net proceeds of \$6.8 million, resulted in a pre-tax gain on divestiture of \$4.3 million, included in gain on disposal of assets in the Condensed Interim Consolidated Statement of Comprehensive (Loss) Income.

On March 31, 2019, the Company ceased operations of Grande Prairie Mitsubishi, located in Grande Prairie, Alberta.

Sale-Leaseback Transactions

On March 26, 2019, the Company executed an agreement to sell and subsequently leaseback two dealership properties to Automotive Properties Real Estate Investment Trust for a purchase price of \$24.0 million. On the transaction, the Company recognized a pre-tax gain of \$2.7 million. Funds from this sale were used to pay down our revolving credit facilities.

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 \$55.5 million to the end of 2023. 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. The Company expects that most of these capital requirements will be funded by landlords that own or will own the land.

Current Dealership Expansion and Imaging Requirements

The Company has identified approximately \$70.0 million in capital costs that it may incur in order to expand or renovate various current locations through to the end of 2023. The Company is required by its manufacturers to undertake periodic imaging upgrades to its facilities. It is likely that a substantial portion of these capital costs will be funded by landlords that own the properties.

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

(in millions of dollars)	2019	2020	2021	2022	2023	Total
Same store						
Dealership relocations	17.2	23.8	10.0	4.5	—	55.5
Dealership expansion and imaging requirements	15.0	15.5	20.5	12.0	—	63.0
Capital plan	32.2	39.3	30.5	16.5	—	118.5
Expected to be financed	27.8	26.5	23.5	14.0	—	91.8
Cash outlay ¹	4.4	12.8	7.0	2.5	—	26.7
Non-same store						
Dealership expansion and imaging requirements	—	4.0	3.0	—	—	7.0
Open point opportunities	0.5	1.0	—	—	—	1.5
Capital plan	0.5	5.0	3.0	—	—	8.5
Expected to be financed	—	3.3	3.0	—	—	6.3
Cash outlay ¹	0.5	1.7	—	—	—	2.2
Total capital plan	32.7	44.3	33.5	16.5	—	127.0
Total cash outlay	4.9	14.5	7.0	2.5	—	28.9

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

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 incur capital expenditures, however, significant deferral may occur in the future and a significant portion of these capital expenditures may be funded by landlords. 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 an 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.

9. LIQUIDITY AND CAPITAL RESOURCES

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

Under our franchise agreements, manufacturers require us to maintain a minimum level of working capital. We maintain working capital in excess of manufacturer requirements which may be used for capital expenditures. The Company's analysis of its available capital based on the balance sheet at March 31, 2019, is as follows:

- The Company had drawn \$154.3 million on its \$420.0 million revolving term facility.

As a result of the above, as at March 31, 2019, the Company currently has approximately \$265.7 million in readily available liquidity, not including future retained cash from operations. However, the Company's ability to borrow under this facility requires it to comply with its financial covenants.

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 March 31, 2019, was \$2.5 million - cash provided by operating activities of \$5.9 million combined with a net change in non-cash working capital of \$(3.4) million - compared to \$(13.1) million - cash provided by operating activities of \$4.9 million combined with a change in non-cash working

capital of \$(18.0) million - in the same period of the prior year.

Cash Flow from Investing Activities

For the three month period ended March 31, 2019, cash flow provided by investing activities of the Company was \$32.6 million as compared \$27.3 million in the same period of the prior year.

Cash Flow from Financing Activities

For the three month period ended March 31, 2019, cash flow used in financing activities was \$(32.8) million as compared to \$(28.6) million in the same period of 2018.

Credit Facilities and Floor Plan Financing

Details of the Company's credit facilities and floorplan financing are included in Note 29 of the Consolidated Financial Statements for the year ended December 31, 2018.

On April 17, 2019, the syndicated credit agreement was amended whereby the Company is now provided with a \$680,000 facility for floorplan and lease financing of new, used and demonstrator vehicles, a \$230,000 facility for the financing of acquisitions and capital expenditures and a \$70,000 facility for general corporate purposes. The corresponding balances prior to the amendment were \$680,000, \$330,000 and \$70,000 respectively. The facility was amended to more appropriately accommodate current and future borrowing needs.

