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

For the year ended December 31, 2015

AutoCanada

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1. READER ADVISORIES

This Management's Discussion & Analysis ("MD&A") was prepared as of March 17, 2016 to assist readers in understanding AutoCanada Inc.'s (the "Company" or "AutoCanada") consolidated financial performance for the year ended December 31, 2015 and significant trends that may affect AutoCanada's future performance. The following discussion and analysis should be read in conjunction with the audited consolidated financial statements and accompanying notes (the "Consolidated Financial Statements") of AutoCanada as at and for the year ended December 31, 2015. Results are reported in Canadian dollars, unless otherwise stated. Certain dollars have been rounded to the nearest thousand dollars. References to notes are to the Notes of the Consolidated Financial Statements of the Company unless otherwise stated.

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

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 2015 Annual Information Form, dated March 17, 2016, is available on SEDAR at www.sedar.com and our website www.autocan.ca.

2. OUR PERFORMANCE

Performance vs. the Prior Year

2015 has proven to be a challenging year for AutoCanada. AutoCanada's higher sales and gross profit results in fiscal 2015 are a direct result of its acquisitions completed during the year. However, same store revenues and gross profit have decreased over the year. Due to the economic situation in Alberta, the Company has seen adverse changes to performance throughout 2015. Lower net earnings, same store sales and same store gross profits are a result of reduced economic activity, particularly in Western Canada.

Management considers gross profit to be a key measure of overall corporate performance. Overall revenues can vary significantly year over year as a result of fluctuations in sales mix, fluctuations in lower margin fleet sales and used vehicle wholesale sales. As such, Management believes that gross profit is a key indicator of overall corporate performance.

Gross profit increased in all revenue streams and overall gross profit increased by $114.6 million or 30.7% for the year ended December 31, 2015 when compared to the prior year. Gross profit increased due to increases across all four revenue streams as a result of 6 dealership acquisitions in 2015 as well as the impact of 17 acquisitions completed in 2014. However, same store gross profit decreased by $32.7 million or 11.7% for the year ended December 31, 2015 when compared to the prior year, which is due primarily to gross profit decreases in new vehicle retail, finance and insurance sales offset by increases in used vehicle retail. In light of the economic downturn experienced throughout the year, there has been a shift of consumers reducing purchases on new vehicles, and instead, purchasing used vehicles or bringing in their vehicles for servicing, evidenced by an increase in repair orders of 1.0% for same stores, 40.9% across all stores.

New vehicle same store gross profit decreased by $19.6 million or 23.4% and gross profit margin declined to 7.3% from 8.5%, as a result of tightening markets and lower achievement of sales volume incentives in certain stores.

Used vehicle same store gross profits increased by $0.5 million or 2.5% while gross profit margin has declined to 5.4% from 5.7% due to a change in consumer patterns. Due to the difficult economy, consumers who would typically purchase new vehicles are instead buying nearly-new used vehicles which have higher gross margin than the average used vehicle.

Finance and insurance same store gross profit decreased by 15.2% while gross profit margin in this revenue stream stayed constant at 92.0% from 92.3% in the comparative period. The decline in finance and insurance gross profit, while significant, is less than the percentage decline in new vehicle retail sales and evidences the Company's ability to retain this high margin business despite a challenging retail sales environment. The cause of the decrease in gross profit margin is due to consumers reducing their purchase of premium F&I products when buying a vehicle.

Parts, service and collision same store gross profit decreased by 0.7% and gross profit margin decreased by 1.8% over the comparative period due a slight decrease in the average gross margin per repair order, offset by an increase in the number of repair orders completed in the year.

The Company recorded a non-cash intangibles and goodwill impairment of $18.8 million, which is mainly attributable to lower activity in the Alberta stores due to economic downturn experienced in 2015, as previously mentioned.

The Company has been focused on integrating the dealerships acquired in the prior year as well as dealerships acquired during the year. Due to the increase of acquisition activity over the past two years, integration of individual dealerships has been a main focus in ensuring the new dealerships implement policies and procedures, as well as best practises which we believe are main drivers in delivering long term shareholder value.

Performance vs. the Canadian New Vehicle Market

The Canadian automotive retail sector performed consistently with 2014. New light vehicle sales in Canada in the year ended December 31, 2015 were up 2.5% when compared to the same period in 2014 and surpassed 1.89 million in unit sales.

Figures reported as new light vehicle sales in Canada include all types of vehicle sales, including retail, fleet and daily rentals, the breakout of which is not provided by manufacturers. The manufacturers do not publicly report retail sales by brand. Fleet and daily rental sales are not nearly as profitable as retail sales; hence, the Company's strategy has been and continues to be focused on retail sales with the result that our dealerships do not fully participate in fleet and daily rental sales channels.

Though Canadian automotive sales in 2015 were similar to 2014, the decrease in sales in the prairie provinces were offset by the increase in sales in British Columbia and Eastern Canada. Due to the economic downturn in 2015 as a result of crude oil prices negatively impacting consumer confidence, new vehicle sales in the prairie provinces decreased significantly, specifically in Alberta which decreased 12.0%, except for British Columbia which increased 6.9%.

Unit sales in Alberta decreased 32,211 units. New light vehicle sales in Eastern Canada increased by 5.4%. The slowdown in the economy in the prairie provinces in 2015 hindered our ability to perform well in this market as our concentration of Alberta dealerships continued to hinder the Company's new vehicle sales performance relative to the Canadian average change in light vehicle sales as reported by DesRosiers Automotive Consultants. It is unclear when the Alberta economy will improve and the outlook for the retail automotive industry in Alberta remains challenging.

Management continues to work closely with its dealerships to ensure that they are adjusting their processes to best capitalize on all sales opportunities and is confident that progress is being made, with continued focus on non-same stores to improve margins throughout the integration period.

The following table summarizes Canadian new light vehicle unit sales for the year ended December 31, 2015 by Province:

2015 Canadian New Vehicle Sales by Province[1,2]

	December Year to Date			
	2015	**2014**	**Percent Change**	**Unit Change**
British Columbia	207,163	193,798	6.9%	13,365
Alberta	236,208	268,419	(12.0)%	(32,211)
Saskatchewan	53,793	56,467	(4.7)%	(2,674)
Manitoba	55,820	55,916	(0.2)%	(96)
Ontario	760,521	718,523	5.8%	41,998
Quebec	444,557	420,757	5.7%	23,800
New Brunswick	43,288	41,417	4.5%	1,871
PEI	7,906	7,418	6.6%	488
Nova Scotia	54,352	53,441	1.7%	911
Newfoundland	34,877	35,217	(1.0)%	(340)
Total	1,898,485	1,851,373	2.5%	47,112

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.*

The following table summarizes the number of same stores for the year ended December 31, 2015 by Province:

Number of Same Stores[1] by Province

	British Columbia	Alberta	Manitoba	Ontario	Atlantic	Total
Chrysler/FIAT	3	5	1	–	2	11
Hyundai	2	2	–	2	–	6
Volkswagen	3	1	1	–	–	5
Nissan/Infiniti	1	1	–	1	–	3
Audi	–	–	1	–	–	1
Mitsubishi	–	1	–	–	–	1
Subaru	–	1	–	–	–	1
Total	9	11	3	3	2	28

1 *Same store means the franchised automobile dealership has been owned for at least 2 full years since acquisition. The dealership is then included in the quarter thereafter, for same store analysis.*

Same Store Revenue and Vehicles Sold

	For the Three Months Ended			For the Year Ended		
Revenue Source (in thousands of dollars)	**December 31, 2015**	**December 31, 2014**	**% Change**	**December 31, 2015**	**December 31, 2014**	**% Change**
New vehicles – Retail	147,377	186,596	(21.0)%	721,979	841,735	(14.2)%
New vehicles – Fleet	16,964	27,175	(37.6)%	151,160	145,473	3.9%
Total New vehicles	164,341	213,771	(23.1)%	873,139	987,208	(11.6)%
Used vehicles – Retail	71,900	61,747	16.4%	292,314	264,769	10.4%
Used vehicles – Wholesale	24,779	26,581	(6.8)%	109,706	109,565	0.1%
Total Used vehicles	96,679	88,328	9.5%	402,020	374,334	7.4%
Finance, insurance and other	17,971	23,079	(22.1)%	79,389	93,207	(14.8)%
Subtotal	278,991	325,178	(14.2)%	1,354,548	1,454,749	(6.9)%
Parts, service and collision repair	47,216	46,016	2.6%	177,360	172,448	2.8%
Total	326,207	371,194	(12.1)%	1,531,908	1,627,197	(5.9)%
New retail vehicles sold	3,889	5,092	(23.6)%	18,978	22,593	(16.0)%
New fleet vehicles sold	709	976	(27.4)%	4,868	4,634	5.0%
Used retail vehicles sold	2,633	2,702	(2.6)%	11,006	11,542	(4.6)%
Total	7,231	8,770	(17.5)%	34,852	38,769	(10.1)%
Total vehicles retailed	6,522	7,794	(16.3)%	29,984	34,135	(12.2)%

Same Store Gross Profit and Gross Profit Percentage

Revenue Source (in thousands of dollars)	For the Three Months Ended					
	Gross Profit			Gross Profit %		
	December 31, 2015	December 31, 2014	% Change	December 31, 2015	December 31, 2014	% Change
New vehicles – Retail	12,152	16,005	(24.1)%	8.2%	8.6%	(0.4)%
New vehicles – Fleet	322	611	(47.3)%	1.9%	2.2%	(0.3)%
Total New vehicles	12,474	16,616	(24.9)%	7.6%	7.8%	(0.2)%
Used vehicles – Retail	5,375	4,311	24.7%	7.5%	7.0%	0.5%
Used vehicles – Wholesale	235	(29)	910.3%	0.9%	(0.1)%	1.0%
Total Used vehicles	5,610	4,282	31.0%	5.8%	4.8%	1.0%
Finance, insurance and other	16,625	20,979	(20.8)%	92.5%	90.9%	1.6%
Subtotal	34,709	41,877	(17.1)%	12.4%	12.9%	(0.5)%
Parts, service and collision repair	21,745	23,970	(9.3)%	46.1%	52.1%	(6.0)%
Total	56,454	65,847	(14.3)%	17.3%	17.7%	(0.4)%

Revenue Source (in thousands of dollars)	For the Year Ended					
	Gross Profit			Gross Profit %		
	December 31, 2015	December 31, 2014	% Change	December 31, 2015	December 31, 2014	% Change
New vehicles – Retail	63,035	82,187	(23.3)%	8.7%	9.8%	(1.1)%
New vehicles – Fleet	1,045	1,475	(29.2)%	0.7%	1.0%	(0.3)%
Total New vehicles	64,080	83,662	(23.4)%	7.3%	8.5%	(1.2)%
Used vehicles – Retail	21,170	20,264	4.5%	7.2%	7.7%	(0.5)%
Used vehicles – Wholesale	631	1,003	(37.1)%	0.6%	0.9%	(0.3)%
Total Used vehicles	21,801	21,267	2.5%	5.4%	5.7%	(0.3)%
Finance, insurance and other	73,017	86,055	(15.2)%	92.0%	92.3%	(0.3)%
Subtotal	158,898	190,984	(16.8)%	11.7%	13.1%	(1.4)%
Parts, service and collision repair	88,821	89,451	(0.7)%	50.1%	51.9%	(1.8)%
Total	247,719	280,435	(11.7)%	16.2%	17.2%	(1.0)%

The following table summarizes same store total revenue for the three months period and year ended December 31, 2015 by Province:

(in thousands of dollars)	For the Three Months Ended			For the Year Ended		
	December 31, 2015	December 31, 2014	% Change	December 31, 2015	December 31, 2014	% Change
British Columbia	113,027	110,272	2.5%	501,623	484,767	3.5%
Alberta	133,353	172,986	(22.9)%	642,357	759,637	(15.4)%
Manitoba	26,313	24,518	7.3%	112,725	102,537	9.9%
Ontario	26,354	30,277	(13.0)%	118,378	125,409	(5.6)%
Atlantic	27,160	33,141	(18.0)%	156,825	154,847	1.3%
Total	326,207	371,194	(12.1)%	1,531,908	1,627,197	(5.9)%

The following table summarizes same store gross profit for the three months and year ended December 31, 2015 by Province:

	For the Three Months Ended			For the Year Ended		
(in thousands of dollars)	**December 31, 2015**	**December 31, 2014**	**% Change**	**December 31, 2015**	**December 31, 2014**	**% Change**
British Columbia	20,326	20,407	(0.4)%	79,301	84,341	(6.0)%
Alberta	19,393	31,734	(38.9)%	105,574	136,342	(22.6)%
Manitoba	6,615	5,067	30.6%	23,092	22,376	3.2%
Ontario	4,328	3,335	29.8%	15,586	14,389	8.3%
Atlantic	5,792	5,304	9.2%	24,166	22,987	5.1%
Total	56,454	65,847	(14.3)%	247,719	280,435	(11.7)%

