

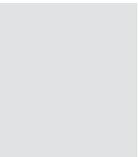
# 2018



Mercedes-Benz  
Rive-Sud



Management Discussion  
& Analysis



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

*For the six month period ended June 30, 2018*



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## **MANAGEMENT'S DISCUSSION AND ANALYSIS** **1**

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# 1. READER ADVISORIES

This Management's Discussion & Analysis ("MD&A") was prepared as of August 9, 2018 to assist readers in understanding AutoCanada Inc.'s (the "Company" or "AutoCanada") consolidated financial performance for the three month period and six month period ended June 30, 2018 and significant trends that may affect AutoCanada's future performance. The following discussion and analysis should be read in conjunction with the unaudited condensed interim consolidated financial statements and accompanying notes (the "Interim Consolidated Financial Statements") of AutoCanada as at and for the three month period and six month period ended June 30, 2018, the audited annual consolidated financial statements and accompanying notes (the "Consolidated Financial Statements") of AutoCanada as at and for the year ended December 31, 2017, and MD&A for the year ended December 31, 2017. Results are reported in Canadian dollars. Certain dollars have been rounded to the nearest thousand dollars, unless otherwise stated.

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

month period and six month period ended June 30, 2018 of the Company, and compares these to the operating results of the Company for the three month period and six month period ended June 30, 2017.

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

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

## 2. EXECUTIVE SUMMARY

### Performance vs. the Second Quarter of Prior Year

The following table summarizes the Company's operations for the quarter as well as year to date results:

Consolidated Operational Data	Three months ended June 30		
	2018	2017	% Change
EBITDA attributable to AutoCanada shareholders <sup>1,2</sup>	10,831	43,683	(75.2)%
Adjusted EBITDA attributable to AutoCanada shareholders <sup>1,2</sup>	13,243	30,748	(56.9)%
Net (loss) earnings attributable to AutoCanada shareholders <sup>1,2</sup>	(41,348)	24,978	(265.5)%
Adjusted net earnings attributable to AutoCanada shareholders <sup>1,2</sup>	14,991	15,547	(3.6)%
Basic EPS	(1.51)	0.91	(265.9)%
Adjusted diluted EPS <sup>2</sup>	0.55	0.57	(3.5)%
Weighted average number of shares – Basic	27,390,620	27,378,919	0.0%
Weighted average number of shares – Diluted	27,456,355	27,437,830	0.1%
New retail vehicles sold (units)	10,264	10,545	(2.7)%
New fleet vehicles sold (units)	2,242	2,884	(22.3)%
New vehicles sold (units)	12,506	13,429	(6.9)%
Used retail vehicles sold (units)	6,013	5,061	18.8%
Total vehicles sold	18,519	18,490	0.2%
Revenue	880,588	894,902	(1.6)%
Gross Profit	140,580	143,823	(2.3)%
Gross Profit %	16.0%	16.1%	(0.8)%
Operating expenses	128,700	112,897	14.0%
Operating expenses % of Gross Profit	91.6%	78.5%	16.6%
Operating (loss) profit	(43,927)	46,539	(194.4)%
Free cash flow	(14,639)	10,982	(233.3)%
Adjusted free cash flow	(4,540)	36,277	(112.5)%
Same Store New retail vehicles sold (units)	7,690	8,887	(13.5)%
Same Store New fleet vehicles sold (units)	2,203	2,483	(11.3)%
Same store Used retail vehicles sold (units)	4,601	4,334	6.2%
Same Store Total vehicles sold	14,494	15,704	(7.7)%
Same Store Revenue	707,417	745,215	(5.1)%
Same Store Gross Profit	115,432	120,674	(4.3)%
Same Store Gross Profit %	16.3%	16.2%	0.8%

1 Represents the portion attributable to AutoCanada Shareholders

2 These financial measures have been calculated as described under "NON-GAAP MEASURES".

## 2018 Second Quarter Highlights

- Revenue was \$880.6 million, down 1.6% compared with the second quarter of 2017. Same-store revenue declined by 5.1%. The General Motors stores divested in January accounted for a \$100 million decline in revenue, all of which was included in same store revenues in 2017. The loss of revenue was partly offset by the addition of nine stores in the Grossinger acquisition.
- Operating expenses were \$128.7 million, up 14.0% from the same period last year, and included \$4.5 million of management transition costs. Operating expenses as a percentage of gross profit were up to 91.6% from 78.5% in the same period in 2017.
- Gross profit was \$140.6 million, down 2.3% compared with the same quarter in 2017, with gross profit as a percentage of revenue slightly decreasing to 16.0% from 16.1%. Same-store gross profit declined 4.3%.
- New vehicle sales were 12,506, down 6.9% from the same period in 2017. Revenue from the sale of new vehicles was \$522.1 million, down 6.5% from the same period in 2017. The sale of new vehicles accounted for 59.3% of the Company's total revenue and 21.8% of gross profit versus 62.4% of revenue and 26.8% of gross profit in the second quarter of 2017.
- Used vehicle sales were 6,013, up 18.8% compared with the same quarter last year. Revenue from the sale of used vehicles was \$198.6 million, up 8.6% from the same quarter last year. The sale of used vehicles accounted for 22.6% of the Company's total revenue and 9.4% of gross profit, versus 20.4% of revenue and 9.1% of gross profit in the second quarter of 2017.
- Parts, service and collision repair generated \$121.5 million of revenue, up 6.6% from the same period in 2017. This accounted for 13.8% of the Company's total revenue and 43.3% of its gross profit, up from 12.7% of revenue and 39.1% of gross profit in the same quarter of 2017.
- Finance and insurance generated \$38.4 million of revenue, a decrease of 2.4% from the same period in 2017. This accounted for 4.4% of the Company's total revenue and 25.5% of its gross profit, in line with 4.4% of revenue and up from 24.9% of gross profit in the second quarter of 2017.
- EBITDA attributable to AutoCanada shareholders decreased to \$10.8 million from \$43.7 million compared with the same quarter last year.
- Including the impairment of non-financial assets, the Company generated a net loss attributable to AutoCanada shareholders of \$41.3 million (Adjusted net earnings attributable to AutoCanada shareholders of \$15.0 million), or \$(1.51) per share (Adjusted net earnings per share attributable to AutoCanada shareholders \$0.55) versus net income of \$25.0 million in 2017 (\$15.5 million on an adjusted basis) or \$0.91 per share (\$0.57 on an adjusted basis).
- Total impairment charges were \$58.1 million in the second quarter, or \$1.99 per share net of tax. Included in this total is a \$44.0 million impairment charge related to the Grossinger Auto Group. This is a result of revised expectations for the timeline of US operational profitability. The Company has revised downward its future profitability projection for this acquisition primarily because store quality was lower than expected and will require more time to realize needed improvements.

### 3. OUTLOOK

The U.S. market has clearly entered a correction period which most analysts believe will last about two years. The extent of the correction is uncertain but during previous cycles the market declined at least 3% per year and 5% plus per year was common. The Canadian market is holding at slightly under the record sales of the last year but is also poised for a slight correction.

The difference between the U.S. and Canadian market is ownership levels. In the U.S., ownership of vehicles is stable at just under 100% of the driving age population and analysts do not believe there is room to grow structurally and is thus more exposed to a cyclical downturn. In Canada, ownership has risen from two-thirds of the driving age population in the year 2000 to 85% last year. This resulted in an increase of over 9 million drivers over this timeframe and these new owners are now returning to the market. Thus, the Canadian outlook is more positive than the U.S. outlook although both markets are expected to decline in the near term. Rising interest rates compound this outlook but are also difficult to forecast.

The Canadian market is also very different depending on brands and regions. The Manitoba and Ontario markets are up this year while all other provinces where the company operates have seen a downward trend, with Saskatchewan, which is an important market for AutoCanada down double digits. Brands tend to follow their product cadence. Those with older product, from an engineering perspective, struggle in the market and are much more dependent on incentives. This has been FCA's issue in recent months for instance. However, FCA has renewed most of their models and in particular the RAM pick-up truck which should be fully available for dealers to sell in the coming months.

There also is considerable speculation about the U.S. government applying duties to vehicles imported from Canada. This certainly would exacerbate the U.S.

downturn, especially if the duties were to be extended to other countries. This would also seriously hamper vehicle manufacturing in Ontario, which exports about 1.8 million vehicles to the U.S. Accordingly, duties would be negative for the Ontario market but the other provinces are not as likely to be affected as almost all vehicle and component manufacturing is in Ontario.

The vehicle retail sector in Canada could also be negatively impacted if the Canadian government were to retaliate with tariffs applied to vehicles imported from the U.S. This is impossible to predict, but retaliatory duties in the same sectors were not applied when the U.S. applied duties to the aluminum and steel sector. Instead, the Canadian government retaliated with duties on selected agriculture products.

While macro-economic factors determine total vehicle demand, AutoCanada's performance might vary relative to the overall market due to the Company's brand and geographic concentration. AutoCanada is nonetheless committed to achieving industry-leading sales in its stores and operating performance from each of its 68 franchised dealerships. The management and operational changes the Company has already made is validating this commitment. The Company also remains committed to acquiring top tier dealerships that grow the business while continuing to diversify its geographic footprint and brand portfolio. With its team implementing consistent processes and standards across all dealerships, including newly acquired stores, the Company is confident that it can realize the economies of its scale, integrate new acquisitions effectively and be able to adjust quickly to changes in markets. With slowing new vehicle demand, the Company is sharpening its focus on the less cyclical portions of the business, especially parts, service and collision, which generate both consistent results and strong margins irrespective of the economic climate.

## 4. MARKET

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

Location of Dealerships	June 30, 2018					
	Number of Franchises <sup>1</sup>	Number of Dealerships <sup>1</sup>	Revenue	Revenue % of Total	Gross Profit	Gross Profit % of Total
British Columbia	12	10	142,539	16%	21,259	15%
Alberta	25	22	247,712	28%	45,709	33%
Saskatchewan	4	4	69,716	8%	11,562	8%
Manitoba	4	4	54,114	6%	9,563	7%
Ontario	9	8	85,512	10%	12,619	9%
Quebec	6	4	147,633	17%	21,895	16%
Atlantic	2	2	33,052	4%	4,646	3%
Illinois	15	9	100,310	11%	13,327	9%
<b>Total</b>	<b>77</b>	<b>63</b>	<b>880,588</b>	<b>100%</b>	<b>140,580</b>	<b>100%</b>

<sup>1</sup> "Dealerships" refers to each physical storefront while "Franchises" refers to each separate franchise agreement.

