AUTOCANADA INC.

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

For the period ended June 30, 2014

READER ADVISORIES

The Management's Discussion & Analysis ("MD&A") was prepared as of August 7, 2014 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, 2014 and significant trends that may affect AutoCanada's future performance. The following discussion and analysis should be read in conjunction with the unaudited 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, 2014, the audited annual consolidated financial statements and accompanying notes (the "Consolidated Financial Statements") of AutoCanada as at and for the year ended December 31, 2013, and management's discussion and analysis for the year ended December 31, 2013. Results are reported in Canadian dollars. Certain dollar amounts have been rounded to the nearest thousand dollars. References to notes are to the Notes of the Consolidated Financial Statements of the Company unless otherwise stated.

To provide more meaningful information, this MD&A typically refers to the operating results for the three month period and six month period ended June 30, 2014 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, 2013. The Company has investments in six General Motors dealerships and accounts for the investments utilizing the equity method, whereby the operating results of these investments are included in one line item on the statement of comprehensive income known as *Income from investments in associates*. As a result, the Company does not incorporate the consolidated results of its investments in associates in its discussion and analysis. Management has provided limited discussion and analysis of these investments in *Results from operations – Income from Investments in Associates* below.

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".

OVERVIEW OF THE COMPANY

Corporate Structure

AutoCanada Inc. ("ACI", "AutoCanada", or the "Company") was incorporated under the Canada Business Corporations Act on October 29, 2009 in connection with participating in an arrangement with AutoCanada Income Fund and the conversion to a corporate structure on December 31, 2009. The principal and head office of ACI is located at 200 - 15505 Yellowhead Trail, Edmonton, Alberta, T5V 1E5. AutoCanada Inc. holds interests in a number of limited partnerships, corporations, and investments in associates that each carry on the business of a franchised automobile dealership. AutoCanada is a reporting issuer in each of the provinces of Canada. AutoCanada's shares trade on the Toronto Stock Exchange under the symbol "ACQ".

Additional information relating to AutoCanada, including our 2013 Annual Information Form dated March 20, 2014, is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com.

The Business of the Company

AutoCanada is one of Canada's largest multi-location automobile dealership groups, currently operating 36 wholly-owned franchised dealerships and managing 6 franchised dealership investments (see "GROWTH, ACQUISITIONS, RELOCATIONS AND REAL ESTATE") in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick and Nova Scotia. In 2013, our dealerships sold approximately 36,000 vehicles and processed approximately 364,000 service and collision repair orders in our 406 service bays during that time.

Our dealerships derive their revenue from the following four inter-related business operations: new vehicle sales; used vehicle sales; parts, service and collision repair; and finance and insurance. While new vehicle sales are the most important source of revenue, they generally result in lower gross profits than used vehicle sales, parts, service and collision repair operations and finance and insurance sales. Overall gross profit margins increase as revenues from higher margin operations increase relative to revenues from lower margin operations.

The Company's geographical profile is illustrated below by number of wholly-owned dealerships and revenues by province for the three month periods ended June 30, 2014 and June 30, 2013.

	June 30, 2014			June 30, 2013		
Location of Dealerships	**Number of Dealerships**	**Revenue**	**% of Total**	**Number of Dealerships**	**Revenue**	**% of Total**
British Columbia	9	135,172	29 %	9	127,897	33 %
Alberta	15	212,869	46 %	11	163,375	42 %
Manitoba	3	35,950	8 %	2	20,917	5 %
Ontario	3	28,234	6 %	3	27,127	7 %
All other	4	53,100	11 %	4	49,070	13 %
Total	34	465,325	100 %	29	388,386	100 %

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 of Dealerships	Operating Name	Franchise	Year Opened or Acquired
Wholly-Owned Dealerships:			
Calgary, Alberta	Courtesy Chrysler Dodge	Chrysler	2013
Calgary, Alberta	Calgary Hyundai	Hyundai	2014
Calgary, Alberta	Crowfoot Hyundai	Hyundai	2014
Calgary, Alberta	Hyatt Mitsubishi	Mitsubishi	2014
Calgary, Alberta	Northland Volkswagen	Volkswagen	2014
Calgary, Alberta	Fish Creek Nissan	Nissan	2014
Calgary, Alberta	Hyatt Infiniti	Infiniti	2014
Edmonton, Alberta	Crosstown Chrysler Jeep Dodge FIAT	Chrysler	1994
Edmonton, Alberta	Capital Chrysler Jeep Dodge FIAT	Chrysler	2003
Grande Prairie, Alberta	Grande Prairie Chrysler Jeep Dodge FIAT	Chrysler	1998
Grande Prairie, Alberta	Grande Prairie Hyundai	Hyundai	2005
Grande Prairie, Alberta	Grande Prairie Subaru	Subaru	1998
Grande Prairie, Alberta	Grande Prairie Mitsubishi	Mitsubishi	2007
Grande Prairie, Alberta	Grande Prairie Nissan	Nissan	2007
Grande Prairie, Alberta	Grande Prairie Volkswagen	Volkswagen	2013
Ponoka, Alberta	Ponoka Chrysler Jeep Dodge	Chrysler	1998
Sherwood Park, Alberta	Sherwood Park Hyundai	Hyundai	2006
Abbotsford, British Columbia	Abbotsford Volkswagen	Volkswagen	2011
Chilliwack, British Columbia	Chilliwack Volkswagen	Volkswagen	2011
Kelowna, British Columbia	Okanagan Chrysler Jeep Dodge FIAT	Chrysler	2003
Maple Ridge, British Columbia	Maple Ridge Chrysler Jeep Dodge FIAT	Chrysler	2005
Maple Ridge, British Columbia	Maple Ridge Volkswagen	Volkswagen	2008
Prince George, British Columbia	Northland Chrysler Jeep Dodge	Chrysler	2002
Prince George, British Columbia	Northland Hyundai	Hyundai	2005
Prince George, British Columbia	Northland Nissan	Nissan	2007
Victoria, British Columbia	Victoria Hyundai	Hyundai	2006
Winnipeg, Manitoba	St. James Audi	Audi	2013
Winnipeg, Manitoba	St. James Volkswagen	Volkswagen	2013
Winnipeg, Manitoba	Eastern Chrysler Jeep Dodge	Chrysler	2013
Moncton, New Brunswick	Moncton Chrysler Jeep Dodge	Chrysler	2001
Dartmouth, Nova Scotia	Dartmouth Chrysler Jeep Dodge	Chrysler	2006
Cambridge, Ontario	Cambridge Hyundai	Hyundai	2008
Mississauga, Ontario	401/Dixie Hyundai	Hyundai	2008
Newmarket, Ontario	Newmarket Infiniti Nissan	Nissan / Infiniti	2008

Location of Dealerships	Operating Name	Franchise	Year Opened or Acquired
Montreal, Quebec	BMW Canbec and MINI Mont Royal	BMW / MINI	2014
Saskatoon, Saskatchewan	Dodge City Chrysler Jeep Dodge RAM	Chrysler	2014
Dealership Investments:			
Sherwood Park, Alberta	Sherwood Park Chevrolet	General Motors	2012
Sherwood Park, Alberta	Sherwood Buick GMC	General Motors	2012
Duncan, British Columbia	Peter Baljet Chevrolet GMC Buick	General Motors	2013
Winnipeg, Manitoba	McNaught Cadillac Buick GMC	General Motors	2014
Prince Albert, Saskatchewan	Mann-Northway Auto Source	General Motors	2014
Saskatoon, Saskatchewan	Saskatoon Motor Products	General Motors	2014

Seasonality

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

OUR PERFORMANCE

Performance vs. the Canadian New Vehicle Market

New light vehicle sales in Canada in the six month period ended June 30, 2014 were up 2.8% when compared to the same period in 2013. Sales of new light vehicles in Alberta and British Columbia, our primary markets, remained relatively flat and increased by 3.3%, respectively. The Company's same store unit sales of new vehicles decreased by 3.6% during the six month period ended June 30, 2014, mainly due to a decrease in low margin new fleet unit sales (corporate sales). The Company's same store new vehicle retail unit sales increased by 4.5% during the quarter. We accredit the strong retail sales performance of our dealerships to their management teams and their ability to leverage best practices in advertising and sales process as a result of operating within a dealer group.

The following table summarizes Canadian new light vehicle sales for the six month period ended June 30, 2014 by Province:

June Year to Date Canadian New Vehicle Sales by Province [1]

	June Year to Date			
	2014	**2013**	**Percent Change**	**Unit Change**
British Columbia	94,263	91,281	3.3 %	2,982
Alberta	128,466	128,451	- %	15
Saskatchewan	26,779	28,273	(5.3)%	(1,494)
Manitoba	26,521	27,816	(4.7)%	(1,295)
Ontario	355,630	324,486	9.6 %	31,144
Quebec	208,136	213,588	(2.6)%	(5,452)
New Brunswick	20,660	20,877	(1.0)%	(217)
PEI	3,512	3,650	(3.8)%	(138)
Nova Scotia	26,894	27,141	(0.9)%	(247)
Newfoundland	17,233	18,104	(4.8)%	(871)
Total	908,094	883,667	2.8 %	24,427

[1] DesRosiers Automotive Consultants Inc.

Performance vs. the Second Quarter of Prior Year

The second quarter of 2014 was a productive quarter for our Management team. During the quarter, the Company completed seven dealership acquisitions, as well as two additional acquisitions in early July for a total of nine dealerships over the past 120 days. Management is very pleased with the quality of dealerships that the Company has acquired, including the Hyatt Group of Dealerships in Calgary, our largest acquisition to date. The Company is also pleased to have added two new brands to its portfolio, BMW and MINI, through the acquisition of BMW Canbec and MINI Mont Royal, located in Montreal, Quebec. We are proud to represent these two world class brands and begin to develop a platform in Montreal, a new market for our group.

In order to fund the higher rate of acquisition growth, the Company successfully issued $150 million in 5.625% seven year senior unsecured notes which allowed the Company to pay down its existing credit facility and close the dealership acquisitions during the quarter. Subsequent to June 30th, the Company also successfully completed a $200 million equity offering which was used to pay down its revolving facility. As the Company had increased its acquisition guidance in June, the equity offering will provide the Company with adequate liquidity to execute on its increased acquisition guidance, which Management believes shall provide substantial shareholder value in the future.

With respect to the automotive retail market in Canada, new vehicle sales have continued to perform at record levels as a result of an improved economy and lower financing costs which, in turn, have made new vehicles more affordable to the consumer. Improvements in technology and fuel economy have also contributed to the higher level of sales as customers benefit both in safety and lower operating costs by purchasing a new vehicle.