3. SELECTED ANNUAL FINANCIAL INFORMATION

The following table shows the results of the Company for the years ended December 31, 2015, December 31, 2014 and December 31, 2013. The results of operations for these years 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)	2015	2014[1]	2013
Income Statement Data			
New vehicles	1,668,237	1,342,346	882,858
Used vehicles	704,569	495,352	300,881
Parts, service and collision repair	387,614	255,707	142,343
Finance, insurance and other	143,383	121,373	82,958
Revenue	2,903,803	2,214,778	1,409,040
New vehicles	122,408	106,002	75,835
Used vehicles	40,629	29,501	20,273
Parts, service and collision repair	193,868	128,566	73,755
Finance, insurance and other	130,804	109,080	76,172
Gross profit	487,709	373,149	246,035
Gross Profit %	16.8%	16.8%	17.5%
Operating expenses	395,877	290,904	188,519
Operating expense as a % of gross profit	81.2%	78.0%	76.6%
Income from investments in associates	–	3,490	2,241
Income from loan to associate	49	–	–
Impairment (recovery) of intangible assets and goodwill	18,757	(1,767)	(746)
Net earnings attributable to AutoCanada shareholders	22,821	53,132	38,166
EBITDA attributable to AutoCanada shareholders[2]	89,838	89,434	58,469
Basic earnings per share	0.93	2.31	1.83
Diluted earnings per share	0.92	2.30	1.83
Basic adjusted earnings per share	1.64	2.24	1.82
Dividends declared per share	1.00	0.94	0.88
Operating Data			
Vehicles (new and used) sold excluding GM	51,503	46,393	35,774
Vehicles (new and used) sold including GM[3]	62,799	52,147	40,136
New vehicles sold including GM[3]	42,457	36,422	28,024
New retail vehicles sold	35,323	30,346	20,523
New fleet vehicles sold	7,134	6,076	4,876
Used retail vehicles sold	20,342	15,725	10,375
Number of service & collision repair orders completed	847,702	601,597	364,361
Absorption rate[2]	91%	85%	87%
# of dealerships at year end	54	48	28
# of same store dealerships	28	23	21
# of service bays at year end	912	822	406
Same store revenue growth[4]	(5.9)%	8.9%	17.2%
Same store gross profit growth[4]	(11.7)%	7.9%	17.5%
Balance Sheet Data			
Cash and cash equivalents	62,274	72,462	35,113
Trade and other receivables	90,821	92,138	57,771
Inventories	596,542	563,277	278,091
Revolving floorplan facilities	548,322	527,780	264,178

1 *In conjunction with the business combination under common control completed on July 11, 2014, the Selected Annual Financial Information for 2014 includes the consolidated results of the Company's GM stores from July 11, 2014. All 2014 financial information includes 100% of the results of the GM stores, except for Net earnings, EBITDA, and EPS amounts, which are presented net of non-controlling interests. Had the consolidation been effected for fiscal 2013, additional revenues of $205.6 million and gross profit of $33.1 million would have been recognized.*

2 *EBITDA and absorption rate have been calculated as described under "NON-GAAP MEASURES".*

3 *Until July 10, 2014, the Company had investments in General Motors dealerships that were not consolidated. In Q3 2014, these GM dealerships were consolidated. This number includes 100% of vehicles sold by these dealerships in which we have less than 100% investment.*

4 *Same store revenue growth & same store gross profit growth is calculated using franchised automobile dealerships that we have owned for at least 2 full years, excluding the GM stores, as these stores have been treated as acquisitions as at July 11, 2014.*

4. SELECTED QUARTERLY FINANCIAL INFORMATION

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

(in thousands of dollars, except Gross Profit %, Earnings per share, and Operating Data)	Q4 2015[1]	Q3 2015[1]	Q2 2015[1]	Q1 2015[1]	Q4 2014[1,6]	Q3 2014[1]	Q2 2014	Q1 2014
Income Statement Data								
New vehicles	368,242	471,018	483,435	345,542	379,094	456,810	289,918	216,524
Used vehicles	167,100	179,270	194,956	163,243	148,579	158,779	102,025	85,969
Parts, service and collision repair	102,220	93,139	99,304	92,951	91,225	77,680	46,078	40,724
Finance, insurance and other	34,752	37,778	39,182	31,671	36,355	37,267	27,038	20,713
Revenue	672,314	781,205	816,877	633,407	655,253	730,536	465,059	363,930
New vehicles	27,482	34,300	34,861	25,765	29,325	35,086	23,792	17,799
Used vehicles	10,326	10,949	11,000	8,354	7,808	9,637	6,505	5,551
Parts, service and collision repair	51,760	48,336	49,859	43,913	45,687	38,913	23,373	20,593
Finance, insurance and other	34,354	35,088	33,955	27,407	31,109	34,714	24,077	19,180
Gross profit	123,922	128,673	129,675	105,439	113,929	118,350	77,747	63,123
Gross Profit %	18.4%	16.5%	15.9%	16.6%	17.4%	16.2%	16.7%	17.3%
Operating expenses	101,310	100,824	100,568	93,175	90,283	90,695	59,227	50,699
Operating expenses as a % of gross profit	81.8%	78.4%	77.6%	88.4%	79.2%	76.6%	76.2%	80.3%
Income from investments in associates	–	–	–	–	–	359	2,238	893
Income from loan to associate	49	–	–	–	–	–	–	–
Impairment (recovery) of intangible assets and goodwill	18,757	–	–	–	(1,767)	–	–	–
Net (loss) earnings attributable to AutoCanada shareholders[5]	(7,361)	11,690	13,523	4,969	14,240	17,765	12,831	8,296
EBITDA attributable to AutoCanada shareholders[2,5]	23,353	26,379	27,397	12,687	24,605	28,674	21,702	14,453
Basic earnings per share	(0.29)	0.48	0.56	0.20	0.60	0.74	0.59	0.38
Diluted earnings per share	(0.29)	0.47	0.56	0.20	0.59	0.74	0.59	0.38
Basic adjusted earnings per share	0.34	0.51	0.56	0.23	0.52	0.71	0.61	0.40
Operating Data								
Vehicles (new and used) sold excluding GM	12,345	13,092	14,723	11,343	12,774	14,966	9,887	8,766
Vehicles (new and used) sold including GM[3]	14,150	17,086	17,739	13,824	15,415	18,079	12,414	9,945
New vehicles sold including GM[3]	9,210	12,018	12,296	8,933	10,570	12,821	8,658	6,570
New retail vehicles sold	8,016	9,985	9,929	7,393	8,907	10,686	5,980	4,773
New fleet vehicles sold	1,194	2,033	2,367	1,540	1,663	2,135	1,146	1,132
Used retail vehicles sold	4,940	5,068	5,443	4,891	4,845	5,258	2,761	2,861
# of service and collision repair orders completed	230,772	202,692	215,142	199,096	216,427	198,612	97,559	91,999
Absorption rate[2]	93%	91%	94%	85%	85%	93%	92%	85%
# of dealerships at period end	54	50	49	48	48	45	34	28
# of same store dealerships	28	26	24	23	23	23	23	23
# of service bays at period end	912	862	842	822	822	734	516	406
Same store revenue growth[4]	(12.1)%	(6.9)%	(2.8)%	(3.5)%	10.9%	8.9%	4.1%	13.0%
Same store gross profit growth[4]	(14.3)%	(14.1)%	(11.0)%	(8.5)%	5.7%	11.4%	5.4%	8.1%
Balance Sheet Data								
Cash and cash equivalents	62,274	77,071	77,676	66,351	72,462	64,559	91,622	41,541
Trade receivables	90,821	118,853	124,683	104,753	92,138	115,074	85,837	69,747
Inventories	596,542	581,258	620,837	625,779	563,277	471,664	324,077	261,764
Revolving floorplan facilities	548,322	550,857	607,694	601,432	527,780	437,935	313,752	261,263

1 *In conjunction with the business combination under common control completed on July 11, 2014, the Selected Quarterly Financial Information for Q3 2014, Q4 2014, Q1 2015, Q2 2015, Q3 2015, and Q4 2015 includes the consolidated results of the Company's GM stores from July 11, 2014. All Q3 2014, Q4 2014, Q1 2015, Q2 2015, Q3 2015, and Q4 2015 financial information includes 100% of the results of the GM stores, except for Net earnings, EBITDA, and EPS amounts, which are presented net of non-controlling interests.*

2 *EBITDA and absorption rate have been calculated as described under "NON-GAAP MEASURES."*

3 *Until July 10, 2014, the Company had investments in General Motors dealerships that were not consolidated. In Q3 2014, these GM dealerships were consolidated. This number includes 100% of vehicles sold by these dealerships in which we have less than 100% investment.*

4 *Same store revenue growth and same store gross profit growth is calculated using franchised automobile dealerships that we have owned for at least 2 full years, excluding the GM stores, as these stores have been treated as acquisitions as at July 11, 2014.*

5 *The results from operations have been lower in the first and fourth quarters of each year, largely due to consumer purchasing patterns during the holiday season, inclement weather and the reduced number of business days during the holiday season. As a result, our 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 *Data presented for Q4, 2014 has been amended subsequent to initial presentation to correct an immaterial clerical error which impacted the computation of Q4, 2014. The annual 2014 results are unchanged as previously presented.*

5. OUTLOOK

The outlook regarding new retail vehicle sales in Canada is difficult to predict as manufacturers do not publicly disclose fleet and rental sales separately. Total Canadian new light vehicle unit sales of all types are currently forecasted to increase by 0.1% in 2016 as compared to the prior year as follows:

New Vehicle Sales Outlook by Province [1]

	1994 – 2005 (Average)	2006 – 2012 (Average)	2013	2014	2015	2016F
Canada	**1,446**	**1,600**	**1,745**	**1,851**	**1,898**	**1,900**
Atlantic	**102**	**120**	**135**	**137**	**140**	**138**
Central	**936**	**994**	**1,061**	**1,139**	**1,205**	**1,222**
Quebec	366	409	415	420	444	450
Ontario	570	585	646	719	761	772
West	**408**	**486**	**549**	**575**	**553**	**540**
Manitoba	42	45	54	56	56	56
Saskatchewan	36	46	58	56	54	53
Alberta	166	223	257	269	236	220
British Columbia	164	172	180	194	207	211

1 *Includes cars and light trucks (units presented above are in thousands.) Source: Scotia Economics - Global Auto Report, January 27, 2016.*

The Canadian economy remains flat overall, with continued downward pressure on the Alberta economy, mitigated by growth in British Columbia and Ontario. Economic uncertainty is expected to continue to define 2016. Canadian unemployment has increased to 7.3%, with unemployment at 7.9% in Alberta and 5.9% in Saskatchewan. With increased unemployment, our customers in Alberta and Saskatchewan are experiencing greater challenges in obtaining consumer retail financing. Management believes that increased unemployment and continued crude oil price volatility has negatively impacted consumer confidence in Alberta and Saskatchewan and continues to challenge the auto retail sector.

To mitigate these impacts, Management has set a five point strategy:

First, the Company continues to seek regional diversity to acquisitions when possible. Management believes the Company remains well positioned to continue to patiently seek out and acquire quality acquisitions at reasonable multiples which will provide sustainable, long term shareholder value.

Second, the Company has directed resources to increase integration efforts for the dealerships recently acquired, as well as actively monitoring the dealerships acquired in the prior year to ensure integration has been effective. Due to the increase of acquisition activity over the past two years, integration of individual dealerships has been a main focus. Implementation of policies, procedures, and best practices are the key to successful integration and Management believes these are main drivers in delivering long term shareholder value.

Third, the Company continues to manage the balance sheet. In 2015, the Company successfully negotiated an increase to its revolving credit facility by $50 million. As part of this process, the Company had renegotiated its covenants for this facility, which, together with the Company's free cash flow from operations, provide the necessary flexibility to meet all capital requirements, and provide the base to continue to pursue attractive acquisitions at reasonable multiples. The Company also used the proceeds from the equity offering for repayment of debt which strengthened the balance sheet by improving leverage ratios.

Fourth, to expedite the roll-out of certain marketing and sales process technologies to our dealerships to maximize all sales opportunities in a more challenging economic climate.

Fifth, to review all costs within the group and reduce or eliminate where possible. We are working with our dealer partners on a cost saving initiative target of $15 million in annualized operating cost reduction across the group. This goal has been communicated to the group as well as Head Office with expected timeline for meeting set targets throughout 2016.