Key Financial Covenants

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

The following is a summary of the Company's actual performance against its financial covenants as at March 31, 2019:

Financial Covenant	Requirement	Q1 2019 Calculation	Q4 2018 Calculation
Syndicated Revolver:			
Senior Funded Debt to EBITDA Ratio	Shall not exceed 2.75	2.02	1.95
Total Funded Debt to EBITDA Ratio	Shall not exceed 4.50 ¹	3.83	3.51
Fixed Charge Coverage Ratio	Shall not be less than 1.20	1.61	1.84
Current Ratio	Shall not be less than 1.05	1.08	1.12

¹ This requirement will be reduced to 4.00 on July 1, 2019.

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.

As at March 31, 2019, 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 26 of the annual audited consolidated financial statements for the year ended December 31, 2018.

During the three month period ended March 31, 2019, the Company entered into an equity forward purchase agreement with a major Canadian financial institution to reduce its cash and income exposure to fluctuations in its share price relating to the RSU, DSU, and SARs programs. Pursuant to the agreement, the Company receives the economic benefit of share price appreciation while providing payments to the financial institution for the institution's cost of funds minus dividends.

There have been no other significant changes to the Company's financial instruments during the period.

Growth vs. Non-Growth Capital Expenditures

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

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

(in thousands of dollars)	January 1, 2019 to March 31, 2019	January 1, 2018 to March 31, 2018
Leasehold improvements	355	195
Machinery and equipment	477	429
Furniture and fixtures	313	240
Computer equipment	523	357
	1,668	1,221

Amounts relating to the expansion of sales and service capacity are considered growth expenditures. Growth expenditures are discretionary, represent cash outlays intended to provide additional future cash flows and are expected to provide benefit in future periods.

Dealership relocations are included as growth expenditures if they contribute to the expansion of sales and service capacity of the dealership. During the three month period ended March 31, 2019, growth capital expenditures of \$2.77 million were incurred.

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

(in thousands of dollars)	January 1, 2019 to March 31, 2019	January 1, 2018 to March 31, 2018
Purchase of property and equipment from the Statement of Cash Flows	4,442	7,615
Less: Amounts related to the expansion of sales and service capacity	(2,774)	(6,394)
Purchase of non-growth property and equipment	1,668	1,221

Repairs and maintenance expenditures are expensed as incurred and have been deducted from earnings for the period. Repairs and maintenance expense incurred during the three month period ended March 31, 2019, were \$1.8 million (\$1.6 million for the three month period ended March 31, 2018).

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, 2018 and December 31, 2017, as well as unaudited balances of the Company at March 31, 2019, September 30, 2018, June 30, 2018, March 31, 2018, September 30, 2017, and June 30, 2017:

(in thousands of dollars)	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017
Cash and cash equivalents	25,917	25,324	41,610	43,483	81,177	94,660	104,966	95,417
Trade and other receivables	157,983	131,152	151,408	153,418	130,388	79,931	137,155	157,275
Inventories	781,674	760,865	795,554	791,243	694,691	659,593	636,685	629,171
Total Assets	2,023,592	1,720,568	1,773,469	1,839,094	1,670,224	1,761,046	1,693,533	1,698,290
Revolving floorplan facilities	781,942	748,353	799,526	789,134	690,163	634,655	616,144	624,847
Long-term indebtedness	302,251	326,998	353,389	413,519	307,152	332,450	331,803	338,212

Net Working Capital

The automobile manufacturers represented by the Company require the Company to maintain net working capital for each individual dealership. At March 31, 2019, the aggregate of net working capital requirements was approximately \$116.7 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 March 31, 2019, the Company had 27,459,683 common shares outstanding. Basic and diluted weighted average number of shares outstanding for the three month period ended March 31, 2019 were 27,418,197 and 28,890,142 respectively. For the three month period ended March 31, 2019, Weighted average number of shares - Diluted differs from the disclosed amounts on the March 31, 2019 Condensed Interim Consolidated Statements of Comprehensive (Loss) Income, due to an anti-dilutive impact in the quarter.