In addition to growing its portfolio of dealerships, Management is very pleased with the operating performance of its dealerships in the second quarter of 2014 which reflects, in part, improved same store performance. The Company improved its second quarter profit before tax by $2.5 million or 16.9% to $17.3 million from $14.8 million in the second quarter of 2013. The combination of earnings from acquisitions made over the past year and gains made in same store sales and gross profits have contributed to the increase in profitability. The Company is also very pleased to have again improved its same store gross profit in all four of its departments during the quarter.

Eight of the nine acquisitions completed over the past 120 days occurred in June and July of 2014. As such, the Company incurred the full acquisition costs associated with these purchases but realized only nominal return from the operation of the dealerships due to the timing of acquisitions, thus negatively impacting the Company's operating expenses by approximately $0.8 million over the same quarter of the prior year as result of related legal and other due diligence costs, such as environmentals and appraisals for each acquisition.

As previously noted above, the Company raised $150 million in the form of senior unsecured notes during the quarter in order to fund acquisitions during this period. As such, the Company accrued approximately $1.0 million in interest costs associated with this debt during the quarter; however as acquisitions were mainly completed throughout the months of June and July, the returns associated with these acquisitions were nominal.

As a result of the increased number of transactions during the quarter and the associated costs, the Company’s profit before tax was approximately $1.9 million lower than anticipated had these transactions not occurred. Notwithstanding these additional costs, Management is pleased with its latest acquisitions and expects the benefit of these transactions to begin to be realized in the third quarter of 2014.

Revenue from all dealerships increased by 19.8% in the second quarter partly due to acquisitions completed over the prior year, as well as increases in same store sales. Same store revenues increased by 4.1% during the second quarter of 2014 as compared to the prior year quarter.

Similar to revenues, gross profit from all dealerships increased by 20.4% in the second quarter due to acquisitions completed over the past year. Same store gross profits increased by 5.4% during the second quarter, as a result of increased revenues in some of the higher margin departments.

Same store sales during the quarter were tempered by a 0.7% decrease in same store new vehicle sales. Same store new vehicle fleet sales (low margin sales to corporate customers) decreased by 31.4% or $17.2 million during the quarter as a result of less corporate purchases from our stores. As the Company has very little control over fleet sales and these sales typically provide nominal gross profit, Management is not concerned about this decrease. Management is very pleased with the 8.4% or $15.5 million increase in new vehicle retail sales which provide the Company with higher gross margin and sales opportunities for other dealership departments. Same store new vehicle gross margin increased by 1.6% during the quarter as a result of the increase in new vehicle retail sales, but slightly offset by a lower gross profit per new vehicle retailed.

During the quarter, the Company’s same store used vehicle sales increased by 17.6% or $12.7 million. Strong used vehicle retail sales, increases in used vehicles wholesaled, and development of inventory management programs during the quarter contributed to this increase. The Company’s same store used vehicle gross profit remained relatively flat with a 0.3% increase. The Company continued to roll out its used vehicle merchandizing program in the remainder of its dealerships early in the year. As a result of the program, we have seen short-term gross profit decrease when implemented by a dealership as it adjusts to a higher volume, higher turnover program. However, as we continue to monitor our dealerships after implementing the program, we've typically seen volume and gross profit increases, which also contribute to increased reconditioning opportunities for our service departments and sales opportunities for our finance and insurance departments.

Our dealerships' finance and insurance departments benefited from the increases in same store new and used retail sales. During the quarter, our finance and insurance departments generated a 6.2% increase in same store revenue. Increases in the finance and insurance department typically lead to higher overall operating margins due to the high margin nature of these sales. As such, the continued focus on retail sales continues to positively impact the Company's business and profits. The Company's same store finance and insurance gross profit increased by 6.1% during the quarter, in line with revenues.

We are also very encouraged by the performance of our parts, service and collision repair departments. In the second quarter of 2014, we achieved an 8.2% increase in same store sales in this department. Although same store repair orders completed decreased slightly, this was more than offset by an increase in the average revenue per repair order. Our dealerships continue to benefit from improvements in technology and process and we expect continued gains in this highly profitable department. Same store parts, service and collision repair gross profit increased by 11.3% during the quarter. We are extremely pleased with the results of our fixed operations, which provide a solid foundation of continued revenue and profit for the Company.

Operating expenses increased by 21.2%, in line with our gross profit increase of 20.4%, during the second quarter of 2014 as compared to the same quarter in 2013. The increase in operating expenses for the quarter was mainly a result of operating costs from acquired dealerships over the past year and increases in commission-based employee costs as a result of increased sales. The Company considers operating expenses as a percentage of gross profit to be a more suitable indicator of expense control. During the second quarter of 2014, our operating expenses as a percentage of gross profit increased to 75.5% from 75.0% in the second quarter of 2013. As previously noted, increased costs associated with acquisitions completed during the quarter increased this percentage by approximately 100 basis points. In addition, employee costs as a percentage of gross profit increased from 49.1% in the second quarter of 2013 to 50.0% in 2014. As the Company continues to grow, it requires additional staff in dealerships and its dealer support services team to effectively manage its dealerships. Accordingly, wages have increased slightly during the period as a percentage of gross profit. We would expect the percentage of employee costs to gross profit to moderate as the impact of new acquisitions are realized in future quarters. Another significant impact on operating costs during the quarter was a result of approximately $0.6 million in additional share-based compensation expense on our cash-settled restricted share units and deferred share units as the liability associated with these units is valued based on the Company's share price. The Company's share price increased from $61.50 to $79.03 or 28.5% during the quarter which resulted in the additional non-cash expense. The Company considers this mark to market expense to be non-cash in nature as we maintain a share purchase trust in which we purchase shares on the open market as these units are granted in order to reduce the cash flow risk associated with fluctuations in the share price.

The investments that the Company has made in General Motors dealerships continue to perform well as the income from our investments in these dealerships increased by $1.6 million during the second quarter. All of our General Motors dealerships are performing very well and have continued to improve each quarter.

The Company's finance costs increased during the quarter to $4.4 million from $2.3 million in the prior year quarter. This was a result of both an increase in the amount drawn on the Company's revolving term facility in order to fund acquisitions, as well as an increase in floorplan interest as a result of an overall increase in inventories during the period as compared to the prior year. In addition, the Company incurred approximately $0.9 million in interest expense associated with the issuance of $150 million of senior unsecured notes in May.

Overall, the Company is very pleased with its results for the second quarter of 2014 and we continue to focus on improving our same store operations and integrating new acquisitions.

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 Operating Data and gross profit %)	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Income Statement Data								
New vehicles	190,065	159,026	174,279	254,261	257,222	197,097	216,524	289,918
Used vehicles	62,816	57,260	62,656	77,113	85,975	75,137	85,968	102,025
Parts, service and collision repair	28,488	29,920	29,515	34,455	37,104	41,267	40,724	46,078
Finance, insurance and other	16,783	14,931	17,604	22,557	22,533	20,276	21,050	27,304
Revenue	298,152	261,137	284,054	388,386	402,834	333,777	364,266	465,325
New vehicles	15,556	15,527	16,039	20,792	20,694	18,326	17,813	23,822
Used vehicles	4,004	3,637	3,789	5,795	6,240	4,450	5,550	6,506
Parts, service and collision	15,133	15,418	15,232	17,586	20,114	20,822	20,593	23,373
Finance and insurance	15,436	13,788	16,082	20,678	20,669	18,738	19,517	24,342
Gross profit	50,129	48,370	51,142	64,851	67,717	62,336	63,473	78,043
Gross Profit %	16.8 %	18.5 %	18.0 %	16.7 %	16.8 %	18.7 %	17.4 %	16.8 %
Operating expenses	38,361	37,739	40,353	48,639	51,080	48,447	50,402	58,920
Operating exp. as a % of gross profit	76.5 %	78.0 %	78.9 %	75.0 %	75.4 %	77.7 %	79.4 %	75.5 %
Finance costs - floorplan	2,745	1,859	1,675	1,888	1,903	1,887	1,965	2,146
Finance costs - long term debt	250	257	237	218	163	388	764	1,844
Reversal of impairment of intangibles	-	(222)	-	-	-	(746)	-	-
Income from investments in associates	130	255	201	648	555	836	893	2,238
Income tax	2,379	2,540	2,309	3,976	3,920	3,490	2,881	4,477
Net earnings (4)	6,803	6,607	6,821	10,823	10,966	9,553	8,296	12,831
EBITDA (1)(4)	10,575	10,299	10,557	16,507	16,626	14,754	14,453	21,702
Basic earnings (loss) per share	0.344	0.334	0.345	0.532	0.507	0.441	0.383	0.588
Diluted earnings per share	0.344	0.334	0.345	0.532	0.507	0.441	0.383	0.588
Operating Data								
Vehicles (new and used) sold	8,087	6,703	7,341	10,062	10,325	8,046	8,766	9,887
Vehicles (new and used) sold including GM (5)	8,783	7,378	8,123	11,399	11,405	9,209	9,945	12,414
New vehicles sold including GM (5)	6,178	4,956	5,665	8,246	8,023	6,090	6,570	8,658
New retail vehicles sold	4,410	3,982	4,118	5,487	5,986	4,932	4,773	5,980
New fleet vehicles sold	1,265	549	1,036	1,923	1,365	552	1,132	1,146
Used retail vehicles sold	2,412	2,172	2,187	2,652	2,974	2,562	2,861	2,761
Number of service & collision repair orders completed	78,944	78,001	77,977	93,352	97,074	95,958	91,999	97,559
Absorption rate (2)	89 %	85 %	82 %	90 %	90 %	90 %	85 %	92 %
# of wholly-owned dealerships at period end	24	24	25	27	29	28	28	34
# of wholly-owned same store dealerships (3)	21	22	22	22	22	21	23	23
# of service bays at period end	333	333	341	368	413	406	406	516
Same store revenue growth (3)	8.0 %	7.4 %	12.9 %	26.2 %	19.9 %	8.9 %	13.0 %	4.1 %
Same store gross profit growth (3)	7.9 %	11.9 %	16.9 %	25.8 %	18.5 %	9.2 %	8.1 %	5.4 %
Balance Sheet Data								
Cash and cash equivalents	54,255	34,471	41,991	35,058	38,034	35,113	41,541	91,622
Restricted cash	-	10,000	10,000	10,000	-	-	-	-
Trade and other receivables	54,148	47,993	64,719	69,714	62,098	57,662	69,747	85,837
Inventories	194,438	199,085	217,663	232,837	237,421	278,062	261,768	324,077
Revolving floorplan facilities	212,840	203,525	225,387	246,325	228,526	264,178	261,263	313,752

1 EBITDA has been calculated as described under "NON-GAAP MEASURES".
2 Absorption has been calculated as described under "NON-GAAP MEASURES".
3 Same store revenue growth & same store gross profit growth is calculated using franchised automobile dealerships that we have owned for at least 2 full years.
4 The results from operations have been lower in the first and fourth quarters of each year, largely due to consumer purchasing patterns during the holiday season, inclement weather and the reduced number of business days during the holiday season. As a result, our financial performance is generally not as strong during the first and fourth quarters than during the other quarters of each fiscal year. The timing of acquisitions may have also caused substantial fluctuations in operating results from quarter to quarter.
5 The Company has investments in General Motors dealerships that are not consolidated. This number includes 100% of vehicles sold by these dealerships in which we have less than 100% investment.