In regard to future growth, Management is pleased with the quality of potential acquisitions currently in the pipeline and expects to acquire additional dealerships in 2016.

Effective April 1, 2016, Steven Landry shall be appointed Chief Executive Officer, and Tom Orysiuk shall continue as President. In addition, effective May 6, 2016, Pat Priestner shall assume the role of non-executive Chair of the Board of Directors, which he shall hold with a target retirement date at the Annual General Meeting in May 2017.

Steven Landry was most recently the Chief Development Officer for ATCO Ltd & Canadian Utilities Limited in Calgary, and previously the Managing Director & Chief Operating Officer for ATCO Australia. Prior to that, Steven Landry spent 27 years at the Chrysler Group where he held various global and executive positions including: Chief Executive Officer and President of DaimlerChrysler Canada, President of Chrysler Europe and Executive Vice President of North America at Chrysler LLC. Steven holds an MBA from Michigan State University and a Bachelor's Degree in Business from Saint Mary's University in Halifax, Nova Scotia.

Steve Rose, Chief Operating Officer, shall retire from his position effective October 1, 2016. Christopher Burrows, Chief Financial Officer and Erin Oor, Vice-President, Corporate Development & Administration, continue in their current positions.

6. MARKET

The Company's geographical profile is illustrated below by number of dealerships and revenues and gross profit by province for the years ended December 31, 2015 and December 31, 2014.

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

	December 31, 2014[1]					
Location of Dealerships	**Number of Franchises[2]**	**Number of Dealerships[2]**	**Revenue**	**Revenue % of Total**	**Gross Profit**	**Gross Profit % of Total**
British Columbia	12	10	507,574	23%	86,473	23%
Alberta	25	22	1,080,632	49%	189,797	51%
Saskatchewan	4	4	118,692	5%	19,952	6%
Manitoba	4	4	156,263	7%	27,192	7%
Ontario	5	4	108,404	5%	15,202	4%
Quebec	2	2	80,762	4%	12,192	3%
Atlantic	4	2	162,451	7%	22,341	6%
Total	56	48	2,214,778	100%	373,149	100%

1 *The results of six GM stores operated by the Company during Q3 2014 were not consolidated until July 11, 2014, as the stores were accounted for as investments in associates. Commencing July 11, 2014, General Motors dealerships have been consolidated for accounting purposes and have been included in the total number of dealerships at Q3 2014.*

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

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

Location	**Operating Name**	**Franchise**	**Year Opened or Acquired**	**Same Store[1]**
Wholly-Owned Dealerships:				
Abbotsford, British Columbia	Abbotsford Volkswagen	Volkswagen	2011	Y
Chilliwack, British Columbia	Chilliwack Volkswagen	Volkswagen	2011	Y
Kelowna, British Columbia	Okanagan Chrysler Jeep Dodge FIAT	FIAT / Chrysler	2003	Y
Maple Ridge, British Columbia	Maple Ridge Chrysler Jeep Dodge FIAT	FIAT / Chrysler	2005	Y
Maple Ridge, British Columbia	Maple Ridge Volkswagen	Volkswagen	2008	Y
Prince George, British Columbia	Northland Chrysler Jeep Dodge	Chrysler	2002	Y
Prince George, British Columbia	Northland Hyundai	Hyundai	2005	Y
Prince George, British Columbia	Northland Nissan	Nissan	2007	Y
Victoria, British Columbia	Victoria Hyundai	Hyundai	2006	Y
Airdrie, Alberta	Airdrie Chrysler Jeep Dodge Ram	Chrysler	2015	Q3 2017
Calgary, Alberta	Courtesy Chrysler Dodge	Chrysler	2013	Y
Calgary, Alberta	Calgary Hyundai	Hyundai	2014	Q3 2016
Calgary, Alberta	Crowfoot Hyundai	Hyundai	2014	Q3 2016
Calgary, Alberta	Courtesy Mitsubishi	Mitsubishi	2014	Q3 2016
Calgary, Alberta	Northland Volkswagen	Volkswagen	2014	Q3 2016
Calgary, Alberta	Fish Creek Nissan	Nissan	2014	Q4 2016

Location	Operating Name	Franchise	Year Opened or Acquired	Same Store[1]
Calgary, Alberta	Hyatt Infiniti	Infiniti	2014	Q4 2016
Calgary, Alberta	Tower Chrysler Jeep Dodge Ram	Chrysler	2014	Q4 2016
Edmonton, Alberta	Crosstown Chrysler Jeep Dodge FIAT	FIAT / Chrysler	1994	Y
Edmonton, Alberta	Capital Chrysler Jeep Dodge FIAT	FIAT / Chrysler	2003	Y
Edmonton, Alberta	North Edmonton Kia	Kia	2014	Q4 2016
Grande Prairie, Alberta	Grande Prairie Chrysler Jeep Dodge FIAT	FIAT / Chrysler	1998	Y
Grande Prairie, Alberta	Grande Prairie Hyundai	Hyundai	2005	Y
Grande Prairie, Alberta	Grande Prairie Subaru	Subaru	1998	Y
Grande Prairie, Alberta	Grande Prairie Mitsubishi	Mitsubishi	2007	Y
Grande Prairie, Alberta	Grande Prairie Nissan	Nissan	2007	Y
Grande Prairie, Alberta	Grande Prairie Volkswagen	Volkswagen	2013	Y
Ponoka, Alberta	Ponoka Chrysler Jeep Dodge	Chrysler	1998	Y
Sherwood Park, Alberta	Sherwood Park Hyundai	Hyundai	2006	Y
Saskatoon, Saskatchewan	Dodge City Chrysler Jeep Dodge Ram	Chrysler	2014	Q3 2016
Winnipeg, Manitoba	Audi Winnipeg	Audi	2013	Y
Winnipeg, Manitoba	St. James Volkswagen	Volkswagen	2013	Y
Winnipeg, Manitoba	Eastern Chrysler Jeep Dodge	Chrysler	2013	Y
Cambridge, Ontario	Cambridge Hyundai	Hyundai	2008	Y
Mississauga, Ontario	401 Dixie Hyundai	Hyundai	2008	Y
Newmarket, Ontario	Newmarket Infiniti Nissan[2]	Nissan / Infiniti	2008	Y
Toronto, Ontario	Toronto Chrysler Jeep Dodge Ram	Chrysler	2014	Q1 2017
Moncton, New Brunswick	Moncton Chrysler Jeep Dodge	Chrysler	2001	Y
Dartmouth, Nova Scotia	Dartmouth Chrysler Jeep Dodge	Chrysler	2006	Y
Equity Investments:				
Duncan, British Columbia	Island Chevrolet Buick GMC	General Motors	2013	Q4 2016
Kelowna, British Columbia	Don Folk Chevrolet	General Motors	2015	Q4 2017
Edmonton, Alberta	Lakewood Chevrolet	General Motors	2014	Q4 2016
Sherwood Park, Alberta	Sherwood Park Chevrolet	General Motors	2012	Q4 2016
Sherwood Park, Alberta	Sherwood Buick GMC	General Motors	2012	Q4 2016
Spruce Grove, Alberta	Grove Dodge Chrysler Jeep	Chrysler	2015	Q1 2018
North Battleford, Saskatchewan	Bridges Chevrolet Buick GMC	General Motors	2014	Q1 2017
Prince Albert, Saskatchewan	Mann-Northway Auto Source	General Motors	2014	Q4 2016
Saskatoon, Saskatchewan	Saskatoon Motor Products	General Motors	2014	Q4 2016
Winnipeg, Manitoba	McNaught Cadillac Buick GMC	General Motors	2014	Q4 2016
Laval, Quebec	BMW Laval and MINI Laval	BMW / MINI	2014	Q1 2017
Montreal, Quebec	BMW Canbec and MINI Mont Royal	BMW / MINI	2014	Q3 2016
Ottawa, Ontario	Hunt Club Nissan	Nissan	2015	Q1 2018
Ottawa, Ontario	417 Nissan	Nissan	2015	Q1 2018
Ottawa, Ontario	417 Infiniti	Infiniti	2015	Q1 2018
Dealership Loan Financing:				
Whitby, Ontario	Whitby Honda[3]	Honda	2015	N/A

1 *Same store means the franchised automobile dealership has been owned for at least 2 full years since acquisition. The dealership is then included in the quarter thereafter, for same store analysis.*

2 *As at December 31, 2015, this dealership was owned and operated by the Company. On February 24, 2016 the Company sold this location to an undisclosed party. Refer to Note 37 of the annual consolidated Financial Statements for additional information.*

3 *See "GROWTH, ACQUISITIONS, RELOCATIONS AND REAL ESTATE" for more information related to this dealership loan financing arrangement.*

Seasonality

The results from operations historically have been lower in the first and fourth quarters of each year, largely due to consumer purchasing patterns during the holiday season, inclement weather and the reduced number of business days during the holiday season. As a result, our operating results are generally not as strong during the first and fourth quarters than during the other quarters of each fiscal year. The timing of acquisitions and the common control business combination may have also caused substantial fluctuations in operating results from quarter to quarter.

7. RESULTS OF OPERATIONS

Annual Operating Results

EBITDA attributable to AutoCanada shareholders for the year ended December 31, 2015 remained flat at $89.8 million, from $89.4 million when compared to the results of the Company for the same period in the prior year. The change in EBITDA attributable to AutoCanada shareholders for the year can be mainly attributed to acquisitions completed during 2015, offset by the slowdown in activity due to tightening markets.

Adjusted EBITDA attributable to AutoCanada shareholders for the year ended December 31, 2015 increased by $4.7 million or 5.3% from $89.2 million to $93.9 million when compared to the results of the Company for the prior year.

The following table illustrates EBITDA and adjusted EBITDA attributable to AutoCanada shareholders for the last three years of operations.

(in thousands of dollars)	2015	2014	2013
Period from January 1 to December 31			
Net earnings attributable to AutoCanada shareholders	22,821	53,132	38,166
Impairment (recovery) of intangible assets	18,126	(1,767)	(746)
Income taxes	16,171	17,162	13,696
Depreciation of property and equipment	17,863	13,072	6,346
Interest on long-term indebtedness	14,857	7,835	1,007
EBITDA attributable to AutoCanada shareholders[1]	89,838	89,434	58,469
Add back:			
Share-based compensation attributed to changes in share price	(272)	(291)	727
Revaluation of redemption liabilities[2]	4,329	–	–
Unrealized gain on embedded derivative	(42)	18	–
Adjusted EBITDA attributable to AutoCanada shareholders[1]	93,853	89,161	59,196

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

2 *Redemption liabilities relate to put options held by certain non-controlling interests and are measured at fair value. Adjustments to fair value are recognized as income or expense through profit and loss.*

Pre-tax earnings attributable to AutoCanada shareholders decreased by $31.3 million or 44.5% to $39.0 million for the year ended December 31, 2015 from $70.3 million in the prior year. Net earnings attributable to AutoCanada shareholders decreased by $30.3 million or 57.0% to $22.8 million in the year of 2015 from $53.1 million when compared to the prior year. Income tax expense attributable to AutoCanada shareholders decreased by $1.0 million to $16.2 million in the year of 2015 from $17.2 million in the same period of 2014.

Adjusted earnings attributable to AutoCanada shareholders decreased by $11.4 million or 22.1% to $40.2 million in 2015 from $51.6 million in the prior year.

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

(in thousands of dollars)	2015	2014	2013
Net earnings attributable to AutoCanada shareholders	22,821	53,132	38,166
Add back:			
Impairment (recovery) of intangible assets, net of tax	13,286	(1,310)	(746)
Share-based compensation attributed to changes in share price, net of tax	(200)	(216)	540
Revaluation of redemption liabilities[2]	4,329	–	–
Unrealized gain on embedded derivative	(42)	18	–
Adjusted net earnings attributable to AutoCanada shareholders[1]	40,194	51,624	37,960
Weighted average number of shares - Basic	24,574,022	23,018,588	20,868,723
Weighted average number of shares - Diluted	24,674,083	23,149,776	20,868,732
Adjusted net earnings per share attributable to AutoCanada shareholders - Basic[1]	1.64	2.24	1.82
Adjusted net earnings per share attributable to AutoCanada shareholders - Diluted[1]	1.63	2.23	1.82

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

2 *Redemption liabilities relate to put options held by certain non-controlling interests and are measured at fair value. Adjustments to fair value are recognized as income or expense through profit and loss.*

Revenues

Revenues for the year ended December 31, 2015 increased by $689.0 million or 31.1% compared to the prior year. This increase was driven by increases in all four revenue streams as a result of 6 dealership acquisitions in 2015 as well as the impact of 17 acquisitions completed in 2014. New vehicle sales for the year increased by $325.9 million or 24.3% compared to the prior year due to an increase in new vehicle sales of 6,035 units or 16.6% and an increase in the average revenue per new vehicle sold of $2,437 or 6.5%. Used vehicle sales for the year increased by $209.2 million or 42.2% compared to the prior year due to an increase in used vehicle sales of 4,617 units or 29.4% and an increase in the average revenue per new vehicle sold of $3,135 or 10.0%. Finance and insurance revenue for the year increased by $22.0 million or 18.1% compared to the prior year. Parts, service and collision repair revenue increased by $131.9 million or 51.6% compared to the prior year mainly due to an increase in overall repair orders completed of 246,105 and a $32 or 7.5% increase in the average revenue per repair order completed.