As at March 31, 2019, the value of the shares held in trust was \$1.0 million (2018 – \$1.8 million), which was comprised of 40,613 (2018 - 71,120) in shares. As at May 2, 2019, there were 27,459,683 common shares issued and outstanding.

11. DIVIDENDS

The following table summarizes the dividends declared by the Company in 2019:

Record date	Payment date	Per Share \$	Total \$
March 1, 2019	March 15, 2019	0.10	2,742

On May 2, 2019, the Board declared a quarterly eligible dividend of \$0.10 per common share on AutoCanada's outstanding common shares, payable on June 15, 2019 to shareholders of record at the close of business on May 31, 2019.

As per the terms of the Scotiabank facility, we are restricted from declaring dividends and distributing cash if (i) we are in breach of financial covenants; (ii) in breach of our available margin and facility limits; (iii) if such dividend would result in a breach of our covenants; or (iv) if such dividend would result in a breach of our available margin and facility limits. At this time, the Company is within its covenants.

12. FREE CASH FLOW

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

(in thousands of dollars, except unit and per unit amounts)	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Cash provided by operating activities ¹	2,549	(7,849)	9,389	(7,167)	(13,106)	31,479	32,091	12,255
Deduct:								
Purchase of non-growth property and equipment	(1,668)	(1,829)	(2,396)	(4,564)	(1,282)	(1,983)	(977)	(1,273)
Free cash flow²	881	(9,677)	6,993	(11,731)	(14,388)	29,496	31,114	10,982
Weighted average shares outstanding at end of period	27,418,197	27,417,434	27,399,238	27,390,620	27,388,859	27,389,167	27,389,473	27,378,919
Free cash flow per share	0.03	(0.35)	0.26	(0.43)	(0.53)	1.08	1.14	0.40
Free cash flow - 12 month trailing	(13,535)	(28,804)	10,370	34,491	57,204	72,213	66,141	65,924

¹ In Q1 2019 and Q4 2018, the Company recorded adjustments related to the fair value of certain assets acquired and liabilities assumed as part of the Grossinger Auto Group acquisition. The results as disclosed for Q2 2018, Q3 2018 and Q4 2018 have been restated as if the fair value changes to net identifiable assets had been completed as of the acquisition date. Refer to Note 16 of the Annual Consolidated Financial Statements for the year ended December 31, 2018 and Note 11 of the Condensed Interim Consolidated Financial Statements for the period ended March 31, 2019.

² 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, assets held for sale, other current assets, trade and other payables, vehicle repurchase obligations and revolving floorplan facilities. Factors that can affect these items include seasonal sales trends, strategic decisions regarding inventory levels, the addition of new dealerships, and the day of the week on which period end cutoffs occur.

The following table summarizes the net decrease in cash due to changes in non-cash working capital for the three month periods ended March 31, 2019 and March 31, 2018:

(in thousands of dollars)	January 1, 2019 to March 31, 2019	January 1, 2018 to March 31, 2018
Trade and other receivables	(27,640)	(50,090)
Inventories	(35,631)	(36,020)
Current tax recoverable/payable	(8,363)	(12,753)
Other current assets	(992)	(3,765)
Trade and other payables	21,501	26,622
Vehicle repurchase obligations	(121)	2,450
Revolving floorplan facilities	48,128	55,508
Derivative financial instruments	(270)	—
	(3,388)	(18,048)

Adjusted Free Cash Flow

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

(in thousands of dollars, except unit and per unit amounts)	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Cash provided by operating activities before changes in non-cash working capital ¹	5,937	14,402	1,431	(1,131)	4,942	17,486	24,070	37,355
Deduct:								
Purchase of non-growth property and equipment	(1,668)	(1,829)	(2,396)	(4,541)	(1,221)	(1,490)	(774)	(1,078)
Adjusted free cash flow²	4,269	12,573	(965)	(5,672)	3,721	15,996	23,296	36,277
Weighted average shares outstanding at end of period	27,418,197	27,417,434	27,399,238	27,390,620	27,388,859	27,389,167	27,389,473	27,378,919
Adjusted free cash flow per share	0.16	0.46	(0.04)	(0.21)	0.14	0.58	0.85	1.32
Adjusted free cash flow - 12 month trailing	10,205	9,657	13,080	37,341	79,290	90,786	87,923	92,393

