AUTOCANADA INC.

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

For the six months ended June 30, 2011

As of August 11, 2011

READER ADVISORIES

The Management's Discussion & Analysis ("MD&A") was prepared as of August 11, 2011 to assist readers in understanding AutoCanada Inc.'s (the "Company" or "AutoCanada") consolidated financial performance for the six months ended June 30, 2011 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 for the six months ended June 30, 2011, the consolidated financial statements and accompanying notes of the Company for the year ended December 31, 2010 and management's discussion and analysis for the year ended December 31, 2010. 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 Interim 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 and six month periods ended June 30, 2011 of the Company, and compares these to the operating results of the Company for the three and six month periods ended June 30, 2010.

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") was incorporated under the CBCA 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 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 2010 Annual Information Form dated March 17, 2011, 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 22 franchised dealerships in British Columbia, Alberta, Manitoba, Ontario, New Brunswick and Nova Scotia. In 2010, our dealerships sold approximately 24,000 vehicles and processed approximately 317,000 service and collision repair orders in our 339 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. We earn fees for arranging financing on new and used vehicle purchases on behalf of third parties. Under our agreements with our retail financing sources we are required to collect and provide accurate financial information, which if not accurate, may require us to be responsible for the underlying loan provided to the consumer.

The Company's geographical profile is illustrated below by number of dealerships and revenues by province for the three month periods ended June 30, 2011 and June 30, 2010.

(In thousands of dollars except % of total and number of dealerships)	June 30, 2011			June 30, 2010		
	Number of Dealerships	Revenue	% of Total	Number of Dealerships	Revenue	% of Total
British Columbia	7	105,410	36%	7	87,376	36%
Alberta	9	112,267	38%	9	94,131	39%
Ontario	3	36,689	13%	4	29,002	12%
All other	3	37,642	13%	3	32,385	13%
Total	22	292,008	100%	23	242,894	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
Dealerships as of June 30, 2011:			
Victoria, British Columbia	Victoria Hyundai	Hyundai	2006
Maple Ridge, British Columbia	Maple Ridge Chrysler Jeep Dodge FIAT[1]	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
Kelowna, British Columbia	Okanagan Chrysler Jeep Dodge	Chrysler	2003
Grande Prairie, Alberta	Grande Prairie Chrysler Jeep Dodge	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
Edmonton, Alberta	Crosstown Chrysler Jeep Dodge FIAT[1]	Chrysler	1994
Edmonton, Alberta	Capital Chrysler Jeep Dodge FIAT[1]	Chrysler	2003
Sherwood Park, Alberta	Sherwood Park Hyundai	Hyundai	2006
Ponoka, Alberta	Ponoka Chrysler Jeep Dodge	Chrysler	1998
Thompson, Manitoba	Thompson Chrysler Jeep Dodge	Chrysler	2003
Mississauga, Ontario	401/Dixie Hyundai	Hyundai	2010
Newmarket, Ontario	Newmarket Infiniti Nissan	Nissan / Infiniti	2008
Cambridge, Ontario	Cambridge Hyundai	Hyundai	2008
Moncton, New Brunswick	Moncton Chrysler Jeep Dodge	Chrysler	2001
Dartmouth, Nova Scotia	Dartmouth Chrysler Jeep Dodge	Chrysler	2006
Dealerships sold:			
Woodbridge, Ontario	Colombo Chrysler Jeep Dodge [2]	Chrysler	2005

[1] In 2010, the Company was awarded the following FIAT franchises at three of its Chrysler Jeep Dodge dealerships: Crosstown FIAT, Capital FIAT and Maple Ridge FIAT. We do not consider these franchises to be additional dealerships as they will be largely integrated with our current Chrysler Jeep Dodge dealerships at these locations.
[2] On June 20, 2011 the Company sold its Colombo Chrysler Jeep Dodge dealership, located in Woodbridge, Ontario.

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

New light vehicle sales in Canada in the six month period ended June 30, 2011 were up 2.7% when compared to the same period in 2010. Sales of new light vehicles for the first half of 2011 in Alberta and British Columbia, our primary markets, were up by 7.6% and 2.0% respectively. The Company's same store sales of new vehicles have increased by 20.7% in the six month period ended June 30, 2011 primarily as a result of higher sales volumes across the board in the first half of 2011. Management is pleased with the Company's ability to continue to outperform the market in new vehicle sales.

The following table summarizes Canadian new light vehicle sales for the six-month period ended June 30, 2011 by Province:

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

	June Year to Date		Percentage Change	Units Change
	2011	2010		
Province				
British Columbia	78,882	77,338	2.0%	1,544
Alberta	106,352	98,860	7.6%	7,492
Saskatchewan	23,854	22,335	6.8%	1,519
Manitoba	22,669	21,368	6.1%	1,301
Ontario	302,692	288,516	4.9%	14,176
Quebec	211,531	213,347	-0.9%	-1,816
New Brunswick	19,918	19,439	2.5%	479
PEI	3,041	3,259	-6.7%	-218
Nova Scotia	23,254	25,495	-8.8%	-2,241
Newfoundland	15,579	16,445	-5.3%	-866
Total	**807,772**	**786,402**	**2.7%**	**21,370**

[1] *DesRosiers Automotive Consultants Inc.*

The Company's success in the second quarter of 2011 is largely driven by the increase in new vehicle sales. The Company's manufacturer partners have performed well in Canada in the first half of 2011; led by Volkswagen (sales up 17.7% in 2011), Chrysler (sales up 15.0% in 2011), Hyundai (sales up 10.5% in 2011), Nissan (sales up 7.3% in 2011) and increases from our other manufacturer partners of Subaru and Mitsubishi (sales up 6.2% and 5.0% respectively). Various manufacturers also provide our dealerships with performance based incentives for meeting and exceeding monthly new vehicle sales targets. As a result, we have seen a shift in focus at our dealerships to selling higher volumes of new vehicles as opposed to used vehicles. We cannot project the duration of these performance based incentives; in which the loss of these incentives would make it difficult for the Company to maintain its current level of profitability in its new vehicle department.

The improvement in the new vehicle market during the second quarter of 2011 has also positively impacted the Company's finance and insurance business. The Company realized an increase in finance and insurance revenue of 8.8% in the second quarter compared to the same period in the prior year. The sales increase translated into an 8.4% increase in finance and insurance gross profit in the second quarter. Consumer credit also continued to improve as more of our customers were able to finance the purchase of their vehicle, accessories and other products.

