AUTOCANADA INC.

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

For the year ended December 31, 2010

As of March 17, 2011

READER ADVISORIES

The Management's Discussion & Analysis ("MD&A") was prepared as of March 17, 2011 to assist readers in understanding AutoCanada Inc.'s (the "Company" or "AutoCanada") consolidated financial performance for the year ended December 31, 2010 and significant trends that may affect AutoCanada's future performance. The following discussion and analysis should be read in conjunction with the audited annual consolidated financial statements and accompanying notes (the "Consolidated Financial Statements") of AutoCanada for the year ended December 31, 2010. These financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). 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 year ended December 31, 2010 of the Company, and compares these to the operating results of the Company for the three-month period and year ended December 31, 2009.

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 2009 Annual Information Form dated March 22, 2010, 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 23 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.

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 year ended December 31, 2010 and December 31, 2009.

(In thousands of dollars except % of total and number of dealerships)	December 31, 2010			December 31, 2009		
	Number of Dealerships	Revenue	% of Total	Number of Dealerships	Revenue	% of Total
British Columbia	7	312,578	35%	7	270,109	35%
Alberta	9	347,740	40%	9	319,122	41%
Ontario	4	113,056	13%	3	95,499	12%
All other	3	102,734	12%	3	91,106	12%
Total	23	876,108	100%	22	775,836	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
Victoria, British Columbia	Victoria Hyundai	Hyundai	2006
Maple Ridge, British Columbia	Maple Ridge Chrysler Jeep Dodge(3)	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(3)	Chrysler	1994
Edmonton, Alberta	Capital Chrysler Jeep Dodge(3)	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
Woodbridge, Ontario	Colombo Chrysler Jeep Dodge	Chrysler	2005
Mississauga, Ontario	401/Dixie Hyundai(2)	Hyundai	2010
Newmarket, Ontario	Newmarket Infiniti Nissan (1)	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

[1] Both the Infiniti and Nissan brands are sold out of the Newmarket Infiniti Nissan dealership facility, therefore we consider these two brands to be one dealership for MD&A reporting purposes.
[2] 401/Dixie Hyundai was acquired by the Company on April 12, 2010.
[3] During the year, 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.

Seasonality

AutoCanada's revenues are subject to seasonal fluctuations. The following table illustrates the quarterly variation per year in the sales of new and used vehicles, based on the results of the Company for 2010, 2009, and 2008, as well as the combined results of the Company and its predecessor for 2006.

	New Vehicle Sales					Used Vehicle Sales					Total Vehicles Sold				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
Q1	20%	23%	24%	21%	22%	24%	23%	25%	24%	24%	22%	23%	24%	22%	23%
Q2	26%	25%	28%	26%	28%	26%	28%	28%	26%	28%	26%	26%	28%	26%	28%
Q3	29%	29%	26%	28%	28%	27%	26%	26%	27%	25%	28%	28%	26%	28%	27%
Q4	25%	23%	22%	25%	22%	23%	23%	21%	23%	23%	24%	23%	22%	24%	22%

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 (including fleet sales) were up 6.6% in 2010 when compared to 2009. Annual sales of new light vehicles in Alberta and British Columbia, our primary markets, were up by 9.2% and 2.7% respectively. The Company's same store sales of new vehicles in Alberta and British Columbia have increased by 13.0% and 15.5% respectively during this period. We are pleased with the performance of our dealerships versus the market, however approximately 30% of our same store new light vehicle sales increase can be attributed to fleet sales. Sales to fleet customers (rental companies, commercial, and government) typically generate marginal gross profit, thus we did not achieve the profitability levels that our 12.4% increase in same store new vehicle sales would have normally generated.

Management cannot confirm, but believes that much of the increase in the overall Canadian new vehicle market can be attributed to increases in fleet sales from 2009. Management is pleased that the Company has been able to realize a 10.4% increase in same store new vehicle retail sales in 2010, a year in which we believe the market to be very competitive in comparison to historical markets in general.

The following table summarizes Canadian new light vehicle sales for 2010 by Province:

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

	December Year to Date		Percentage Change	Units Change
	2010	2009		
Province				
British Columbia	154,373	150,323	2.7%	4,050
Alberta	200,088	183,221	9.2%	16,867
Saskatchewan	46,517	43,766	6.3%	2,751
Manitoba	44,025	42,833	2.8%	1,192
Ontario	576,629	534,366	7.9%	42,263
Quebec	413,635	391,053	5.8%	22,582
New Brunswick	37,740	34,299	10.0%	3,441
PEI	6,112	5,269	16.0%	843
Nova Scotia	46,422	46,933	(1.1)%	(511)
Newfoundland	31,580	28,518	10.7%	3,062
Total	**1,557,121**	**1,460,581**	**6.6%**	**96,540**

[1] *DesRosiers Automotive Consultants Inc.*

The overall used vehicle market in Canada has continued to grow, with used vehicle sales increasing by 3.6% in 2010 from 2009 levels. In 2010, our same store used vehicle retail sales volumes decreased by 11.7% when compared to 2009. We are disappointed with the decrease in used volumes. New vehicle dealers in Canada continue to lose market share to other channels such as independent used car dealers and private sales. New vehicle dealers sold 4.4% less used vehicles in 2010 than in 2009 on average. In addition, some of our markets have experienced increased used car competition by the transformation of former GM dealerships to used vehicle dealers, further increasing the competition, all of which have resulted in lower sales volumes and gross margins in many of our dealerships. Two of our dealerships in particular have significantly contributed to the decrease in used vehicle gross margin due to reorganization of their management teams during the quarter. In response to these developments Management has implemented a new system that will assist the Company's dealerships in monitoring used inventory levels and appraisal process. We have also introduced changes to the dealership websites specifically directed to better informing the customer of their used vehicle options and pricing. Management plans to direct additional resources in 2011 to continue to improve our marketing efforts and online presence to address the decrease in used vehicle volumes.

Overall, our finance and insurance revenues have improved and our parts and service revenues have also benefitted from increased new vehicle sales. We continue to focus on growing our market share in key markets and improving the sales experience for our customers in order to build and maintain long-term relationships.

We are also pleased with our acquisition of 401 Dixie Hyundai located in Mississauga, Ontario in April of 2010. This acquisition allows us to build upon our dealership platform in the greater Toronto area, the largest customer base in Canada. We believe this dealership to be a strong franchise for this marketplace, and will continue to build on our strong partnership with Hyundai Canada.