Location of Dealerships	June 30, 2017					
	Number of Franchises <sup>1</sup>	Number of Dealerships <sup>1</sup>	Revenue	Revenue % of Total	Gross Profit	Gross Profit % of Total
British Columbia	13	11	184,639	20%	27,397	19%
Alberta	28	25	340,580	38%	59,591	42%
Saskatchewan	4	4	67,149	8%	12,193	8%
Manitoba	4	4	52,165	6%	9,270	6%
Ontario	9	8	80,442	9%	12,425	9%
Quebec	5	3	120,837	14%	16,907	12%
Atlantic	2	2	49,090	5%	6,040	4%
<b>Total</b>	<b>65</b>	<b>57</b>	<b>894,902</b>	<b>100%</b>	<b>143,823</b>	<b>100%</b>

<sup>1</sup> "Dealerships" refers to each physical storefront while "Franchises" refers to each separate franchise agreement.

The Company's manufacturers profile is illustrated below by number of dealerships and revenues by manufacturer for the three month periods ended June 30, 2018 and June 30, 2017.

Manufacturer	June 30, 2018				June 30, 2017			
	Number of Franchises <sup>1</sup>	Number of Dealerships <sup>1</sup>	Revenue	Revenue % of Total	Number of Franchises <sup>1</sup>	Number of Dealerships <sup>1</sup>	Revenue	Revenue % of Total
FCA	23	17	325,006	37%	23	17	371,337	41%
General Motors	8	7	89,565	10%	9	9	174,339	19%
Hyundai	11	11	75,915	8%	9	9	59,098	7%
Nissan / Infiniti	7	7	89,290	10%	7	7	88,343	10%
Volkswagen / Audi	8	8	69,270	8%	8	8	67,692	8%
BMW / MINI	4	2	110,335	13%	4	2	103,863	12%
Other	16	11	121,207	14%	5	5	30,230	3%
<b>Total</b>	<b>77</b>	<b>63</b>	<b>880,588</b>	<b>100%</b>	<b>65</b>	<b>57</b>	<b>894,902</b>	<b>100%</b>

<sup>1</sup> "Dealerships" refers to each physical storefront while "Franchises" refers to each separate franchise agreement.

### Canadian New Vehicle Sales by Province<sup>1,2</sup>

	2018	2017	Percent Change	Unit Change
British Columbia	115,965	119,010	(2.6)%	(3,045)
Alberta	120,545	124,682	(3.3)%	(4,137)
Saskatchewan	24,926	27,816	(10.4)%	(2,890)
Manitoba	35,565	29,944	18.8%	5,621
Ontario	436,095	428,495	1.8%	7,600
Quebec	235,366	235,512	(0.1)%	(146)
Atlantic	68,215	73,609	(7.3)%	(5,394)
<b>Total</b>	<b>1,036,677</b>	<b>1,039,068</b>	<b>(0.2)%</b>	<b>(2,391)</b>

1 DesRosiers Automotive Consultants Inc.

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

### June Year to Date Canadian New Vehicle Sales by Brand<sup>1,2</sup>

	June 30, 2018	June 30, 2017	Percent Change	Unit Change
Audi	20,110	18,204	10.5%	1,906
BMW	19,823	18,830	5.3%	993
FCA	134,811	151,574	(11.1)%	(16,763)
General Motors	154,937	150,496	3.0%	4,441
Hyundai	61,280	66,879	(8.4)%	(5,599)
Infiniti	5,938	6,140	(3.3)%	(202)
Kia	36,863	36,734	0.4%	129
Mazda	38,649	36,507	5.9%	2,142
Mercedes-Benz	26,663	26,290	1.4%	373
MINI	3,354	3,312	1.3%	42
Mitsubishi	13,293	11,290	17.7%	2,003
Nissan	70,611	68,796	2.6%	1,815
Subaru	27,876	26,433	5.5%	1,443
Volkswagen	33,122	28,366	16.8%	4,756
<b>Total – AutoCanada Brands</b>	<b>647,330</b>	<b>649,851</b>	<b>(0.4)%</b>	<b>(2,521)</b>
Other – Non-AutoCanada Brands	389,347	389,217	0.0%	130
<b>Total</b>	<b>1,036,677</b>	<b>1,039,068</b>	<b>(0.2)%</b>	<b>(2,391)</b>

1 DesRosiers Automotive Consultants Inc.

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

### List of Dealerships

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

Location	Operating Name	Franchise	Year Opened or Acquired	Same Stores <sup>1</sup>	Owned or Leased <sup>2</sup>
<b>Wholly-Owned Dealerships:</b>					
Abbotsford, BC	Abbotsford Volkswagen	Volkswagen	2011	Y	Leased
Chilliwack, BC	Chilliwack Volkswagen	Volkswagen	2011	Y	Owned

Location	Operating Name	Franchise	Year Opened or Acquired	Same Stores <sup>1</sup>	Owned or Leased <sup>2</sup>
Kelowna, BC	Okanagan Chrysler Jeep Dodge FIAT	FCA	2003	Y	Leased
Maple Ridge, BC	Maple Ridge Chrysler Jeep Dodge FIAT ALFA ROMEO	FCA	2005	Y	Leased
Maple Ridge, BC	Maple Ridge Volkswagen	Volkswagen	2008	Y	Leased
Prince George, BC	Northland Chrysler Jeep Dodge	FCA	2002	Y	Owned
Prince George, BC	Northland Hyundai	Hyundai	2005	Y	Owned
Prince George, BC	Northland Nissan	Nissan	2007	Y	Owned
Victoria, BC	Victoria Hyundai	Hyundai	2006	Y	Owned
Airdrie, AB	Airdrie Chrysler Jeep Dodge Ram	FCA	2015	Y	Leased
Calgary, AB	Courtesy Chrysler Dodge	FCA	2013	Y	Leased
Calgary, AB	Calgary Hyundai	Hyundai	2014	Y	Leased
Calgary, AB	Crowfoot Hyundai	Hyundai	2014	Y	Leased
Calgary, AB	Courtesy Mitsubishi	Mitsubishi	2014	Y	Leased
Calgary, AB	Northland Volkswagen	Volkswagen	2014	Y	Leased
Calgary, AB	Fish Creek Nissan	Nissan	2014	Y	Leased
Calgary, AB	Hyatt Infiniti	Infiniti	2014	Y	Leased
Calgary, AB	Tower Chrysler Jeep Dodge Ram	FCA	2014	Y	Leased
Edmonton, AB	Crosstown Chrysler Jeep Dodge FIAT	FCA	1994	Y	Leased
Edmonton, AB	Capital Chrysler Jeep Dodge FIAT	FCA	2003	Y	Leased
Edmonton, AB	North Edmonton Kia	Kia	2014	Y	Owned
Grande Prairie, AB	Grande Prairie Chrysler Jeep Dodge FIAT	FCA	1998	Y	Owned
Grande Prairie, AB	Grande Prairie Hyundai	Hyundai	2005	Y	Owned
Grande Prairie, AB	Grande Prairie Subaru	Subaru	1998	Y	Owned
Grande Prairie, AB	Grande Prairie Mitsubishi	Mitsubishi	2007	Y	Owned
Grande Prairie, AB	Grande Prairie Nissan	Nissan	2007	Y	Owned
Grande Prairie, AB	Grande Prairie Volkswagen	Volkswagen	2013	Y	Owned
Ponoka, AB	Ponoka Chrysler Jeep Dodge	FCA	1998	Y	Owned
Sherwood Park, AB	Sherwood Park Hyundai	Hyundai	2006	Y	Owned
Sherwood Park, AB	Sherwood Park Volkswagen	Volkswagen	2017	Q2 2019	Owned
Spruce Grove, AB	Grove Dodge Chrysler Jeep	FCA	2015	Y	Leased
Saskatoon, SK	Dodge City Chrysler Jeep Dodge Ram	FCA	2014	Y	Leased
Winnipeg, MB	Audi Winnipeg	Audi	2013	Y	Owned
Winnipeg, MB	St. James Volkswagen	Volkswagen	2013	Y	Owned
Winnipeg, MB	Eastern Chrysler Jeep Dodge	FCA	2014	Y	Owned
Cambridge, ON	Cambridge Hyundai	Hyundai	2008	Y	Owned
Mississauga, ON	401 Dixie Hyundai	Hyundai	2008	Y	Leased
Guelph, ON	Guelph Hyundai	Hyundai	2016	Q1 2019	Owned
Guelph, ON	Wellington Motors	FCA	2016	Q4 2018	Owned
Ottawa, ON	Hunt Club Nissan	Nissan	2015	Y	Leased
Ottawa, ON	417 Nissan	Nissan	2015	Y	Leased
Ottawa, ON	417 Infiniti	Infiniti	2015	Y	Leased
Toronto, ON	Toronto Chrysler Jeep Dodge Ram	FCA	2014	Y	Leased
Montreal, QB	Mercedes-Benz Rive-Sud	Mercedes-Benz	2017	Q3 2019	Leased