RESULTS FROM OPERATIONS

Second Quarter Operating Results

EBITDA for the three month period ended June 30, 2014 increased by 31.5% to $21.7 million, from $16.5 million when compared to the results of the Company for the same period in the prior year. The increase in EBITDA for the quarter can be mainly attributed to improvements in all four business streams. The Company also purchased a number of properties in late 2013 that have contributed to the increase in EBITDA. As noted previously, the Company's EBITDA was negatively impacted by $0.6 million as a result of an increase in share-based compensation due to a 28.5% increase in the Company's share price during the quarter. Adjusted EBITDA for the quarter ended June 30, 2014 increased by $5.6 million or 33.5% from $16.7 million to $22.3 million when compared to the results of the Company for the same quarter in the prior year.

The following table illustrates EBITDA for the three month period ended June 30, 2014, for the last three years of operations.

(in thousands of dollars) Period from April 1, 2014 to June 30, 2014	2014	2013	2012
Net earnings	12,831	10,823	6,713
Income tax	4,477	3,976	2,216
Depreciation of property and equipment	2,550	1,490	1,028
Interest on long-term indebtedness	1,844	218	239
EBITDA	21,702	16,507	10,196
Add:	-	-	-
Share-based compensation attributed to changes in share price	591	212	17
Adjusted EBITDA	22,293	16,719	10,213

Pre-tax earnings increased by $2.5 million or 16.9% to $17.3 million for the three month period ended June 30, 2014 from $14.8 million in the same period of the prior year. Net earnings increased by $2.0 million or 18.5% to a profit of $12.8 million in the second quarter of 2014 from a $10.8 million profit when compared to the prior year. Strong improvements in same store sales and gross profit, as well as the impact of acquisitions completed over the past year, contributed to the increase in net earnings. Income tax expense increased by $0.5 million to $4.5 million in the second quarter of 2014 from $4.0 million in the same period of 2013 due to the increase in pre-tax earnings.

Adjusted net earnings increased by $2.3 million or 20.9% to $13.3 million for the three month period ended June 30, 2014 from $11.0 million in the same period of the prior year.

The following table reconciles net earnings to adjusted net earnings for the three month periods ended June 30:

(in thousands of dollars)	2014	2013	2012
Net earnings	12,831	10,823	6,713
Add back:			
Share-based compensation attributed to changes in share price, net of tax	438	157	13
Adjusted net earnings	13,269	10,980	6,726
Weighted average number of shares	21,833	20,347	19,876
Adjusted net earnings per share	0.61	0.54	0.34

The following table illustrates EBITDA for the six month period ended June 30, 2014, for the last three years of operations.

(in thousands of dollars) **Period from January 1, 2014 to June 30, 2014**	**2014**	**2013**	**2012**
Net earnings	21,125	17,645	10,824
Income tax	7,358	6,285	3,658
Depreciation of property and equipment	5,061	2,679	2,053
Interest on long-term indebtedness	2,608	456	452
EBITDA	36,152	27,065	16,987
Add back:			
Share-based compensation attributed to changes in share price	1,156	351	67
Adjusted EBITDA	37,308	27,416	17,054

For the six month period ended June 30, 2014, pre-tax earnings increased by $4.6 million or 19.2% to $28.5 million from $23.9 million in the same period of the prior year. Net earnings increased by $3.5 million or 19.9% to a profit of $21.1 million in the six month period ended June 30, 2014 from a $17.6 million profit when compared to the prior year. Income tax expense increased by $1.1 million to $7.4 million in the six month period ended June 30, 2014 from $6.3 million in the same period of 2013.

Adjusted net earnings increased by $4.1 million or 22.9% to $22.0 million for the six month period ended June 30, 2014 from $17.9 million in the same period of the prior year.

The following table reconciles net earnings to adjusted net earnings for the six month periods ended June 30:

(in thousands of dollars)	**2014**	**2013**	**2012**
Net earnings	21,125	17,645	10,824
Share-based compensation attributed to changes in share price, net of tax	857	260	50
Adjusted net earnings	21,982	17,905	10,874
Weighted average number of shares	21,760	20,076	19,879
Adjusted net earnings per share	1.01	0.89	0.55

Revenues

Revenues for the three and six month periods ended June 30, 2014 increased by $76.9 million and $157.2 million or 19.8% and 23.4%, respectively, as compared to the same period of the prior year. This increase was mainly driven by increases in all four revenue streams. New vehicle sales increased by $35.6 million or 14.0% for the three month period ended June 30, 2014 to $289.9 million from $254.3 million in the same period of the prior year, mainly due to an increase in the average revenue per new vehicle sold of $6,372 or 18.6%, slightly offset by a decrease in the number of new vehicles sold of 3.8%. The various manufacturer incentives offered on new vehicles, combined with low interest rates, have made purchasing a new vehicle more affordable for our customers, which we believe to be a critical driver of new vehicle sales in the industry. Used vehicle sales increased by $24.9 million or 32.3% for the three month period ended June 30, 2014. Used vehicle sales for the six month period ended June 30, 2014 increased by $48.2 million or 34.5% when compared to the same period in the prior year. The increase in new and used vehicle retail sales greatly contributed to the increase in finance and insurance revenue, which increased by $4.7 million or 20.8% and $8.2 million or 20.4% in the three month period and the six month period ended June 30, 2014, respectively. Parts, service and collision repair revenue increased by $11.6 million or 33.7% and $22.8 million or 35.6% for the three and six month periods ended June 30, 2014, respectively.

Revenues - Same Store Analysis

The following table summarizes the results for the three month period and the six month period ended June 30, 2014 on a same store basis by revenue source and compares these results to the same period in 2013.

Same Store Revenue and Vehicles Sold

	For the Three Months Ended			**For the Six Months Ended**		
(in thousands of dollars)	**June 30, 2014**	**June 30, 2013**	**% Change**	**June 30, 2014**	**June 30, 2013**	**% Change**
Revenue Source						
New vehicles - retail	200,237	184,780	8.4 %	353,000	325,599	8.4 %
New vehicles - fleet	37,534	54,704	(31.4)%	72,892	84,038	(13.3)%
New vehicles	237,771	239,484	(0.7)%	425,892	409,637	4.0 %
Used vehicles - retail	60,184	54,765	9.9 %	116,503	101,083	15.3 %
Used vehicles - wholesale	24,875	17,584	41.5 %	43,157	32,754	31.8 %
Used vehicles	85,059	72,349	17.6 %	159,660	133,837	19.3 %
Finance, insurance and other	22,423	21,109	6.2 %	40,701	38,153	6.7 %
Subtotal	345,253	332,942	3.7 %	626,253	581,627	7.7 %
Parts, service and collision repair	33,539	30,993	8.2 %	65,596	59,425	10.4 %
Total	378,792	363,935	4.1 %	691,849	641,052	7.9 %
New retail vehicles sold	5,390	5,159	4.5 %	9,505	9,177	3.6 %
New fleet vehicles sold	1,109	1,906	(41.8)%	2,153	2,933	(26.6)%
Used retail vehicles sold	2,589	2,521	2.7 %	5,036	4,666	7.9 %
Total	9,088	9,586	(5.2)%	16,694	16,776	(0.5)%
Total vehicles retailed	7,979	7,680	3.7 %	14,541	13,843	5.0 %

Same store revenue increased by $14.9 million or 4.1% in the three month period ended June 30, 2014 when compared to the same period in 2013. Same store new vehicle revenues decreased by $1.7 million or 0.7% for the second quarter of 2014 over the prior year quarter due to a decrease in low margin new vehicle fleet sales of 797 units or 41.8%, partially offset by an increase in new vehicles retailed of 231 units or 4.5%. Same store new vehicle revenues increased by $16.3 million or 4.0% for the six month period ended June 30, 2014 over the same period in the prior year due to a decrease in the number of low margin new vehicle fleet sales of 780 units or 26.6%, which was offset by an increase in the average revenue per new vehicle retailed of $1,658 or 4.7% and an increase in new vehicle retailed of 328 units or 3.6%.

Same store used vehicle revenues increased by $12.7 million or 17.6% for the three month period ended June 30, 2014 over the same period in the prior year due to an increase in used vehicle sales of 68 units or 2.7%. The Company's used vehicle wholesale revenue increased by $7.3 million or 41.5%, which contributed to the revenue increase as a result of an increased number of trade-in vehicles from improving new retail sales. For the six month period ended June 30, 2014, used vehicle revenues increased by $25.8 million or 19.3% due to an increase in used vehicle sales of 370 units or 7.9%. Same store used vehicle retail sales increased by $15.4 million or 15.3% and used vehicle wholesale revenues increased by $10.4 million or 31.8% during the six month period.

Same store parts, service and collision repair revenue increased by $2.5 million or 8.2% for the second quarter of 2014 compared to the prior period and was primarily a result of a $34 or 9.4% increase in the average revenue per repair order completed partially offset by a decrease in overall repair orders completed of 953 or 1.1%. For the six month period ended June 30, 2014, parts, service and collision repair revenue increased by $6.2 million or 10.4%, mainly due to an increase in overall repair orders completed of 207 and a $37 or 10.0% increase in the average revenue per repair order completed.

Same store finance, insurance and other revenue increased by $1.3 million or 6.2% for the three month period ended June 30, 2014 over the same period in 2013. This was due to an increase in the average revenue per unit retailed of $62 or 2.3% and an increase in the number of new and used vehicles retailed of 299 units. For the six month period ended June 30, 2014, same store finance, insurance and other revenue increased by $2.5 million or 6.7% over the same period in 2013 mainly due to an increase in the average revenue per unit retailed of $43 or 1.6% and an increase in the number of new and used vehicles retailed of 698 units.