On September 11, 2010, we announced the departure of Mr. Kelly O'Connell, Chief Operating Officer, from employment with AutoCanada. On October 20, 2010 we also announced the departure of Mr. Bob Clark, President, from employment with AutoCanada.

Following a review of its head office structure, on January 13, 2011 we announced the appointments of Tom Orysiuk as President, Steve Rose as Executive Vice-President Corporate Services and Jeff Christie as Vice-President Finance. These appointments represent the Board of Director's and Management's commitment to promotion from within and growing our own people into leadership positions.

The management changes and head office restructuring undertaken during the past two quarters are showing progress. In the fourth quarter of 2010, most of our dealerships improved their results quarter over quarter, and we continue to work diligently with those dealerships which are not currently making a positive contribution, which we expect to achieve in the coming 12 to 18 months. In addition, we continue to make investments in our dealerships to achieve organic growth, which will provide long-term value to shareholders.

We are very pleased with the success of our OEM partners. The Chrysler/FIAT partnership is developing and we look forward to retailing FIAT products and the new Chrysler line-up in 2011. We are also pleased with the success of Hyundai, Nissan/Infiniti, Volkswagen, Subaru and Mitsubishi in 2010 as they continue to perform well in the Canadian market.

SELECTED ANNUAL FINANCIAL INFORMATION

The following table shows the audited results of the Company for the years ended December 31, 2008, December 31, 2009 and December 31, 2010. 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 %)	**The Fund**	**The Company**	**The Company**
	(Audited)	**(Audited)**	**(Audited)**
	2008	**2009**	**2010**
Income Statement Data			
Revenue	826,494	775,836	876,108
New vehicles	451,501	412,203	515,683
Used vehicles	222,329	212,234	202,552
Parts, service & collision repair	103,743	108,164	111,742
Finance, insurance & other	48,921	43,235	46,131
Gross profit	147,052	141,976	150,937
New vehicles	32,706	29,308	37,233
Used vehicles	18,400	19,913	16,885
Parts, service & collision repair	50,358	53,338	55,215
Finance, insurance & other	45,588	39,417	41,604
Gross profit %	17.8%	18.3%	17.2%
Sales, general & admin expenses	114,881	118,141	126,056
Floorplan interest expense	7,065	4,855	7,437
Other interest & bank charges	1,551	2,281	1,780
Income taxes	(9,970)	449	2,972
Net earnings	(95,175)	12,578	8,671
EBITDA [1]	24,486	18,352	16,743
Basic earnings (loss) per share	(4.711)	0.633	0.436
Diluted earnings (loss) per share	(4.711)	0.633	0.436
Operating Data			
Vehicles (new and used) sold	23,714	23,083	24,239
New retail vehicles sold	11,554	11,117	12,767
New fleet vehicles sold	2,244	2,233	2,717
Used retail vehicles sold	9,916	9,733	8,755
Number of service & collision repair orders completed	277,256	301,282	317,703
Absorption rate [2]	96%	89%	86%
# of dealerships	22	22	23
# of same store dealerships [3]	14	19	21
# of service bays at period end	284	331	339
Same store revenue growth [3]	(9.9)%	(10.5)%	10.5%
Same store gross profit growth [3]	(2.6)%	(7.8)%	4.1%

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.

SELECTED QUARTERLY FINANCIAL INFORMATION

The following table shows the unaudited results of the AutoCanada 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 %)	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010
Income Statement Data								
New vehicles	86,344	107,158	116,577	102,124	114,530	144,727	142,044	114,382
Used vehicles	50,287	55,940	57,202	48,805	49,034	57,181	50,922	45,414
Parts, service & collision repair	26,336	27,340	26,849	27,639	26,922	28,376	27,279	29,165
Finance, insurance & other	9,637	11,613	11,916	10,069	10,486	12,966	11,909	10,771
Revenue	172,604	202,051	212,544	188,637	200,972	243,250	232,154	199,732
New vehicles	5,515	7,906	8,731	7,157	7,989	10,831	9,557	8,856
Used vehicles	4,100	5,579	5,838	4,396	4,112	4,893	4,221	3,659
Parts, service & collision repair	12,824	13,712	13,373	13,428	13,107	14,443	13,831	13,835
Finance, insurance & other	8,749	10,637	10,881	9,150	9,511	11,679	10,725	9,689
Gross profit	31,188	37,834	38,823	34,131	34,719	41,846	38,334	36,038
Gross profit %	18.0%	18.7%	18.3%	18.1%	17.2%	17.1%	16.4%	18.0%
Sales, general & admin expenses	27,813	30,450	30,565	29,313	29,834	33,273	32,136	30,812
SG&A exp. as % of gross profit	89.2%	80.5%	78.7%	85.9%	85.9%	79.5%	83.8%	85.5%
Floorplan interest expense	970	1,104	1,399	1,382	1,661	2,198	2,022	1,556
Other interest & bank charges	375	552	802	552	362	442	442	534
Income taxes	97	67	37	248	522	1,337	699	414
Net earnings [4]	1,054	4,750	5,099	1,675	1,433	3,647	2,002	1,589
EBITDA [1 4]	2,230	6,135	6,716	3,271	3,079	6,180	4,014	3,469
Operating Data								
Vehicles (new and used) sold	5,149	6,067	6,415	5,451	5,676	7,017	6,363	5,219
New retail vehicles sold	2,219	3,030	3,236	2,559	2,787	3,613	3,358	3,008
New fleet vehicles sold	473	446	619	695	661	943	844	306
Used retail vehicles sold	2,385	2,591	2,560	2,197	2,228	2,461	2,161	1,905
Number of service & collision repair orders completed	70,021	75,062	79,346	76,853	75,311	80,072	77,285	85,035
Absorption rate [2]	84%	90%	92%	91%	85%	87%	85%	86%
# of dealerships	22	22	22	22	22	23	23	23
# of same store dealerships [3]	16	17	18	19	19	19	19	21
# of service bays at period end	319	319	321	331	331	339	339	339
Same store revenue growth [3]	(19.8)%	(15.3)%	(3.9)%	1.3%	16.9%	19.4%	6.7%	2.4%
Same store gross profit growth [3]	(12.8)%	(8.7)%	(6.3)%	(1.1)%	11.1%	7.5%	(4.0)%	2.9%
Balance Sheet Data								
Cash and cash equivalents	12,522	14,842	23,224	22,465	23,615	31,880	34,329	37,541
Accounts receivable	33,821	27,034	38,134	35,388	40,752	46,826	37,149	32,853
Inventories	116,478	90,141	107,431	108,324	153,847	177,524	137,507	118,365
Revolving floorplan facilities	114,625	73,161	105,254	102,650	160,590	194,388	145,652	124,609