Location	Operating Name	Franchise	Year Opened or Acquired	Same Stores <sup>1</sup>	Owned or Leased <sup>2</sup>
Moncton, NB	Moncton Chrysler Jeep Dodge	FCA	2001	Y	Owned
Dartmouth, NS	Dartmouth Chrysler Jeep Dodge	FCA	2006	Y	Leased
Chicago, IL	Grossinger City Cadillac	General Motors	2018	Q3 2020	Leased
Chicago, IL	Grossinger City Chevrolet	General Motors	2018	Q3 2020	Leased
Chicago, IL	Grossinger City Toyota	Toyota	2018	Q3 2020	Leased
Chicago, IL	North City Honda	Honda	2018	Q3 2020	Owned
Lincolnwood, IL	Grossinger Hyundai Palatine	Hyundai	2018	Q3 2020	Leased
Lincolnwood, IL	Grossinger Kia	Kia	2018	Q3 2020	Leased
Lincolnwood, IL	Grossinger Toyota North	Toyota	2018	Q3 2020	Leased
Bloomington/Normal, IL	Grossinger Motors <sup>3</sup>	Various	2018	Q3 2020	Leased
Palatine, IL	Grossinger Palatine Chevrolet	General Motors	2018	Q3 2020	Leased
<b>Majority Owned:</b>					
Duncan, BC	Island Chevrolet Buick GMC	General Motors	2013	Y	Leased
North Battleford, SK	Bridges Chevrolet Buick GMC	General Motors	2014	Y	Owned
Prince Albert, SK	Mann-Northway Auto Source	General Motors	2014	Y	Leased
Saskatoon, SK	Saskatoon Motor Products	General Motors	2014	Y	Leased
Winnipeg, MB	McNaught Cadillac Buick GMC	General Motors	2014	Y	Owned
Laval, QC	BMW Laval and MINI Laval	BMW / MINI	2014	Y	Owned
Montreal, QC	BMW Canbec and MINI Mont Royal	BMW / MINI	2014	Y	Leased
Montreal, QC	Planete Mazda	Mazda	2017	Q1 2020	Leased

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

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

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

## 5. SELECTED QUARTERLY FINANCIAL INFORMATION

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

(in thousands of dollars, except Gross Profit %, Earnings per share, and Operating Data)	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
<b>Income Statement Data</b>								
New vehicles	522,150	338,016	417,626	497,711	558,682	353,540	348,107	444,482
Used vehicles	198,597	157,901	175,251	192,473	182,913	165,408	157,724	179,582
Parts, service and collision repair	121,476	95,893	107,156	104,816	113,983	90,735	92,310	95,585
Finance, insurance and other	38,365	28,675	33,027	39,571	39,324	29,344	31,133	33,529
<b>Revenue</b>	<b>880,588</b>	<b>620,485</b>	<b>733,060</b>	<b>834,571</b>	<b>894,902</b>	<b>639,027</b>	<b>629,274</b>	<b>753,178</b>
New vehicles	30,648	23,473	30,033	36,806	38,555	25,590	25,042	31,578
Used vehicles	13,173	8,562	7,563	11,140	13,095	11,940	10,064	12,950
Parts, service and collision repair	60,868	45,533	56,915	53,805	56,306	47,284	52,957	47,676
Finance, insurance and other	35,891	26,776	30,699	36,218	35,867	26,813	28,722	30,733
<b>Gross profit</b>	<b>140,580</b>	<b>104,344</b>	<b>125,210</b>	<b>137,969</b>	<b>143,823</b>	<b>111,627</b>	<b>116,785</b>	<b>122,937</b>
Gross Profit %	16.0%	16.8%	17.1%	16.5%	16.1%	17.5%	18.6%	16.3%
Operating expenses	128,700	95,781	104,626	110,560	112,897	98,170	97,397	99,041
Operating expenses as a % of gross profit	91.6%	91.8%	83.6%	80.1%	78.5%	87.9%	83.4%	80.6%
Operating (loss) profit <sup>2</sup>	(43,927)	15,906	26,505	30,287	46,539	15,638	20,761	(28,776)
Impairment (recovery) of non-financial assets	58,097	-	(816)	-	-	-	-	54,096
Net (loss) income attributable to AutoCanada shareholders	(41,348)	4,832	17,089	12,100	24,978	3,678	13,785	(32,619)
Adjusted net earnings attributable to AutoCanada shareholders <sup>2,4</sup>	14,991	4,832	8,935	13,581	15,547	4,602	7,536	10,327
EBITDA attributable to AutoCanada shareholders <sup>2</sup>	10,831	15,694	28,127	25,827	43,722	14,136	25,260	23,842
EBITDA attributable to AutoCanada shareholders as a % of Sales <sup>2</sup>	1.2%	2.5%	3.8%	3.1%	4.9%	2.7%	4.5%	3.6%
Free cash flow <sup>2</sup>	(14,639)	(14,388)	29,496	31,114	10,982	621	23,424	30,897
Adjusted free cash flow <sup>2</sup>	(4,540)	3,721	15,996	23,296	36,277	15,217	13,133	27,766
Basic earnings per share	(1.51)	0.18	0.62	0.44	0.91	0.13	0.50	(1.19)
Diluted earnings per share	(1.51)	0.18	0.62	0.44	0.91	0.13	0.50	(1.19)
Basic adjusted earnings per share <sup>2,4</sup>	0.55	0.18	0.33	0.50	0.57	0.17	0.28	0.38
Diluted adjusted earnings per share <sup>2,4</sup>	0.55	0.18	0.33	0.50	0.57	0.17	0.27	0.38
Dividends declared per share	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
<b>Operating Data</b>								
Vehicles (new and used) sold <sup>3</sup>	18,519	12,667	14,475	17,132	18,490	13,055	12,912	15,955
New vehicles sold <sup>3</sup>	12,506	8,140	9,822	12,014	13,429	8,508	8,449	10,983
New retail vehicles sold <sup>3</sup>	10,264	6,664	8,444	10,334	10,545	6,753	7,590	8,949
New fleet vehicles sold <sup>3</sup>	2,242	1,476	1,378	1,680	2,884	1,755	859	2,034
Used retail vehicles sold <sup>3</sup>	6,013	4,527	4,653	5,118	5,061	4,547	4,463	4,972
# of service and collision repair orders completed <sup>3</sup>	248,167	180,429	224,006	220,669	228,872	197,069	217,418	209,912
Absorption rate <sup>2</sup>	88%	84%	90%	87%	87%	82%	86%	89%
# of dealerships at period end	63	54	58	57	57	56	55	53
# of same stores dealerships <sup>1</sup>	49	49	49	48	47	47	44	33
# of service bays at period end	1,106	906	999	977	977	949	928	898
Same stores revenue growth <sup>1</sup>	(5.1)%	4.6%	11.1%	2.9%	0.1%	(7.1)%	(10.0)%	(9.2)%
Same stores gross profit growth <sup>1</sup>	(4.3)%	1.0%	1.4%	6.3%	1.1%	(1.2)%	(5.8)%	(11.0)%

1 Same store revenue growth and Same stores gross profit growth is calculated using franchised automobile dealerships that we have owned for at least 2 full years. Same stores growth is in comparison with the same quarter in the prior year.

2 These financial measures have been calculated as described under "NON-GAAP MEASURES".

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

4 In Q1 2018, the Company redefined the calculation of adjusted net earnings.

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

## 6. RESULTS OF OPERATIONS

### Second Quarter Operating Results

EBITDA attributable to AutoCanada shareholders for the quarter decreased by \$32.9 million or 75.2% to \$10.8 million, from \$43.7 million when compared to the results of the Company for the same period in the

prior year. Adjusted EBITDA attributable to AutoCanada shareholders for the quarter ended June 30, 2018 decreased by \$17.5 million or 56.9% from \$30.7 million to \$13.2 million when compared to the results of the Company for the same quarter in the prior year.

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

(in thousands of dollars)	2018	2017	2016
<b>Period from April 1 to June 30</b>			
Net (loss) income attributable to AutoCanada shareholders	(41,348)	24,978	14,158
Impairment of non-financial assets, net	58,454	–	–
Income taxes <sup>2</sup>	(16,117)	9,254	4,238
Depreciation of property and equipment <sup>2</sup>	4,534	4,831	4,536
Interest on long-term indebtedness <sup>2</sup>	5,308	4,620	4,140
<b>EBITDA attributable to AutoCanada shareholders<sup>1</sup></b>	<b>10,831</b>	<b>43,683</b>	<b>27,072</b>
Add back:			
Share-based compensation attributed to changes in share price	(502)	254	59
Revaluation of redemption liabilities	–	139	(736)
Management transition costs	4,517	–	2,700
Settlement income	(1,603)	(13,328)	–
<b>Adjusted EBITDA attributable to AutoCanada shareholders<sup>1,3</sup></b>	<b>13,243</b>	<b>30,748</b>	<b>29,095</b>

<sup>1</sup> This financial measure is identified and defined under the section “NON-GAAP MEASURES”.

<sup>2</sup> Represents the portion attributable to AutoCanada shareholders.

<sup>3</sup> In Q1 2018, the Company redefined the calculation of adjusted EBITDA to remove the effect of management transition costs. As a result, the value presented for Q2 2016 has been restated as presented above.

Pre-tax earnings attributable to AutoCanada shareholders decreased by \$91.7 million or 267.9% to \$(57.5) million for the quarter from \$34.2 million in the same period of the prior year. Net earnings attributable to AutoCanada shareholders decreased by \$66.3 million or 265.5% to \$(41.3) million in the second quarter of 2018 from \$25.0 million when compared to the prior year. Income tax expense attributable to AutoCanada shareholders decreased by \$25.4 million to \$(16.1) million in the second quarter of 2018 from \$9.3 million in the same period of 2017.

Adjusted net earnings attributable to AutoCanada shareholders decreased by \$0.5 million or 3.6% to \$15.0 million for the quarter from \$15.5 million in the same period of the prior year.

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

(in thousands of dollars)	2018	2017	2016
<b>Net (loss) earnings attributable to AutoCanada shareholders</b>	(41,348)	24,978	14,158
Add back:			
Impairment of non-financial assets, net of tax	54,573	–	–
Share-based compensation attributed to changes in share price, net of tax	(367)	186	44
Revaluation of redemption liabilities	–	139	(736)
Management transition costs	3,306	–	2,057
Settlement income, net of tax	(1,173)	(9,756)	–
<b>Adjusted net earnings attributable to AutoCanada shareholders<sup>1,2</sup></b>	14,991	15,547	15,523
Weighted average number of shares - Basic	27,390,620	27,378,919	27,338,767
Weighted average number of shares - Diluted	27,456,355	27,437,830	27,457,284
<b>Adjusted net earnings per share attributable to AutoCanada shareholders - Basic<sup>1</sup></b>	0.55	0.57	0.57
<b>Adjusted net earnings per share attributable to AutoCanada shareholders - Diluted<sup>1</sup></b>	0.55	0.57	0.57

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

2 In Q1 2018, the Company redefined the calculation of adjusted net earnings to remove the effect of management transition costs. As a result, the value presented for Q2 2016 has been restated as presented above.