The used vehicle market continues to be challenging due to increased competition, manufacturer incentives on new vehicles, a decrease in supply of nearly-new used vehicles and the continued loss of overall market share to private sellers on the internet and independent used vehicle retailers. Management shall continue with its program of improving its dealerships' online presence and marketing efforts in this area. For the second quarter of 2011, our used vehicle sales volume decreased by 12.6%; which not only impacts the used vehicle department profitability, but also the profitability of our parts and service department. The Company's parts and service department is responsible for the reconditioning of used vehicle inventory. As the turnover of used vehicle

inventory slows due to lower sales volumes, the parts and service department is negatively impacted due to less reconditioning work being performed.

Despite less reconditioning work, our parts and service departments posted modest gains in revenue and gross margin mainly due to an increase in repair orders and the average revenue per repair order completed over the second quarter of 2010. The increase in repair orders was partially due to a number of marketing initiatives that were undertaken by our parts and service departments to address the decrease in repair orders from prior periods and a continued focus on customer service as a means to maintain long-term relationships with our valued customers. As the economy and consumer confidence continues to improve, our customers are more likely to perform the necessary maintenance and repairs to their vehicles which we expect will have a positive impact on our parts, service and collision repair business. Management is currently working diligently with the used vehicle departments at our dealerships on improving used sales volumes to address the decline in reconditioning work, which we view is our greatest risk to maintaining current profitability levels in this department.

Operating expenses decreased to 77.3% of gross margin in the second quarter of 2011 compared to 82.5% in the second quarter of 2010. Management has undertaken a number of initiatives to decrease overhead and semi-variable costs and these actions are beginning to yield cost savings.

Management continues to carefully monitor the developments of supply chain disruptions affecting some of its manufacturer partners. The earthquake and resulting tsunami in Japan has created uncertainty in the timing of the supply of vehicles. Management believes that supply disruptions as a result of the events in Japan have been mostly resolved, but cannot conclude at this time whether future disruptions will continue to occur. During the second quarter of 2011 and continuing into the third quarter there has also been an employee strike at a major shipping port in British Columbia which has caused supply disruptions for some of our manufacturer partners. This has resulted in inventory shortages at some of our dealerships. We expect the supply disruption to continue indefinitely and we remain optimistic that regular shipping times will resume over the next few months. Management recognizes that until regular supply resumes, we may experience less profitability at the dealerships affected.

On June 22, 2011, the Company announced that the independent Board completed a review of its business plan, and, as announced at that time, in view of the continued resistance of some manufacturers to the public ownership model, the Company could not presume that it would be able to grow with any brands that it currently does not own or which are related to these brands. As a result, the ability of the Company to grow as originally intended was not realistically achievable, and hence shareholder value could be best achieved by aligning its business model with a strategy that contemplates modest growth, combined with an emphasis on returning to shareholders a fair share of earnings by way of dividends. In addition, as same store future earnings are very much dependent upon the performance of the Company's key employees, including its dealer principals and senior management, as previously disclosed, the independent Board agreed to amend its previously announced policy regarding the private purchase of dealerships by Mr. Priestner, CEO of AutoCanada, such that in the future, Mr. Priestner and senior management would be permitted to privately purchase dealerships which the Company either cannot purchase, or which it chooses not to purchase, as a means to better ensure the retention of such employees and to allow for cost saving synergies where the same are available. As a result of the aforesaid, the Company revised its dividend policy such that it shall target quarterly dividends between 70% and 80% of fully diluted earnings per share, to be reviewed on a quarterly basis and adjusted, as required, to meet market conditions. As a result of the change in policy, the Company announced an increase in the quarterly dividend to $0.10 per share from the previously announced $0.05 per share, representing an annual dividend rate of $0.40 per share.

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. Columns marked "IFRS" represent financial information which has been restated for the Company's adoption of International Financial Reporting Standards ("IFRS") on January 1, 2010. Columns marked "CGAAP" represent financial information which has not been restated for the Company's adoption of IFRS and readers are cautioned that these columns may not provide appropriate comparative information.

(In thousands of dollars except Operating Data and gross profit %)	**Q3 2009 CGAAP**	**Q4 2009 CGAAP**	**Q1 2010 IFRS**	**Q2 2010 IFRS**	**Q3 2010 IFRS**	**Q4 2010 IFRS**	**Q1 2011 IFRS**	**Q2 2011 IFRS**
Income Statement Data								
New vehicles	116,577	102,124	114,531	144,673	142,044	114,382	128,318	196,916
Used vehicles	57,202	48,805	49,034	57,181	50,922	45,414	44,906	52,054
Parts, service & collision repair	26,849	27,639	26,922	28,376	27,279	29,165	27,164	29,263
Finance, insurance & other	11,916	10,069	10,275	12,663	11,909	10,771	11,255	13,775
Revenue	212,544	188,637	200,672	242,894	232,154	199,732	211,643	292,008
New vehicles	8,731	7,157	7,975	10,846	9,557	8,856	9,528	13,763
Used vehicles	5,838	4,396	4,099	4,906	4,221	3,659	3,486	4,302
Parts, service & collision repair	13,373	13,428	13,107	14,443	13,831	13,835	13,146	15,023
Finance, insurance & other	10,881	9,150	9,300	11,376	10,725	9,689	10,133	12,329
Gross profit	38,823	34,131	34,481	41,571	38,334	36,038	36,293	45,417
Gross profit %	18.3%	18.1%	17.2%	17.1%	16.4%	18.0%	17.2%	15.6%
Operating expenses	30,565	29,313	30,740	34,280	32,136	30,812	31,879	35,116
Operating exp. as % of gross profit	78.7%	85.9%	89.2%	82.5%	83.8%	85.5%	87.8%	77.3%
Finance costs – floorplan	1,399	1,382	1,670	2,230	2,022	1,556	1,685	2,311
Finance costs – long-term debt	802	552	236	230	442	534	283	323
Income taxes	37	248	516	1,330	699	2,404	690	2,029
Net earnings [4]	5,099	1,675	1,414	3,624	1,976	7,585	1,995	5,949
EBITDA [1, 4]	6,716	3,271	3,096	6,164	4,011	3,469	4,046	9,318
Operating Data								
Vehicles (new and used) sold	6,415	5,451	5,676	6,994	6,363	5,219	5,826	8,210
New retail vehicles sold	3,236	2,559	2,787	3,614	3,358	3,008	3,050	4,158
New fleet vehicles sold	619	695	661	919	844	306	796	1,900
Used retail vehicles sold	2,560	2,197	2,228	2,461	2,161	1,905	1,980	2,152
Number of service & collision repair orders completed	79,346	76,853	75,311	80,072	77,285	85,035	72,360	80,851
Absorption rate [2]	92%	91%	85%	87%	85%	86%	80%	91%
# of dealerships at period end	22	22	22	23	23	23	23	22
# of same store dealerships [3]	18	19	19	19	19	21	22	21
# of service bays at period end	321	331	331	339	339	339	339	322
Same store revenue growth [3]	(3.9)%	1.3%	16.9%	19.4%	6.7%	2.4%	2.7%	19.3%
Same store gross profit growth [3]	(6.3)%	(1.1)%	11.1%	7.5%	(4.0)%	2.9%	2.9%	8.2%
Balance Sheet Data								
Cash and cash equivalents	23,224	22,465	23,615	31,880	34,329	37,541	39,337	43,837
Accounts receivable	38,134	35,388	40,701	46,787	37,149	32,853	42,260	51,539
Inventories	107,431	108,324	153,847	177,294	137,507	118,365	134,865	149,481
Revolving floorplan facilities	105,254	102,650	160,590	194,388	145,652	124,609	152,075	172,600