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

Annual Operating Results

EBITDA for the year ended December 31, 2010 decreased by 8.8% to $16.7 million, from $18.4 million when compared to the results of the Company for the prior year. The Company's new vehicle retail unit sales increased 14.8% for the year and were partially offset by a decline in used vehicle retail unit sales of approximately 10% from 2009. Decreases in used vehicles sales have a greater impact on earnings than new vehicle sales since they typically generate a higher gross margin than new vehicles. Another contributor to lower EBITDA during the year was the increase in the Company's floorplan interest expense (which we do not add back in our calculation of EBITDA) of over $2.5 million in the 2010 year as compared to 2009. The Company experienced inventory shortages in 2009 due to the restructuring of one of its major suppliers and the suspension of its floorplan financing due to the restructuring of its primary financier. Inventory shortages are not sustainable over the long-term and floorplan interest expense in 2010 returned to a more normal level. In 2010, the Company also experienced over $1.6 million in restructuring and cost management activities related to the restructuring of two of our dealerships and the departure of two of our corporate executives late in 2010. These one-time costs incurred in the third and fourth quarter of 2010 had a negative effect on EBITDA for the Company.

The following table illustrates EBITDA for the year ended December 31, for the last four years of operations.

Period from January 1 to December 31st	EBITDA (In thousands of dollars)
2008	24,486
2009	18,352
2010	16,743

Net earnings decreased by $3.9 million to $8.7 million in 2010 from $12.6 million when compared to the prior year. The lower earnings for 2010 can be mainly attributed to the same reasons as discussed above. Due to the Company's conversion to a corporation on December 31, 2009, income tax expense associated with operating as a corporation increased to $3.0 million as compared to $0.4 million in 2009. Income tax expense accounted for much of the decrease in net earnings in 2010.

Pre-tax earnings decreased by $1.4 million to $11.6 million in 2010 from $13.0 million in 2009. The decrease in pre-tax earnings can be attributed to increased floorplan interest costs and the restructuring costs realized in the third and fourth quarters of 2010 as explained above.

As discussed above in "Our Performance", our used vehicle revenues and gross margins have declined significantly from 2009 and this had a negative effect on earnings for the year ended December 31, 2010. The Company's overall gross margin from used vehicle operations has decreased by $3.1 million in 2010, as compared to the prior year. The lower margins experienced in the used vehicle segment have contributed to the overall decrease in earnings for the year.

The continued constraint in sub-prime financing availability has restricted our customers' ability to finance vehicles, accessories, and finance and insurance products, which in turn continues to have a negative effect on our revenue and gross profits. Chartered banks are thus our main source of credit financing for our customers. It is difficult to predict future credit conditions; however we believe that they will improve over time. At this time, management cannot provide guidance as to when credit conditions and finance commissions will return to the levels we had experienced prior to the deterioration of credit markets which began in late 2008.

Revenues

Revenues for the year ended December 31, 2010 increased to $876.1 million from $775.8 million in the prior year. This 12.9% year-over-year increase in revenue for the period was as a result of an increase in the number of new vehicle and finance and insurance product sales, as well as an increase in parts, service and collision repair orders. Revenue from new vehicle sales increased by $103.5 million or 25.1% from $412.2 million to $515.7 million as a result of an increase in new vehicle unit sales of 2,134 units or 16.0% and an increase in the average transaction value per new vehicle retailed of $2,428 or 7.9% during the year ended December 31, 2010. Used vehicle revenue was our only business stream to experience a decline in revenue from 2009. Unit sales of used vehicles declined by 978 units during the year, which was partially offset by an increase in the average transaction price per used vehicle retailed of $1,330. Finance and insurance revenue increased by $2.9 million or 6.7% as a result of an overall increase in new vehicle retail sales. We also witnessed an increase in the average revenue per finance insurance transaction of $70

which we believe is due to a slight ease in credit availability for our customers. Our parts, service and collision repair revenue increased by $3.6 million or 3.3% from $108.2 million to $111.8 million in 2010 mainly due to increased service capacity from acquisitions and dealership relocations.

The tables in the *Same Store Analysis* sections below summarize the results for the year ended December 31, 2010 on a same store basis by revenue source and compare these results to the same period in 2009. 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 December 1, 2008 are included in this 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 Year Ended		
(In thousands of dollars except % change and vehicle data)	**December 31, 2010**	**December 31, 2009**	**% Change**
Revenue Source			
New vehicles	492,125	403,349	22.0%
Used vehicles	193,564	206,023	(6.0)%
Finance, insurance and other	43,511	41,858	3.9%
Subtotal	729,200	651,230	12.0%
Parts, service and collision repair	108,144	106,583	1.5%
Total	837,344	757,813	10.5%
New vehicles - retail sold	11,958	10,829	10.4%
New vehicles – fleet sold	2,714	2,230	21.7%
Used vehicles sold	8,338	9,447	(11.7)%
Total	23,010	22,506	2.2%
Total vehicles retailed	20,296	20,276	0.0%

Same store revenue increased by 10.5% in the year ended December 31, 2010 when compared to 2009. New vehicle revenues increased by $88.8 million or 22.0% for the year ended December 31, 2010 over the prior year due in part to a net increase in new vehicle sales of 1,613 units consisting of an increase of 1,129 retail units and 484 low margin fleet unit sales. Also contributing to the increase in new vehicle revenues for the year ended December 31, 2010 was an increase in the average selling price per new vehicle retailed ("PNVR") of $2,655 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 used vehicle revenues decreased by $12.5 million or 6.0% for the year ended December 31, 2010 over the prior year. This decrease was due to a decrease in the number of used vehicles sold of 1,109 units, partially offset by an increase in the average selling price per used vehicle retailed of $1,406.

Same store parts, service and collision repair revenue increased by $1.6 million in the year ended December 31, 2010 compared to the prior year and was primarily a result of an increase of 2.8% in the number of service and collision repair orders completed, partially offset by a 1.3% decrease in the average revenue per service and collision repair order completed.

Same store finance, insurance and other revenue increased by 3.9% for the year ended December 31, 2010 over the prior year. This increase was mainly due to an increase in the average revenue per unit retailed of $79.