### Year to Date Operating Results

EBITDA attributable to AutoCanada shareholders for the six month period ended June 30, 2018 decreased by \$31.1 million or 53.9% to \$26.7 million, from \$57.8 million when compared to the results of the Company for the same period in the prior year.

Adjusted EBITDA attributable to AutoCanada shareholders for the six month period ended June 30, 2018 decreased by \$17.3 million or 37.2% from \$46.3 million to \$29.0 million when compared to the results of the Company in the prior year.

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

(in thousands of dollars)	2018	2017	2016
<b>Period from January 1 to June 30</b>			
Net (loss) income attributable to AutoCanada shareholders	(36,516)	28,656	21,430
Impairment of non-financial assets, net	58,454	–	–
Income taxes	(14,179)	10,504	6,714
Depreciation of property and equipment	9,493	9,428	9,223
Interest on long-term indebtedness	9,399	9,233	8,016
<b>EBITDA attributable to AutoCanada shareholders<sup>1</sup></b>	26,651	57,821	45,383
Add back:			
Share-based compensation attributed to changes in share price	(522)	258	118
Revaluation of redemption liabilities	–	(171)	526
Unrealized gain on embedded derivative	–	–	20
Management transition cost	4,517	1,684	2,700
Settlement income	(1,603)	(13,328)	–
<b>Adjusted EBITDA attributable to AutoCanada shareholders<sup>1</sup></b>	29,043	46,264	48,747

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

2 In Q1 2018, the Company redefined the calculation of adjusted EBITDA to remove the effect of management transition costs. As a result, the value presented for Q2 2016 has been restated as presented above.

For the six month period ended June 30, 2018, pre-tax earnings attributable to AutoCanada shareholders decreased by \$89.9 million or 229.5% to \$(50.7) million from \$39.2 million in the same period of the prior year. Net earnings attributable to AutoCanada shareholders decreased by \$65.2 million or 227.4% to \$(36.5) million

in the six month period ended June 30, 2018 from \$28.7 million when compared to the prior year. Income tax expense attributable to AutoCanada shareholders decreased by \$24.7 million to \$(14.2) million in the six month period ended June 30, 2018 from \$10.5 million in the same period of 2017.

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

(in thousands of dollars)	2018	2017	2016
<b>Net (loss) earnings attributable to AutoCanada shareholders</b>	(36,516)	28,656	21,430
Add back:			
Impairment of non-financial assets, net of tax	54,573	–	–
Share-based compensation attributed to changes in share price, net of tax	(382)	189	87
Revaluation of redemption liabilities	–	(171)	526
Unrealized loss (gain) on embedded derivative	–	–	20
Management transition cost, net of tax	3,306	1,231	2,057
Settlement income, net of tax	(1,173)	(9,756)	–
<b>Adjusted net earnings attributable to AutoCanada shareholders<sup>1</sup></b>	19,808	20,149	24,120
Weighted average number of shares - Basic	27,389,744	27,368,898	27,350,603
Weighted average number of shares - Diluted	27,467,852	27,476,315	27,439,896
<b>Adjusted net earnings per share attributable to AutoCanada shareholders - Basic<sup>1</sup></b>	0.72	0.74	0.88
<b>Adjusted net earnings per share attributable to AutoCanada shareholders - Diluted<sup>1</sup></b>	0.72	0.73	0.88

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

2 In Q1 2018, the Company redefined the calculation of adjusted net earnings to remove the effect of management transition costs. As a result, the value presented for Q2 2016 has been restated as presented above.

## Revenues

The following table summarizes revenue for the three month period and six month periods ended June 30:

	Three Months Ended June 30		
	2018 \$	2017 \$	Change \$
New vehicles	522,150	558,682	(36,532)
Used vehicles	198,597	182,913	15,684
Finance, insurance and other	38,365	39,324	(959)
Parts, service and collision repair	121,476	113,983	7,493
	880,588	894,902	(14,314)
	Six Months Ended June 30		
	2018 \$	2017 \$	Change \$
New vehicles	860,166	912,222	(52,056)
Used vehicles	356,498	348,321	8,177
Finance, insurance and other	67,040	68,668	(1,628)
Parts, service and collision repair	217,369	204,718	12,651
<b>Total Revenue</b>	1,501,073	1,533,929	(32,856)

## Gross Profit

The following table summarizes gross profit for the three month periods and six month periods ended June 30:

	Three Months Ended June 30		
	2018 \$	2017 \$	Change \$
New vehicles	30,648	38,555	(7,907)
Used vehicles	13,173	13,095	78
Finance, insurance and other	35,891	35,867	24
Parts, service and collision repair	60,868	56,306	4,562
	140,580	143,823	(3,243)

	Six Months Ended June 30		
	2018 \$	2017 \$	Change \$
New vehicles	54,121	64,145	(10,024)
Used vehicles	21,735	25,035	(3,300)
Finance, insurance and other	62,667	62,680	(13)
Parts, service and collision repair	106,401	103,590	2,811
<b>Total Gross Profit</b>	244,924	255,450	(10,526)

### New vehicles

New vehicle revenue decreased by 6.5%.

The gross profit decrease in the quarter from new vehicles is partially due a quarterly decrease in gross profit per unit of \$381, and a decrease in new vehicles sold of 923 compared to the same period of the prior year.

The \$52.1 million year-over-year decrease in revenue for the six month period ended June 30 from new vehicles is due to a decrease in new vehicles sold of 1,291, offset by an increase in revenue per unit of \$126 compared to the same period of the prior year.

### Used vehicles

Used vehicle revenue increased by 8.6%.

The increase in gross profit in the quarter from used vehicles is due to an increase in used vehicles sold of 952, offset by a decrease in gross profit per unit of \$397.

The \$8.2 million year-over-year increase in revenue for the six month period ended June 30 from used vehicles is due to an increase in used vehicles sold of 932, offset by a decrease in revenue per unit of \$2,430 compared to the same period of the prior year.

### Finance, insurance and other

Finance and insurance products are sold with both new and used vehicles, but a larger proportion are sold in conjunction with new retail vehicles. The quarterly year-over-year finance, insurance and other revenue decreased by 2.4% while new retail vehicle units sold decreased by 2.7%. Finance and insurance revenue per vehicle sold has decreased by 6.7% or \$168, to \$2,356 in the quarter, from \$2,524 in the same period of the prior year.

The year-over-year finance, insurance and other revenue for the six month period ended June 30 decreased by 2.4% while new retail vehicle units sold decreased by 2.1%. Finance and insurance revenue per vehicle sold has decreased by 4.3%, or \$111, to \$2,441 in the quarter, from \$2,552 in the same period in the prior year.

### **Parts, service and collision repair**

Parts, service and collision repair revenues increased by 6.6% in the quarter.

Gross profit in the quarter from parts, service and collision repair increased by 8.1% which is due to an increase in repair orders of 19,295.

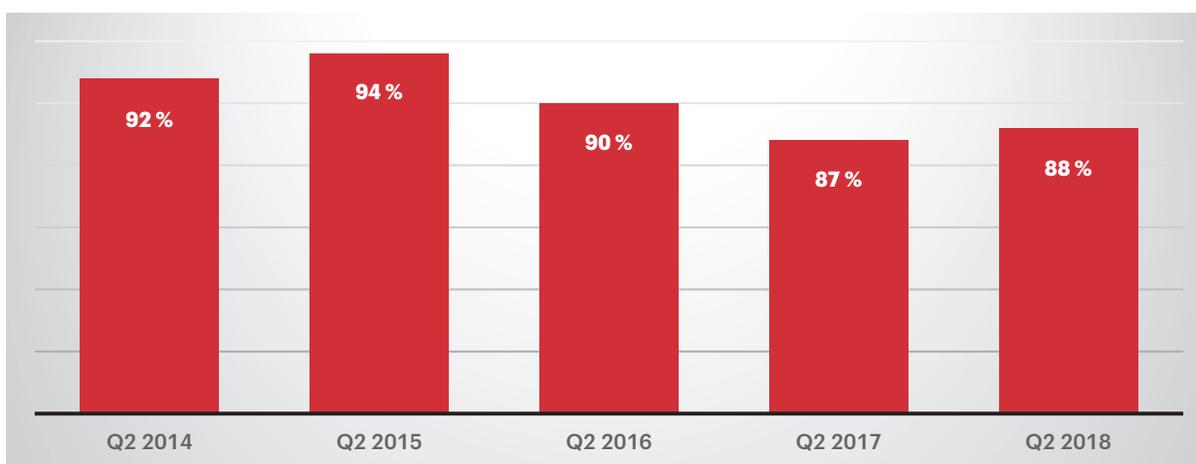
The increase in revenue for the six month period ended June 30 from parts, service and collision repair is due to an increase in revenue per order of \$26, and

an increase in repair orders of 2,655 compared to the same period of the prior year.

### **Absorption rate<sup>1</sup>**

Absorption rate measures the extent to which the gross profits of a franchised automobile dealership from parts, service and collision repair cover the costs of these departments plus the fixed costs of operating the dealership.

The following table summarizes Absorption rate since the Q2 2014 period:



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

Over the past five years the absorption rate for the period ending June 30 has ranged between 94% to a low of 87% in 2017. For the period ended June 30, 2018, an absorption rate of 88% has been achieved which shows a recovery over 2017 comparable periods. This is an indicator that the increase in gross profit for parts, service and collision repair was greater than the corresponding increase in related departmental and overall dealership fixed expenses.

### **Operating expenses**

Operating costs consist of four major categories:

#### *Employee costs*

Employee costs are the costs associated with employing staff both at the dealerships and at

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

#### *Administrative costs*

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

order to leverage the size of the group as a means to lower the operating costs of the dealerships.