Revenues - Same Store Analysis

Same store revenues decreased by $95.3 million or 5.9% in the year ended December 31, 2015 when compared to the same period in 2014. Same store new vehicle revenues decreased by $114.1 million or 11.6% for the year ended December 31, 2015 over the same period in the prior year due to a decrease in new vehicle sales of 3,381 units or 12.4% offset by an increase in the average revenue per new vehicle sold of $357 or 1.0%. For the year ended December 31, 2015, used vehicle revenues increased by $27.7 million or 7.4% due to an increase in the average revenue per used vehicle sold of $4,095 or 12.6% offset by a decrease in used vehicle sales of 536 units or 4.6%. For the year ended December 31, 2015, same store finance, insurance and other revenue decreased by $13.8 million or 14.8% over the same period in 2014 mainly due to a decrease in the number of new and used vehicles retailed of 4,151 units offset by an increase in the average revenue per unit retailed of $17 or 0.6%. For the year ended December 31, 2015, parts, service and collision repair revenue increased by $4.9 million or 2.8%, mainly due to an increase in overall repair orders completed of 3,990 and a $8 or 1.9% increase in the average revenue per repair order completed.

Gross Profit

Gross profit increased by $114.6 million or 30.7% for the year ended December 31, 2015 when compared to the prior year. As with revenues, gross profit increased due to increases across all four revenue streams as a result of 6 dealership acquisitions in

2015 as well as the impact of 17 acquisitions completed in 2014. Gross profit on the sale of new vehicles increased by $16.4 million or 15.5% for the year ended December 31, 2015 compared to the prior year which can be mainly attributed to an increase in new vehicle sales of 6,035 units or 16.6% offset by a decrease in the average gross profit per new vehicle sold of $121 or 6.5%. Used vehicle sales gross profit for the year ended December 31, 2015 increased by $11.1 million or 37.7% compared to the prior year which was mainly due to an increase in the average gross profit per vehicle retailed of $27 or 0.9% and an increase in the number of used vehicles retailed of 4,617 units. Finance and insurance gross profit increased by $21.7 million or 19.9% during the year ended December 31, 2015 compared to the prior year. Parts, service and collision repair gross profit increased by $65.3 million or 50.8% during the year ended December 31, 2015 compared to the prior year which can be mainly attributed to a decrease in the average gross profit per repair order completed of $15 or 7.0% offset by an increase in the number of repair orders completed of 246,105.

Gross Profit - Same Store Analysis

Same store gross profit decreased by 32.7 million or 11.7% for the year ended December 31, 2015 when compared to the prior year. For the year ended December 31, 2015, new vehicle gross profit decreased by $19.6 million or 23.4% which can be mainly attributed to a decrease in new vehicle sales of 3,381 units or 12.4% and a decrease in the average gross profit per new vehicle sold of $386 or 12.6%. For the year ended December 31, 2015, same store used vehicle gross profits increased by $0.5 million or 2.5% which was mainly due to an increase in the average gross profit per vehicle retailed of $138 or 7.5% offset by a decrease in the number of vehicles retailed of 536 units. For the year ended December 31, 2015, finance and insurance gross profit decreased by $13.0 million or 15.2% mainly attributed to a decrease in units retailed of 4,151 offset by an increase in the average gross profit per unit sold of $46 or 2.7%. For the year ended December 31, 2015, parts, service and collision repair gross profit decreased by $0.6 million or 0.7% which can be mainly attributed to a decrease in the average gross profit per repair order completed of $4 or 1.8% offset by an increase in the number of repair orders completed of 3,990.

Operating expenses

Operating expenses consist of four major categories: employee costs, selling and administrative costs, facility lease costs and depreciation of property and equipment. A significant portion of the Company's operating costs are employee costs which are largely variable in nature. There is a balance between reducing staffing levels as a result of business contraction, and maintaining high-performing staff. Due to the competitive nature of the retail automotive industry, additional measures are employed to ensure that the high-performing staff are maintained during down-times, as a result any decrease in gross profit may not be met with a matched decrease in operating expenses. 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.

The following tables summarize operating expenses as a percentage of gross profit for the years ended December 31. When evaluated, operating expenses are broken into their fixed and variable components. Fixed expenses are costs that do not fluctuate with changes in sales volume while variable expenses are costs that vary depending on sales volume.

	Year ended December 31, 2015	Year ended December 31, 2014	Change
Employee costs	50.4%	49.9%	0.5%
Administrative costs – Variable	17.9%	16.9%	1.0%
Total variable expenses	68.3%	66.8%	1.5%
Administrative Costs – Fixed	4.5%	3.8%	0.7%
Facility lease costs	4.5%	3.7%	0.8%
Depreciation of property and equipment	3.9%	3.7%	0.2%
Total fixed expenses	12.9%	11.2%	1.7%
Total operating expenses	81.2%	78.0%	3.2%

Operating expenses increased by 36.1% or $105.0 million during the year ended December 31, 2015 as compared to the prior year. 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 increase in the fixed portion of operating expenses is due to the growth of the Company since the fourth quarter of 2014, resulting in an increase in facility lease costs, depreciation of property and equipment, and the fixed portion of administrative costs. While the fixed costs would typically remain steady as a percentage of gross profit, the slowdown in the economy in the current year has caused this to rise. As the economy, and gross profit, improves, the fixed costs as a percentage of gross profit will also improve.

For the year ended December 31, 2015, operating expenses as a percentage of gross profit increased to 81.2% in 2015 from 78.0% in the prior year. This increase is driven by the slowdown of the economy during the year and the time lag in the corresponding reduction of operating costs. We are currently working on realigning the operating costs with gross profit and expect improvement of gross profit in 2016.

Employee costs

During the year ended December 31, 2015, employee costs increased by $59.5 million to $245.7 million from $186.2 million in the prior year. Employee costs as a percentage of gross profit increased to 50.4% in 2015 from 49.9% in 2014. Our dealership employee pay structures are tied to meeting sales objectives, maintaining customer satisfaction indices, as well as improving gross profit and net income.

Administrative costs

During the year ended December 31, 2015, selling and administrative costs increased by $32.1 million or 41.5% to $109.6 million from $77.5 million, primarily due to the 6 dealership acquisitions completed in 2015 as well as the impact of 17 acquisitions completed in 2014. Selling and administrative expenses as a percentage of gross profit increased to 22.4% from 20.7% in the same period of the prior year. During the year ended December 31, 2015, the Company incurred $0.5 million related to acquisitions compared to $1.4 million for the same period in 2014. These costs will vary based on the number of acquisitions completed each period.

Facility lease costs

During the year ended December 31, 2015, facility lease costs increased by 59.2% to $21.7 million from $13.6 million, primarily due to the 6 dealership acquisitions completed in 2015 as well as the impact of 17 acquisitions completed in 2014.

Depreciation of property and equipment

During the year ended December 31, 2015, depreciation of property and equipment increased by 38.4% to $18.9 million from $13.6 million, primarily due to the 6 dealership acquisitions completed in 2015 as well as the impact of 17 acquisitions completed in 2014.

Impairment of intangible assets and goodwill

The Company has a number of franchise agreements for its individual dealerships which it classifies as intangible assets. These intangible assets are tested for impairment at least annually as they are considered to be indefinite-lived intangible assets. The Company performed its annual test for impairment of its cash generating units ("CGUs") in the fourth quarter of 2015. As a result of the tests performed, the Company recorded a net impairment of intangible assets and goodwill in the amount of $18.8 million (2014 - $1.8 million recovery). Of total net impairment, $10.6 million was related to intangible assets impairment and $8.2 million was related to goodwill impairment.

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

Dealership Divestiture

On December 19, 2015, the Company entered into an agreement to sell substantially all of the operating and fixed assets of Newmarket Infiniti Nissan located in Newmarket Ontario. Management made the decision to divest of this dealership due to weak performance of the dealership combined with a planned re-focus of capital resources from Newmarket, Ontario to Ottawa, Ontario. On February 25, 2016, the Company sold the operating and fixed assets of Newmarket Infiniti Nissan for net cash proceeds of $11,262 resulted in a pre-tax gain on divestiture of $4,359. Further details of the break-down of the transaction is disclosed in Note 37 of the annual consolidated financial statements for the year ended December 31, 2015.

Income Taxes

Income tax expense for the year ended December 31, 2015 decreased by $0.5 million to $17.8 million from $18.3 million in 2014. The Company recorded deferred tax recovery of $1.5 million (2014 - $3.3 million recovery) as a result of temporary differences between the tax basis and carrying value of these assets.

The increase in the effective tax rate is due in part to the 2% increase in corporate income tax rates for the province of Alberta from 10% to 12%. All deferred income tax balances within the province of Alberta are calculated using the increased rate, as the reversal of the underlying temporary differences will reverse at this rate. The impact of this adjustment has increased the effective tax rate by 4.29%. Impairment of intangible assets and goodwill cause an additional impact on the increase in effective tax rate. The impairment of these assets are non-tax deductible expenses, causing a variance between net income for tax purposes and net income as reported on the Consolidated Statement of Financial Position. The impact of non-tax deductible impairment has increased the effective tax rate by 5.87%.

The change in the Alberta tax rate has negatively impacted basic earnings per share for the year ended December 31, 2015, by $0.01 from $0.94 to $0.93 and the diluted earnings per share by $0.01 from $0.93 to $0.92.

Until December 31, 2009, our previous trust structure was such that current income taxes were passed on to our unitholders. In conjunction with our conversion from a trust to a corporation, the Company became subject to normal corporate tax rates starting in 2010. The corporate income tax rate applicable to 2010 was approximately 29.0%; however, we did not pay any corporate income tax in 2010 due to the tax deductions available to us and the effect of the deferral of our partnership income.

In December 2011, legislation was passed implementing tax measures outlined in the 2011 budget (Bill C-13), which included the elimination of the ability of a corporation to defer income as a result of timing differences in the year-end of the corporation and of any partnership of which it is a partner, subject to transitional relief over five years.

Although the amounts below can change based on our future taxable income, the Company estimates the following amounts to be recorded as current income tax payable over the next two years in conjunction with the payment of the deferral. The Company notes that these amounts paid will be in addition to the normal current income tax payable of future years:

(in thousands of dollars)	2016	2017
Increase to current tax payable	1,366	1,707

The Company expects income tax to have a more significant effect on our free cash flow and adjusted free cash flow as the Company will now be required to pay current income taxes, as well as, income tax installments for the anticipated current tax expense for the fiscal year.

Prior to 2012, the Company had not paid any corporate tax or installments for corporate tax. The payment of cash taxes will have an impact on adjusted free cash flow. Investors are cautioned that income taxes will have a more significant effect on the Company's cash flow in the future, and as a result, prior year levels of adjusted free cash flow will inherently be lowered by cash taxes in the future.

Finance costs

The Company incurs finance costs on its revolving floorplan facilities, long term indebtedness and banking arrangements. Additionally, the Company incurs finance expense as a result of the revaluation of redemption liabilities, contingent consideration and embedded derivative. During the year ended December 31, 2015, finance costs on our revolving floorplan facilities increased by 25.9% to $13.2 million from $10.5 million in 2014 and finance costs on long term indebtedness increased by $7.1 million or 88.9%, to $14.9 million from $7.9 over the prior year. The increase to finance costs are mainly attributable to the 6 dealership acquisitions completed in 2015 as well as the impact of 17 acquisitions completed in 2014.

Redemption liabilities relate to put options held by certain non-controlling shareholder interests (excluding Mr. Patrick Priestner) and are measured at fair value. The fair value of the liabilities are based on predefined formulas included in the universal shareholder agreements as executed at the time of acquisition. The fair value of the redemption liabilities are revalued at each reporting date. The redemption liabilities only become payable in the event the non-controlling shareholder exercises their put option, wherein the Company is required to acquire the non-controlling shareholder's interest.