Gross profit

During the year ended December 31, 2010, gross profit from all dealerships increased by 6.3% to $150.9 million when compared to $142.0 million in 2009. The increase in gross profit for the year ended December 31, 2010 was mainly the result of increases in new vehicle sales, finance and insurance sales and part, service and collision repair work.

Gross Profit - Same Store Analysis

The following table summarizes the results for the year ended December 31, 2010 on a same store basis by revenue source and compares these results to the same period in 2009.

Same Store Gross Profit and Gross Profit Percentage

	For the Year Ended					
	Gross Profit			Gross Profit %		
(In thousands of dollars except % change and gross profit %)	**Dec. 31, 2010**	**Dec. 31, 2009**	**% Change**	**Dec. 31, 2010**	**Dec. 31, 2009**	**Change**
Revenue Source						
New vehicles	35,124	28,421	23.6%	7.1%	7.0%	0.1%
Used vehicles	15,927	19,014	(16.2)%	8.2%	9.2%	(1.0)%
Finance, insurance and other	39,747	38,431	3.4%	91.4%	91.8%	(0.4)%
Subtotal	90,798	85,866	5.7%			
Parts, service and collision repair	53,390	52,581	1.5%	49.4%	49.3%	0.1%
Total	144,188	138,447	4.1%	17.2%	18.2%	(1.0)%

Same store gross profit increased by 4.1% for the year ended December 31, 2010 when compared to the prior year. New vehicle gross profit increased by $6.7 million or 23.6% in the year ended December 31, 2010 when compared to 2009 as a result of the previously discussed increase in new vehicle sales of 1,613 units. The average gross profit per new vehicle retailed increased by $218 from 2009 which is mainly due to the increase in sales of light trucks as compared to passenger vehicles in 2010. Light truck sales typically result in higher gross margins than passenger vehicles.

Used vehicle gross profit decreased by $3.1 million or 16.2% in the year ended December 31, 2010 over the prior year. The decrease was primarily due to a decrease in the number of used vehicles sold of 1,109 units and a decrease in the average gross profit per used vehicle retailed of $103. Manufacturers in Canada continued to provide attractive rebates on new vehicles in 2010 which inherently reduced the selling price of many used vehicles. High manufacturer incentives on new vehicles had a negative effect on our overall used vehicle margins. In addition, a number of new vehicle dealerships in Canada were closed in 2010 as a result of the restructuring of General Motors of Canada. Many of these dealerships reopened as used vehicle dealerships which increased the amount of competition in many of our markets. In some cases, these used vehicle dealerships opened up in close proximity to our dealerships. The emergence of these used vehicle superstores have put pressure on used vehicle margins in 2010 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 these 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 1.5% in the year ended December 31, 2010 when compared to the prior year as a result of a combination of an increase of 8,302 service and collision repair orders completed during the year.

Finance, insurance & other gross profit increased by 3.4% or $1.3 million in the year ended December 31, 2010 when compared to the prior year as a result of an increase of $63 in the average gross profit per unit sold. The increase in average gross profit per unit sold is mainly due to a slight easing in consumer lending conditions which had a positive effect on our finance and insurance revenues and gross profits. Management remains confident that our ability to sell our products will improve if lending conditions continue to ease over time.

Selling, general and administrative expenses

During the year ended December 31, 2010, SG&A expenses increased by 6.7% to $126.1 million from $118.1 million in 2009 primarily as a result of increases in salaries and commissions (which are mainly variable based on sales volumes) due to increases in new vehicle sales and finance and insurance product revenues. We also experienced an increase in SG&A in 2010 due to the acquisition of 401/Dixie Hyundai and the recent relocation of Crosstown Chrysler Jeep Dodge in 2010. In addition to slightly higher fixed costs, we also experienced over $1.6 million in restructuring and cost management initiatives relating to the restructuring of two dealerships and the departure of two of our corporate executives in the third and fourth quarters of 2010.

During the year ended December 31, 2010, SG&A as a percentage of gross profit increased to 83.5% from 83.2% in 2009. The increase in selling, general and administrative expenses as a percentage of gross profit was mainly a result of increases in primarily fixed costs such as facility costs and non-commission based salaries. Management continues to monitor its SG&A and has put into place a number of initiatives directed at reducing its SG&A as a percentage of gross profit.

Amortization expense

During the year ended December 31, 2010, amortization was $4.0 million as compared to $3.7 million in the prior year. The increase was mainly due to the purchase of the Newmarket Infiniti Nissan facility, additional equipment for relocated dealerships and a number of other capital asset purchases during the year.

Interest expense

The Company incurs interest expense on its revolving floorplan facilities, its revolving term loan, loans on properties that it owns and its capital lease obligations.

During the year ended December 31, 2010, floorplan interest expense increased by 53.2% to $7.4 million from $4.9 million in 2009. The increase in interest expense was mainly due to a general increase in inventories. In 2009, the Company experienced inventory shortages throughout the year as a result of the restructuring of one of its primary suppliers, which led to a significant decrease in floorplan interest expense in 2009. Interest on floorplan financing will generally fluctuate based on new, demonstrator and used inventory levels outstanding at various periods throughout the year. Due to a significant amount of inventory acquired in the 1st and 2nd quarters of 2010, floorplan interest expense increased substantially, as explained above. The Company generally expects to manage its inventory to an approximate 75 day supply, however during certain times of the year; our dealerships may order varying levels of inventory in order to address temporary manufacturer plant maintenance shutdowns and other timing of delivery factors. As a result, the management of inventory turnover may at times be less than 75 day supply or at times greater than 75 days. New vehicle inventory turnover generally improved in 2010 which resulted in an increase in net floorplan credits in 2010, as noted below, however floorplan interest expense remained high due to increased levels of inventory during 2010.

At December 31, 2010, a 1% change in the annual interest rate on the Company's floating rate debt would result in a change in the annual interest rate expense of approximately $225. Although the Company' revolving floorplan facilities are considered floating rate debt, under its present terms, the facility will continue to bear interest at 4.20% until the RBC Prime Rate increases by more than 1.00%, at which time the facility will then be affected by fluctuations in prime rates. The effect of a 1% change in annual interest rates on the revolving floorplan facilities was not included in the above analysis as a 1% change in the RBC Prime Rate would currently have no effect on the interest rate.

The following table summarizes the interest rates at the end of the last eight quarters on our Ally Credit Canada revolving floorplan facilities (the "Ally Credit Facilities") which we arranged in the second quarter of 2009. Prior to the second quarter of 2009, our revolving floorplan facilities were provided by Chrysler Financial Canada. In the first quarter of 2009, Chrysler Financial Canada suspended all wholesale floorplan lending to dealers, thus we refinanced our revolving floorplan facilities at that time.