Gross Profit

Gross profit increased by $13.2 million and $25.5 million, or 20.4% and 22.0% respectively, for the three month period and the six month period ended June 30, 2014 when compared to the same periods in the prior year. As with revenues, gross profit increased due to increases across all four revenue streams. Gross profit on the sale of new vehicles increased by $3.0 million or 14.6% for the three month period ended June 30, 2014. The increase in new vehicle gross profit can be attributed to an increase in the average profit per new vehicle sold of $537 or 19.1% slightly offset by a decrease in the number of new vehicles sold of 284 or 3.8%. During the three month period ended June 30, 2014, gross profit from used vehicles increased by $0.7 million or 12.3% over the same period in the prior year due to increases in the number of used vehicles sold of 109 or 4.1% and the average gross profit per used vehicle sold of $171 or 7.8%. The Company's finance and insurance gross profit increased by $3.7 million or 17.9% during the second quarter of 2014. This increase can mainly be attributed to increases in the total number of vehicles retailed of 602 or 7.4% and the average gross profit per unit retailed of $248 or 9.8%. Parts, service and collision repair gross profit increased by $5.8 million or 33.2% in the second quarter of 2014, due to increases in the number of repair orders completed of 4,207 or 4.5% and the average gross profit per repair order completed of $103 or 27.9%.

Gross Profit - Same Store Analysis

The following table summarizes the results for the three month period and the six month period ended June 30, 2014, on a same store basis by revenue source, and compares these results to the same periods in 2013.

Same Store Gross Profit and Gross Profit Percentage

	For the Three Months Ended					
	Gross Profit			Gross Profit %		
(in thousands of dollars)	**June 30, 2014**	**June 30, 2013**	**% Change**	**June 30, 2014**	**June 30, 2013**	**Change**
Revenue Source						
New vehicles - Retail	19,859	19,363	2.6 %	9.9 %	10.5 %	(0.6)%
New vehicles - Fleet	220	402	(45.3)%	0.6 %	0.7 %	(0.1)%
New vehicles	20,079	19,765	1.6 %	8.4 %	8.3 %	0.1 %
Used vehicles - Retail	4,418	4,695	(5.9)%	7.3 %	8.6 %	(1.3)%
Used vehicles - Wholesale	1,172	877	33.6 %	4.7 %	5.0 %	(0.3)%
Used vehicles	5,590	5,572	0.3 %	6.6 %	7.7 %	(1.1)%
Finance and insurance	20,508	19,338	6.1 %	91.5 %	91.6 %	(0.1)%
Subtotal	46,177	44,675	3.4 %	13.4 %	13.4 %	- %
Parts, service and collision	17,645	15,853	11.3 %	52.6 %	51.1 %	1.5 %
Total	63,822	60,528	5.4 %	16.8 %	16.6 %	0.2 %

	For the Six Months Ended					
	Gross Profit			Gross Profit %		
(in thousands of dollars)	**June 30, 2014**	**June 30, 2013**	**% Change**	**June 30, 2014**	**June 30, 2013**	**Change**
Revenue Source						
New vehicles - Retail	35,582	34,871	2.0 %	10.1 %	10.1 %	- %
New vehicles - Fleet	238	523	(54.5)%	0.3 %	0.8 %	(0.5)%
New vehicles	35,820	35,394	1.2 %	8.4 %	8.6 %	(0.2)%
Used vehicles - Retail	8,720	8,071	8.0 %	7.5 %	7.8 %	(0.3)%
Used vehicles - Wholesale	1,867	1,227	52.2 %	4.3 %	4.1 %	0.2 %
Used vehicles	10,587	9,298	13.9 %	6.6 %	6.9 %	(0.3)%
Finance and insurance	37,289	34,922	6.8 %	91.6 %	91.5 %	0.1 %
Subtotal	83,696	79,614	5.1 %	13.4 %	13.7 %	(0.3)%
Parts, service and collision	33,991	30,584	11.1 %	51.8 %	52.4 %	(0.6)%
Total	117,687	110,198	6.8 %	17.0 %	17.2 %	(0.2)%

Same store gross profit increased by $3.3 million or 5.4% and $7.5 million or 5.4% for the three month period and the six month period ended June 30, 2014 respectively when compared to the same period in the prior year. New vehicle gross profit increased by $0.3 million or 1.6% in the three month period ended June 30, 2014 when compared to 2013 as a result of an increase in the average gross profit per new vehicle sold of $292 or 10.4% partially offset by a decrease in new vehicle sales of 566 units or 8.0%. For the six month period ended June 30, 2014, new vehicle gross profit increased by $0.4 million or 1.2% which can be mainly attributed to an increase in the average gross profit per new vehicle sold of $150 or 5.1% slightly offset by a decrease in new vehicle sales of 452 units or 3.7%.

Used vehicle gross profit increased by $0.02 million or 0.3% in the three month period ended June 30, 2014 over the prior year. This was due to an increase in the number of used vehicles sold of 68 units partially offset by a decrease of $51 in the average gross profit per used vehicle retailed. For the six month period ended June 30, 2014, same store used vehicle gross profit increased by $1.3 million or 13.9% which was mainly due to an increase in the average gross profit per vehicle retailed of $110 or 5.5% and an increase in the number of vehicles retailed of 370 units. The average gross profit per used vehicle sold is a result of better management of its used wholesale vehicles, in which gross profit increased for the three and six month periods ended June 30, 2014 by $0.3 million or 33.6% and $0.6 million or 52.2%, respectively.

Parts, service and collision repair gross profit increased by $1.8 million or 11.3% in the three month period ended June 30, 2014 when compared to the same period in the prior year as a result of an increase in the average gross profit per repair order completed of $23 or 12.4% slightly offset by a decrease in the number of repair orders completed of 953. For the six month period ended June 30, 2014, parts, service and collision repair gross profit increased by $3.4 million or 11.1% which can be mainly attributed to an increase in the number of repair orders completed of 207 and an increase in the average gross profit per repair order completed of $21 or 11.1%.

Finance and insurance gross profit increased by 6.1% or $1.2 million in the three month period ended June 30, 2014 when compared to the prior year as a result of an increase in the average gross profit per unit sold of $52 and an increase in units retailed of 299. For the six month period ended June 30, 2014, finance and insurance gross profit increased by $2.4 million or 6.8% and can be attributed to an increase in the average gross profit per unit sold of $42 and an increase in units retailed of 698.

Operating expenses

Operating expenses increased by 21.2% or $10.3 million during the three month period ended June 30, 2014 as compared to the same period in the prior year. Since many operating expenses are variable in nature, management considers operating expenses as a percentage of gross profit to be a good indicator of expense control. Operating expenses as a percentage of gross profit increased to 75.5% in the second quarter of 2014 from 75.0% in the same period of the prior year. For the six month period ended June 30, 2014, operating expenses as a percentage of gross profit increased to 77.3% from 76.7% in the same period of the prior year. As previously noted, the Company incurred increased due diligence and legal costs associated with the higher volume of acquisitions during the quarter, which negatively impacted selling and administrative costs by $0.8 million. In addition, the Company incurred additional expense with respect to its share-based compensation programs, whereby the increase in the Company's share price increased this expense by $0.6 million during the quarter. The two items noted above impacted the Company's operating expenses as a percentage of gross profit by 180 basis points.

Employee costs

During the three month period ended June 30, 2014, employee costs increased by $7.2 million to $39.0 million from $31.8 million in the prior year period. Employee costs as a percentage of gross profit increased to 50.0% compared to 49.1% in the same period of the prior year. Employee costs as a percentage of gross profit for the six month period ended June 30, 2014 increased to 51.4% from 50.0% for the same period in the prior year. Management attributes the increases mainly to a decrease in new vehicle gross margins due to increased pricing competition in the marketplace and less volume incentives achieved in the first quarter of 2014 as compared to 2013. Management also attributes the increased expense to the addition of staff in its dealerships and dealer support services team, which are required to successfully manage and integrate new dealerships.

Selling and administrative costs

During the three month period ended June 30, 2014, selling and administrative costs increased by $2.9 million or 23.6% primarily due to the dealership acquisitions since the second quarter of 2013. Selling and administrative expenses as a percentage of gross profit increased to 19.5% in the second quarter of 2014 from 19.0% in the comparable period of 2013. For the six month period ended June 30, 2014, selling and administrative costs as a percentage of gross profit increased to 19.4% from 19.3% in the same period of the prior year. These decreases are due to less semi-variable costs such as advertising and other fixed costs as a percentage of gross profit. These costs were also impacted by the increase in acquisition activity and share-based compensation expense noted above.

Facility lease costs

During the three month period ended June 30, 2014, facility lease costs decreased by 26.7% to $2.2 million from $3.0 million primarily due to the purchase of the eleven previously leased real estate properties during the last quarter of 2013. For the six month period ended June 30, 2014 the Company's facility lease costs have decreased by 32.5% due to the real estate purchase noted previously.

Amortization

During the three month period ended June 30, 2014, amortization increased to $2.6 million from $1.5 million in the same period of the prior year. For the six month period ended June 30, 2014, amortization increased to $5.1 million from $2.7 million in the prior year. These increases are a result of the dealership acquisitions that occurred since the second quarter of 2013.

Income from investments in associates

During the three month period and six month period ended June 30, 2014, the Company earned $2.2 million and $3.1 million, respectively, including acquisition costs, as a result of its investments in Dealer Holdings Ltd. ("DHL"), Green Isle G Auto Holdings Inc. ("Green Isle"), Prairie Auto Holdings Ltd. ("PAH"), and Waverley BG Holdings Inc. ("WBG"). On April 1, 2014, the Company invested in WBG, which subsequently invested in McNaught Buick Cadillac GMC in Winnipeg, Manitoba. The investment made results in an indirect equity interest of 80%. In addition to the income from investments in associates, during the three and six month periods ended June 30, 2014, the Company also earned $0.09 million and $0.17 million, respectively, in management services revenue from subsidiaries of DHL and Green Isle. The management services agreements are fixed monthly fees charged to the General Motors dealerships from AutoCanada in return for marketing, training, technological support and accounting support. AutoCanada provides support services to all dealerships in which it owns and operates, however since the three dealerships are not wholly-owned by AutoCanada, the Company charges a management services fee in order to recover the costs of resources provided. The Company expects to begin earning management fees on its investments in PAH and WBG in the third quarter of 2014. Management is very pleased with the financial results of its investments in associates for the first half of 2014.

See GROWTH, ACQUISITIONS, RELOCATIONS AND REAL ESTATE for more information related to the investments.