During the year ended December 31, 2015, the net income of certain dealerships exceeded their annual income from the prior year, resulting in an increase in the cumulative net income for the purposes of revaluing the redemption liabilities. Consequently, a $4,329 increase to the fair value was recorded on the balance sheet with a corresponding expense charged to financing costs in 2015.

Some of our manufacturers provide non-refundable credits on the finance costs for our revolving floorplan facilities to offset the dealership's cost of inventory that, on average, effectively provide the dealerships with interest-free floorplan financing for the first 45 to 60 days of ownership of each financed vehicle. During the year ended December 31, 2015, the floorplan credits earned were $14,853 (2014 - $12,246). Accounting standards require the floorplan credits to be accounted for as a reduction in the cost of new vehicle inventory and subsequently a reduction in the cost of sales as vehicles are sold.

The following table summarizes the net floorplan credits that were received in 2015.

(in thousands of dollars)	Q1 2015	Q2 2015	Q3 2015	Q4 2015	For the year ended December 31, 2015
Net floorplan credits	3,305	4,301	3,640	3,607	14,853

Management believes that a comparison of floorplan financing costs to floorplan credits can be used to evaluate the efficiency of our new vehicle sales relative to stocking levels. The following table details the carrying cost of vehicles based on floorplan interest net of floorplan assistance earned:

	For the Year Ended	
(in thousands of dollars)	**December 31, 2015**	**December 31, 2014**
Floorplan financing	13,160	10,452
Floorplan credits earned	(14,853)	(12,246)
Net carrying cost of vehicle inventory	(1,693)	(1,794)

Fourth Quarter Operating Results

EBITDA attributable to AutoCanada shareholders for the three month period ended December 31, 2015 decreased by $1.2 million or 5.1% to $23.4 million, from $24.6 million when compared to the results of the Company for the same period in the prior year. The decrease in EBITDA attributable to AutoCanada shareholders for the quarter can be mainly attributed to tightening markets and lower achievement of sales volume incentives in certain stores.

Adjusted EBITDA attributable to AutoCanada shareholders for the three month period ended December 31, 2015 increased by $1.7 million or 7.1% from $24.2 million to $25.9 million when compared to the results of the Company for the same quarter in the prior year.

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

(in thousands of dollars)	**2015**	**2014**	**2013**
Period from October 1 to December 31			
Net earnings attributable to AutoCanada shareholders	(7,361)	14,240	9,553
Impairment (recovery) of intangible assets	18,126	(1,767)	(746)
Income taxes	3,474	4,998	3,490
Depreciation of property and equipment	4,866	4,179	2,069
Interest on long-term indebtedness	4,248	2,995	388
EBITDA attributable to AutoCanada shareholders[1]	23,353	24,605	14,754
Add back:			
Share-based compensation attributed to changes in share price	(30)	(447)	248
Revaluation of redemption liabilities[2]	2,566	–	–
Unrealized gain on embedded derivative	(8)	(3)	–
Adjusted EBITDA attributable to AutoCanada shareholders[1]	25,881	24,155	15,002

1 *This financial measure is identified and defined under the section "NON-GAAP MEASURES."*
2 *Redemption liabilities relate to put options held by certain non-controlling interests and are measured at fair value. Adjustments to fair value are recognized as income or expense through profit and loss.*

Pre-tax earnings (loss) attributable to AutoCanada shareholders decreased by $23.1 million or 120.3% to ($3.9) million for the three month period ended December 31, 2015 from $19.2 million in the same period of the prior year.

Net earnings (loss) attributable to AutoCanada shareholders decreased by $21.6 million or 152.1% to ($7.4) million in the fourth quarter of 2015 from a $14.2 million when compared to the prior year.

Income tax expense attributable to AutoCanada shareholders decreased by $1.5 million to $3.5 million in the fourth quarter of 2015 from $5.0 million in the same period of 2014.

Adjusted net earnings attributable to AutoCanada shareholders decreased by $4.1 million or 32.5% to $8.5 million in 2015 from $12.6 million in the same period of 2014.

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

(in thousands of dollars)	2015	2014	2013
Net earnings attributable to AutoCanada shareholders	(7,361)	14,240	9,553
Add back:			
Impairment (recovery) of intangible assets, net of tax	13,286	(1,310)	(746)
Share-based compensation attributed to changes in share price, net of tax	(22)	(332)	184
Revaluation of redemption liabilities[2]	2,566	–	–
Unrealized gain on embedded derivative	(8)	(3)	–
Adjusted net earnings attributable to AutoCanada shareholders[1]	8,461	12,595	8,991
Weighted average number of shares - Basic	25,016,637	24,410,169	21,638,433
Weighted average number of shares - Diluted	25,110,033	25,190,000	21,638,433
Adjusted net earnings per share attributable to AutoCanada shareholders - Basic[1]	0.34	0.52	0.42
Adjusted net earnings per share attributable to AutoCanada shareholders - Diluted[1]	0.34	0.50	0.42

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

2 *Redemption liabilities relate to put options held by certain non-controlling interests and are measured at fair value. Adjustments to fair value are recognized as income or expense through profit and loss.*

Revenues

Revenues for the three month period ended December 31, 2015 increased by $17.1 million or 2.6% compared to the same period of the prior year. This increase was driven by increases in two revenue streams as a result of 6 dealership acquisitions since the fourth quarter of 2014. New vehicle sales decreased by $10.9 million or 2.9% for the three month period ended December 31, 2015 to $368.2 million from $379.1 million in the same period of the prior year. Used vehicle sales increased by $18.5 million or 12.5% for the three month period ended December 31, 2015 compared to the same period of the prior year. Finance and insurance revenue decreased by $1.6 million or 4.4% for the three month period ended December 31, 2015 compared to the same period of the prior year. Parts, service and collision repair revenue increased by $11.0 million or 12.1% for the three month period ended December 31, 2015 compared to the same period of the prior year.

Revenues - Same Store Analysis

Same store revenue decreased by $45.0 million or 12.1% in the three month ended December 31, 2015 when compared to the same period in 2014. Same store new vehicle revenues decreased by $49.4 million or 23.1% for the fourth quarter of 2015 over the prior year due to a decrease in new vehicle sales of 1,470 units or 24.2% offset by an increase in the average revenue per new vehicle sold of $513 or 1.5%. Same store used vehicle revenues increased by $8.4 million or 9.5% for the three month period ended December 31, 2015 over the same period in the prior year due to increase in the average revenue per used vehicle sold of $4,028 or 12.3% offset by decrease in used vehicle sales of 69 units or 2.6%. Same store finance, insurance and other revenue decreased by $5.1 million or 22.1% for the three month period ended December 31, 2015 over the same period in 2014. This was due to increase in the average revenue per unit retailed of $198 or 6.7% and decrease in the number of new and used vehicles retailed, that had finance and insurance related products, of 1,272 units. Same store parts, service and collision repair revenue increased by $1.2 million or 2.6% for the fourth quarter of 2015 compared to the prior period and was primarily a result of increase in overall repair orders completed of 2,775 and a $4 or 0.9% decrease in the average revenue per repair order completed.

Gross Profit

Gross profit increased by $10.0 million, or 8.8% for the three month period ended December 31, 2015 compared to the same period in the prior year. Gross profit increased due to increases across three revenue streams as a result of 6 dealership acquisitions since the fourth quarter of 2014. Gross profit on the sale of new vehicles decreased by $1.8 million or 6.3% for the three month period ended December 31, 2015 compared to the same period in the prior year. The decrease in new vehicle gross profit can be attributed to a decrease in the number of new vehicles sold of 1,360 or 12.9% offset by an increase in the average gross profit per new vehicle sold of $210 or 7.6%. Used vehicle gross profit increased by $2.5 million or 32.3% for the three month period ended December 31, 2015 compared to the same period in the prior year due to an increase in the average gross profit per used vehicle retailed of $479 or 29.7% and an increase in the number of used vehicles sold of 95 units. Finance and insurance gross profit increased by $3.2 million or 10.6% during the fourth quarter of 2015. This increase can be mainly attributed to the increase in average gross profit per unit sold of $241 or 9.8%. Parts, service and collision repair gross profit increased by $6.1 million or 13.3% in the fourth quarter of 2015 as a result of increase in the number of repair orders completed of 14,345 offset by a decrease in the average gross profit per repair order completed of $13 or 6.2%.

Gross Profit - Same Store Analysis

Same store gross profit decreased by $9.4 million or 14.3% for the three month period ended December 31, 2015 compared to the same period in the prior year. New vehicle gross profit decreased by $4.1 million or 24.9% in the three month period ended December 31, 2015 when compared to the same period in the prior year as a result of decrease in new vehicle sales of 1,470 units or 24.2% and decrease in the average gross profit per new vehicle sold of $25 or 0.9%. Used vehicle gross profit increased by $1.3 million or 31.0% in the three month period ended December 31, 2015 compared to the same period in the prior year. This was due to an increase in the average gross profit per used vehicle retailed of $546 or 34.5% offset by decrease in the number of used vehicles sold of 69 units. Parts, service and collision repair gross profit decreased by $2.2 million or 9.3% in the three month period ended December 31, 2015 when compared to the same period in the prior year as a result of increase in the number of repair orders completed of 2,775 offset by a decrease in the average gross profit per repair order completed of $26 or 11.5%. Finance and insurance gross profit decreased by $4.4 million or 20.8% in the three month period ended December 31, 2015 when compared to the prior year as a result of increase in the average gross profit per unit sold of $403 and a decrease in units retailed that had finance and insurance related products of 1,272.

Operating expenses

The following tables summarize operating expenses as a percentage of gross profit for the years ended December 31. When evaluated, operating expenses are broken into their fixed and variable components. Fixed expenses are costs that do not fluctuate with changes in sales volume while variable expenses are costs that vary depending on sales volume.

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q4 2014	Change
Employee costs	54.9%	49.3%	48.7%	49.4%	48.7%	0.7%
Administrative costs – Variable	19.5%	16.9%	16.8%	18.8%	18.4%	0.4%
Total variable expenses	74.4%	66.2%	65.5%	68.2%	67.1%	1.1%
Administrative Costs – Fixed	5.3%	4.1%	4.8%	4.3%	4.3%	—%
Facility lease costs	4.8%	3.9%	4.2%	5.0%	4.0%	1.0%
Depreciation of property and equipment	3.9%	3.4%	3.9%	4.3%	3.8%	0.5%
Total fixed expenses	14.0%	11.4%	12.9%	13.6%	12.1%	1.5%
Total operating expenses	88.4%	77.6%	78.4%	81.8%	79.2%	2.6%

Operating expenses increased by $11.0 million or 12.2%, to $101.3 million from $90.3 million during the three month period ended December 31, 2015 compared to the same period in the prior year. Operating expenses as a percentage of gross profit increased to 81.8% in the fourth quarter of 2015 from 79.2% in the same period of the prior year. This increase is driven by the slowdown of the economy during the fourth quarter and the time lag in the corresponding reduction of operating costs.

Employee costs

During the three month period ended December 31, 2015, employee costs increased by $4.0 million or 7.0%, to $60.8 million from $56.8 million in the prior year period. Employee costs as a percentage of gross profit stayed consistent compared to the same period of the prior year. Employee costs as a percentage of gross profit for the three month period ended December 31, 2015 decreased to 49.1% from 49.9% for the same period in the prior year. Our dealership employee pay structures are tied to meeting sales objectives, maintaining customer satisfaction indices, as well as improving gross profit and net income.

Administrative costs

During the three month period ended December 31, 2015, administrative costs increased by $4.2 million or 13.9%, to $34.4 million from $30.2 million primarily due to 6 dealership acquisitions since the fourth quarter of 2014. Administrative expenses as a percentage of gross profit increased to 27.7% in the fourth quarter of 2015 from 26.5% in the comparable period of 2014. During the three month period ended December 31, 2015, the Company incurred $0.2 million related to acquisitions compared to $0.4 million for the same period in 2014. These costs will vary based on the number of acquisitions completed each period.

Facility lease costs

During the three month period ended December 31, 2015, facility lease costs increased by $1.0 million or 22.0%, from $4.7 million to $5.7 million primarily due to 6 dealership acquisitions since the fourth quarter of 2014. Facility lease costs are 4.6% of gross profit for the three month period from 4.1% in the comparable period of 2014.

Depreciation of property and equipment

During the three month period ended December 31, 2015, depreciation of property and equipment increased by $0.7 million or 14.6%, to $5.2 million from $4.5 million primarily due to 6 dealership acquisitions since the fourth quarter of 2014. Depreciation expense makes up 4.2% of gross profit for the three month period from 4.0% in the comparable period of 2014.

Income Taxes

Income tax expense for the three month period ended December 31, 2015 decreased by $1.7 million to $3.3 million from $5.0 million in 2014. During the fourth quarter of 2015, the Company paid $11.0 million of cash taxes which relates to installments toward the 2015 taxation year. The payment of cash taxes will have an impact on adjusted free cash flow.