	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010
Revolving Floorplan Facility Interest Rate	2.25%	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%.

Some of our manufacturers provide non-refundable credits on the floorplan interest 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. During the year ended December 31, 2010, the net floorplan credits were $4,223 (2009 - $3,331). GAAP 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.

The following table summarizes the net floorplan credits that were received in 2010.

(In thousands of dollars)	Q1 2010	Q2 2010	Q3 2010	Q4 2010	For the year ended December 31, 2010
Net floorplan credits	753	1,178	1,295	997	4,223

Fourth Quarter Operating Results

EBITDA for the three-month period ended December 31, 2010 increased by 6.1% to $3.5 million from $3.3 million when compared to the prior period in 2009. During the fourth quarter, the Company experienced an 18.0% increase in new vehicle retail sales over the fourth quarter of 2009, partially offset by a 13.3% decrease in used vehicle retail sales. Overall revenues increased by 5.9% on the quarter and overall gross profit increased by 5.6% over the fourth quarter of 2009. As indicated in past disclosures, new vehicle sales are considered a key driver of finance and insurance product sales as well as parts, service and collision repair work and both posted quarterly gains in revenue of 7.0% and 5.5% respectively. Included in EBITDA for the fourth quarter of 2010 was approximately $0.5 million in restructuring costs related to the departure of a corporate executive in the fourth quarter of 2010 as well as $0.5 million in chargebacks from one of our manufacturers. One of our manufacturers has been aggressively auditing its dealerships in Canada for its past warranty claims, sales incentive claims and other programs issued by the manufacturer in the past. As a result of the audits performed to date, the Company has provided for $0.5 million in the fourth quarter of 2010. The current audit chargebacks are in the appeal stage, the outcome of which is not yet known.

Net earnings for the three months ended December 31, 2010 decreased by $0.1 million to $1.6 million, from $1.7 million when compared to the same period in the prior year. The decrease in net earnings was due to an increase in income tax expense during the fourth quarter of approximately $0.1 million. Pre-tax earnings increased by $0.1 million to $2.0 million from $1.9 million when compared to the same period in the prior year.

The second quarter, along with the third quarter, are historically the industry's strongest in terms of revenues, earnings and EBITDA and the results of the Company for the fourth quarter of 2010 follow this pattern.

Q4 Revenues

For the three-month period December 31, 2010, revenues from all dealerships of the Company increased by $11.1 million or 5.9% to $199.7 million from $188.6 million when compared to the same period in the prior year. The increase in revenue during the fourth quarter was as a result of an increase in new vehicle revenues and modest gains in finance and insurance product sales and parts and service revenue, partially offset by a decline in used vehicle sales.

New vehicle revenue for the three-month period ended December 31, 2010 increased by $12.3 million to $114.4 million from $102.1 million in the same period in 2009. The average new vehicle transaction price for the three-month period ended December

31, 2010 increased by $3,131 or 10.0% due to our customers' preference toward light trucks (which typically have a higher selling price than passenger cars) during the quarter. Overall new vehicle unit sales remained relatively flat with a modest increase of 1.8% or 60 units. Although overall new vehicle unit sales were relatively flat, the Company posted an increase in new vehicle retail sales of 449 units or 18.0% during the fourth quarter of 2010 as compared to the same period in 2009. However, the Company's low margin fleet sales decreased by 389 units or 56.0% during the fourth quarter of 2010 as compared to the prior year quarter. Since new vehicle retail sales produce higher gross profit than fleet sales, the increase in new vehicle retail sales had a positive effect on new vehicle gross margins during the quarter.

Used vehicle revenue for the three-month period ended December 31, 2010 decreased by $3.4 million or 6.9% when compared to the same period in 2009. The average used vehicle transaction price increased by $1,625 or 7.3% during the three-month period ended December 31, 2010 largely due to product sales mix and increases in overall used vehicle values. However, the increase in average used vehicle transaction price was offset by a decrease in used vehicle retail unit sales of 292 units or 13.3% from the fourth quarter of 2009. Used vehicle unit sales generally have a greater impact on used vehicle gross profits than the average transaction price, as a result our used vehicle gross profits were negatively impacted. As previously noted, new vehicle dealers are facing tough competition in the used vehicle market from independent used dealers and the private sale market. Our dealers continued to lose a share of the used vehicle market in the fourth quarter of 2010.

Finance and insurance revenue increased by $0.7 million or 7.0% from $10.1 million to $10.8 million as a result of an increase in the number of new vehicles retailed. The average finance and insurance revenue earned per vehicle retailed increased by $75 in the fourth quarter of 2010 as compared to the same period in the prior year.

During the three-month period ended December 31, 2010, parts and service revenue increased by $1.5 million or 5.5% from $27.6 million to $29.1 million. This increase was mainly due to increased service capacity in the fourth quarter of 2010 from the acquisition of 401/Dixie Hyundai and the relocation of Crosstown Chrysler Jeep Dodge in 2010.

Revenue - Same Store Analysis

The following table summarizes the results for the three-month period ended December 31, 2010 on a same store basis by revenue source and compares these results to the same period in 2009.

Same Store Revenue and Vehicles Sold

	For the Three-Month Period Ended		
(In thousands of dollars except % change and vehicle data)	**December 31, 2010**	**December 31, 2009**	**% Change**
Revenue Source			
New vehicles	107,183	99,662	7.5%
Used vehicles	43,127	47,409	(9.0)%
Finance, insurance and other	10,033	9,701	3.4%
Subtotal	160,343	156,772	2.3%
Parts, service and collision repair	28,057	27,164	3.3%
Total	188,400	183,936	2.4%
New vehicles - retail sold	2,752	2,486	10.7%
New vehicles – fleet sold	303	692	(56.2)%
Used vehicles sold	1,789	2,134	(16.2)%
Total	4,844	5,312	(8.8)%
Total vehicles retailed	4,541	4,620	(1.7)%

Same store revenue increased by 2.4% in the three-month period ended December 31, 2010 when compared to the same period in 2009. New vehicle revenues increased by $7.5 million or 7.5% for the three-month period ended December 31, 2010 over the same period in the prior year due in part to an increase in the average selling price per new vehicle sold of $3,725 or 11.9% over the prior year; partially offset by a decrease in new vehicle sales of 123 units consisting of an increase of 266 retail units and a decrease of 389 low margin fleet unit sales.