¹ In Q1 2019 and Q4 2018, the Company recorded adjustments related to the fair value of certain assets acquired and liabilities assumed as part of the Grossinger Auto Group acquisition. The results as disclosed for Q2 2018, Q3 2018 and Q4 2018 have been restated as if the fair value changes to net identifiable assets had been completed as of the acquisition date. Refer to Note 16 of the Annual Consolidated Financial Statements for the year ended December 31, 2018 and Note 11 of the Condensed Interim Consolidated Financial Statements for the period ended March 31, 2019.

² 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. 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 three month period ending March 31, 2019, the Company paid approximately \$(5.6) million in 2019 tax installments (2018 - \$2.6 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)	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
EBITDA ^{1,2}	11,710	(14,439)	13,205	11,694	16,253	31,124	29,978	47,757
Deduct:								
Depreciation of property and equipment	(4,914)	(4,463)	(5,794)	(4,647)	(5,042)	(5,213)	(5,297)	(5,082)
Depreciation of right-of-use-asset ⁴	(6,541)	—	—	—	—	—	—	—
EBIT^{1,2}	255	(18,902)	7,411	7,047	11,211	25,911	24,681	42,675
Average long-term debt	316,255	342,102	386,390	363,433	322,377	339,741	353,315	357,103
Average shareholder's equity	415,854	460,854	484,930	512,193	534,379	534,338	526,209	510,610
Average capital employed¹	732,109	802,956	871,321	875,626	856,756	874,079	879,524	867,713
Return on capital	0.0%	(2.4)%	0.9%	0.8%	1.3%	3.0%	2.8%	4.9%
Comparative adjustment ³	55,597	55,597	42,358	43,332	24,371	24,371	25,959	25,959
Adjusted average capital employed¹	787,706	851,933	914,166	909,477	881,126	899,244	905,482	893,672
Adjusted return on capital employed¹	0.0%	(2.2)%	0.8%	0.8%	1.3%	2.9%	2.7%	4.8%
Adjusted return on capital employed - 12 month trailing	(0.5)%	0.8%	5.7%	7.6%	11.9%	12.2%	12.1%	11.8%

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.

4 This line item relates to the Adoption of IFRS 16 in 2019 and has been included in order to present the resulting financial measures on a consistent basis as defined within Section 17 - Non-GAAP Measures. It has been presented separately for ease of identification.

Management believes that Adjusted Return on Capital Employed (see “NON-GAAP MEASURES”) is a good measure to evaluate the profitability of our invested capital. 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 enhanced 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, 6 and 7 of the Consolidated Financial Statements for the year ended December 31, 2018. Updates related to the Interim Consolidated Financial Statements are disclosed in Note 5.

The Company has adopted IFRS 16 retrospectively on January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the new standard. The cumulative effect of initially applying the new standard is recognized on January 1, 2019. Refer to Note 4 of the Interim Consolidated Financial Statements for the period ended March 31, 2019.

14. DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended March 31, 2019, 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 2018 Annual Information Form, dated March 14, 2019, available on the SEDAR website at www.sedar.com.

16. FORWARD-LOOKING STATEMENTS

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

Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. Therefore, any such forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this document.

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

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

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, the revaluation of contingent considerations, the unrealized gain or loss on embedded derivatives, management transition costs, allowances and writedowns associated with the winding down of operations, provision for wholesale fraud 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 revaluation of contingent considerations, the unrealized gain or loss on embedded derivatives, management transition costs, allowances and writedowns associated with the winding down of operations, provision for wholesale losses, 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 allow 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 such purposes. 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 such purposes. 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. 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 enhances 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

enhanced 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. 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 enhances 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 enhanced 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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