[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.

RESULTS FROM OPERATIONS

Second Quarter Operating Results

EBITDA for the three month period ended June 30, 2011 increased by 51.2% to $9.3 million, from $6.2 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 the improvement in new vehicle sales which is a main driver of our business and tends to provide additional sales opportunities in our finance and insurance and parts, service and collision repair departments.

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

Period from January 1 to June 30st	EBITDA (In thousands of dollars)
2009	8,365
2010	9,259
2011	13,366

Pre-tax earnings increased by $3.0 million or 61.0% to $8.0 million for the three month period ended June 30, 2011 from $5.0 million in the same period of the prior year. Net earnings increased by $2.3 million or 64.2% to a profit of $5.9 million in the second quarter of 2011 from a $3.6 million profit when compared to the prior year. Income tax expense increased to $2.0 million in the second quarter of 2011 from $1.3 million in the same period of 2010 due to higher pre-tax earnings.

For the six month period ended June 30, 2010, pre-tax earnings increased by $3.8 million or 54.9% to $10.7 million from $6.9 million in the same period of the prior year. Net earnings increased by $2.9 million or 57.7% to a profit of $7.9 million in the six months ended June 30, 2010 from a $5.0 million profit when compared to the prior year. Income tax expense increased to $2.7 million in the six months ended June 30, 2011 from $1.8 million in the same period of 2010.

Revenues

Revenues for the three and six month periods ended June 30, 2011 increased by $49.1 million and $60.0 million or 20.2% and 13.5% respectively as compared to the same period of the prior year. This increase was mainly driven by increases in new vehicle sales with modest increases in the finance and insurance and parts, service and collision repair business. New vehicle sales increased by $52.2 million or 36.1% for the three month period ended June 30, 2011 to $196.9 million from $144.7 million in the same period of the prior year. The increase in new vehicle sales was a key driver of increases in finance and insurance revenue of $1.1 million or 8.8% and $2.1 million or 9.1% in the three and six month periods ended June 30, 2011 respectively. Used vehicle sales decreased by $5.1 million or 9.0% for the three month period ended June 30, 2011. Used vehicle sales for the six month period ended June 30, 2011 also trended lower with a decrease of $9.3 million or 8.7% when compared to the same period in the prior year. Parts, service and collision repair revenue posted a modest increase of $0.9 million or 3.1% and $1.2 million or 2.3% for the three and six month periods ended June 30, 2011 respectively.

The tables in the “Same-Store Analysis” sections below summarize the results for the six months ended June 30, 2011 on a same store basis by revenue source and compare these results to the same period in 2010. An acquired or open point dealership may take as long as two years in order to reach normalized operating results. As a result, in order for an acquired or open point dealership to be included in our same store analysis, the dealership must be owned and operated by us for eight complete quarters. For example, if a dealership was acquired on December 1, 2008, the results of the acquired entity would be included in quarterly same store comparisons beginning with the quarter ended March 31, 2011 and in annual same store comparisons beginning with the year ended December 31, 2011. As a result, only dealerships opened or acquired prior to January 1, 2009 are included in this same store analysis. In addition, dealership divestitures are also not included in same store operating results. As a result, the current and historical operating results of Colombo Chrysler Jeep Dodge which was disposed of in the second quarter of 2011 are not included in same store analysis.

Revenues - Same Store Analysis

Company management considers same store gross profit and sales information to be an important operating metric when comparing the results of the Company to other industry participants.

Same Store Revenue and Vehicles Sold

	For the Three Months Ended			For the Six Months Ended		
(In thousands of dollars except % change and vehicle data)	**June 30, 2011**	**June 30, 2010**	**% Change**	**June 30, 2011**	**June 30, 2010**	**% Change**
Revenue Source						
New vehicles	183,570	136,300	34.7%	302,036	245,754	22.9%
Used vehicles	49,865	55,021	(9.4)%	92,911	102,428	(9.3)%
Finance & insurance and other	12,985	12,047	7.8%	23,535	22,015	6.9%
Subtotal	246,420	203,368		418,482	370,197	
Parts, service & collision repair	27,445	26,199	4.8%	52,737	51,548	2.3%
Total	273,865	229,567	19.3%	471,219	421,745	11.7%
New vehicles – retail sold	3,769	3,357	12.3%	6,509	6,028	8.0%
New vehicles – fleet sold	1,832	886	106.8%	2,590	1,513	71.2%
Used vehicles sold	2,033	2,375	(14.4)%	3,898	4,544	(14.2)%
Total	7,634	6,618	15.4%	12,997	12,085	7.5%
Total vehicles retailed	5,802	5,732	1.2%	10,407	10,572	(1.6)%

Same store revenue increased by $44.3 million or 19.3% in the three months ended June 30, 2011 when compared to 2010. New vehicle revenues increased by $47.3 million or 34.7% for the three months ended June 30, 2011 over the prior year due in part to a net increase in new vehicle sales of 1,358 units consisting of an increase of 412 retail units and 946 low margin fleet unit sales. This increase was supplemented by an increase in the average selling price per new vehicle retailed ("PNVR") of $651 over the prior year largely as a result of vehicle sales mix, in which consumers had a greater preference for light trucks, which have a higher average retail price than passenger cars. Same store new vehicle revenues also increased by $56.3 million or 22.9% for the six month period ended June 30, 2011 over the same period in the prior year due to a net increase in new vehicle sales of 1,558 units consisting of an increase of 481 retail units and 1,077 low margin fleet units. The PNVR also increased by $605 over the prior period for the same reasons as those discussed above.