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, 2014, finance costs on our revolving floorplan facilities increased by 10.5% to $2.1 million from $1.9 million in the second quarter of 2013, mainly due to increased inventory as a result of the acquisitions completed subsequent to the second quarter of 2013. Finance costs on long term indebtedness increased by $1.6 million in the second quarter of 2014 due to the increase in its revolving term facility and the offering of $150 million of senior unsecured notes in May of 2014.

Income Taxes

Income tax expense for the three month period ended June 30, 2014 increased by $0.5 million to $4.5 million from $4.0 million in 2013. For the six month period ended June 30, 2014, income tax expense increased by $1.1 million from $6.3 million to $7.4 million.

During the first half of 2014, the Company paid $9.8 million of cash taxes which relates to the fiscal 2013 taxation year and installments toward the 2014 taxation year. The payment of cash taxes will have an impact on adjusted free cash flow. Investors are cautioned that income taxes will have a more significant effect on the Company's cash flow in the future, and as a result, prior year levels of adjusted free cash flow will inherently be lowered by cash taxes in the future.

Sensitivity

Based on our historical financial data, management estimates that an increase or decrease of one new retail vehicle sold (and the associated finance and insurance income on the sale) would have resulted in a corresponding increase or decrease in our estimated free cash flow of approximately $1,500 - $2,000 per vehicle. The net earnings achieved per new vehicle retailed can fluctuate between individual dealerships due to differences between the manufacturers, geographical locations of our dealerships and the demographic of which our various dealerships' marketing efforts are directed. The above sensitivity analysis represents an average of our dealerships as a group and may vary depending on increases or decreases in new vehicles retailed at our various locations.

Floorplan costs net of manufacturer interest credits

Some of our manufacturers provide non-refundable credits on the finance costs for our revolving floorplan facilities to offset the dealership's cost of inventory that, on average, effectively provide the dealerships with interest-free floorplan financing for the first 45 to 60 days of ownership of each financed vehicle. During the three month period and the six month period ended June 30, 2014, the floorplan credits earned were $2,447 (2013 - $2,154) and $4,467 (2013 - $3,514), respectively. Accounting standards require the floorplan credits to be accounted for as a reduction in the cost of new vehicle inventory and subsequently a reduction in the cost of sales as vehicles are sold.

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

	For the Three Months Ended		**For the Six Months Ended**	
(in thousands of dollars)	**June 30, 2014**	**June 30, 2013**	**June 30, 2014**	**June 30, 2013**
Floorplan financing	2,146	1,888	4,111	3,563
Floorplan credits earned	(2,447)	(2,154)	(4,467)	(3,514)
Net carrying cost of vehicle inventory	(301)	(266)	(356)	49

GROWTH, ACQUISITIONS, RELOCATIONS AND REAL ESTATE

The Company operates 42 franchised automotive dealerships, 36 of which are wholly owned, and 6 in which it has an investment with significant influence.

Acquisitions

To date, the Company has acquired 11 dealerships in 2014, three of which were investments in General Motors dealerships. All wholly-owned acquisitions have been accounted for using the acquisition method. Acquisitions completed during this period are as follows:

BMW Canbec and MINI Mont Royal

On June 1 2014, the Company purchased the shares of Automobile Canbec Inc. ("BMW Canbec"), which owns and operates a BMW dealership and a MINI dealership, both located in Montreal, Quebec, for cash consideration of $27.0 million. Subsequent to acquisition, the Company is typically able to lower the consideration paid by financing additional inventory and lowering the purchased working capital. The acquisition was funded by drawing on the Company's revolving term facility. The purchase of this business is the Company's first BMW/MINI franchise and first dealership in Quebec.

Dodge City

On June 16, 2014, the Company purchased substantially all of the operating and fixed assets of Dodge City Auto 1984 Ltd. ("Dodge City"), in Saskatoon, Saskatchewan, for total cash consideration of $34.2 million. The acquisition was financed by drawing on the Company's revolving term facility. Included in the purchase price is an in-house lease portfolio of approximately $6.0 million which the Company has the ability to finance in the future. The purchase of this business complements the Company's other Chrysler dealerships and further expands its presence in Saskatoon, Saskatchewan.

Hyatt Group

Between the period of June 23, 2014 and July 1, 2014, the Company purchased all of the operating and fixed assets of 678938 Alberta Ltd. ("Calgary Hyundai"), 1446691 Alberta Ltd. ("Crowfoot Hyundai"), 998699 Alberta Ltd. ("Hyatt Mitsubishi"), 588338 Alberta Ltd. ("Northland Volkswagen"), 969642 Alberta Ltd. ("Fish Creek Nissan"), and 1791109 Alberta Ltd. ("Hyatt Infiniti"), herein referred to as (the "Hyatt Group"), in Calgary, Alberta, for total cash consideration of $91.4 million. The initial purchase price of the Hyatt Group was financed by drawing on the Company's revolving term facility. In addition, the Company issued 18,753 common shares at a deemed price of $79.99 per share on July 1, 2014 as consideration for the purchase of the exclusive right to build and operate a Nissan motor vehicle dealership on a designated property in southeast Calgary. The purchase of the Hyatt Group complements the Company's other existing and open point brands and expands its presence in Calgary, Alberta.

Dealership Investments

Investment in Waverley BG Holdings Inc. ("WBG")

On April 1, 2014, the Company invested a total of $11.3 million to acquire an 80.0% participating, non-voting common share interest in Waverley BG Holdings Inc. ("WBG"). WBG is an entity formed between a subsidiary of AutoCanada and Mr. Priestner which, on April 1, 2014, acquired 100% of the operating assets of McNaught Buick Cadillac GMC ("McNaught") in Winnipeg, Manitoba. To comply with GM Canada's approval, Mr. Priestner is required to have 100% voting control of WBG. The investment in WBG was reviewed and approved by the independent members of AutoCanada's Board of Directors.

The dealership is subject to financial covenants as part of its borrowing arrangements that may restrict its ability to transfer funds to WBG if the payment of such funds were to result in a breach of covenants. McNaught is also subject to minimum working capital requirements imposed by GM Canada, which may restrict the dealership's ability to transfer funds to WBG if minimum working capital requirements are not met.

Although the Company holds no voting rights in WBG, the Company exercises significant influence by virtue of its ability to appoint one member of the board of directors of WBG and the ability to participate in financial and operating policy decisions of WBG. The Company does not have the power to make key decisions or block key decisions due to a casting vote held by the Company's CEO. As a result, the Company has accounted for its investment in WBG under the equity method. There are no guarantees to WBG or significant relationships other than those disclosed in Note 23 of the condensed interim consolidated financial statements of the Company for the period ended March 31, 2014.

Although Mr. Priestner controls WBG, the unanimous shareholder agreement contains certain protective rights relating to AutoCanada's investment in WBG including prohibiting Mr. Priestner, or related parties of Mr. Priestner, from entering into contracts with WBG without the consent of AutoCanada. In addition, the agreement contains a number of protective clauses for AutoCanada that limit Mr. Priestner's ability to dilute the interests of other shareholders, without prior approval of AutoCanada. Further, if any of the protective clauses in the agreement are breached, AutoCanada has the ability to exit from its shareholdings and require WBG or Mr. Priestner to pay AutoCanada for its shares based on the valuation of the shares by an independent chartered business valuator.

Investment in Prairie Auto Holdings Ltd. ("PAH")

On March 10, 2014, the Company invested a total of $41.7 million consisting of $32.6 million in cash and the issuance of 205,000 shares of ACI (at a value of $9.1 million) to acquire an 82.353% non-voting equity interest in Prairie Auto Holdings Ltd. ("PAH"). PAH is an entity formed between a subsidiary of AutoCanada and Mr. Priestner which, on March 10, 2014, acquired an 85% equity interest in the shares of Saskatoon Motor Products ("SMP"), a Chevrolet dealership in Saskatoon, Saskatchewan and Mann-Northway Auto Source ("MNAS"), a Chevrolet, GMC, Buick and Cadillac dealership in Prince Albert, Saskatchewan. The remaining 15% equity interest in the two dealerships is held by Mr. Robert Mann, the Company's Dealer Partner at the two stores, who currently operates the stores. As a result of its investment, the Company owns a 70% indirect interest in the two dealerships.

The PAH dealerships are subject to financial covenants as part of their borrowing arrangements that may restrict their ability to transfer funds to PAH if the payment of such funds were to result in a breach of covenants. SMP and MNAS are also subject to minimum working capital requirements imposed by GM Canada, which restrict the dealerships' ability to transfer funds to PAH if minimum working capital requirements are not met. To comply with GM Canada's approval, Mr. Priestner is required to have 100% voting control of PAH. The investment in PAH was reviewed and approved by the independent members of AutoCanada's Board of Directors.

Although the Company holds no voting rights in PAH, the Company exercises significant influence by virtue of its ability to appoint one member of the board of directors of PAH and the ability to participate in financial and operating policy decisions of PAH. The Company does not have the power to make key decisions or block key decisions due to a casting vote held by the Company's CEO. As a result, the Company has accounted for its investment in PAH under the equity method. There are no guarantees to PAH or significant relationships other than those disclosed in Note 11 of the condensed interim consolidated financial statements of the Company for the period ended March 31, 2014.

Although Mr. Priestner controls PAH, the unanimous shareholder agreement contains certain protective rights relating to AutoCanada's investment in PAH including prohibiting Mr. Priestner, or related parties of Mr. Priestner, from entering into contracts with PAH without the consent of AutoCanada. In addition, the agreement contains a number of protective clauses for AutoCanada that limit Mr. Priestner's ability to dilute the interests of other shareholders, without prior approval of AutoCanada. Further, if any of the protective clauses in the agreement are breached, AutoCanada has the ability to exit from its shareholdings and require PAH or Mr. Priestner to pay AutoCanada for its shares based on the valuation of the shares by an independent chartered business valuator.

Dealership Open Points

In 2012, the Company announced that it had signed a letter of intent with Kia Canada Inc. which awarded AutoCanada an open point dealership in Edmonton, Alberta. Since this time, AutoCanada was able to purchase an appropriate facility and began renovations to the dealership facility in early 2014. The Company expects to open the new dealership in August of 2014. Management is very excited to open and operate its first Kia dealership in its home market of Edmonton. The Company expects to incur approximately $1.5 million in renovations to the building prior to its grand opening.

In February of 2014, the Company announced that it had been awarded the right to a Volkswagen open point dealership in Sherwood Park, Alberta. The Company intends to construct an approximately 45,000 square foot facility in Sherwood Park, designed to Volkswagen Canada image standards, with construction anticipated to be completed in the first quarter of 2016. The Volkswagen open point has a planning potential of 800 new vehicles annually which the Company anticipates achieving in two to three years of operation. The Company currently estimates the cost of construction to be approximately $14.6 million for land and building. The costs of dealership open points described above have not been included in the costs described below in the Company's Capital Plan.