Finance costs

The Company incurs finance costs on its revolving floorplan facilities, long term indebtedness and banking arrangements. During the three month period ended December 31, 2015, finance costs on our revolving floorplan facilities decreased by 17.1% to $2.9 million from $3.5 million in the fourth quarter of 2014, and finance costs on long term indebtedness increased by $1.3 million or 46.0%, to $4.3 million from $2.9 million in the fourth quarter of 2015. The increase to finance costs is mainly attributable to the 6 dealership acquisitions since the fourth quarter of 2014.

During the three months ended December 31, 2015, the net income of certain dealerships exceeded their quarterly net income from the comparative quarter, resulting in an increase in the cumulative net income for the purposes of revaluing the redemption liabilities. Consequently, a $2,566 increase to the fair value was recorded on the balance sheet with a corresponding expense charged to financing costs in the fourth quarter.

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

During the three month period ended December 31, 2015, the floorplan credits earned were $3,607 (2014 - $3,858) Accounting standards require the floorplan credits to be accounted for as a reduction in the cost of new vehicle inventory and subsequently a reduction in the cost of sales as vehicles are sold.

Management believes that a comparison of floorplan financing costs to floorplan credits can be used to evaluate the efficiency of our new vehicle sales relative to stocking levels. The following table details the carrying cost of vehicles based on floorplan interest net of floorplan assistance earned:

	For the Three Months Ended	
(in thousands of dollars)	**December 31, 2015**	**December 31, 2014**
Floorplan financing	2,939	3,293
Floorplan credits earned	(3,607)	(3,858)
Net carrying cost of vehicle inventory	(668)	(565)

8. GROWTH, ACQUISITIONS, RELOCATIONS AND REAL ESTATE

At December 31, 2015, the Company operated 54 automotive dealerships (62 franchises) comprised of 39 dealerships (45 franchises) which are wholly owned, as well as investments in nine General Motors dealerships (nine franchises), two BMW dealerships (four franchises), one Chrysler dealership (one franchise), and three Nissan dealerships (three franchises), which the Company controls and consolidates for accounting purposes.

Growth

The Company has acquired 6 dealerships (6 franchises) in 2015. Acquisitions completed during the year are as follows:

Airdrie Chrysler

On May 11, 2015, the Company purchased substantially all of the operating and fixed assets of North Hill Motors (1975) Ltd. ("Airdrie Chrysler"), in Airdrie, Alberta, for total cash consideration of $21,595 and contingent consideration with a fair value of $3,608. The acquisition was financed by drawing on the Company's revolving term facility. In 2014, the dealership retailed 935 new vehicles and 704 used vehicles.

Don Folk Chevrolet

On September 14, 2015, the Company, through an 80% owned subsidiary, DFC Holdings Inc., purchased substantially all of the operating and fixed assets of Don Folk Chevrolet Inc., a Chevrolet dealership, and 399573 B.C. Ltd., an auto body shop, (together "Don Folk Chevrolet"), located in Kelowna, British Columbia, for total cash consideration of $9,175. The acquisition was financed by drawing on the Company's revolving term facility. To comply with GM Canada's approval, Mr. Patrick Priestner, the Executive Chair of the Company, is required to have 100% voting control of Don Folk Chevrolet. In 2014, the dealership retailed 452 new vehicles and 304 used vehicles.

The Company also purchased the land and facilities through a wholly-owned subsidiary, DFC Properties Inc., for $13,250.

Grove Dodge Chrysler Jeep

On October 5, 2015, the Company, through GRV C Holdings LP, purchased substantially all of the operating and fixed assets of Grove Dodge Chrysler Jeep Ltd. ("Grove Dodge"), in Spruce Grove, Alberta, for total cash consideration of $19,083 and contingent consideration with a fair value of $1,808. The acquisition was financed by drawing on the Company's revolving term facility. In 2014, the dealership retailed 809 new vehicles and 407 used vehicles.

As part of the transaction, the Company entered into an agreement with a former minority owner of Grove Dodge, whereby he acquired a 10% ownership interest in GRV C Holdings LP from the Company for cash consideration.

Hunt Club Nissan and Ottawa Open Point

On November 1, 2015, the Company, through AutoCanada HCN Holdings Inc., purchased substantially all of the operating and fixed assets of Hunt Club Nissan Ltd. ("Hunt Club Nissan"), in Ottawa, Ontario, as well as the exclusive right to build and operate a Nissan motor vehicle franchise on a designated property in southwest Ottawa. Total cash consideration for the transaction was $13,825. The acquisition was financed by drawing on the Company's revolving term facility. In 2014, the dealership retailed 1,109 new vehicles and 452 used vehicles.

As part of the transaction, the Company entered into an agreement with a former owner of Hunt Club Nissan, whereby he acquired a 10% ownership interest in AutoCanada HCN Holdings Inc. from the Company for cash consideration of $1,383.

417 Nissan and 417 Infiniti

On December 7, 2015, the Company, through a 90% owned subsidiary, AutoCanada HCN Holdings Inc., purchased substantially all of the operating and fixed assets of 417 Infiniti Nissan Limited ("417 Nissan and 417 Infiniti"), in Ottawa, Ontario, for total cash consideration of $5,408. The acquisition was financed by drawing on the Company's revolving term facility. In 2014, the dealership retailed 727 new vehicles and 180 used vehicles.

Integration of New Dealerships and Investments

Over the past year, the Company has opened and acquired six dealerships, and has been dedicating resources to ensure a successful integration of its newly acquired dealerships. As noted in our same store analysis, experience has shown that it takes a minimum of two full years in order to successfully integrate a store and achieve its anticipated performance objectives.

The dealerships acquired in 2014 appear to be integrating well into their respective platforms and within the Company. The dealerships acquired in 2015 are still fairly new and being integrated into their respective platforms and within the Company. Management continues to work diligently on the integration of those dealerships and is very satisfied with the progress being made.

The investments in the dealerships that we made in the third and fourth quarters of 2015 are fairly recent. As a result, we are still relatively early in the process of integrating these investments.

We will 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.

Dealership Open Points

Volkswagen – Sherwood Park, Alberta

In February 2014, the Company announced that it had been awarded the right to a Volkswagen Open Point dealership in Sherwood Park, Alberta. The Company intends to construct an approximately 45,000 square foot facility in Sherwood Park, designed to Volkswagen Canada image standards, with construction to be completed and opened in the fourth quarter of 2016. The Volkswagen Open Point has a planning potential of 800 new vehicles annually which the Company anticipates achieving in two to three years of operation.

Nissan – Calgary, Alberta

On July 1, 2014, as part of the Company's purchase of the Hyatt Group, the Company acquired the exclusive right to build and operate a Nissan dealership on a designated property in southeast Calgary. The purchase price for transfer of the right was $1.5 million, which was satisfied by the issuance of 18,753 common shares of AutoCanada at a deemed price of $79.99. The permit process in the City of Calgary had taken longer than expected, which caused some delay. Therefore, the dealership construction is now expected to begin late 2016 with anticipated opening in late 2017. The dealership will be constructed by a third party and subsequently leased by the Company.

North Winnipeg Kia

In March 2015, the Company announced that it has signed a Letter of Intent with Kia Canada Inc. ("Kia") which, subject to the completion of requirements contained in the Letter of Intent, will award AutoCanada an Open Point Kia dealership in North Winnipeg, Manitoba. AutoCanada intends to operate the dealership out of a new facility, designed to Kia image standards, with construction anticipated to commence in early 2017.

Nissan - Ottawa, Ontario

On November 1, 2015, as part of the purchase of Hunt Club Nissan, the Company acquired the exclusive right to build and operate a Nissan motor vehicle franchise on a designated property in southwest Ottawa. AutoCanada intends to operate the dealership out of a new facility, designed to Nissan image standards, with construction anticipated to commence in second quarter of 2016 and anticipated opening in early 2017.

Dealership Loan Financing

On November 30, 2015, the Company loaned $8,422 to PPH Holdings Ltd ("PPH"). The Company holds no ownership interest in PPH, which is a company controlled, and formed, by Mr. Patrick Priestner ("Priestner"). The Company has no participation in the equity of PPH. PPH's principal place of business is Alberta, Canada. Although the Company holds no voting rights in PPH the Company exercises significant influence by virtue of the existence of its loan and the provision of essential technical information required for operations, as well as through the relationship with Priestner, as AutoCanada's Executive Chair. However, the Company does not have the power to make or block key decisions under the terms of the underlying agreements. As a result, the Company has accounted for its loan to PPH under the effective interest method and it is carried at amortized cost. Income from loan to PPH was $49 in 2015.

Future Acquisition Opportunities

Due to the economic slowdown occurring in Alberta, Management anticipates that there will continue to be attractive buying opportunities, further enhancing long term shareholder value, however, Management is not yet seeing a change in acquisition multiples. Additionally, the Company shall continue to seek opportunities elsewhere in Canada, where appropriate, so as to provide continued diversity. The Company is in a position to patiently pursue its acquisition strategy thereby maximizing its ability to take advantage of anticipated buying opportunities that times of economic uncertainty generally provide. Management and the Company have excellent relationships with our manufacturer partners and believe that if we can continue to perform well, we can build upon our current brand portfolios and hopefully gain the acceptance of other new manufacturers over time.

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 additional potential planned dealership relocations to be approximately $133.3 million by the second quarter of fiscal 2019, $83.5 million of this amount is to be financed. As noted above, the Company expects dealership relocations to provide long term earnings sustainability and result in significant improvements in revenues and overall profitability. Management continually updates its capital plan and as such the estimates provided may vary as delays occur or projects are added or removed.

Current Dealership Expansion and Imaging Requirements

The Company has identified approximately $37.5 million in capital costs that it may incur in order to expand or renovate various current locations by the end of fiscal 2019, $13.0 million of this amount is to be financed. The Company is required by its manufacturers to undertake periodic imaging upgrades to its facilities. Included above are the estimated costs and timing related to the re-imaging requirements by Hyundai Canada. The Company expects re-imaging to attract more customers to its dealerships.

Open Point Opportunities

Management regularly reviews potential open point opportunities. If successful in being awarded these opportunities, Management would then estimate additional capital costs in order to construct suitable facilities for open points. The Company estimates approximately $23.0 million in capital costs that it may incur by the end of fiscal 2017 related to currently awarded Open Points, $8.7 million of this amount is to be financed. If awarded in the future, Management will provide additional cost estimates and timing of construction. In order to be successful in some opportunities, Management may be required to secure appropriate land for the potential open points, in which case, additional land purchase costs may be incurred in the future.

The following summarizes the capital plan for contemplated future capital projects as at December 31, 2015:

(in millions of dollars)	2016	2017	2018	2019	Total
Same Store					
Dealership Relocations	22.8	56.5	16.6	–	95.9
Current Dealership Expansion and Imaging Requirements	3.1	5.3	5.3	8.6	22.3
Capital Plan	25.9	61.8	21.9	8.6	118.2
Expected to be Financed	14.1	39.8	13.3	–	67.2
Non-Same Store					
Dealership Relocations	0.1	12.0	11.3	14.0	37.4
Current Dealership Expansion and Imaging Requirements	10.6	4.6	–	–	15.2
Open Point Opportunities	14.6	8.4	–	–	23.0
Capital Plan	25.3	25.0	11.3	14.0	75.6
Expected to be Financed	15.4	8.4	7.9	6.3	38.0
Total Capital Plan	51.2	86.8	33.2	22.6	193.8
Total Expected to be Financed	29.5	48.2	21.2	6.3	105.2

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

9. LIQUIDITY AND CAPITAL RESOURCES

Our principal uses of funds are for capital expenditures, repayment of debt, funding the future growth of the Company and dividends to Shareholders. We have historically met these requirements by using cash generated from operating activities and through short term and long term indebtedness. On December 14, 2015, the Company completed a $75.0 million equity offering which was used to pay down its revolving credit facility and replenish its capital.

The Company maintains working capital in excess of manufacturer requirements which may be used for capital expenditures. The Company's analysis of its available capital based on the balance sheet at December 31, 2015 is as follows:

- The Company had drawn $103.6 million on its $250.0 million revolving term facility.

As a result of the above, as at December 31, 2015, the Company currently has approximately $146.4 million in readily available liquidity, not including future retained cash from operations, that it may deploy for growth expenditures including acquisitions.

Note 25 of the annual consolidated financial statements of the Company for the year ended December 31, 2015 summarizes the Company's remaining contractual maturity for its financial liabilities.

Use of Proceeds

The Company's use of proceeds from the equity offering was for repayment of long-term indebtedness.