#### Facility lease costs

Facility lease costs relate to the cost of leasing dealership facilities not owned by AutoCanada. Facility lease costs are fixed in nature as lease contracts are based on the market value of the property and are long-term.

#### Depreciation of property and equipment

Depreciation of property and equipment relates to the depreciation of the dealership assets including buildings, machinery and equipment,

leasehold improvements, company and lease vehicles, furniture, and computer hardware. Depreciation rates vary based on the nature of the asset.

Since many operating expenses are variable in nature, Management considers operating expenses as a percentage of gross profit to be a good indicator of expense control. The Company calculates its operating expenses as a percentage of gross margin excluding and including depreciation, and believes the percentage excluding depreciation is a more accurate measure of operating performance.

The following table summarizes operating expenses as a percentage of gross profit, broken into their fixed and variable components. Fixed expenses are costs that do not fluctuate with changes in sales volume while variable expenses are costs that vary depending on sales volume.

	Three Months Ended June 30			Six Months Ended June 30		
	2018	2017	Change	2018	2017	Change
Employee costs before management transition costs	50.3%	50.2%	0.1%	52.2%	51.5%	0.7%
Management transition costs	3.1%	–%	3.1%	1.8%	0.6%	1.2%
Administrative costs - Variable	24.7%	16.2%	8.5%	22.5%	17.0%	5.5%
<b>Total Variable Expenses</b>	<b>78.1%</b>	<b>66.4%</b>	<b>11.7%</b>	<b>76.5%</b>	<b>69.1%</b>	<b>7.4%</b>
Administrative costs - Fixed	5.3%	4.5%	0.8%	5.9%	5.1%	0.8%
Facility lease costs	4.9%	4.1%	0.8%	5.3%	4.5%	0.8%
<b>Fixed expenses before Depreciation</b>	<b>10.2%</b>	<b>8.6%</b>	<b>1.6%</b>	<b>11.2%</b>	<b>9.6%</b>	<b>1.6%</b>
<b>Operating expenses before depreciation</b>	<b>88.3%</b>	<b>75.0%</b>	<b>13.3%</b>	<b>87.7%</b>	<b>78.7%</b>	<b>9.0%</b>
Depreciation of property and equipment	3.3%	3.5%	(0.2)%	4.0%	3.9%	0.1%
<b>Total fixed expenses</b>	<b>13.5%</b>	<b>12.1%</b>	<b>1.4%</b>	<b>15.2%</b>	<b>13.5%</b>	<b>1.7%</b>
<b>Total operating expenses</b>	<b>91.6%</b>	<b>78.5%</b>	<b>13.1%</b>	<b>91.7%</b>	<b>82.6%</b>	<b>9.1%</b>

#### Total Operating Expenses

Total operating expenses have increased in the quarter by \$15.8 million compared to the previous period of the prior year. Operating expenses as a percentage of gross profit have increased by 13.1% in the quarter.

#### Variable Expenses

Total variable expenses for the quarter have increased by 11.7% in the quarter.

Employee costs have increased in the quarter by 3.2% mainly due to additional management transition costs. This accounts for 3.1% of operating expenses as a percentage of gross profit. Excluding management transition costs, employee costs have slightly increased by 0.1%.

Variable Administrative costs increased by \$11.3 million which is largely attributed to acquisition costs, special committee consulting and legal costs, as well as losses and legal costs related to wholesale fraud at one of the dealerships incurred in the current quarter. As a percentage of gross profit, variable administrative costs increased by 8.5% for the quarter ended June 30, 2018.

For the six month period ended June 30, 2018, employee costs have increased in the quarter by 1.9% of operating expenses as a percentage of gross profit. Excluding management transaction costs, employee cost have increased by 0.7%, as a percentage of gross profit.

For the six month period ended June 30, 2018, variable administrative costs increased by 5.5% compared to the same period of the prior year, as a percentage of gross profit.

### Fixed Expenses

Total Fixed expenses for the quarter increased by 1.4%.

Fixed administrative costs increased by \$0.9 million which is 0.8% for the quarter, as a percentage of gross profit. The increase was related to increased property taxes and utility expenses during the quarter when compared to prior period. Facility lease costs and depreciation of property and equipment saw a 0.8% increase and a 0.2% decrease, respectively, for the quarter.

For the six month period ended June 30, 2018, fixed administrative costs increased by 0.8%, facility lease costs increased by 0.8% and depreciation of property and equipment remained constant, as a percentage of gross profit.

### Income Taxes

The following table summarizes income taxes for the three month periods and six month periods ended June 30:

	Three Months Ended June 30	
	2018 \$	2017 \$
Current tax	4,204	1,272
Deferred tax	(20,095)	8,975
<b>Income tax expense</b>	<b>(15,891)</b>	<b>10,247</b>

	Six Months Ended June 30	
	2018 \$	2017 \$
Current tax	7,005	5,759
Deferred tax	(20,895)	6,483
<b>Income tax expense</b>	<b>(13,890)</b>	<b>12,242</b>

Income tax expense is recognized based on Management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual rate used for the period ended June 30, 2018 was 26.9% (2017 - 26.8%).

### Finance costs

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

During the three month period ended June 30, 2018, finance costs on our revolving floorplan facilities increased by 66.9% to \$5.7 million from \$3.4 million in the same period of the prior year, mainly due to increased interest rates.

During the six month period ended June 30, 2018, finance costs on our revolving term facilities increase by \$3.7 million to \$10.4 million from \$6.7 million in the same period of the prior year.

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

Accounting standards require the floorplan credits to be accounted for as a reduction in the cost of new

vehicle inventory and subsequently a reduction in the cost of sales as vehicles are sold.

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

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

<b>(in thousands of dollars)</b>	<b>Three Months Ended June 30</b>			<b>Six Months Ended June 30</b>		
	<b>2018</b>	<b>2017</b>	<b>Change</b>	<b>2018</b>	<b>2017</b>	<b>Change</b>
Floorplan financing	5,687	3,407	2,280	10,392	6,702	3,690
Floorplan credits earned	(3,896)	(4,680)	784	(7,097)	(8,395)	1,298
<b>Net carrying cost of vehicle inventory</b>	<b>1,791</b>	<b>(1,273)</b>	<b>3,064</b>	<b>3,295</b>	<b>(1,693)</b>	<b>4,988</b>

## 7. SAME STORES RESULTS

Same stores is defined as a franchised automobile dealership that has been owned for at least two full years since acquisition. The dealership is then included in the quarter thereafter, for same stores analysis. The Company believes that it takes two years

for an acquired dealership or Open Point to achieve normal operating results.

We continue to dedicate significant resources to newly acquired dealerships in order to successfully integrate acquisitions in an efficient manner. As a result, we expect to incur additional selling and administrative costs in the future in order to successfully integrate new dealerships into our model.

### Number of Same Stores by Province

The following table summarizes the number of same stores for the period ended June 30, 2018 by Province:

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

### Same Stores Revenue and Vehicles Sold

(in thousands of dollars)	Three Months Ended June 30			Six Months Ended June 30		
	2018	2017	% Change	2018	2017	% Change
<b>Revenue Source</b>						
New vehicles - Retail	328,954	371,078	(11.4)%	574,912	614,015	(6.4)%
New vehicles - Fleet	93,525	91,080	2.7%	152,823	140,760	8.6%
<b>Total New vehicles</b>	422,479	462,158	(8.6)%	727,735	754,775	(3.6)%
Used vehicles - Retail	117,624	110,422	6.5%	220,760	210,402	4.9%
Used vehicles - Wholesale	40,651	43,974	(7.6)%	81,871	86,727	(5.6)%
<b>Total Used vehicles</b>	158,275	154,396	2.5%	302,631	297,129	1.9%
Finance, insurance and other	32,404	33,630	(3.6)%	59,544	58,522	1.7%
<b>Subtotal</b>	613,158	650,184	(5.7)%	1,089,910	1,110,426	(1.8)%
Parts, service and collision repair	94,259	95,031	(0.8)%	179,657	171,433	4.8%
<b>Total</b>	707,417	745,215	(5.1)%	1,269,567	1,281,859	(1.0)%
New retail vehicles sold (units)	7,690	8,887	(13.5)%	13,592	14,639	(7.2)%
New fleet vehicles sold (units)	2,203	2,483	(11.3)%	3,657	3,814	(4.1)%
Used retail vehicles sold (units)	4,601	4,334	6.2%	8,652	8,311	4.1%
<b>Total</b>	14,494	15,704	(7.7)%	25,901	26,764	(3.2)%
Total vehicles retailed (units)	12,291	13,221	(7.0)%	22,244	22,950	(3.1)%

### Revenues - Same Stores Analysis

Same stores revenue decreased by \$37.8 million or 5.1%, for the three month period ended June 30, 2018 respectively when compared to the same period in the prior year.

New vehicle revenues decreased by \$39.7 million or 8.6% for the second quarter of 2018 over the prior year due to a decrease in new vehicle sales of 1,477 units or 13.0% offset by an increase in the average revenue per new vehicle sold of \$2,058 or 5.1%.

Same Stores new vehicle revenues decreased by \$27.0 million or 3.6% for the six month period ended June 30, 2018 over the same period in the prior year due to a decrease in new vehicle sales of 1,204 units or 6.5% offset by an increase in the average revenue per new vehicle sold of \$1,287 or 3.1%.

Same stores used vehicle revenues increased by \$3.9 million or 2.5% for the three month period ended June 30, 2018 over the same period in the prior year due to an increase in used vehicle sales of 267 units or 6.2% offset by a decrease in the average revenue per used vehicle sold of \$1,225 or 3.4%.

For the six month period ended June 30, 2018, used vehicle revenues increased by \$5.5 million or 1.9% due to an increase in used vehicle sales of 341 units or 4.1%, offset by a decrease in the average revenue per used vehicle sold of \$773 or 2.2%.

Same stores parts, service and collision repair revenue decreased by \$0.8 million or 0.8% for the second quarter of 2018 compared to the prior period and was primarily a result of a \$3 or 0.6% decrease in the average revenue per repair order completed and a decrease in overall repair orders completed of 397.