On July 1, 2014, as part of the Company's purchase of the Hyatt Group, the Company acquired the exclusive right to build and operate a Nissan dealership on a designated property in southeast Calgary. The purchase price for transfer of the right was $1.5 million, which was satisfied by the issuance of 18,753 common shares of AutoCanada at a deemed price of $79.99. The dealership will begin construction in 2015 with anticipated opening in 2016. The dealership will be constructed by a third party and subsequently leased by the Company.

Dealership Relocations

Relocation of Northland Chrysler Jeep Dodge and Northland Nissan

The Company is currently in the process of relocating its Northland Chrysler Jeep Dodge Ram dealership. The expected total project cost including land is $18 million. The Northland Chrysler Jeep Dodge Ram dealership has outgrown its current facility, as the dealership has frequently been in competition to be one of the highest volume Chrysler Jeep Dodge Ram dealerships in the country. As a result, the dealership requires a larger facility to service its expanding customer base over the long term including additional service bays and a larger lot for the display of inventory and used inventory. Construction of the new facility commenced in the fourth quarter of 2013 with expected completion in early 2015.

Once the Company has successfully relocated its Northland Chrysler Jeep Dodge Ram dealership, we intend to renovate the building and relocate our Northland Nissan dealership to operate out of the current Northland Chrysler Jeep Dodge Ram facility. We believe that this facility, which is better situated and larger than Northland Nissan's current facility, will result in increased sales and profitability. We would expect the Northland Nissan relocation to be completed in late 2015 and will cost approximately $2.0 million to reimage the building.

Relocation of Chilliwack Volkswagen

On April 3, 2014, the Company purchased the existing Chilliwack Volkswagen facility that was formerly leased from a third party. The purchase price of the land and building was $1.8 million. The Company intends to construct a new building on the property at an anticipated cost of $4.5 million. The dealership will continue to operate out of its current facility, which will be demolished upon completion of the new facility.

Relocation of dealerships provides long term earnings sustainability and is necessary to meet Manufacturer facility requirements and further Manufacturer relationships. Historically, the relocation of our dealerships has resulted in significant improvements in revenues and overall profitability.

Capital Plan

In addition to dealership open points and dealership relocations described above, the Company maintains a capital plan for contemplated future capital projects. Details of the capital plan are described below:

Dealership Relocations

Management estimates the total capital requirements of additional potential planned dealership relocations to be approximately $88.3 million over the next three years. As noted above, the Company expects dealership relocations to provide long term earnings sustainability and result in significant improvements in revenues and overall profitability.

Current Dealership Expansion and Imaging Requirements

The Company has identified approximately $9.4 million in capital costs over the next three years that it may incur in order to expand or renovate seven of its current locations. The Company is required by its Manufacturers to undertake period imaging upgrades to its facilities. The Company would expect re-imaging to attract more customers to its dealerships.

Open Point Opportunities

Management regularly reviews potential open point opportunities. If successful in being awarded these opportunities, Management would then estimate additional capital costs in order to construct suitable facilities for open points. 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 over the next two years.

Integration of New Dealerships and Investments

Over the past year, the Company has acquired a number of dealerships and has been dedicating resources to ensure a successful integration of its newly acquired dealerships. Experience has shown that it takes a minimum of two full years in order to successfully integrate a store and achieve its anticipated performance objectives.

The investments in dealerships that we made in the second quarter are fairly recent. As a result, there is very little tangible evidence of our progress made with respect to integration of these investments. The Company intends to provide further insight into the integration of these investments in future quarterly reports.

We will continue to dedicate significant resources to newly acquired dealerships in order to successfully integrate acquisitions in an efficient manner. As noted in our same store analysis, we expect acquisitions to take a minimum of two years in order to meet our expected performance objectives. As a result, we expect to incur additional selling and administrative costs in the future in order to successfully integrate new dealerships under our model.

LIQUIDITY AND CAPITAL RESOURCES

Our principal uses of funds are for capital expenditures, repayment of debt, funding the future growth of the Company and dividends to Shareholders. We have historically met these requirements by using cash generated from operating activities and through short term and long term indebtedness. Due to the significant increase in acquisition activity, the Company completed an offering of senior unsecured notes during the second quarter in order to replenish its capital and execute on acquisitions during the quarter. Subsequent to June 30, 2014, the Company also completed an equity offering which was used to pay down its revolving credit facility and replenish its capital in order to execute on future acquisitions.

The Company maintains working capital in excess of manufacturer requirements which may be used for capital expenditures. The Company's analysis of its available capital based on the balance sheet at June 30, 2014 is as follows:

- The Company has approximately $107.2 million in working capital. At June 30, 2014, the Company's aggregate net manufacturer working capital requirements were $53.6 million. As such, the Company has approximately $53.6 million in cash available for growth expenditures.
- The Company has drawn $142.8 million on its $200.0 million revolving term facility, resulting in approximately $57.2 million available for further growth expenditures.
- The Company also has a $5.0 million capital lease line which it may utilize for future capital expenditures whereby it may finance the equipment at its current dealerships or future dealership acquisitions.
- The Company has $4.0 million in land and buildings that are currently not financed. As such, the Company has $2.6 million in available liquidity if it were to refinance this real estate.

As a result of the above initiatives, the Company currently has approximately $118.4 million in available liquidity, not including future retained cash from operations that it may deploy for growth expenditures including acquisitions. As noted above, the Company completed additional dealership acquisitions since June 30, 2014 and completed an equity offering which has significantly increased the amount of available liquidity in order to execute upon its growth plan.

Senior unsecured notes offering

On May 22, 2014, the Company announced that it completed a private offering of $150.0 million aggregate principal amount of 5.625% senior unsecured notes due May 25, 2021 (the "Notes"). The notes were issued at par. AutoCanada used the proceeds of the offering to repay all of the outstanding indebtedness under its revolving credit facility and for general corporate purposes. As a result of the Notes offering, the Company extended the maturity profile of $150 million of its long-term debt from 2015 to the year 2021 and moved from a floating rate secured debt structure to a fixed rate unsecured debt structure. The Notes contain certain redemption options whereby the Company can redeem all or part of the Notes at set prices from proceeds of equity offerings or on the dates specified in the Notes. In addition, the Note holders have the right to require the Company to redeem the Notes or a portion thereof, at set redemption prices in the event of change in control or in the event certain asset sale proceeds are not re-invested in the time and manner specified in the Notes. In addition, the Notes contain non-financial covenants that restrict, subject to certain thresholds, some of the Company's activities, including the Company's ability to dispose of assets, incur additional debt, pay dividends, create liens, make investments and engage in specified transactions with affiliates. The Notes also contain customary events of default, including defaults based on events of bankruptcy and insolvency, non-payment of interest or fees when due, subject to specified grace periods, breach of covenants, change in control and material inaccuracy of representations and warranties. As of June 30, 2014, the Company was in compliance with all of its covenants pursuant to the Notes.

Equity offering

On July 11, 2014, the Company issued 2,565,000 common shares (11.7% of the total share capital issued) as part of a public offering of shares. The common shares issued have the same rights as all other common shares in issue. The shares were issued for gross proceeds of $200.1 million ($78 per share) and related transaction costs amounted to $8.7 million for net proceeds of $191.4 million.

Cash Flow from Operating Activities

Cash flow from operating activities (including changes in non-cash working capital) of the Company for the three month period ended June 30, 2014 was $10.9 million (cash provided by operating activities of $16.5 million less net decrease in non-cash working capital of $5.6 million) compared to $14.4 million (cash provided by operating activities of $14.5 million less net increase in non-cash working capital of $0.1 million) in the same period of the prior year.

Cash Flow from Investing Activities

For the three month period ended June 30, 2014, cash flow from investing activities of the Company was a net outflow of $123.6 million as compared to a net outflow of $28.9 million in the same period of the prior year. In the second quarter of 2014, the Company paid approximately $108.5 million with respect to the acquisitions of BMW Canbec, Dodge City, and the Hyatt Group and $11.3 million to invest in WBG.

Cash Flow from Financing Activities

For the three month period ended June 30, 2014, cash flow from financing activities was a net inflow of $162.7 million as compared to $7.7 million in the same period of 2013. The increase was primarily due to the $146.3 million proceeds from the senior unsecured notes and additional proceeds from long-term debt.

Economic Dependence

As stated in Note 5 of the condensed interim consolidated financial statements for the period ended June 30, 2014, the Company has significant commercial and economic dependence on Chrysler Canada. As a result, the Company is subject to significant risk in the event of the financial distress of Chrysler Canada, one of our major vehicle manufacturers and parts suppliers. Details of this relationship and balances of assets with Chrysler Canada are described in Note 5 of the condensed interim consolidated financial statements.

Credit Facilities and Floor Plan Financing

Other than as described below, there have been no changes to credit facilities or our floorplan financing facilities since described in the annual management discussion and analysis for the year ended December 31, 2013, which is available on SEDAR (www.sedar.com).

On June 2, 2014, in conjunction with the purchase of BMW Canbec, the Company signed an Inventory Financing and Security Agreement (the "BMW facility") with BMW Financial Services Canada ("BMW Financial"), a division of BMW Canada Inc, to finance new and used vehicles for the Company's BMW and MINI dealerships. The BMW facility has a current advance limit of $40.7 million. The BMW facility bears a variable interest rate of prime minus 0.40% per 360-day annum (2.60% at June 30, 2014). The BMW facility is collateralized by the dealerships' movable and immovable property. The agreement requires the Company to maintain a certain working capital ratio.

On May 22, 2014, the Company amended the existing credit agreement (the "Credit Agreement") with HSBC Bank Canada ("HSBC"), Alberta Treasury Branches ("ATB"), and Royal Bank of Canada ("RBC"), with HSBC acting as administrative agent to the Credit Agreement. The Credit Agreement provides the Company with a $200.0 million revolving operating facility that may be used for general corporate purposes, including repayment of existing indebtedness, funding working capital requirements, capital expenditures, and financing acquisitions. Fees and interest on borrowings under the Credit Agreement are subject to a pricing grid whereby the pricing level is determined by the leverage ratio. As at June 30, 2014, the Company is in the first of five tiers of the pricing grid, with the first tier providing interest rates of HSBC's prime rate plus 2.00% (5.00% at June 30, 2014) or Bankers' Acceptance Rate plus 3.00% (4.49% at June 30, 2014). Amounts drawn under the Credit Agreement as at June 30, 2014 are due May 22, 2018 and may be extended annually for an additional 364 days at the request of the Company and upon approval by the lenders.