Same store used vehicle revenues decreased by $5.2 million or 9.4% for the three months ended June 30, 2011 over the prior year. This decrease was due to a decrease in the number of used vehicles sold of 342 units, partially offset by an increase in the average selling price per used vehicle retailed of $1,361. For the six month period ended June 30, 2011, used vehicle revenues also decreased by $9.5 million or 9.3% due to a decrease in the number of used vehicles sold of 646 units or 14.2%, partially offset by an increase in the average selling price per used vehicle retailed of $1,294.

Same store parts, service and collision repair revenue experienced a modest gain of $1.2 million or 4.8% for the three months ended June 30, 2011 compared to the prior year and was primarily a result of an increase in the number of repair orders completed of 1.8% and an increase in the average revenue per repair order completed of 2.9%. For the six month period ended June 30, 2011, parts, service and collision repair revenue increased by $1.2 million or 2.3%, mainly due to an increase in the average revenue per repair order completed of $16, partially offset by a decrease in overall repair orders completed of 3,134.

Same store finance, insurance and other revenue increased by $0.9 million or 7.8% for the three months ended June 30, 2011 over the same period in the prior year. This was due to an increase in the average revenue per unit retailed of 6.5% along with a modest increase in the number of new and used vehicles retailed of 70 units. For the six month period ended June 30, 2011, same store finance, insurance and other revenue increased by $1.5 million or 6.9% over the same period in 2010 mainly due to an increase in the average revenue per vehicle retailed of $179 or 8.6%, partially offset by a decrease in total vehicles retailed of 165 units or 1.6%. Credit conditions have continued to improve in 2011 which has allowed our finance and insurance departments to earn higher commissions on the increased ability of our customers to finance vehicles, parts, accessories and other insurance products.

Gross profit

Gross profit increased by $3.8 million and $5.7 million or 9.3% and 7.4% for the three and six month periods ended June 30, 2011 when compared to the same periods in the prior year. Similar to revenues, gross profit increased due to increases in new vehicle sales, finance and insurance and parts, service and collision repair revenue. Gross profit on the sale of new vehicles increased by $2.9 million or 26.9% for the three month period ended June 30, 2011. The increase in new vehicle gross can be mainly attributed to an increase in new vehicle unit sales of 1,525 units or 33.6% consisting of an increase in new vehicles retailed of 544 units and low margin fleet vehicles sold of 981 units. The large increase in fleet sales have attributed to a lower overall gross margin percentage of 15.6% in the second quarter of 2011 versus 17.1% in the same period of 2010. The Company's finance and insurance gross profit increased by $1.0 million or 8.4% during the second quarter of 2011. This increase can be mainly attributed to an increase in the average gross profit per unit retailed of $81. The increase in overall gross profit of the Company for the second quarter was partially offset by a decrease in used vehicle gross profit of $0.6 million or 12.3%. Parts, service and collision repair gross profit increased by $0.6 million in the second quarter of 2011 and mostly offset the decrease in used vehicle gross profit during the period.

Gross Profit - Same Store Analysis

The following table summarizes the results for the three and six month periods ended June 30, 2011, on a same store basis by revenue source, and compares these results to the same periods in 2010.

Same Store Gross Profit and Gross Profit Percentage

	For the Three Months Ended						For the Six Months Ended					
	Gross Profit			Gross Profit %			Gross Profit			Gross Profit %		
(In thousands of dollars except % change and gross profit %)	**June 30, 2011**	**June 30, 2010**	**% Change**	**June 30, 2011**	**June 30, 2010**	**Change**	**June 30, 2011**	**June 30, 2010**	**% Change**	**June 30, 2011**	**June 30, 2010**	**Change**
Revenue Source												
New vehicles	13,070	10,384	25.9%	7.1%	7.6%	(0.5)%	22,102	18,031	22.6%	7.3%	7.3%	0.0%
Used vehicles	3,756	4,878	(23.0)%	7.5%	8.9%	(1.3)%	7,185	8,950	(19.7)%	7.7%	8.7%	(1.0)%
Finance & insurance and other	11,723	10,885	7.7%	90.3%	90.4%	(0.1)%	21,309	19,910	7.0%	90.5%	90.4%	0.1%
Subtotal	28,549	26,147	9.2%				50,596	46,891	7.9%			
Parts, service & collision repair	14,103	13,265	6.3%	51.4%	50.6%	0.8%	26,318	25,624	2.7%	49.9%	49.7%	0.2%
Total	42,652	39,412	8.2%	15.6%	17.2%	(1.6)%	76,914	72,515	6.1%	16.3%	17.2%	(0.9)%

Same store gross profit increased by $3.2 million or 8.2% and $4.4 million or 6.1% for the three and six month periods ended June 30, 2011 respectively when compared to the same period in the prior year. New vehicle gross profit increased by $2.7 million or 25.9% in the three month period ended June 30, 2011 when compared to 2010 as a result of the previously discussed increase in new vehicle sales of 1,358 units. The average gross profit per new vehicle retailed decreased by $114 from 2010 which is mainly due to an increase in fleet sales of 946 units when compared to 2010. As previously discussed, higher levels of fleet sales will have a negative impact on gross margin percentage in our new vehicle department. For the six month period ended June 30, 2011, new

vehicle gross profit increased by $4.1 million or 22.6% which can be mainly attributed to an increase in unit sales of 1,558 for the period.

Used vehicle gross profit decreased by $1.1 million or 23.0% in the three month period ended June 30, 2011 over the prior year. This was primarily due to a decrease in the number of used vehicles sold of 342 units and a decrease of $207 in the average gross profit earned per vehicle retailed. For the six month period ended June 30, 2011, same store used vehicle gross profits decreased by $1.8 million or 19.7% which was mainly due to a decrease in volume of 646 units or 14.2% and a decrease in the average gross per vehicle retailed of $127 or 6.4%. Manufacturer incentives on new vehicles had a negative effect on our overall used vehicle profits, which inherently drives down the resale value of many used vehicles. In addition, the increased competition in this market has put pressure on used vehicle margins and will continue to do so in the future. Management believes that we will continue to see pressure on used vehicle margins over the long term partly due to the increase in independent used vehicle dealerships, but more importantly due to increased ability for the public to privately sell their vehicles on the internet. Management has continued to invest in technology that we believe will improve our competitiveness for internet sales and will better inform our potential customers of the benefits of purchasing used vehicles from a recognized auto dealer. We believe that auto dealerships have a distinct advantage over private sellers in the used vehicle market due to our ability to provide multiple sources of financing, the ability to offer extended warranty and our direct access to dealer auctions which offer more competitive pricing and we intend to focus our marketing efforts on this advantage.