For the six month period ended June 30, 2018, parts, service and collision repair revenue increased by \$8.2 million or 4.8%, mainly due to a \$28 or 5.9% increase in the average revenue per repair order completed offset by a decrease in overall repair orders completed of 3,499.

Same stores finance, insurance and other revenue decreased by \$1.2 million or 3.6% for the three month period ended June 30, 2018 over the same period in 2017. This was due to a decrease in the number of new and used vehicles retailed of 893 units offset by an increase in the average revenue per unit retailed of \$85 or 3.3%.

For the six month period ended June 30, 2018, Same Stores finance, insurance and other revenue increased by \$1.0 million or 1.7% over the same period in 2017 mainly due to an increase in the average revenue per unit retailed of \$127 or 5.0%, offset by a decrease in the number of new and used vehicles retailed of 706 units.

### Same Stores Gross Profit and Gross Profit Percentage

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

(in thousands of dollars)	Three Months Ended June 30				
	Gross Profit			Gross Profit %	
	2018	2017	% Change	2018	2017
<b>Revenue Source</b>					
New vehicles - Retail	24,907	29,966	(16.9)%	7.6%	8.1%
New vehicles - Fleet	1,823	1,414	28.9%	1.9%	1.6%
<b>Total New vehicles</b>	26,730	31,380	(14.8)%	6.3%	6.8%
Used vehicles - Retail	9,530	9,564	(0.4)%	8.1%	8.7%
Used vehicles - Wholesale	1,132	1,900	(40.4)%	2.8%	4.3%
<b>Total Used vehicles</b>	10,662	11,464	(7.0)%	6.7%	7.4%
Finance, insurance and other	30,085	30,897	(2.6)%	92.8%	91.9%
<b>Subtotal</b>	67,477	73,741	(8.5)%	11.0%	11.3%
Parts, service and collision repair	47,955	46,933	2.2%	50.9%	49.4%
<b>Total</b>	115,432	120,674	(4.3)%	16.3%	16.2%

(in thousands of dollars)	Six Months period ended June 30				
	Gross Profit			Gross Profit %	
	2018	2017	% Change	2018	2017
<b>Revenue Source</b>					
New vehicles - Retail	44,895	49,480	(9.3)%	7.8%	8.1%
New vehicles - Fleet	2,944	2,999	(1.8)%	1.9%	2.1%
<b>Total New vehicles</b>	47,839	52,479	(8.8)%	6.6%	7.0%
Used vehicles - Retail	16,678	18,652	(10.6)%	7.6%	8.9%
Used vehicles - Wholesale	1,947	3,036	(35.9)%	2.4%	1.9%
<b>Total Used vehicles</b>	18,625	21,688	(14.1)%	6.2%	7.3%
Finance, insurance and other	55,433	53,653	3.3%	93.1%	91.7%
<b>Subtotal</b>	121,897	127,820	(4.6)%	11.2%	11.5%
Parts, service and collision repair	89,055	86,926	2.4%	49.6%	50.7%
<b>Total</b>	210,952	214,746	(1.8)%	16.6%	16.8%

### Gross Profit - Same Stores Analysis

Same stores gross profit decreased by \$5.2 million or 4.3% for the three month period ended June 30, 2018 respectively when compared to the same period in the prior year.

New vehicle gross profit decreased by \$4.7 million or 14.8% in the three month period ended June 30, 2018 when compared to 2017 as a result of a decrease in new vehicle sales of 1,477 units or 13.0%, and a decrease in the average gross profit per new vehicle sold of \$58 or 2.1%.

For the six month period ended June 30, 2018, new vehicle gross profit decreased by \$4.6 million or 8.8% which can be mainly attributed to a decrease in new vehicle sales of 1,204 units or 6.5% offset by an increase in the average gross profit per new vehicle sold of \$70 or 2.5%.

Used vehicle gross profit decreased by \$0.8 million or 7.0% in the three month period ended June 30, 2018 over the prior year. This was due to a decrease in the average gross profit per used vehicle retailed of \$328 or 12.4%, offset by a increase in the number of used vehicles sold of 267 units or 6.2%.

For the six month period ended June 30, 2018, Same Stores used vehicle gross profits decreased by \$3.1 million or 14.1% which was mainly due to an

decrease in the average gross profit per vehicle retailed of \$457 or 17.5% offset by a increase in the number of vehicles retailed of 341 units.

Parts, service and collision repair gross profit increased by \$1.0 million or 2.2% in the three month period ended June 30, 2018 when compared to the same period in the prior year despite a decrease in the number of repair orders completed of 397.

For the six month period ended June 30, 2018, parts, service and collision repair gross profit increased by \$2.1 million or 2.4% which can be mainly attributed to an increase in the average gross profit per repair order completed of \$8 or 3.3%, offset by a decrease in the number of repair orders completed of 3,499.

Finance and insurance gross profit decreased by \$0.8 million or 2.6% in the three month period ended June 30, 2018 when compared to the prior year as a result of a decrease in units retailed of 893, offset by a increase in the average gross profit per unit sold of \$104 or 4.4%.

For the six month period ended June 30, 2018, finance and insurance gross profit increased by \$1.8 million or 3.3% and can be attributed to an increase in the average gross profit per unit sold of \$154, offset by a decrease in units retailed of 706.

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

(in thousands of dollars)	Three Months Ended June 30			Six Months Ended June 30		
	2018	2017	% Change	2018	2017	% Change
British Columbia	142,539	166,775	(14.5)%	264,999	277,609	(4.5)%
Alberta	237,242	250,725	(5.4)%	444,885	450,633	(1.3)%
Saskatchewan	69,716	66,896	4.2%	121,696	124,426	(2.2)%
Manitoba	54,114	52,061	3.9%	96,289	90,944	5.9%
Ontario	60,419	55,805	8.3%	104,454	92,088	13.4%
Quebec	110,335	103,863	6.2%	175,293	166,209	5.5%
Atlantic	33,052	49,090	(32.7)%	61,951	79,950	(22.5)%
<b>Total</b>	<b>707,417</b>	<b>745,215</b>	<b>(5.1)%</b>	<b>1,269,567</b>	<b>1,281,859</b>	<b>(1.0)%</b>

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

(in thousands of dollars)	Three Months Ended June 30			Six Months Ended June 30		
	2018	2017	% Change	2018	2017	% Change
British Columbia	21,259	24,782	(14.2)%	40,696	43,890	(7.3)%
Alberta	44,135	46,047	(4.2)%	80,878	82,138	(1.5)%
Saskatchewan	11,562	11,940	(3.2)%	21,806	22,678	(3.8)%
Manitoba	9,563	9,166	4.3%	17,312	17,082	1.3%
Ontario	8,562	8,204	4.4%	15,195	14,065	8.0%
Quebec	15,705	14,495	8.3%	26,492	24,161	9.6%
Atlantic	4,646	6,040	(23.1)%	8,573	10,732	(20.1)%
<b>Total</b>	<b>115,432</b>	<b>120,674</b>	<b>(4.3)%</b>	<b>210,952</b>	<b>214,746</b>	<b>(1.8)%</b>

## 8. ACQUISITIONS, RELOCATIONS AND REAL ESTATE

### ***Dealership Operations and Expansion***

Our goals are to maximize the profit potential of every store and to generate incremental growth through accretive acquisitions. With the addition of our first US market acquisition during the quarter, we now currently operate 63 dealerships, representing 77 franchises. We continue to focus on our acquisition strategy, focusing on a greater diversification in both geography and brand. The Company is being patient with our acquisition strategy, focusing on acquisitions that are accretive and provide diversity. The Company plans to diversify its geographies through the acquisition of flagship stores in major markets. Management and the Company have excellent relationships with our manufacturer partners, providing the Company with greater opportunities with brands we currently operate.

### ***Grossinger Auto Group***

Between the period of April 9, 2018 and April 23, 2018, the Company purchased substantially all of the operating and fixed assets of Grossinger City Autocorp Inc. (“Grossinger City Toyota”), Grossinger City Autoplex Inc. (“Grossinger City Chevrolet” and “Grossinger City Cadillac”), Grossinger Imports Inc. (“Grossinger Honda”), Grossinger North Autocorp Inc. (“Grossinger Toyota North”), Grossinger Autoplex Inc. (“Grossinger Hyundai North” and “Grossinger Kia”), Grossinger Chevrolet Inc. (“Grossinger Chevrolet Palatine”), Grossinger Hyundai of Palatine Inc. (“Grossinger Hyundai Palatine”) and Grossinger Motors Inc. (“Audi Bloomington-Normal”, “Lincoln Bloomington- Normal”, “Mercedes Bloomington-Normal”, “Subaru Bloomington-Normal”, “Volvo Bloomington-Normal” and “Volkswagen Bloomington-Normal”), herein referred to as the “Grossinger Auto Group”, located in Chicago, Illinois and Bloomington-Normal, Illinois for total cash consideration of \$131.9 million. The Company did not acquire the land and buildings associated with the dealerships, other than with respect to Grossinger Imports Inc., which was allocated a value of \$10 million. The Company has entered into lease arrangements for the balance of the facilities. The purchase price of the Grossinger Auto Group is

financed through a combination of funds drawn on the newly enacted Syndicated Credit Facility, proceeds from the repayment of Loans to associate and proceeds from the Company’s recent divestiture of dealerships in Canada.

As a result of entity-wide and business unit level impairment indicators identified as at June 30, 2018, all of the Company’s CGU’s were tested for impairment. Refer to Note 19 of the interim consolidated financial statements for the three and six month period ended June 30, 2018.

Due to the unforeseen decline in the expected performance of certain of the Grossinger Auto Group’s dealerships, versus expected performance at the time of acquisition, impairment testing for US operations involved the use of wholly revised forecasts for all individual US dealerships. These were prepared by management, reviewed and approved by members of the Company’s Executive team, and used as the revised basis for individual US dealership earnings and growth projections.

A total impairment of \$44.0 million was made against the non-current assets of certain dealerships belonging to the Grossinger Auto Group as a result of the Company’s impairment testing. These non-current assets include goodwill, intangible assets and leasehold improvements.