VW Credit Canada Inc. provides the Company with a mortgage (the "VCCI Mortgage"), which bears a floating rate of interest per annum equal to the Royal Bank of Canada's prime rate plus 0.50% (3.50% at June 30, 2014). The VCCI Mortgage is repayable with fifty-nine equal blended monthly payments of $0.08 million amortized over a twenty year period with term expiring in April 2019. The VCCI Mortgage has certain reporting requirements and financial covenants and is collateralized by a general security agreement consisting of a first fixed charge over the property. At June 30, 2014, the carrying amount of the property was $1.8 million.

On April 23, 2014, the Company announced that it had increased its existing syndicated floorplan facility ("Floorplan Facility") with The Bank of Nova Scotia ("Scotiabank") and The Canadian Imperial Bank of Commerce ("CIBC") by $200.0 million, bringing total availability to $550.0 million. All significant terms and conditions of the previous facility remain unchanged. The Floorplan Facility bears a rate of Bankers' Acceptance plus 1.15% (2.37% as at June 30, 2014) per annum.

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, 2014:

Financial Covenant	Requirement	Actual Calculation
HSBC Syndicated Credit Agreement:		
Senior Secured Leverage Ratio	Shall not exceed 2.25	1.73
Adjusted Total Leverage Ratio	Shall not exceed 4.75	4.53
Fixed Charge Coverage Ratio	Shall not be less than 1.20	4.73
Current Ratio	Shall not be less than 1.05	1.27
Scotiabank:		
Current Ratio	Shall not be less than 1.10	1.14
Tangible Net Worth	Shall not be less than $40 million	$76.6 million
Debt to Tangible Net Worth	Shall not exceed 7.50	4.05

As at June 30, 2014, the Company is in compliance with all of its financial covenants. Subsequent to the second quarter of 2014, the Company successfully completed a $200 million equity offering, which improved the Company's financial ratios with respect to its financial covenants.

Financial Instruments

Details of the Company's financial instruments, including risks and uncertainties are included in Note 22 of the annual audited consolidated financial statements for the year ended December 31, 2013. 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, 2014 to June 30, 2014	January 1, 2014 to June 30, 2014
Leasehold improvements	263	351
Machinery and equipment	353	529
Furniture and fixtures	193	250
Computer equipment	163	315
Company & lease vehicles	24	189
	996	1,634

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

During the three month period and the six month period ended June 30, 2014, growth capital expenditures of $2.7 million and $7.4 million were incurred. These expenditures related primarily to land and a building that were purchased for expanded dealership operations during the first quarter for $4.1 million and land and a building that was purchased during the second quarter for a dealership relocation for $1.8 million. Dealership relocations are included as growth expenditures if they contribute to the expansion of sales and service capacity of the dealership.

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

(in thousands of dollars)	April 1, 2014 to June 30, 2014	January 1, 2014 to June 30, 2014
Purchase of property and equipment from the Statement of Cash Flows	3,702	9,037
Less: Amounts related to the expansion of sales and service capacity	(2,706)	(7,403)
Purchase of non-growth property and equipment	996	1,634

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 periods ended June 30, 2014, were $0.7 million and $1.6 million (2013 - $0.6 million and $1.3 million), respectively.

Planned Capital Expenditures

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

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

Contractual Obligations

The Company has operating lease commitments, with varying terms through 2029, to lease premises and equipment used for business purposes.

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

(in thousands of dollars)	$
2014	5,489
2015	10,704
2016	10,260
2017	9,009
2018	8,704
Thereafter	64,832
Total	108,998

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 22 – Financial Instruments of the Company’s annual consolidated financial statements.

Financial Position

The following table shows selected audited balances of the Company (in thousands) for December 31, 2013 and December 31, 2012, as well as unaudited balances of the Company at June 30, 2014, March 31, 2014, September 30, 2013, June 30, 2013, March 31, 2013, and September 30, 2012:

(in thousands of dollars)	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012
Cash and cash equivalents	91,622	41,541	35,113	48,034	35,058	41,991	34,471	54,255
Trade and other receivables	85,837	69,747	57,662	62,098	69,714	64,719	47,993	54,148
Inventories	324,077	261,768	278,062	237,421	232,837	217,663	199,085	194,438
Assets	910,715	667,020	618,940	530,742	504,408	454,824	410,376	420,046
Revolving floorplan facilities	313,752	261,263	264,178	228,526	246,325	225,387	203,525	212,840
Non-current debt and lease obligations	294,289	123,811	83,580	33,647	8,744	40,340	23,937	26,039

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, 2014, the aggregate of net working capital requirements was approximately $53.6 million. At June 30, 2014, 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 interim consolidated financial statements. At June 30, 2014, the Company had aggregate working capital of approximately $107.2 million.

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

Off Balance Sheet Arrangements

The Company has not entered into any material off balance sheet arrangements.

Related Party Transactions

Note 23 of the condensed interim consolidated financial statements of the Company for the period ended June 30, 2014 summarize the transactions between the Company and its related parties. These transactions are prepayments of rent, rents paid to companies with common ownership, management and directors and management fees.

Administrative support fees

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

Management services agreements

The Company currently earns management services fees from companies in which AutoCanada has significant influence. The management services agreements are fixed monthly fees charged to subsidiaries of DHL and Green Isle from AutoCanada in return for marketing, training, technological support and accounting support provided to the dealerships. AutoCanada provides support services to all dealerships in which it owns and operates, however since the three dealerships are not wholly-owned by AutoCanada, the Company charges a management services fee in order to recover the costs of resources provided. Management believes that, as a result of the support provided, the dealerships have improved in sales volumes and profitability since being acquired by DHL and Green Isle. The services provided also allow both the dealerships and AutoCanada to share in savings as a result of negotiating group rates on services such as advertising and purchasing.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties and have been reviewed and approved by the independent members of our Board of Directors and where considered necessary are supported by independent appraisals.

DIVIDENDS

Dividends to Shareholders

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 2014 (in thousands of dollars):

Record date	Payment date	Declared $	Paid $
February 28, 2014	March 17, 2014	4,760	4,760
May 30, 2014	June 16, 2014	5,022	5,022

On August 7, 2014, the Board declared a quarterly eligible dividend of $0.24 per common share on AutoCanada's outstanding Class A common shares, payable on September 15, 2014 to shareholders of record at the close of business on August 29, 2014. The quarterly eligible dividend of $0.24 represents an annual dividend rate of $0.96 per share.

As per the terms of the HSBC facility, we are restricted from declaring dividends and distributing cash if we are in breach of financial covenants or our available margin and facility limits or if such dividend would result in a breach of our covenants or our available margin and facility limits. At this time, the Company is well within its covenants, and as such, Management does not believe that a restriction from declaring dividends is likely in the foreseeable future.

Free Cash Flow

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

(in thousands of dollars, except unit and per unit amounts)	**Q3 2012**	**Q4 2012**	**Q1 2013**	**Q2 2013**	**Q3 2013**	**Q4 2013**	**Q1 2014**	**Q2 2014**
Cash provided by operating activities	9,235	1,748	6,125	14,391	7,787	9,674	8,850	10,918
Deduct:								
Purchase of property and equipment	(511)	(858)	(590)	(905)	(647)	(1,319)	(1,069)	(1,057)
Free cash flow(1)	8,724	890	5,535	13,486	7,140	8,355	7,781	9,861
Weighted average shares outstanding at end of period	19,804,014	19,802,947	19,802,048	20,346,713	21,638,882	21,638,433	21,685,876	21,832,777
Free cash flow per share	0.441	0.045	0.280	0.663	0.330	0.386	0.359	0.452
Free cash flow - 12 month trailing	27,042	18,932	21,308	28,635	27,051	34,516	36,762	33,137

[1] These financial measures are 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, other current assets, trade and other payables and revolving floorplan facilities. Factors that can affect these items include seasonal sales trends, strategic decisions regarding inventory levels, the addition of new dealerships, and the day of the week on which period end cutoffs occur.

The following table summarizes the net increase (decrease) in cash due to changes in non-cash working capital for the six month periods ended June 30, 2014 and June 30, 2013:

(in thousands of dollars)	January 1, 2014 to June 30, 2014	January 1, 2013 to June 30, 2013
Trade and other receivables	(20,579)	(19,917)
Inventories	22,417	(23,480)
Prepaid expenses	(2,372)	(1,201)
Trade and other payables	9,430	10,225
Lease vehicle repurchase obligations	1,961	411
Revolving floorplan facilities	(15,569)	34,653
	(4,712)	691

Adjusted Free Cash Flow

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

(in thousands of dollars, except unit and per unit amounts)	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Cash provided by operating activities before changes in non-cash working capital	10,029	9,435	5,564	14,258	15,234	12,894	7,984	16,497
Deduct:								
Purchase of non-growth property and equipment	(511)	(457)	(573)	(892)	(608)	(963)	(638)	(996)
Adjusted free cash flow (1)	9,518	8,978	4,991	13,366	14,626	11,931	7,346	15,501
Weighted average shares outstanding at end of period	19,804,014	19,802,947	19,802,048	20,346,713	21,638,882	21,638,433	21,685,876	21,832,777
Adjusted free cash flow per share	0.481	0.453	0.252	0.657	0.676	0.551	0.339	0.710
Free cash flow - 12 month trailing	30,183	31,769	32,730	36,853	41,961	44,914	47,269	49,404

[1] These financial measures are 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, 2014, the Company paid approximately $9.8 million in corporate income taxes and tax installments. Accordingly, this reduced our adjusted free cash flow by this amount. The Company expects the payment of corporate income taxes to have a more significant negative affect on free cash flow and adjusted free cash flow. See "RESULTS FROM OPERATIONS – second quarter Operating Results – Income Taxes" for further detail regarding the impact of corporate income taxes on cash flow.