Parts, service and collision repair gross profit increased by $0.8 million or 6.3% in the three month period ended June 30, 2011 when compared to the same period in the prior year as a result of an increase of 1,295 in repair orders completed during the quarter and an increase of $8 in the average gross profit earned per repair order completed. For the six month period ended June 30, 2011, parts, service and collision repair gross profit increased by $0.7 million or 2.7% which can be mainly attributed to an increase in the average gross per repair order completed of 5.0%, partially offset by a decrease in the number of repair orders completed of 3,134 units.

Finance and insurance gross profit increased by 7.7% or $0.8 million in the three month period ended June 30, 2011 when compared to the prior year as a result of an increase in the average gross profit per unit sold of $122 and a modest increase in units retailed of 70. For the six month period ended June 30, 2011, finance and insurance gross profit increased by $1.4 million or 7.0% and can be attributed to an increase in the average gross per vehicle retailed of $164, partially offset by a decrease in units retailed of 165 vehicles.

Operating expenses

Operating expenses increased by 2.4% or $0.8 million during the three month period ended June 30, 2011 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 decreased to 77.3% in the second quarter of 2011 from 82.5% in the same period of the prior year. For the six month period ended June 30, 2011, operating expenses as a percentage of gross profit also decreased to 82.0% from 85.5% in the same period of the prior year. Operating expenses consist of four major categories; employee costs, selling and administrative costs, facility lease costs and amortization.

Employee costs

During the three month period ended June 30, 2011, employee costs increased by $1.8 million to $21.8 million from $20.0 million in the prior year period. Employee costs as a percentage of gross profit remained relatively flat at 48.0% quarter over quarter. Employee costs as a percentage of gross profit for the six month period ended June 30, 2011 decreased to 48.8% from 50.1% for the same period in the prior year. Management can attribute the decrease to a partial recovery of termination costs realized in the first quarter of 2011.

Selling and administrative costs

During the three month period ended June 30, 2011, selling and administrative costs decreased by $0.8 million or 7.7% due to a decrease in advertising and other administrative expenses. The Company also experienced a recovery of bad debts during the period which reduced selling and administrative costs. Selling and administrative expenses as a percentage of gross profit decreased to 20.6% in the second quarter of 2011 from 24.4% in the comparable period of 2010. This decrease is due to the reasons discussed above. For the six month period ended June 30, 2011, selling and administrative costs as a percentage of gross decreased to 23.5% from 24.6% in the same period of the prior year. This can be mainly attributed to decreases in advertising and other administrative expenses. The Company has focused over the past six months on decreasing its advertising expense through more effective use of the internet. These efforts have resulted in a decrease in advertising expense per vehicle retailed.

Facility lease costs
During the three month period ended June 30, 2011, facility lease costs decreased by 7.9% to $2.9 million from $3.2 million. The Company purchased one of its previously leased facilities in late 2010 which has attributed to this decrease. For the six month period ended June 30, 2011 the Company's facility lease costs have decreased by $0.4 million which can be attributed to the reason discussed above and a rent reduction at one of its locations.

Amortization
During the three month period ended June 30, 2011, amortization remained relatively flat at $1.0 million. For the six month period ended June 30, 2011, amortization increased by $0.2 million from the prior year mainly due to the purchase of the Newmarket Infiniti Nissan facility in late 2010.

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, 2011, finance costs on our revolving floorplan facilities remained relatively flat at $2,311 from $2,230 in the second quarter of 2010. Finance costs on long term indebtedness increased to $0.3 million from $0.2 million in the second quarter mainly due to the additional indebtedness incurred for the purchase of the Newmarket Infiniti Nissan real estate. Finance costs, net of finance income has remained relatively flat quarter over quarter due to the Company holding cash in its Ally account which is used to offset floorplan costs at the current rate of 4.20%.

The following table summarizes the interest rates at the end of the last eight quarters on our revolving floorplan facilities.

	Q3 2009	**Q4 2009**	**Q1 2010**	**Q2 2010**	**Q3 2010**	**Q4 2010**	**Q1 2011**	**Q2 2011**
Interest Rate	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%

As of the date of this MD&A our floorplan interest rate is 4.20%.

Subsequent to June 30, 2011, the Company achieved a 50 basis point reduction of its interest rate on the Revolving Term Facility with HSBC. The interest rate on this facility is now RBC prime plus 0.75% (3.75% as at the date of this MD&A).

Some of our manufacturers provide non-refundable credits on the finance costs for our revolving floorplan facilities to offset the dealership's cost of inventory that, on average, effectively provide the dealerships with interest-free floorplan financing for the first 45 to 60 days of ownership of each financed vehicle. During the three month period ended June 30, 2011, the net floorplan credits were $1,593 (2010 - $1,178). For the six month period ended June 30, 2011, the net floorplan credits were $2,778 (2010 - $1,931). The increase in floorplan credits is a result of higher turnover in new vehicle inventory. Accounting standards requires the floorplan credits to be accounted for as a reduction in the cost of new vehicle inventory and subsequently a reduction in the cost of sales as vehicles are sold.

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

	Three months ended June 30, 2011	**Three months ended June 30, 2010**	**Six months ended June 30, 2011**	**Six months ended June 30, 2010**
Floorplan financing costs	2,311	2,230	3,995	3,900
Floorplan credits earned	(1,593)	(1,178)	(2,778)	(1,931)
Net carrying cost of vehicle inventory	718	1,052	1,217	1,969

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.

NEW DEALERSHIPS

The Company currently owns 22 franchised automotive dealerships. At the time of AutoCanada's initial public offering ("IPO") in May of 2006, AutoCanada owned 14 franchised automotive dealerships. Since this time the Company has acquired or opened 9 additional dealerships and has sold 1 of its dealerships. The Company did not complete any acquisitions during the six month period ended June 30, 2011. On June 20, 2011, the Company sold its Colombo Chrysler Jeep Dodge dealership. Although the Company is pleased with the performance of its Chrysler Jeep Dodge Ram dealerships generally, profitability at Colombo has been a challenge for Management. As the current facility lease was due to expire within the next 18 months, a relocation with its attendant costs was likely, and as it is expected that the impact of this sale on the Company's net income will be positive for 2011, it was determined that shareholder value would be best served by the sale of the dealership, allowing Management to better focus its efforts and resources on its other dealerships.

With respect to FIAT franchise opportunities, management has begun its facility improvements at the three locations that were awarded FIAT franchises in order to accommodate the FIAT dealerships, while adhering to the standards required by the manufacturer. The Company expects the costs of the three renovations to be approximately $0.8 million and at June 30, 2011 has spent approximately $0.2 million on renovations to its showrooms to accommodate FIAT franchises.