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

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

### ***General Motors Transaction***

On January 2, 2018, we executed two new agreements that strengthened our relationship with GM Canada. We executed a Public Company Master

Agreement (PCMA) with GM Canada that permits AutoCanada's direct ownership and control of GM Canada dealerships. As part of that agreement, on January 2, 2018 the company closed an agreement with CanadaOne Auto Group, a company controlled by the Company's former CEO and founder, Mr. Patrick Priestner, with AutoCanada assuming control of five of the nine GM Canada dealerships where it held a majority equity stake with no voting rights, and CanadaOne Auto Group buying AutoCanada's interest in four dealerships.

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

Related to the agreement made with CanadaOne Auto Group, which resulted in the divestiture of four GM dealerships, our March 31, 2018 results incurred a decrease to Revenue, Gross Profit, and Unit sales.

### **Dealership Open Points**

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

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

### *Nissan - Calgary, Alberta*

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

### **Capital Plan**

The Company maintains a capital plan for contemplated future capital projects. Details of the capital plan are described below:

#### *Dealership Relocations*

Management estimates the total capital requirements of currently planned dealership relocations to be approximately \$33.7 million to the end of 2021. The Company expects dealership relocations to provide long term earnings sustainability and result in significant improvements in revenues and overall profitability. Management continually updates its capital plan and as such the estimates provided may vary as delays occur or projects are added or removed.

#### *Current Dealership Expansion and Imaging Requirements*

The Company has identified approximately \$84.3 million in capital costs that it may incur in order to expand or renovate various current locations through to the end of 2022. The Company is required by its manufacturers to undertake periodic imaging upgrades to its facilities.

#### *Open Point Opportunities*

Management regularly reviews potential open point opportunities. If successful in being awarded these opportunities, management would then estimate additional capital costs in order to construct suitable facilities for open points. The Company currently estimates approximately \$16.1 million in capital costs that it may incur by the end of 2019 related to currently awarded Open Points. If awarded in the future, Management will provide additional cost estimates and timing of construction. In order to be successful in some opportunities, Management may be required to secure appropriate land for the potential open points, in which case, additional land purchase costs may be incurred in the future.

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

(in millions of dollars)	2018	2019	2020	2021	2022	Total
<b>Same Store</b>						
Dealership Relocations	2.2	0.5	14.5	16.5	–	33.7
Dealership Expansion and Imaging Requirements	15.4	17.4	8.4	13.7	11.1	66.0
<b>Capital Plan</b>	17.6	17.9	22.9	30.2	11.1	99.7
<b>Expected to be financed</b>	2.6	8.6	–	–	–	11.2
<b>Cash Outlay<sup>1</sup></b>	15.0	9.3	22.9	30.2	11.1	88.5
<b>Non Same Store</b>						
Dealership Expansion and Imaging Requirements	6.0	6.4	4.0	0.7	1.2	18.3
Open Point Opportunities	3.0	13.1	–	–	–	16.1
<b>Capital Plan</b>	9.0	19.5	4.0	0.7	1.2	34.4
<b>Expected to be financed</b>	6.5	12.1	2.3	0.5	–	21.4
<b>Cash Outlay<sup>1</sup></b>	2.5	7.4	1.7	0.2	1.2	13.0
<b>Total Capital Plan</b>	26.6	37.4	26.9	30.9	12.3	134.1
<b>Total Cash outlay</b>	17.5	16.7	24.6	30.4	12.3	101.5

<sup>1</sup> Refers to amount expected to be funded by internal Company cash flow.

The five year capital plan at June 30, 2018 is \$134.1 million for contemplated future capital projects remaining.

Notwithstanding the capital plan laid out above, expected capital expenditures are subject to deferral due to issues in obtaining permits, construction delays, changes in re-imaging requirements, economic factors, or other delays that are normal to the construction process. The above is considered to be a guide for when the Company expects to perform capital expenditures, however, significant deferral may occur in the future. Management closely monitors the capital plan and adjusts as appropriate

based on Company performance, manufacturer requirements, expected economic conditions, and individual dealership needs. Management performs a robust analysis on all future expenditures prior to the allocation of funds. Timing of dealership relocations is determined based on the dealership's current performance, the market, and expected return on invested capital. It is expected that a dealership relocation will result in improved performance and increased profitability.

## 9. LIQUIDITY AND CAPITAL RESOURCES

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

Under our franchise agreements, manufacturers require us to maintain a minimum level of working capital. We maintain working capital in excess of manufacturer requirements which may be used for capital expenditures. The Company's analysis of its available capital based on the balance sheet at June 30, 2018 is as follows:

- The Company had drawn \$235.0 million on its \$420.0 million revolving term facility.

As a result of the above, as at June 30, 2018, the Company currently has approximately \$185.0 million in readily available liquidity, not including future retained cash from operations, that it may deploy for growth expenditures including acquisitions.

### Cash Flow from Operating Activities

Cash used in operating activities (including changes in non-cash working capital) of the Company for the three month period ended June 30, 2018 was \$10.1 million (cash provided by operating activities of \$(0.1) million less negative net change in non-cash working capital of \$10.1 million) compared to

\$12.3 million (cash provided by operating activities of \$37.4 million less negative net change in non-cash working capital of \$25.1 million) in the same period of the prior year.

### Cash Flow from Investing Activities

For the three month period ended June 30, 2018, cash flow used in investing activities of the Company was a net outflow of \$132.5 million as compared to a net outflow of \$20.1 million in the same period of the prior year.

### Cash Flow from Financing Activities

For the three month period ended June 30, 2018, cash flow used in financing activities was a net inflow of \$104.9 million as compared to a net inflow of \$2.4 million in the same period of 2017.

### Credit Facilities and Floor Plan Financing

Details of the Company's credit facilities and floorplan financing are included in Note 30 of the annual audited consolidated financial statements for the year ended December 31, 2017. Updates to credit facilities and floorplan financing are included in Note 21 of the interim consolidated financial statements for the three and six month period ended June 30, 2018.

### Key Financial Covenants

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

The following is a summary of the Company's actual performance against its financial covenants as at June 30, 2018:

Financial Covenant	Requirement	Q2 2018 Calculation
<b>Scotiabank revolving term facility and floorplan</b>		
<b>Syndicated Revolver:</b>		
Senior Funded Debt to EBITDA Ratio	Shall not exceed 2.75	2.39
Total Funded Debt to EBITDA Ratio	Shall not exceed 4.00	3.71
Fixed Charge Coverage Ratio	Shall not be less than 1.20	2.11
Current Ratio	Shall not be less than 1.05	1.10

Financial Covenant	Requirement	Q1 2018 Calculation
<b>Syndicated Revolver:</b>		
Senior Secured Leverage Ratio	Shall not exceed 2.75	1.23
Adjusted Total Leverage Ratio	Shall not exceed 5.00	3.64
Fixed Charge Coverage Ratio	Shall not be less than 1.20	2.33
Current Ratio	Shall not be less than 1.05	1.14
<b>Syndicated Floorplan:</b>		
Current Ratio	Shall not be less than 1.05	1.11
Tangible Net Worth (millions)	Shall not be less than \$40 million	80.9
Debt to Tangible Net Worth	Shall not exceed 7.50	5.93

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 June 30, 2018, the Company is in compliance with all of its financial covenants.

### Financial Instruments

Details of the Company's financial instruments, including risks and uncertainties are included in Note 27 of the annual audited consolidated financial

statements for the year ended December 31, 2017. There have been no significant changes to the Company's financial instruments since that time.

### Growth vs. Non-Growth Capital Expenditures

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

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

(in thousands of dollars)	April 1, 2018 to June 30, 2018	January 1, 2018 to June 30, 2018
Leasehold improvements	611	806
Machinery and equipment	2,751	3,122
Furniture and fixtures	987	1,284
Computer equipment	192	549
	4,541	5,761

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

sales and service capacity of the dealership. During the three month and six month period ended June 30, 2018, growth capital expenditures of \$3.8 million and \$10.2 were incurred, respectively. These expenditures related primarily to building construction costs purchased for future dealership operations during the first half of 2018.

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

(in thousands of dollars)	April 1, 2018 to June 30, 2018	January 1, 2018 to June 30, 2018
Purchase of property and equipment from the Statement of Cash Flows	8,328	15,943
Less: Amounts related to the expansion of sales and service capacity	(3,787)	(10,182)
<b>Purchase of non-growth property and equipment</b>	<b>4,541</b>	<b>5,761</b>

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 and six month period ended June 30, 2018 were \$1.5 and \$3.1 million (2017 - \$1.8 million and 3.4 million), respectively.

increase in the future, as a function of increases in the number of locations requiring maintenance capital expenditures, the cost of opening new locations and increased spending on information systems.

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

### **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

### **Financial Position**

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

(in thousands of dollars)	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
Cash and cash equivalents	43,483	81,177	94,660	104,966	95,417	100,402	103,221	96,368
Trade and other receivables	153,418	130,388	79,931	137,155	157,275	113,688	85,587	108,363
Inventories	791,243	694,691	659,593	636,685	629,171	701,559	619,718	597,831
<b>Total Assets</b>	<b>1,839,094</b>	<b>1,670,224</b>	<b>1,761,046</b>	<b>1,693,533</b>	<b>1,698,290</b>	<b>1,707,063</b>	<b>1,600,615</b>	<b>1,547,344</b>
Revolving floorplan facilities	789,134	690,163	634,655	616,144	624,847	688,173	582,695	569,581
Non-current debt and lease obligations	413,519	307,152	332,450	331,803	338,212	330,563	330,351	291,408

### **Net Working Capital**

The automobile manufacturers represented by the Company require the Company to maintain net working capital for each individual dealership. At June 30, 2018, the aggregate of net working capital requirements was approximately \$116.3 million. At June 30, 2018, all working capital requirements had

been met by each dealership. The working capital requirements imposed by the automobile manufacturers' may limit our ability to fund capital expenditures, acquisitions, dividends, or other commitments in the future if sufficient funds are not generated by the Company. Net working capital, as defined by automobile manufacturers, may not reflect

net working capital as determined using GAAP measures. As a result, it is possible that the Company may meet automobile manufacturers' net working capital requirements without having sufficient aggregate working capital using GAAP measures. The Company defines net working capital amounts as current assets less current liabilities as presented in the consolidated financial statements.