Cash Flow from Operating Activities

Cash flow from operating activities (including changes in non-cash working capital) of the Company for the year ended December 31, 2015 was $52.8 million (cash provided by operating activities of $51.5 million plus net increase change in non-cash working capital of $1.3 million) compared to $71.1 million (cash provided by operating activities of $66.8 million plus net increase in non-cash working capital of $4.3 million) in the prior year.

Cash Flow from Investing Activities

For the year ended December 31, 2015, cash flow from investing activities of the Company was a net outflow of $165.7 million as compared to a net outflow of $331.1 million in the prior year. The decrease was primarily due to $75.5 million in acquisitions compared to $270.0 million in 2014.

Cash Flow from Financing Activities

For the year ended December 31, 2015, cash flow from financing activities was a net inflow of $104.0 million as compared to a net inflow of $295.2 million in the prior year. The decrease was primarily due to proceeds of $146.4 million from the issuance of senior unsecured notes in 2014, as well as issuance of common shares in 2014 which exceeded issuance of shares in 2015 by $119.5 million.

Credit Facilities and Floorplan Financing

Details of the Company's credit facilities and floorplan financing are included in Note 28 of the annual audited consolidated financial statements for the year ended December 31, 2015.

Key Financial Covenants

The Company is required by its debt agreements to comply with several financial covenants. The following is a summary of the Company's actual performance against its financial covenants as at December 31, 2015:

Financial Covenant	Requirement	Q4 Actual Calculation	Q3 Actual Calculation
Syndicated Revolver:			
Senior Secured Leverage Ratio[1]	Shall not exceed 2.75	1.38	1.74
Adjusted Total Leverage Ratio[1]	Shall not exceed 5.00	4.09	4.30
Fixed Charge Coverage Ratio	Shall not be less than 1.20	1.72	1.60
Current Ratio	Shall not be less than 1.05	1.18	1.14
Syndicated Floorplan:			
Current Ratio	Shall not be less than 1.10	1.15	1.15
Tangible Net Worth	Shall not be less than $40 million	$89.4 million	$93.5 million
Debt to Tangible Net Worth	Shall not exceed 7.50	4.67	4.52

1 *On September 30, 2015, amended terms and conditions of the syndicated revolver facility resulted in the Senior Secured Leverage Ratio changing from 2.00 to 2.75, and the Adjusted Total Leverage Ratio changing from 4.50 to 5.00.*

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

As at December 31, 2015, the Company is in compliance with all of its financial covenants.

Financial Instruments

Details of the Company's financial instruments, including risks and uncertainties are included in Note 25 of the annual audited consolidated financial statements for the year ended December 31, 2015.

Growth vs. Non-Growth Capital Expenditures

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

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

(in thousands of dollars)	October 1, 2015 to December 31, 2015	January 1, 2015 to December 31, 2015
Leasehold improvements	1,525	7,054
Machinery and equipment	546	2,183
Furniture and fixtures	322	1,355
Computer equipment	756	2,073
Company & lease vehicles	15	32
	3,164	12,697

Amounts relating to the expansion of sales and service capacity are considered growth expenditures. Growth expenditures are discretionary, represent cash outlays intended to provide additional future cash flows and are expected to provide benefit in future periods. During the three month period and the year ended December 31, 2015, growth capital expenditures of $5.7 million and $61.9 million were incurred, respectively. These expenditures related primarily to land that was purchased for future dealership operations during the first three quarters of the year of $52.9 million, and construction on buildings of approximately $5.3 million during the fourth quarter. Dealership relocations are included as growth expenditures if they contribute to the expansion of sales and service capacity of the dealership.

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

(in thousands of dollars)	October 1, 2015 to December 31, 2015	January 1, 2015 to December 31, 2015
Purchase of property and equipment from the Statement of Cash Flows	8,879	74,606
Less: Amounts related to the expansion of sales and service capacity	(5,715)	(61,909)
Purchase of non-growth property and equipment	3,164	12,697

Repairs and maintenance expenditures are expensed as incurred and have been deducted from earnings for the period. Repairs and maintenance expense incurred during the three month period and the year ended December 31, 2015, were $1.7 million and $6.2 million (2014 - $1.1 million and $3.5 million), respectively.

Planned Capital Expenditures

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

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

Financial Position

The following table shows selected audited balances of the Company (in thousands) for December 31, 2015 and December 31, 2014, as well as unaudited balances of the Company at September 30, 2015, June 30, 2015, March 31, 2015, September 30, 2014, June 30, 2014, and March 31, 2014:

(in thousands of dollars)	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014
Cash and cash equivalents	62,274	77,071	77,676	66,351	72,462	64,559	91,662	41,541
Trade and other receivables	90,821	118,853	124,683	104,753	92,138	115,074	85,837	69,747
Inventories	596,542	581,258	620,837	625,779	563,277	471,664	324,077	261,764
Assets	1,532,182	1,508,028	1,517,978	1,449,213	1,354,755	1,211,527	910,715	667,016
Revolving floorplan facilities	548,322	550,857	607,694	601,432	527,780	437,935	313,752	261,263
Non-current debt and lease obligations	285,759	313,703	287,202	241,929	223,009	179,447	294,289	123,811

Net Working Capital

The automobile manufacturers represented by the Company require the Company to maintain net working capital for each individual dealership. At December 31, 2015, the aggregate of net working capital requirements was approximately $95.0 million. At December 31, 2015, all working capital requirements had been met by each dealership. The working capital requirements imposed by the automobile manufacturers' may limit our ability to fund capital expenditures, acquisitions, dividends, or other commitments in the future if sufficient funds are not generated by the Company. Net working capital, as defined by automobile manufacturers, may not reflect net working capital as determined using GAAP measures. As a result, it is possible that the Company may meet automobile manufacturers' net working capital requirements without having sufficient aggregate working capital using GAAP measures. The Company defines net working capital amounts as current assets less current liabilities as presented in the consolidated financial statements. At December 31, 2015, the Company had aggregate working capital of approximately $121.1 million.

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

Off Balance Sheet Arrangements

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

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

(in thousands of dollars)	$
2016	20,012
2017	18,723
2018	16,232
2019	14,233
2020	12,279
Thereafter	134,015
Total	215,494

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

Related Party Transactions

Note 34 of the annual consolidated financial statements of the Company for the year ended December 31, 2015 summarizes the transactions between the Company and its related parties.

Administrative support fees

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

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

Loans to related parties

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

10. BUSINESS COMBINATION UNDER COMMON CONTROL

On July 11, 2014, the Company completed a business combination under common control, resulting in the consolidation of the financial results of the Company's investments in associates as further described in Notes 14 and 15 of the annual audited consolidated financial statements for the year ended December 31, 2014. The Company has provided a reconciliation below of its consolidated Statement of Comprehensive Income for the year ended December 31, 2015 to its financial results had the results from its investments in associates not been consolidated as at December 31, 2015.

(in thousands of dollars)	For the year ended December 31, 2015 (Including GM)	Effects of GM Consolidation	For the year ended December 31, 2015 (excluding GM)
Revenue	2,903,803	(550,691)	2,353,112
Cost of sales	(2,416,094)	448,989	(1,967,105)
Gross Profit	487,709	(101,702)	386,007
Operating expenses	(395,877)	75,373	(320,504)
Operating profit before other income (expenses)	91,832	(26,329)	65,503
Lease and other income, net	5,546	(1,510)	4,036
Gain on disposal of assets, net	249	(2)	247
Impairment of intangible assets	(18,757)	2,293	(16,464)
Income from investments in associates	–	9,474	9,474
Income from loan to associate	49	–	49
Operating Profit	78,919	(16,074)	62,845
Finance costs	(36,106)	7,196	(28,910)
Finance income	2,292	(277)	2,015
Net income for the year before taxation	45,105	(9,155)	35,950
Income taxes	17,791	(4,902)	12,889
Net and comprehensive income for the year	27,314	(4,253)	23,061
Net and comprehensive income attributable to:			
AutoCanada shareholders	22,821	(354)	22,467
Non–controlling interests	4,493	(3,899)	594
	27,314	(4,253)	23,061
Earnings per share			
Basic	0.93	–	0.93
Diluted	0.92	–	0.92
Weighted average shares			
Basic	24,574,022	–	24,574,022
Diluted	26,674,083	–	26,674,083

11. OUTSTANDING SHARES

As at December 31, 2015, the Company had 27,459,683 common shares outstanding. Basic and diluted weighted average number of shares outstanding for the year ended December 31, 2015 were 24,574,022 and 26,674,083, respectively. As at December 31, 2015, the value of the shares held in trust was $1.3 million (2014 – $3.3 million) which was comprised of 70,933 in shares (2014 - 100,027) with a nil aggregate cost (2014 - nil). As at March 17, 2016, there were 27,459,683 shares issued and outstanding.

12. DIVIDENDS

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

The following table summarizes the dividends declared by the Company in 2015:

Record date	Payment date	Per Share $	Total $
February 28, 2015	March 16, 2015	0.25	6,102
May 31, 2015	June 15, 2015	0.25	6,111
August 31, 2015	September 15, 2015	0.25	6,110
November 30, 2015	December 15, 2015	0.25	6,109
		1.00	24,432

On February 19, 2016, the Board declared a quarterly eligible dividend of $0.25 per common share on AutoCanada's outstanding Class A shares, payable on March 15, 2016 to shareholders of record at the close of business on February 29, 2016.

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

13. FREE CASH FLOW

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

(in thousands of dollars, except unit and per unit amounts)	**Q4 2015**	**Q3 2015**	**Q2 2015**	**Q1 2015**	**Q4 2014**	**Q3 2014**	**Q2 2014**	**Q1 2014**
Cash provided by operating activities	12,420	20,139	21,004	(810)	42,276	9,093	10,918	8,850
Deduct:								
Purchase of property and equipment	(3,354)	(5,144)	(3,228)	(2,352)	(2,454)	(2,834)	(1,057)	(1,069)
Free cash flow[1]	9,066	14,995	17,776	(3,162)	39,822	6,259	9,861	7,781
Weighted average shares outstanding at end of period	25,016,637	24,440,080	24,424,598	24,409,574	24,410,169	24,103,670	21,832,777	21,685,876
Free cash flow per share	0.36	0.61	0.73	(0.13)	1.63	0.26	0.45	0.36
Free cash flow - 12 month trailing	38,675	69,431	60,695	52,780	63,723	32,256	33,137	36,762

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

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

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

The following table summarizes the net increase (decrease) in cash due to changes in non-cash working capital for the years ended December 31, 2015 and December 31, 2014.

(in thousands of dollars)	**January 1, 2015 to December 31, 2015**	**January 1, 2014 to December 31, 2014**
Trade and other receivables	1,939	(2,735)
Inventories	(3,584)	(45,065)
Finance lease receivables	3,271	(4,587)
Other current assets	(1,761)	(1,317)
Trade and other payables	3,959	8,179
Vehicle repurchase obligations	307	126
Revolving floorplan facilities	(2,867)	49,738
	1,264	4,339

Adjusted Free Cash Flow

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

(in thousands of dollars, except unit and per unit amounts)	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Cash provided by operating activities before changes in non-cash working capital	11,242	23,082	22,386	(5,221)	19,125	23,192	16,497	7,984
Deduct:								
Purchase of non-growth property and equipment	(3,164)	(4,131)	(3,199)	(2,199)	(2,003)	(1,079)	(996)	(638)
Adjusted free cash flow[1]	8,078	18,951	19,187	(7,420)	17,122	22,113	15,501	7,346
Weighted average shares outstanding at end of period	25,016,637	24,440,080	24,424,598	24,409,574	24,410,169	24,103,670	21,832,777	21,685,876
Adjusted free cash flow per share	0.32	0.78	0.79	(0.30)	0.70	0.92	0.71	0.34
Adjusted free cash flow - 12 month trailing	38,796	47,840	51,002	47,316	62,082	56,891	49,404	47,269

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

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

In the year ending December 31, 2015, the Company paid approximately $36.0 million in corporate income taxes and tax installments. Accordingly, this reduced our adjusted free cash flow by this amount. The Company expects the payment of corporate income taxes to have a more significant negative affect on free cash flow and adjusted free cash flow. See "RESULTS FROM OPERATIONS – Income Taxes" for further detail regarding the impact of corporate income taxes on cash flow.