Management does not expect a significant incremental increase in earnings as a result of the three new franchises (Crosstown FIAT, Capital FIAT and Maple Ridge FIAT) during the first two years due to limited product availability and costs associated with operating the additional franchises.

As previously discussed, on June 22, 2011, the Company announced that the independent Board completed a review of its business plan, and, as announced at that time, in view of the continued resistance of some manufacturers to the public ownership model, the Company could not presume that it would be able to grow with any brands that it currently does not own or which are related to these brands. As a result, the ability of the Company to grow as originally intended was not realistically achievable, and hence shareholder value could be best achieved by aligning its business model with a strategy that contemplates modest growth, combined with an emphasis on returning to shareholders a fair share of earnings by way of dividends.

The Company will consider pursuing acquisition opportunities if a favorable opportunity presents itself and if the acquisition could potentially provide incremental value to the Company. At present, management can provide no firm guidance with respect to future acquisition opportunities, but with the improvement in the markets generally, Management remains opportunistic and is seeking to add at least one acquisition in 2011.

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. A significant decline in sales as a result of the inability to procure adequate supply of vehicles and/or lower consumer demand may reduce our cash flows from operations and limit our ability to fund capital expenditures, repay our debt obligations, fund future growth internally and/or fund future dividends.

On June 22, 2011 the Company announced that following an independent Board review of its business plan, it has revised its dividend policy such that it shall target quarterly dividends between 70% and 80% of fully diluted earnings per share. This dividend policy shall be reviewed on a quarterly basis and adjusted, as required, to meet market conditions. As such, the Company expects the new dividend policy to place some constraints on its ability to fund future growth through cash from operations. If the acquisition landscape changes in the future whereby significant growth opportunities are available, the Company may fund acquisitions through the issuance of debt or equity, or revise the dividend policy to fund future acquisitions through cash from operations.

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, 2011 was $5.3 million (cash provided by operating activities of $9.1 million less net change in non-cash working capital of $3.8 million) compared to $14.4 million (cash provided by operating activities of $6.1 million plus net change in non-cash working capital of $8.3 million) in the same period of the prior year.

Economic Dependence

As stated in Note 3 of the interim consolidated financial statements, the Company has significant commercial and economic dependence on Chrysler Canada and Ally Credit Canada Limited ("Ally Credit"). 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, and Ally Credit, which provides the Company with revolving floorplan facilities for all of its dealerships. Details of these relationships and balances of assets with Chrysler Canada and Ally Credit are described in Note 3 of the interim consolidated financial statements for the period ended June 30, 2011.

Credit Facilities and Floor Plan Financing

On June 30, 2011, the Company renewed its HSBC Non-Revolving Term Loan ("HSBC Term Loan") for an additional 365 day term. The rates, terms and conditions of the renewed facility remain the same; however the maturity date has been extended until June 30, 2012. Consistent with the original agreement, if the HSBC Term Loan is not extended by HSBC, repayment of the outstanding amount is not due until June 30, 2013.

Subsequent to June 30, 2011, the Company achieved a 50 basis point reduction of its interest rate on the Revolving Term Facility with HSBC. The interest rate on this facility is now RBC prime plus 0.75% (3.75% as at the date of this MD&A).

There have been no other changes to credit facilities or our floorplan financing facilities since described in the annual management discussion and analysis for the year ended December 31, 2010 which is available on SEDAR (www.sedar.com).

Financial Instruments

Details of the Company's financial instruments, including risks and uncertainties are included in Note 16 of the interim consolidated financial statements for the three month period ended June 30, 2011.

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, 2011 to June 30, 2011**	**January 1, 2011 to June 30, 2011**
	$	
Leasehold improvements	52	78
Machinery and equipment	36	70
Furniture and fixtures	14	80
Computer equipment	80	185
Company & lease vehicles	6	6
	188	419

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 and six month periods ended June 30, 2011 growth capital expenditures of $0.4 and $1.1 million were incurred. These expenditures related primarily to leasehold improvements and purchases of equipment for our Crosstown body shop relocation and the renovation of three dealerships to accommodate newly appointed FIAT franchises. 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, 2011 to June 30, 2011	January 1, 2011 to June 30, 2011
	$	$
Purchase of property and equipment from the Statement of Cash Flows	612	1,542
Less: Amounts related to the expansion of sales and service capacity	(424)	(1,123)
Purchase of non-growth property and equipment	188	419

Repairs and maintenance expenditures are expensed as incurred and have been deducted from earnings for the period. Repairs and maintenance expense incurred during the three month and six month periods ended June 30, 2011, were $0.5 million and $1.1 million (2010 - $0.5 million and 1.0 million).

Planned Capital Expenditures

The Company anticipates capital expenditures in 2011 with respect to the opening of FIAT dealerships. As noted above, Management estimates the capital cost of opening FIAT dealerships for the three locations in which franchise agreements have been awarded to be approximately $0.8 million. The Company is in the preliminary stage of considering relocations for two of its dealerships. The two dealerships are expected to be relocated within the next 1-3 years and may require significant capital if an adequate third party lessor cannot be found for these locations. Management will provide further guidance as to our expected capital expenditures regarding the proposed dealership locations as the relocation plans develop.

Financial Position

The following table shows selected audited balances of the Company (in thousands) for December 31, 2010 and December 31, 2009 as well as unaudited balances of the Company at June 30, 2011, March 31, 2011, September 30, 2010, June 30, 2010, March 31, 2010 September 30, 2009. Columns marked "IFRS" represent financial information which has been restated for the Company's adoption of International Financial Reporting Standards ("IFRS") on January 1, 2010. Columns marked "CGAAP" represent financial information which has not been restated for the Company's adoption of IFRS and readers are cautioned that these columns may not provide appropriate comparative information.

Balance Sheet Data	June 30, 2011 IFRS	March 31, 2011 IFRS	December 31, 2010 IFRS	September 30, 2010 IFRS	June 30, 2010 IFRS	March 31, 2010 IFRS	December 31, 2009 CGAAP	September 30, 2009 CGAAP
Cash and cash equivalents	43,837	39,337	37,541	34,329	31,880	23,615	22,465	23,224
Accounts receivable	51,539	42,260	32,853	37,149	46,787	40,701	35,388	38,134
Inventories	149,481	134,865	118,365	137,507	177,294	153,847	108,324	107,431
Total assets	318,956	291,291	261,733	272,027	314,662	274,657	233,665	233,283
Revolving floorplan facilities	172,600	152,075	124,609	145,652	194,388	160,590	102,650	105,254
Total long term debt and lease obligations	24,895	24,989	25,094	24,200	18,942	19,010	23,074	19,064

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, 2011, the aggregate of net working capital requirements was approximately $31.6 million. At June 30, 2011, 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 new working capital amounts as current assets less current liabilities as presented in the interim consolidated financial statements. At June 30, 2011, the Company had aggregate working capital of approximately $40.8 million.