Same store used vehicle revenues decreased by $4.3 million or 9.0% in the three-month period ended December 31, 2010 over the comparable period in the prior year. The decrease was due to a decline in the number of used vehicles sold of 345 units, partially offset by an increase in the average selling price per used vehicle retailed of $1,891 or 8.5%.

Finance and insurance revenue increased by $0.3 million or 3.4% in the three-month period ended December 31, 2010 when compared to the same period in the prior year. The increase was due to an increase in the average finance and insurance revenue per vehicle retailed of $110 or 5.2%, partially offset by a decrease in the number of units retailed of 79 from the comparable period in 2009.

The increase in parts, service and collision repair revenue of $0.9 million or 3.3% in the three-month period ended December 31, 2010 compared to the same period in the prior year was primarily a result of an increase in the number of repair orders completed of 5,411 or 7.1%, partially offset by a decrease in the average revenue per repair order completed of $13. Management attributes the increase in repair orders and decrease in average revenue per repair order completed to increases in its “Quick Lube” sales operations in which each oil change is considered its own repair order, thus increasing the number of orders completed and decreasing the average revenue per repair order.

Gross profit

Gross profit from all dealerships for the three-month period ended December 31, 2010 increased by 5.6% to $36.0 million when compared to the same period in 2009. The increase in gross profit in the three-month period ended December 31, 2010 was mainly the result of increases in new vehicle sales, finance and insurance product sales and parts, service and collision repair work, partially offset by a decline in used vehicle sales.

Gross Profit - Same Store Analysis

The following table summarizes the results for the three-month period ended December 31, 2010 on a same store basis by revenue source and compares these results to the same period in 2009.

Same Store Gross Profit and Gross Profit Percentage

	For the Three-Month Period Ended					
	Gross Profit			Gross Profit %		
(In thousands of dollars except % change and gross profit %) Revenue Source	Dec. 31, 2010	Dec. 31, 2009	% Change	Dec. 31, 2010	Dec. 31, 2009	Change
New vehicles	8,237	6,928	18.9%	7.7%	7.0%	0.7%
Used vehicles	3,446	4,205	(18.0)%	8.0%	8.9%	(0.9)%
Finance, insurance and other	9,154	8,881	3.1%	91.2%	91.6%	(0.4)%
Subtotal	20,837	20,014	4.1%			
Parts, service and collision repair	13,309	13,182	1.0%	47.4%	48.5%	(1.1)%
Total	34,146	33,196	2.9%	18.1%	18.1%	0.0%

Same store gross profit increased by 2.9% in the three-month period ended December 31, 2010 when compared to the same period

in the prior year. New vehicle gross profit increased by $1.3 million or 18.9% in the three-month period ended December 31, 2010 when compared to the same period in the prior year as a result of an increase in the average gross margin per new vehicle sold of $516. This increase was mainly due to higher retail unit sales and a decrease in overall fleet unit sales.

Used vehicle gross profit decreased by $0.8 million or 18.0% in the three-month period ended December 31, 2010 over the same period in the prior year. The decrease was due to a retail unit sales decrease of 345 units and a decrease in the average gross profit per used vehicle retailed of $44. As noted previously, our dealerships have been faced with increased competition in the used vehicle market which has had a negative effect on used vehicle volumes and gross margins.

Finance and insurance and other gross profit increased by $0.3 million or 3.1% in the three-month period ended December 31, 2010 as a result of an increase in the average gross profit per unit retailed of $94 or 4.9% due to an increase in the availability of credit for our customers over depressed levels witnessed in 2009. This increase in finance and insurance gross profit was partially offset by a decrease in sales of 79 retail units from the same period in 2009.

Parts, service and collision repair gross profit remained relatively flat with a modest increase of $0.1 million or 1.0% in the three-month period ended December 31, 2010 when compared to the same period in the prior year.

Selling, general and administrative expenses

During the three-month period ended December 31, 2010, SG&A expenses increased by $1.5 million to $30.8 million from $29.3 million in the same period of the prior year primarily as a result of an increase in salaries and commissions due to an overall increase in retail sales and gross margin. In addition, the Company incurred approximately $0.5 million in restructuring costs related to the departure of an executive in the fourth quarter of 2010. During the three-month period ended December 31, 2010, SG&A as a percentage of gross profit decreased slightly to 85.5% from 85.9% from the same period in the prior year. The decrease in selling, general and administrative expenses as a percentage of gross profit was mainly a result of a decrease in professional fees and office expenses.

Amortization expense

During the three-month period ended December 31, 2010, amortization was $1,134 compared to $964 for the prior period in 2009. This is mainly due to significant capital expenditures in 2010 associated with a dealership and body shop relocation, the acquisition of 401/Dixie Hyundai and the purchase of the Newmarket Infiniti Nissan facility.

Floorplan interest expense

During the three-month period ended December 31, 2010, floorplan interest expense increased by 12.6% to $1,556 when compared to the same period in 2009. The increase in floorplan interest expense was due to a general inventory increase in the fourth quarter of 2010 as compared to the same period in 2009.

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 23 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.

On April 12, 2010 the Company completed the purchase of the assets of a dealership formerly known as Future Hyundai, located in Mississauga, Ontario, to be continued under the name 401/Dixie Hyundai. The approximate 9,500 square foot leased facility out of which the dealership operates provides for eight service bays and a five car showroom. The dealership has been in operation since 1996 and retailed approximately 600 new and 250 used vehicles in 2009.

With respect to FIAT franchise opportunities, AutoCanada has been granted franchise rights to open a FIAT dealership at three of its existing Chrysler, Jeep, Dodge locations. We are working with the manufacturer to produce a cost-effective plan for facility improvements at each location in order to accommodate a FIAT dealership, while adhering to the image standards required by the manufacturer. Management will provide a more detailed assessment regarding the FIAT dealerships, once the anticipated costs are known. 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.

The Company will consider pursuing acquisition opportunities if a favourable opportunity presents itself and if the acquisition could potentially provide incremental value to the Company. Brands with which the Company does not currently have a relationship, or who are related to same, continue to be reluctant to entertain a relationship with a public multi-brand dealer group. As a result, management offers no assurance that any manufacturer with whom it does not have a relationship, or who are related to same, will approve the Company as a franchisee. At present, management can provide no guidance with respect to future acquisition opportunities.