Adjusted Return on Capital Employed

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

(in thousands of dollars, except unit and per unit amounts)	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
EBITDA (1)	10,575	10,299	10,557	16,507	16,626	14,754	14,453	21,702
Deduct:								
Depreciation of property and equipment	(1,140)	(1,118)	(1,189)	(1,490)	(1,599)	(2,068)	(2,511)	(2,550)
EBIT (1)	9,435	9,181	9,368	15,017	15,027	12,686	11,942	19,152
Average long-term debt	30,390	31,007	36,293	28,871	25,725	62,959	108,120	214,438
Average shareholder's equity	119,380	122,877	126,188	152,983	181,576	187,652	196,608	205,613
Average capital employed (1)	149,770	153,884	162,481	181,854	207,301	250,611	304,728	420,051
Return on capital employed (1)	6.3 %	6.0 %	5.8 %	8.3 %	7.2 %	5.1 %	3.9 %	4.6 %
Comparative adjustment (2)	(15,376)	(15,542)	(15,542)	(15,542)	(15,542)	(15,951)	(15,951)	(15,951)
Adjusted average capital employed (2)	134,394	138,342	146,939	166,312	191,759	234,660	288,777	404,100
Adjusted return on capital employed (2)	7.0 %	6.6 %	6.4 %	9.0 %	7.8 %	5.4 %	4.1 %	4.7 %
Adjusted return on capital employed - 12 month trailing				29.4 %				20.6 %

[1] These financial measures are identified and defined under the section "NON-GAAP MEASURES".
[2] A comparative adjustment has been made in order to adjust for impairments and reversals of impairments of intangible assets. Due to the increased frequency of impairments and reversals of impairments, management has provided an adjustment in order to freeze intangible assets at the pre-IFRS amount of $43,700. As a result, all differences from January 1, 2010 forward under IFRS have been adjusted at the post-tax rate at the time the adjustment to the intangible asset carrying amount was made. Management believes that the adjusted return on capital employed provides more useful information about the return on capital employed

Management believes that Adjusted Return on Capital Employed (see "NON-GAAP MEASURES") is a good measure to evaluate the profitability of our invested capital. As a corporation, management of AutoCanada may use this measure to compare potential acquisitions and other capital investments against our internally computed cost of capital to determine whether the investment shall create value for our shareholders. Management may also use this measure to look at past acquisitions, capital investments and the Company as a whole in order to ensure shareholder value is being achieved by these capital investments. Management believes that during periods of higher acquisition growth, its return on capital employed will decrease and would expect to see improvements in this measure as acquisitions successfully integrate and increased operating cash flows provide additional funds to support acquistion growth.

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICY DEVELOPMENTS

A complete listing of critical accounting policies, estimates, judgments and measurement uncertainty can be found in Note 3 of the annual consolidated financial statements for the year ended December 31, 2013.

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, 2014. The standards impacted that are applicable to the Company are as follows:

- IFRS 15, *Revenue from Contracts with Customers* - in May 2014, the IASB issued IFRS 15, which supersedes IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single model to determine how and when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of its revenue recognition criteria. IFRS 15 is to be applied prospectively and is effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. The Company is in the process of evaluating the impact that IFRS 15 may have on the financial statements.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended June 30, 2014, there were no changes in the Company's disclosure controls or internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

OUTLOOK

The outlook regarding vehicle sales in Canada is difficult to predict. New light vehicle unit sales in Canada are expected to increase by 2.6 percent in 2014 as compared to the prior year.

New Vehicle Sales Outlook by Province *

	1994 - 2005 (Average)	2006 - 2011 (Average)	2012	2013	2014F
Canada	**1,446**	**1,589**	**1,677**	**1,745**	**1,770**
Atlantic	**102**	**119**	**126**	**135**	**136**
Central	**936**	**997**	**1,034**	**1,061**	**1,074**
Quebec	366	408	416	415	417
Ontario	570	589	618	646	657
West	**408**	**473**	**517**	**549**	**560**
Manitoba	42	47	50	54	55
Saskatchewan	36	50	55	58	59
Alberta	166	218	239	257	263
British Columbia	164	158	173	180	183

* Includes cars and light trucks

Source: Scotia Economics - Global Auto Report, July 30, 2014

The Canadian new vehicle market continues to perform at record levels and is on pace for a record year in 2014. Management believes that at the expected Canadian auto sales levels above 1.7 million units, the Company is well positioned for strong performance as new vehicle sales typically drive sales of other higher margin opportunities such as parts and service, as well as finance and insurance revenues.

As noted in our annual report, it has become apparent to Management that the Canadian dealership succession issue, which industry analysts have been forecasting over the past number of years, is now materializing. As such, the Company has experienced a significant increase in the number of interested sellers of auto dealerships in Canada and has noticed that many of these opportunities are for large, more profitable, premium dealerships. The Company has also experienced an increase in the number of dealer groups interested in selling.

As a result of the significant increase in interested sellers, the Company raised its acquisition guidance in a press release issued on June 5, 2014. As the deal pipeline continues to be strong, Management shall maintain its previous acquisition guidance and is confident that, in addition to acquisitions completed to date, it shall add 8 to 10 additional dealerships by May 31, 2015.

The Board of Directors of AutoCanada reviewed its dividend policy during its August meeting. In keeping with the current dividend strategy and remaining committed to providing shareholders with appropriate dividend growth, the Board of Directors have declared an increase to the quarterly dividend rate for the fourteenth consecutive quarter to $0.24 per share, or $0.96 per share on an annualized basis.

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 2013 Annual Information Form dated March 20, 2014 available on the SEDAR website at www.sedar.com.

ADDITIONAL RISK FACTORS

In addition to the risk factors described in the 2013 Annual Information Form dated March 20, 2014 (available on the SEDAR website at www.sedar.com"), the Company believes that, although likely not material to current operations, additional risk should be attributed to the impact of hail storms on the Company's financial results. The Company currently operates its dealerships in areas of Canada that are subject to hail with some areas, known as red-zones, more prone than others. Insurance providers have indicated to the Company and the industry as a whole that dealerships operating in these so-called red zones will be subject to higher premiums, deductibles, and aggregates (maximum dollar amount the Company is required to pay in the event of a claim). The Company's dealerships currently operating in red-zones have had their deductibles per unit of inventory increased to $2,500 per unit with aggregate limits per incident of $500,000 and, in some cases, no aggregate limit. The increases in deductibles and aggregates for our dealerships currently operating in red-zones have exposed the Company to greater financial liability in the event of a hail storm. The Company currently operates eleven of its forty-two dealerships in red-zones; therefore, the exposure is currently limited. However, if the Company continues to expand through acquisitions in red-zones, it will be subject to greater financial risk. Insurance providers have also indicated that aggregate limits may continue to rise in the future, thereby increasing the potential for further financial risk if aggregates and deductibles continue to rise or become unavailable in the market. The Company continues to investigate how it might best address this risk as it continues to grow and expand its operations in red-zones.

Additional Information

Additional information relating to the Company, including all public filings, is available on SEDAR (www.sedar.com). The Company's shares trade on the Toronto Stock Exchange under the symbol ACQ.

FORWARD LOOKING STATEMENTS

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

In particular, material forward-looking statements in management's discussion and analysis include:

- the belief that, as the Company continues to grow, operating expenses as a percentage of gross profit should continue to improve as the Company achieves greater economies of scale;
- the impact of income taxes on future cash flow;
- expectations regarding the percentage of employee costs to gross profit;
- expectations regarding the timing of management fees from PAH and WBG;
- expectations and future plans regarding our current and other potential GM acquisitions;
- expectations of acquisitions to take between one to two years to meet our expected return on investment;
- expectations to incur additional selling and administrative costs in the future to successfully integrate new dealerships;
- the belief that, if the Company can continue to perform well, it will be able to build upon its current brand portfolios and hopefully gain the acceptance of other new manufacturers over time;
- commitments regarding future investments in additional GM dealerships;
- commitments by the Company's CEO to continue to personally invest in GM dealerships to facilitate the Company's intention to grow its portfolio of GM dealerships;
- expectations to incur additional selling, general, and administrative costs in the future to facilitate the growth anticipated by the Company due to increased acquisition activity;
- estimates, intentions, and expectations regarding the capital plan, potential relocation of certain dealerships, dealership expansion needs, and open point opportunities;
- our belief that relocation of certain dealerships may provide incremental long-term earnings growth and better align some of

our dealerships with the growth expectations of our manufacturer partners;

- the impact of dealership real estate relocations and purchases and its impact on liquidity, financial performance and the Company's capital requirements;
- estimates and expectations regarding the potential real estate purchase;
- our belief that under a high growth scenario, cash from operating activities may not be sufficient to meet future capital needs and the potential need to seek additional capital in the form of debt or equity;
- our belief that our available liquidity is sufficient to complete our current capital expenditure commitments and to execute on additional dealership acquisitions;
- the impact of a significant decline in sales as a result of the inability to procure adequate supply of vehicles and/or lower consumer demand on cash flows from operations and our ability to fund capital expenditures;
- our expectation to incur annual non-growth capital expenditures in an amount approximating our amortization of property and equipment reported in each period;
- our expectation that growth expenditures will provide additional future cash flows and future benefit;
- our expectation to increase annual capital expenditures and the reasons for this expected increase;
- the impact of working capital requirements and its impact on future liquidity;
- the belief that a restriction from declaring dividends is not likely in the foreseeable future;
- our belief that free cash flow can fluctuate significantly and the impact of these fluctuations on our operations and performance;
- our belief that maintenance capital expenditures should be funded by cash flow provided by operating activities;
- our potential use of Adjusted Return on Capital Employed as a measure for comparison and analysis;
- guidance with respect to future acquisition and open point opportunities;
- beliefs, expectations, and the effects of less frequent dividend reviews;
- our assumption on the amount of time it may take for an acquisition or open point to achieve normal operating results;
- expectations and estimates regarding income taxes and their effect on cash flow and dividends;
- beliefs and expectations regarding return on captial employed during periods of high acquisition growth;
- assumptions over non-GAAP measures and their impact on the Company; and
- management's assumptions and expectations over the future economic and general outlook.

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

- no significant adverse changes to the automotive market, competitive conditions, the supply and demand of vehicles, parts and service, and finance and insurance products or the political, economic and social stability of the jurisdictions in which we operate;
- no significant construction delays that may adversely affect the timing of dealership relocations and open points;
- no significant disruption of our operations such as may result from harsh weather, natural disaster, accident, civil unrest, or other calamitous event;
- no significant unexpected technological event or commercial difficulties that adversely affect our operations;
- continuing availability of economical capital resources; demand for our products and our cost of operations;
- no significant adverse legislative and regulatory changes; and
- stability of general domestic economic, market, and business conditions

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

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

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

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

NON-GAAP MEASURES

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

EBITDA

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

Adjusted EBITDA

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

Adjusted net earnings and Adjusted net earnings per share

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

EBIT

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

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

Absorption Rate

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

Average Capital Employed

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

Adjusted Average Capital Employed

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

Return on Capital Employed

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

Adjusted Return on Capital Employed

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

Cautionary Note Regarding Non-GAAP Measures

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