Related Party Transactions

Note 24 of the interim consolidated financial statements of the Company summarize the transactions between the Company and its related parties. These transactions are prepayments of rent and rents paid to companies with common ownership, management and directors.

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 on a quarterly basis, or as requested by Management, and determine whether a dividend shall be paid based on a number of factors.

The following table summarizes the dividends declared by the Company in 2011:

(In thousands of dollars)

Record date	Payment date	Total Declared	Total Paid
		$	$
February 28, 2011	March 15, 2011	795	795
May 31, 2011	June 15, 2011	995	995
August 31, 2011	September 15, 2011	1,988	-

On June 22, 2011 the Board declared a quarterly eligible dividend of $0.10 per common share on AutoCanada's outstanding Class A common shares, payable on September 15, 2011 to shareholders of record at the close of business on August 31, 2011. The declaration of the dividend represents a 100% increase over the previously declared dividend of $0.05 per share. The newly announced quarterly dividend represents an annual dividend rate of $0.40 per share as compared to $0.20 per share previously.

Cautionary Note Regarding our Dividends

Future dividends of AutoCanada will be reviewed by our Board of Directors and adjusted from time to time to reflect current business conditions. Our ability to pay dividends and the actual amount of such dividends will be dependent upon, among other things, our financial performance, our debt covenants and obligations, our ability to refinance our debt obligations on similar terms and at similar interest rates, our working capital requirements, our future tax obligations, and our future capital requirements.

As per the terms of the HSBC facility, we are restricted from declaring dividends and distributing cash if we are in breach of our 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.

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 (not including capital assets acquired by acquisitions or purchases of real estate). Columns marked "IFRS" represent financial information which has been restated for the Company's adoption of International Financial Reporting Standards ("IFRS") on January 1, 2010. Columns marked "CGAAP" represent financial information which has not been restated for the Company's adoption of IFRS and readers are cautioned that these columns may not provide appropriate comparative information.

(In thousands of $ except unit and per unit amounts)	Q3 2009 CGAAP	Q4 2009 CGAAP	Q1 2010 IFRS	Q2 2010 IFRS	Q3 2010 IFRS	Q4 2010 IFRS	Q1 2011 IFRS	Q2 2011 IFRS
Cash provided by operating activities	9,657	2,319	7,169	14,373	4,983	7,810	4,168	5,289
Deduct:								
Purchase of property and equipment	(458)	(614)	(541)	(1,156)	(572)	(2,130)	(930)	(612)
Free Cash Flow [1]	9,199	1,705	6,628	13,217	4,411	5,680	3,238	4,677
Weighted average shares outstanding at end of period	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930
Free cash flow per share	0.463	0.086	0.333	0.665	0.222	0.286	0.163	0.235
Free cash flow – 12 month trailing	11,427	7,062	17,968	30,749	25,961	29,936	26,546	18,006
Free cash flow –Year-to-date								7,915

[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 in cash due to changes in non-cash working capital for the three months ended June 30, 2010 and June 30, 2011.

(In thousands of dollars)	April 1, 2011 to June 30, 2011 $	April 1, 2010 to June 30, 2010 $
Accounts receivable	(9,515)	(6,067)
Inventories	(20,912)	(22,145)
Prepaid expenses	(732)	(993)
Accounts payable and accrued liabilities	1,613	3,740
Vehicle repurchase obligations	3	-
Revolving floorplan facility	25,759	33,798
	(3,784)	8,333

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. Columns marked "IFRS" represent financial information which has been restated for the Company's adoption of International Financial Reporting Standards ("IFRS") on January 1, 2010. Columns marked "CGAAP" represent financial information which has not been restated for the Company's adoption of IFRS and readers are cautioned that these columns may not provide appropriate comparative information.

(In thousands of $ except unit and per unit amounts)	Q3 2009 CGAAP	Q4 2009 CGAAP	Q1 2010 IFRS	Q2 2010 IFRS	Q3 2010 IFRS	Q4 2010 IFRS	Q1 2011 IFRS	Q2 2011 IFRS
Cash provided by operating activities before changes in non-cash working capital	6,101	3,246	2,971	6,040	3,836	3,256	3,883	9,073
Deduct:								
Purchase of non-growth property and equipment	(187)	(240)	(409)	(819)	(365)	(565)	(232)	(188)
Adjusted Free Cash Flow[1]	5,914	3,006	2,562	5,221	3,471	2,691	3,651	8,885
Weighted average shares outstanding at end of period	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930
Adjusted Free Cash Flow / Share	0.297	0.151	0.129	0.263	0.175	0.135	0.184	0.447
Adjusted Free Cash flow – 12 Month Trailing	16,833	16,395	17,073	16,703	14,260	13,945	15,034	18,698
Adjusted Free cash flow – YTD								12,536

[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.

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). Columns marked "IFRS" represent financial information which has been restated for the Company's adoption of International Financial Reporting Standards ("IFRS") on January 1, 2010. Columns marked "CGAAP" represent financial information which has not been restated for the Company's adoption of IFRS and readers are cautioned that these columns may not provide appropriate comparative information.

(In thousands of $ except share and per share amounts)	Q3 2009 CGAAP	Q4 2009 CGAAP	Q1 2010 IFRS	Q2 2010 IFRS	Q3 2010 IFRS	Q4 2010 IFRS	Q1 2011 IFRS	Q2 2011 IFRS
EBITDA[1]	6,716	3,271	3,096	6,164	4,011	3,469	4,048	9,318
Add (deduct):								
Amortization	(937)	(961)	(931)	(961)	(1,058)	(1,207)	(1,080)	(1,017)
EBIT[1]	5,779	2,310	2,165	5,203	2,953	2,262	2,968	8,301
Average long-term debt	24,432	23,441	21,314	19,244	21,924	25,461	26,201	26,071
Average shareholders' equity	75,848	79,253	70,872	72,991	74,994	78,979	82,973	86,056
Average capital employed[1]	100,280	102,693	92,185	92,235	96,918	104,440	109,174	111,127
Return on capital employed[1]	5.8%	2.2%	2.3%	5.6%	3.0%	2.2%	2.7%	7.5%
Comparative adjustment[2]	-	-	9,301	9,301	9,301	3,579	3,579	3,579
Adjusted average capital employed[2]	100,280	102,693	101,486	101,536	106,219	110,880	112,753	114,706
Adjusted return on capital employed[2]	5.4%	5.8%	2.1%	5.1%	2.8%	2.0%	2.6%	7.2%

[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.