On January 18, 2011, the Board of Directors granted consent to Patrick Priestner (majority ownership) and Tom Orysiuk (2% equity ownership) to own and operate a second Toyota dealership in the Greater Edmonton area. Toyota Canada has continued to advise that they are not prepared to accept AutoCanada as purchaser of its dealerships. In such circumstances, and upon review of the matter by the independent directors of AutoCanada and their advisors, consent to the purchase was approved.

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 debt. 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.

Cash Flow from Operating Activities

Cash flow from operating activities (including changes in non-cash working capital) of the Company for the year ended December 31, 2010 was $33.4 million (2009 - $11.4 million). Of the $33.4 million of positive cash flow from operations, $17.3 million was generated through changes in non-cash working capital and $16.1 million was generated through operations. The Company made over $14.0 million of investments in acquisitions, facilities and capital assets during the year and increased its net debt position by $2.9 million, including lease obligations. Management prepares an annual forecast and monitors the Company's cash flow on a regular basis in order to plan and execute its growth and development strategies. The Company currently generates sufficient cash flow from operations to fund its capital expenditures, dividends, working capital requirements and to service its debt obligations. Economic downturns, as noted in the past, have the ability to negatively impact our results from operations and generation of cash flow, which in turn may restrict the Company from its ability to execute its growth and development strategies in the future.

Cash flow from operating activities (including changes in non-cash working capital) of the Company for the three month period ended December 31, 2010 was $7.8 million (2009 - $2.3 million). Of the $7.8 million of positive cash flow from operations, $3.3 million was generated through changes in non-cash working capital and $4.5 million was generated through operations.

Economic Dependence

The Company has significant commercial and economic dependence on Chrysler Canada and Ally Credit Canada Limited ("Ally Credit"), formerly known as GMAC Canada. As a result, the Company is subject to significant risk in the event of the financial distress of Chrysler Canada, one of the Company's major vehicle manufacturers and parts suppliers, and Ally Credit, which provides the Company with revolving floorplan facilities for all of its dealerships.

The Company's consolidated financial statements include the operations of twenty-three franchised automobile dealerships, representing the product lines of eight global automobile manufacturers. The Company's Chrysler, Dodge, Jeep, Ram ("CDJR") dealerships, which generated 73% of the Company's revenue in the year-ended December 31, 2010 (2009 – 72%), purchase all new vehicles and a significant portion of parts and accessories from Chrysler Canada. In addition to these inventory purchases, the Company is eligible to receive monetary incentives from Chrysler Canada if certain sales volume targets are met and is also eligible to receive payment for warranty service work that is performed for eligible vehicles.

At December 31, 2010 and 2009, the Company had recorded the following assets that relate to transactions it has entered into with Chrysler Canada:

	December 31, 2010 $	**December 31, 2009 $**
Accounts receivable	4,040	3,196
New vehicle inventory	61,790	51,743
Demonstrator vehicle inventory	4,847	3,574
Parts and accessories inventory	4,929	4,484

The Company maintains revolving floorplan facilities for all of its dealerships with Ally Credit. The Company also maintains cash balances with Ally Credit which it uses to offset interest charges on its various revolving floorplan facilities.

At December 31, 2010 and 2009, the Company had recorded the following assets and liabilities that relate to transactions it has entered into with Ally Credit:

	December 31, 2009 $	**December 31, 2008 $**
Cash and cash equivalents	24,575	9,580
Revolving floorplan facilities	124,609	102,650

Chrysler Canada is a subsidiary of Chrysler Group LLC ("Chrysler Group") in the United States. Ally Credit is a subsidiary of Ally Financial Inc. (formerly GMAC Financial Services Inc.) in the United States. The viability of Chrysler Canada is directly dependent on the viability of Chrysler Group.

Credit Facilities

HSBC Bank Canada ("HSBC") provides AutoCanada with a $30 million revolving term loan (the "HSBC Revolver"). The HSBC Revolver is a 365 day fully committed, extendible revolving term loan. The HSBC Revolver's maturity date is June 30, 2012, however the facility may be extended for an additional 365 days prior to the maturity of the facility at the request of AutoCanada and upon approval by HSBC. The HSBC Revolver contains an annual renewal fee of $15. If the HSBC Revolver is not extended by HSBC, repayment of the outstanding amount is not due until June 30, 2013. The HSBC Revolver bears interest at HSBC's Prime Rate plus 1.25% (currently 4.25% at the date of this MD&A).

The HSBC Revolver is secured by all of the present and future assets of the Company, the various Limited Partnerships and the General Partners of each dealership within AutoCanada. As part of a priority agreement signed by HSBC, Ally Credit and the Company, the collateral for the HSBC Revolver excludes all new, used, and demonstrator inventory financed with the Revolving Floorplan Facilities provided by Ally Credit (discussed further below in *Floor Plan Financing* section).

The HSBC Revolver requires maintenance of certain financial covenants as indicated below:

(i) The Debt to Tangible Net Worth ratio, including floorplan, must not exceed 7.50:1. Intangible assets to be deducted from Tangible Net Worth, and shareholder loans to be added to tangible net worth and deducted from debt, if postponed to HSBC; tested quarterly
(ii) The Debt to Tangible Net Worth ratio, excluding floorplan, must not exceed 2.50:1. Intangible assets to be deducted from Tangible Net Worth, and shareholder loans to be added to tangible net worth and deducted from debt, if postponed to HSBC; tested quarterly
(iii) The Current Ratio, net of flooring, shall not be less than 1.20:1 at any time; tested quarterly
(iv) The Company must maintain a minimum cash deposit balance with HSBC Bank Canada of $10,000,000.

Additional information relating to the HSBC Revolver can be found on SEDAR (www.sedar.com).

HSBC provided AutoCanada with a $3.5 million non-revolving term loan (the “HSBC Term Loan”) which was used to purchase the Newmarket Infiniti Nissan facility located in Newmarket, Ontario in 2010. The facility was purchased in the third quarter of 2010. The HSBC Term Loan is a committed, extendible non-revolving term loan. The HSBC Term Loan’s maturity date is June 30, 2011, however the facility may be extended at the request of the Company and upon approval by HSBC. If the HSBC Term Loan is not extended by HSBC, repayment of the outstanding amount is not due until June 30, 2012. The HSBC Term Loan bears interest at HSBC’s Prime Rate plus 1.75% (4.75% at December 31, 2010).