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

### Off Balance Sheet Arrangements

The Company has operating lease commitments, with varying terms through 2037, to lease premises and

## 10. OUTSTANDING SHARES

As at June 30, 2018, the Company had 27,459,683 common shares outstanding. Basic and diluted weighted average number of shares outstanding for the three month period ended June 30, 2018 were

## 11. DIVIDENDS

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

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

Record date	Payment date	Per Share \$	Total \$
March 1, 2018	March 15, 2018	0.10	2,739
May 31, 2018	June 15, 2018	0.10	2,739
		0.20	5,478

On August 9, 2018, the Board declared a quarterly eligible dividend of \$0.10 per common share on AutoCanada's outstanding Class A shares, payable on September 15, 2018 to shareholders of record at the close of business on August 31, 2018.

equipment used for business purposes. The Company leases the majority of the lands and buildings used in its franchised automobile dealership operations from related parties and other third parties.

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

2018	9,446
2019	16,429
2020	14,430
2021	14,199
2022	13,731
Thereafter	130,759
<b>Total</b>	<b>198,994</b>

Information regarding our contractual obligations with respect to long-term debt, capital lease obligations and other long-term obligations is included in the Liquidity Risk section of Note 27 of the Company's annual consolidated financial statements.

27,390,620 and 27,456,355, respectively. As at June 30, 2018, the value of the shares held in trust was \$1.8 million (2017 - \$1.3 million) which was comprised of 67,421 (2017 - 70,177) in shares with a nil aggregate cost. As at August 9, 2018, there were 27,459,683 shares issued and outstanding.

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

## 12. FREE CASH FLOW

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

(in thousands of dollars, except unit and per unit amounts)	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Cash provided by operating activities	(10,075)	(13,106)	31,479	32,091	12,255	2,967	24,930	32,594
<b>Deduct:</b>								
Purchase of property and equipment	(4,564)	(1,282)	(1,983)	(977)	(1,273)	(2,346)	(1,506)	(1,697)
<b>Free cash flow<sup>1</sup></b>	<b>(14,639)</b>	<b>(14,388)</b>	<b>29,496</b>	<b>31,114</b>	<b>10,982</b>	<b>621</b>	<b>23,424</b>	<b>30,897</b>
Weighted average shares outstanding at end of period	27,390,620	27,388,859	27,389,167	27,389,473	27,378,919	27,358,766	27,353,431	27,347,585
<b>Free cash flow per share</b>	<b>(0.53)</b>	<b>(0.53)</b>	<b>1.08</b>	<b>1.14</b>	<b>0.40</b>	<b>0.02</b>	<b>0.86</b>	<b>1.13</b>
<b>Free cash flow - 12 month trailing</b>	<b>31,584</b>	<b>57,204</b>	<b>72,213</b>	<b>66,141</b>	<b>65,924</b>	<b>92,864</b>	<b>96,288</b>	<b>81,930</b>

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

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

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

The following table summarizes the net decrease in cash due to changes in non-cash working capital for the six month periods ended June 30, 2018 and June 30, 2017:

(in thousands of dollars)	January 1, 2018 to June 30, 2018	January 1, 2017 to June 30, 2017
Trade and other receivables	(72,495)	(66,316)
Inventories	(46,809)	4,466
Finance lease receivables	44	(4,067)
Current tax recoverable	(21,464)	–
Other current assets	(8,036)	(3,080)
Trade and other payables	49,261	6,447
Vehicle repurchase obligations	2,456	582
Revolving floorplan facilities	68,919	24,114
	<b>(28,124)</b>	<b>(37,854)</b>

## 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)	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Cash provided by operating activities before changes in non-cash working capital	1	4,942	17,486	24,070	37,355	15,721	14,344	28,996
<b>Deduct:</b>								
Purchase of non-growth property and equipment	(4,541)	(1,221)	(1,490)	(774)	(1,078)	(504)	(1,211)	(1,230)
<b>Adjusted free cash flow<sup>1</sup></b>	<b>(4,540)</b>	<b>3,721</b>	<b>15,996</b>	<b>23,296</b>	<b>36,277</b>	<b>15,217</b>	<b>13,133</b>	<b>27,766</b>
Weighted average shares outstanding at end of period	27,390,620	27,388,859	27,389,167	27,389,473	27,378,919	27,358,766	27,353,431	27,347,585
<b>Adjusted free cash flow per share</b>	<b>(0.17)</b>	<b>0.14</b>	<b>0.58</b>	<b>0.85</b>	<b>1.32</b>	<b>0.56</b>	<b>0.48</b>	<b>1.02</b>
<b>Adjusted free cash flow - 12 month trailing</b>	<b>38,474</b>	<b>79,290</b>	<b>90,786</b>	<b>87,923</b>	<b>92,393</b>	<b>77,748</b>	<b>68,566</b>	<b>63,511</b>

<sup>1</sup> 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 six month period ending June 30, 2018, the Company paid approximately \$5.1 million in 2018 tax installments (2017 - \$2.3 million in income tax installments). Accordingly, this reduced our adjusted free cash flow by this amount. See "RESULTS FROM OPERATIONS – Income Taxes" for further detail regarding the impact of corporate income taxes on cash flow.

## Adjusted Return on Capital Employed

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

(in thousands of dollars, except unit and per unit amounts)	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
EBITDA <sup>1,2</sup>	11,694	16,253	31,124	29,978	47,757	17,228	28,536	26,915
<b>Deduct:</b>								
Depreciation of property and equipment	(4,647)	(5,042)	(5,213)	(5,297)	(5,082)	(4,852)	(4,921)	(4,860)
<b>EBIT<sup>1,2</sup></b>	7,047	11,211	25,911	24,681	42,675	12,376	23,615	22,055
Average long-term debt	363,433	322,377	339,741	353,315	357,103	351,986	333,310	315,678
Average shareholder’s equity	512,193	534,379	534,338	526,209	510,610	498,732	491,026	503,163
<b>Average capital employed<sup>1</sup></b>	875,626	856,756	874,079	879,524	867,713	850,718	824,336	818,841
<b>Return on capital</b>	0.8%	1.3%	3.0%	2.8%	4.9%	1.5%	2.9%	2.7%
Comparative adjustment <sup>3</sup>	43,332	24,371	24,371	25,959	25,959	25,959	25,959	(13,191)
<b>Adjusted average capital employed<sup>1</sup></b>	909,477	881,126	899,244	905,482	893,672	876,677	830,720	805,650
<b>Adjusted return on capital employed<sup>1</sup></b>	0.8%	1.3%	2.9%	2.7%	4.8%	1.4%	2.8%	2.7%
<b>Adjusted return on capital employed - 12 month trailing</b>	7.6%	11.9%	12.2%	12.1%	11.8%	9.9%	10.9%	10.6%

<sup>1</sup> These financial measures are identified and defined under the section “NON-GAAP MEASURES”.

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

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

Management believes that Adjusted Return on Capital Employed (see “NON-GAAP MEASURES”) is a good measure to evaluate the profitability of our invested capital. As a corporation, Management of AutoCanada may use this measure to compare potential acquisitions and other capital investments against our internally computed cost of capital to determine

whether the investment is expected to create value for our shareholders. Management may also use this measure to look at past acquisitions, capital investments and the Company as a whole in order to ensure shareholder value is being achieved by these capital investments.

## 13. CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICY DEVELOPMENTS

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

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee (“IFRIC”) that are not yet effective for the period ended June 30, 2018. A listing of the standards issued which are applicable to the Company can be found in Note 5 of the annual consolidated financial statements for the year ended December 31, 2017. The Company adopted IFRS 9, *Financial Instruments*, and IFRS 15, *Revenue from contracts with customers*, effective for the interim and annual consolidated financial statements commencing January 1, 2018. The amendment standards do not have a material impact on the financial statements and are further explained in Note 4 of the Condensed Consolidated Financial Statements for the period ended June 30, 2018.

## 14. DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended June 30, 2018, there were no changes in the Company’s disclosure controls or internal controls over financial reporting that materially affected, or would be reasonable likely to materially affect, such controls.

## 15. RISK FACTORS

We face a number of business risks that could cause our actual results to differ materially from those

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

## 16. FORWARD-LOOKING STATEMENTS

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

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

Further, any forward-looking statement speaks only as of the date on which such statement is made, and,

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

## 17. NON-GAAP MEASURES

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

### Operating profit

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

### EBITDA

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

### Adjusted EBITDA

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

### Adjusted net earnings 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, impairment of other assets, the revaluation of redemption liabilities, the unrealized gain or loss on embedded derivatives, management transition costs, settlement income and the portion of share-based compensation related to changes in the share price and its impact on the Company's cash-settled portions of its share-based compensation programs. The Company considers this expense to be non-cash in nature. Adding back these amounts to net earnings allows Management to assess the net earnings of the Company from ongoing operations. Adjusted net earnings per share is calculated by dividing adjusted net earnings by the weighted-average number of shares outstanding.

### EBIT

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

### **Free Cash Flow**

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

### **Adjusted Free Cash Flow**

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

### **Absorption Rate**

Absorption rate is an operating measure commonly used in the retail automotive industry as an indicator of the performance of the parts, service and collision repair operations of a franchised automobile dealership. Absorption rate is not a measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP. Therefore,

absorption rate may not be comparable to similar measures presented by other issuers that operate in the retail automotive industry. References to “absorption rate” are to the extent to which the gross profits of a franchised automobile dealership from parts, service and collision repair cover the costs of these departments plus the fixed costs of operating the dealership, but does not include expenses pertaining to our head office. For this purpose, fixed operating costs include fixed salaries and benefits, administration costs, occupancy costs, insurance expense, utilities expense and interest expense (other than interest expense relating to floor plan financing) of the dealerships only.

### **Average Capital Employed**

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

### **Adjusted Average Capital Employed**

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

### **Return on Capital Employed**

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

### **Adjusted Return on Capital Employed**

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

employed is calculated as EBIT (defined above) divided by Adjusted Average Capital Employed (defined above).

### **Cautionary Note Regarding Non-GAAP Measures**

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



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