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICY DEVELOPMENTS

A complete listing of critical accounting policies, estimates, judgments and measurement uncertainty can be found in Note 1 of the interim consolidated financial statements for the three month period ended March 31, 2011. Other than changes as a result of the adoption of IFRS, critical accounting policies remain largely unchanged from those described in the Company's management's discussion and analysis for the three month period ended March 31, 2011.

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 financial year ended December 31, 2011. The following standards will become effective on January 1, 2013:

IFRS 9, Financial Instruments, which is the result of the first phase of the IASB's project to replace IAS 39, Financial Instruments: Recognition and Measurement. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

IFRS 10, *Consolidated Financial Statements*, which is the result of the IASB's project to replace Standing Interpretations Committee 12, Consolidation – Special Purpose Entities and the consolidation requirements of IAS 27, Consolidated and Separate Financial Statements. The new standard eliminates the current risk and rewards approach and establishes control as the single basis for determining the consolidation of an entity.

IFRS 12, *Disclosure of Interests in Other Entities*, which outlines the required disclosures for interests in subsidiaries and joint arrangements. The new disclosures require information that will assist financial statement users to evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries and joint arrangements.

IFRS 11, *Joint Arrangements*, which is the result of the IASB's project to replace IAS 31, Interest in Joint Ventures. The new standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted. Under IAS 31, joint ventures could be proportionately accounted.

IFRS 13, *Fair Value Measurement*, which provides a common definition of fair value, establishes a framework for measuring fair value under IFRS and enhances the disclosures required for fair value measurements. The standard applies where fair value measurements are required and does not require new fair value measurements.

IAS 19, *Post-Employment Benefits*, which amends the recognition and measurement of defined benefit pension expense and expands disclosures for all employee benefit plans.

The Company has yet to assess the impact of the new standards on its results of operations, financial position and disclosures.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

For interim and annual periods in 2011 and beyond, AutoCanada is required to prepare financial statements in accordance with International Financial Reporting Standards ("IFRS"). References to "GAAP" refer to Canadian generally accepted accounting principles; which requires the financial statements to be prepared in accordance with IFRS. The Company's financial statements for the first quarter of 2011 were the first to be prepared in accordance with IFRS, and a number of additional disclosures were included in the financial statements for the current period to reconcile comparative financial information for the second quarter of 2010 under IFRS to the information presented under previous Canadian generally accepted accounting principles ("CGAAP"). These disclosures are included in Note 27 of the interim consolidated financial statements for the period ended June 30, 2011.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended June 30, 2011, 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.

GENERAL OUTLOOK

The outlook regarding vehicle sales in Canada is difficult to predict. New light vehicle unit sales in Canada are expected to increase by 2.1 percent in 2011 as compared to the prior year.

New Vehicle Sales Outlook by Province*

(thousands of units, annual rates)

	1994-2005 Average	2006-08 Average	2009	2010	2011f
Canada	**1,446**	**1,637**	**1,461**	**1,557**	**1,590**
Atlantic	**102**	**119**	**115**	**122**	**123**
Central	**936**	**1,002**	**927**	**990**	**1,006**
Quebec	366	411	392	414	420
Ontario	570	591	535	576	586
West	**408**	**516**	**419**	**445**	**461**
Manitoba	42	45	43	44	46
Saskatchewan	36	43	44	46	48
Alberta	166	239	182	200	210
British Columbia	164	189	150	155	157

* Includes cars and light trucks

Source: Scotia Economics - Global Auto Report, July 28, 2011

During the second quarter of the year, AutoCanada continued to benefit from the general improvement in the economy in Canada. This improvement was evident by the increase in new vehicle sales and the improvement in finance and insurance revenues (an indicator of improved credit conditions). Although signs of improvement give us hope of a full recovery, unemployment rates remain high and the economic activity of the markets in which we operate, although improving, remains significantly lower than previous levels we had witnessed in the years leading up to the credit crisis and the resulting economic recession.

Management believes that as a result of both the number of variables and the volatility of these variables that it is difficult to predict the direction of new and used vehicle sales with any certainty. Management believes that the best approach is to continue its emphasis on existing operations for continued earnings and cash flow growth and, in particular, those aspects of its operations which are most impacted by same. In view of the number of brands which to date have accepted public ownership in Canada, the continuing credit markets generally, and the need to ensure that acquisitions are priced to be accretive, profitable acquisitions remain challenging and their timing is uncertain.

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 2010 Annual Information Form dated March 17, 2011 available on the SEDAR website at www.sedar.com.

Management continues to carefully monitor the developments of supply chain disruptions affecting some of its manufacturer partners. The earthquake and resulting tsunami in Japan had created uncertainty in the timing of the supply of vehicles. Management believes that supply disruptions as a result of the events in Japan have been mostly resolved, but cannot conclude at this time whether future disruptions will continue to occur. During the second quarter of 2011 and continuing into the third quarter there has also been a strike at a major shipping port in British Columbia which has caused supply disruptions for some of our manufacturer partners. This has resulted in inventory shortages at some of our dealerships. We expect the supply disruption to continue indefinitely and remain confident that regular shipping times will resume over the next few months. Management recognizes that until regular supply resumes, we may experience less profitability at the dealerships affected.

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", "expect", "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:

- management's plans for the direction of marketing efforts;
- assumptions regarding consumer confidence and its effect on our business and revenue;
- our expectation of the effects of supply disruptions on the business;
- our belief that we will continue to see pressure on used vehicle margins;
- expectations of the costs of the three FIAT renovations currently underway;
- our assessment of the addition of FIAT franchises and its effect on earnings;
- management's assessment of our dividend policy and its effect on liquidity;
- management's expectation of the emergence of used vehicle superstores and its effect on the used vehicle market;
- our expectation of future acquisitions and management's intention of adding one acquisition in 2011;
- our expectation to incur annual non-growth capital expenditures;
- the impact of working capital requirements and its impact on future liquidity;
- expectations of the amount of future capital spending and its effect on future performance, liquidity and growth;
- our assumption on the amount of time it may take for an acquisition or open point to achieve normal operating results;
- expectations and assumptions regarding the Company's ability to pay future dividends and growth;

- assumptions over non-GAAP measures and their impact on the Company;
- 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.

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.

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.