Adjusted Return on Capital Employed

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

(in thousands of dollars, except unit and per unit amounts)	**Q4 2015**	**Q3 2015**	**Q2 2015**	**Q1 2015**	**Q4 2014**	**Q3 2014**	**Q2 2014**	**Q1 2014**
EBITDA[1,2]	23,524	29,487	30,730	13,890	26,043	31,895	21,702	14,453
Deduct:								
Depreciation of property and equipment	(5,176)	(5,063)	(4,461)	(4,160)	(4,423)	(4,139)	(2,550)	(2,512)
EBIT[1,2]	18,348	24,424	26,269	9,730	21,620	27,756	19,152	11,941
Average long-term debt	312,471	314,443	277,571	239,251	204,514	240,799	211,903	107,265
Average shareholder's equity	481,112	447,774	439,711	436,262	440,513	326,410	205,613	196,608
Average capital employed[1]	793,583	762,217	717,282	675,513	645,027	567,209	417,516	303,873
Return on capital	2.3%	3.2%	3.7%	1.4%	3.4%	4.9%	4.6%	3.9%
Comparative adjustment[3]	(13,191)	(17,264)	(17,264)	(17,264)	(17,264)	(15,951)	(15,951)	(15,951)
Adjusted average capital employed[1]	778,354	744,953	700,018	658,249	628,418	551,258	401,565	287,922
Adjusted return on capital employed[1]	2.4%	3.3%	3.8%	1.5%	3.4%	5.0%	4.8%	4.1%
Adjusted return on capital employed - 12 month trailing	11.2%	12.7%	15.5%	16.5%	18.6%	19.3%	20.7%	25.1%

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

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

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

Management believes that Adjusted Return on Capital Employed (see "NON-GAAP MEASURES") is a good measure to evaluate the profitability of our invested capital. As a corporation, Management of AutoCanada may use this measure to compare potential acquisitions and other capital investments against our internally computed cost of capital to determine whether the investment shall create value for our shareholders. Management may also use this measure to look at past acquisitions, capital investments and the Company as a whole in order to ensure shareholder value is being achieved by these capital investments. The decrease in adjusted return on capital employed - 12 month trailing is caused by the volume of acquisitions over the past two years, compounded by the reduced economic activity in 2015. Management expects this measure to return to normal as the economy improves and the acquisitions are further integrated.

14. CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICY DEVELOPMENTS

A complete listing of critical accounting policies, estimates, judgments and measurement uncertainty can be found in Notes 3 and 5 of the annual consolidated financial statements for the year ended December 31, 2015.

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are not yet effective for the period ended December 31, 2015. A listing of the standards issued which are applicable to the Company can be found in Note 4 of the annual consolidated financial statements for the year ended December 31, 2015.

15. DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls & Procedures

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

As of December 31, 2015, the Company's management, with participation of the CEO and CFO, evaluated the effectiveness of the design and operation of its disclosure controls and procedures, as defined in National Instrument 52-109 of the Canadian Securities Administrators, and have concluded that the Company's disclosure controls and procedures are effective.

Internal Controls over Financial Reporting

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

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

Management, under the supervision of and with the participation of the Company's CEO and CFO, evaluated the effectiveness of the Corporation's internal controls over financial reporting (as defined under national Instrument 52–109 - Certification of Disclosure in Issuers' Annual and Interim Filings). In making this evaluation, management used the criteria set forth by the *Committee of Sponsoring Organizations of the Treadway Commissions* ("COSO") in *Internal Control – Integrated Framework (2013)*. Based on that evaluation, management and the CEO and CFO have concluded that, as at December 31, 2014, the Corporation's internal controls over financial reporting were effective. This evaluation took into consideration the Corporation's Corporate Disclosure Policy and the functioning of its Disclosure Policy Committee.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting during the year ended December 31, 2015.

16. RISK FACTORS

We face a number of business risks that could cause our actual results to differ materially from those disclosed in this MD&A (See "FORWARD LOOKING STATEMENTS"). Investors and the public should carefully consider our business risks, other uncertainties and potential events as well as the inherent uncertainty of forward looking statements when making investment decisions with respect to AutoCanada. If any of the business risks identified by AutoCanada were to occur, our business, financial condition, results of operations, cash flows or prospects could be materially adversely affected. In such case, the trading price of our shares could decline. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also adversely affect our business and operations. A comprehensive discussion of the known risk factors of AutoCanada and additional business risks is available in our 2015 Annual Information Form dated March 17, 2016, available on the SEDAR website at www.sedar.com.

17. FORWARD LOOKING STATEMENTS

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

In particular, material forward-looking statements in the MD&A include:

- the belief that, as the Company continues to grow, operating expenses as a percentage of gross profit should improve as the Company achieves greater economies of scale;
- the impact of an increase or decrease of one new retail vehicle sold on estimated free cash flow;
- expectations to incur additional selling and administrative costs in the future to successfully integrate new dealerships;
- the belief that, if the Company can perform well, it will be able to build upon its current brand portfolios and hopefully gain the acceptance of other new manufacturers over time;
- commitments regarding future investments in additional GM dealerships;
- expectations to incur additional selling, general, and administrative costs in the future to facilitate the growth anticipated by the Company due to increased acquisition activity;
- estimates, intentions, and expectations regarding the capital plan, potential relocation of certain dealerships, dealership expansion needs, and Open Point opportunities;
- our belief that relocation of certain dealerships may provide incremental long-term earnings growth and better align some of our dealerships with the growth expectations of our manufacturer partners;
- the impact of dealership real estate relocations and purchases and its impact on liquidity, financial performance and the Company's capital requirements;
- our belief that under a high growth scenario, cash from operating activities may not be sufficient to meet future capital needs and the potential need to seek additional capital in the form of debt or equity;
- our belief that our available liquidity is sufficient to complete our current capital expenditure commitments and to execute on additional dealership acquisitions;
- the impact of a significant decline in sales as a result of the inability to procure adequate supply of vehicles and/or lower consumer demand on cash flows from operations and our ability to fund capital expenditures;
- our expectation to incur annual non-growth capital expenditures in an amount approximating our amortization of property and equipment reported in each period;
- our expectation that growth expenditures will provide additional future cash flows and future benefit;

- our expectation to increase annual capital expenditures and the reasons for this expected increase;
- the impact of working capital requirements and its impact on future liquidity;
- the belief that a restriction from declaring dividends is not likely in the foreseeable future;
- our belief that free cash flow can fluctuate significantly and the impact of these fluctuations on our operations and performance;
- our belief that maintenance capital expenditures should be funded by cash flow provided by operating activities;
- our potential use of Adjusted Return on Capital Employed as a measure for comparison and analysis;
- guidance with respect to future acquisition and Open Point opportunities;
- our assumption on the amount of time it may take for an acquisition or Open Point to achieve normal operating results;
- expectations and estimates regarding income taxes and their effect on cash flow and dividends;
- assumptions over non-GAAP measures and their impact on the Company;
- management's assumptions and expectations over the future economic and general outlook;
- the impact of economic stress on our compensation costs;
- belief that the recession experienced during fiscal 2008 and 2009 should not be used as a proxy to forecast an impact in 2016;
- the impact of economic uncertainty on the Company's acquisition opportunities;
- the impact of seasonality on financial performance;
- outlook regarding vehicle sales in Canada in 2016;
- the impact of the decline in the exchange rate of the Canadian dollar to the US dollar;
- expectations of capital costs related to currently awarded Open Points;
- expectations that re-imaging will attract more customers to its dealerships;
- our belief that improvements in technology and process in its parts and service departments will continue to produce increasingly positive results;
- estimates regarding additional legal and administration expense for each acquisition; and
- the impact on the Company as a result of the lower oil prices and any related expectations.

Although we believe that the expectations reflected by the forward-looking statements presented in this release are reasonable, our forward-looking statements have been based on assumptions and factors concerning future events that may prove to be inaccurate. Those assumptions and factors are based on information currently available to us about ourselves and the businesses in which we operate. Information used in developing forward-looking statements has been acquired from various sources including third-party consultants, suppliers, regulators, and other sources. In some instances, material assumptions are disclosed elsewhere in this release in respect of forward-looking statements. We caution the reader that the following list of assumptions is not exhaustive. The material factors and assumptions used to develop the forward-looking statements include but are not limited to:

- no significant adverse changes to the automotive market, competitive conditions, the supply and demand of vehicles, parts and service, and finance and insurance products;
- no significant construction delays that may adversely affect the timing of dealership relocations and renovations;
- no significant disruption of our operations such as may result from harsh weather, natural disaster, accident, civil unrest, or other calamitous event;

- no significant unexpected technological event or commercial difficulties that adversely affect our operations;
- continuing availability of economical capital resources; demand for our products and our cost of operations;
- no significant adverse legislative and regulatory changes;
- stability of general domestic economic, market, and business conditions;
- assumptions regarding other automobile manufacturer agreements; and
- assumptions regarding provincial government regulations.

Because actual results or outcomes could differ materially from those expressed in any forward-looking statements, investors should not place undue reliance on any such forward-looking statements. By their nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, which contribute to the possibility that the predicted outcomes will not occur. The risks, uncertainties and other factors, many of which are beyond our control, that could influence actual results include, but are not limited to:

- rapid appreciation or depreciation of the Canadian dollar relative to the U.S. dollar;
- a sustained downturn in consumer demand and economic conditions in key geographic markets;
- adverse conditions affecting one or more of our automobile manufacturers;
- the ability of consumers to access automotive loans and leases;
- competitive actions of other companies and generally within the automotive industry;
- our dependence on sales of new vehicles to achieve sustained profitability;
- levels of unemployment in our markets and other macroeconomic factors;
- our suppliers' ability to provide a desirable mix of popular new vehicles;
- the ability to continue financing inventory under similar interest rates;
- our suppliers' ability to continue to provide manufacturer incentive programs;
- the loss of key personnel and limited management and personnel resources;
- the ability to refinance credit agreements in the future;
- changes in applicable environmental, taxation and other laws and regulations as well as how such laws and regulations are interpreted and enforced;
- risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; and
- the ability to obtain automotive manufacturers' approval for acquisitions.

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

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

18. NON-GAAP MEASURES

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

EBITDA

EBITDA is a measure commonly reported and widely used by investors as an indicator of a company's operating performance and ability to incur and service debt, and as a valuation metric. The Company believes EBITDA assists investors in comparing a company's performance on a consistent basis without regard to depreciation and amortization and asset impairment charges which are non-cash in nature and can vary significantly depending upon accounting methods or non-operating factors such as historical cost. References to "EBITDA" are to earnings before interest expense (other than interest expense on floorplan financing and other interest), income taxes, depreciation, amortization and asset impairment charges.

Adjusted EBITDA

Adjusted EBITDA is an indicator of a company's operating performance and ability to incur and service debt. The portion of share-based compensation related to changes in the share price and its impact on the Company's cash-settled portions of its share-based compensation programs, the revaluation of redemption liabilities, and the unrealized gain or loss on embedded derivatives are added back to EBITDA to get to adjusted EBITDA. The Company considers share-based compensation related to changes in the share price to be non-cash in nature as we maintain a share purchase trust in which we purchase shares on the open market as these units are granted to reduce the cash flow risk associated with fluctuations in the share price. Share-based compensation, a component of employee remuneration, can vary significantly with changes in the price of the Company's common shares. The revaluation of redemption liabilities, as well as the unrealized gain or loss on embedded derivatives, are also non-cash in nature. The Company believes adjusted EBITDA provides improved continuity with respect to the comparison of our operating results over a period of time.

Adjusted net earnings and Adjusted net earnings per share

Adjusted net earnings and adjusted net earnings per share are measures of our profitability. Adjusted net earnings is calculated by adding back the after-tax effect of impairment or reversals of impairment of intangible assets, impairments of goodwill, the revaluation of redemption liabilities, the unrealized gain or loss on embedded derivatives, and the portion of share-based compensation related to changes in the share price and its impact on the Company's cash-settled portions of its share-based compensation programs. The Company considers this expense to be non-cash in nature as we maintain a share purchase trust in which we purchase shares on the open market as these units are granted to reduce the cash flow risk associated with fluctuations in the share price. Share-based compensation, a component of employee remuneration, can vary significantly with changes in the price of the Company's common shares. Adding back these amounts to net earnings allows Management to assess the net earnings of the Company from ongoing operations. Adjusted net earnings per share is calculated by dividing adjusted net earnings by the weighted-average number of shares outstanding.

EBIT

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

Adjusted pre-tax earnings

Adjusted pre-tax earnings are calculated by adding back the impairment or reversals of impairment of intangible assets and impairments of goodwill. Adding back these non-cash charges to pre-tax net earnings allows Management to assess the pre-tax net earnings of the Company from ongoing operations.

Free Cash Flow

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

Adjusted Free Cash Flow

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

Absorption Rate

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

Average Capital Employed

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

Adjusted Average Capital Employed

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

Return on Capital Employed

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

Adjusted Return on Capital Employed

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

Cautionary Note Regarding Non-GAAP Measures

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

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