The HSBC Term Loan is secured by a first fixed charge in the amount of $3.5 million registered over the Newmarket Infiniti Nissan property and is guaranteed by AutoCanada Holdings Inc. (“ACHI”), a subsidiary of AutoCanada Inc. The HSBC Term Loan requires maintenance of certain financial covenants as indicated below:

(i) AutoCanada Inc. must not permit its debt service coverage ratio at any time to be below 1.25. The debt service coverage ratio shall utilize a payment based on a 3 year cost of funds rate.

The Bank of Montreal (“BMO”) provided the Company with a $3.5 million fixed rate term loan (the “BMO Term Loan”) which was used to purchase the Cambridge Hyundai facility located in Cambridge, Ontario in 2008. The BMO Term Loan matures on September 30, 2012 and bears interest at a fixed rate of 5.11%. The BMO Term Loan requires maintenance of certain financial covenants and is collateralized by a general security agreement consisting of a first fixed charge in the amount of $3.5 million registered over the Cambridge Hyundai property.

Floor Plan Financing

Franchised automobile dealerships finance their new vehicle inventory (and in some instances a portion of their used vehicle inventory) by way of floor plan financing, which is offered by the automobile manufacturers’ captive finance companies, banks and specialty lenders. Although the structures used in floor plan financing vary, a floor plan lender typically finances 100% of the purchase price of a new vehicle from the time of purchase by the dealership (which occurs when production of the new vehicle is completed).

Ally Credit provides AutoCanada with revolving floorplan facilities (“Ally Facilities”) for each of its dealerships. The Ally Facilities provide each of our dealerships with financing for new, used and demonstrator inventory, subject to a maximum of new, used and demonstrator units to be financed based on the financing needs of each of our individual dealerships. The Ally Facilities are due on demand and bear interest at the Prime Rate plus 0.2% (4.20% at December 31, 2010) and is payable monthly in arrears. Prime rate is defined as the greater of the Royal Bank of Canada Prime Rate (3.00% at December 31, 2010) or 4.00%.

The Ally Facilities are collateralized by all of the dealerships’ new, used and demonstrator inventory financed by the Ally Facilities and a general security agreement and cross guarantee from each of the Company’s dealerships. The individual notes payable of the Ally Facilities are due when the related vehicle is sold or according to an aging based repayment policy as mandated by Ally Credit.

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, revolving floorplan facilities, lease obligations and long-term debt.

Financial risk management

The Company's activities are exposed to a variety of financial risks of varying degrees of significance which could affect the Company's ability to achieve its strategic objectives. AutoCanada's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to reduce potential adverse effects on the Company's financial performance. Risk management is carried out by financial management in conjunction with overall Corporate Governance. The principal financial risks to which the Company is exposed are described below.

(i) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency and interest rates.

(i) Foreign currency risk

Foreign currency risk arises from fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. The Company is not significantly exposed to foreign currency risk.

(ii) Interest rate risk

The Ally Facilities (see *Note 10 of the Consolidated Financial Statements*) are subject to interest rate fluctuations and the degree of volatility in these rates. The Company does not currently hold any financial instruments that mitigate this risk. The Ally Facilities bear interest at Prime Rate plus 0.20%. The Ally Facilities define Prime Rate as the greater of the Royal Bank of Canada Prime Rate ("RBC Prime") or 4.00%. Since the RBC Prime Rate is currently 3.00%, the Company is not exposed to interest rate fluctuations until the RBC Prime Rate is equal to 4.00% (increase of 1.00% from the present rate). Based on the outstanding balance at December 31, 2010 if the RBC Prime Rate was equal to 4.00%, an additional increase in the RBC Prime Rate of one percent would result in an increase in annual interest expense of approximately $1,246.

The HSBC Revolver and the HSBC Term Loan (the "HSBC Facilities") are also subject to interest rate fluctuations and the degree of volatility in these rates. The Company does not currently hold any financial instruments that mitigate this risk. The HSBC Revolver bears interest at the HSBC Prime Rate plus 1.25% and the HSBC Term Loan bears interest at the HSBC Prime Rate plus 1.75%. Based on the outstanding balances at December 31, 2010, an additional increase in the HSBC Prime Rate of one percent would result in an increase in annual interest expense of approximately $225.

The BMO Term Loan is a fixed rate term loan and is not subject to interest rate fluctuations until its maturity date at September 30, 2012, at which time, will be subject to market rates of interest when the amount is refinanced.

(ii) Credit risk

The Company's exposure to credit risk associated with its accounts receivable is the risk that a customer will be unable to pay amounts due to the Company or its subsidiaries. Concentration of credit risk with respect to contracts-in-transit and accounts receivable is limited primarily to automobile manufacturers and financial institutions (see *Note 2 of the Consolidated Financial Statements* for further discussion of the Company's economic dependence on Chrysler Canada and associated credit risk). Credit risk arising from receivables with commercial customers is not significant due to the large number of customers dispersed across various geographic locations comprising our customer base.

Accounts receivable are aged at December 31, 2010 by the following approximate percentages:

Current	83.5%
31 to 60 days	10.3%
61 to 90 days	2.3%
91 to 120 days	1.9%
Over 120 days	2.0%

The Company evaluates receivables for collectability based on the age of the receivable, the credit history of the customer and past collection experience. The allowance for doubtful accounts amounted to $364 as of December 31, 2010 (2009 - $332). Allowances are provided for potential losses that have been incurred at the balance sheet date. The amounts disclosed on the balance sheet for accounts receivable are net of the allowance for bad debts.

Concentration of cash and cash equivalents exist due to the significant amount of cash held with Ally Credit (see *Note 2 of the Consolidated Financial Statements* for further discussion of the Company's concentration of cash held on deposit with Ally Credit). The Ally Facilities allow our dealerships to hold excess cash (used to satisfy working capital requirements of our various OEM partners) in an account with Ally Credit which bears interest equal to the interest rates of the Ally Facilities (4.20% at December 31, 2010). These cash balances are fully accessible by our dealerships at any time, however in the event of a default by a dealership in its floorplan obligation; the cash may be used to offset unpaid balances under the Ally Facilities. As a result, there is a concentration of cash balances risk to the Company in the event of a default under the Ally Facilities.

(iii) Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they become due or can do so only at excessive cost. The Company's activity is financed through a combination of the cash flows from operations, borrowing under existing credit facilities and the issuance of equity. Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through adequate amounts of committed credit facilities. One of management's primary goals is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as cash flows.

The Company is exposed to liquidity risk as a result of its economic dependence on suppliers and lenders. (See *Note 2 of the Consolidated Financial Statements* for further information regarding the Company's economic dependence on Chrysler Canada and Ally Credit and the potential effect on the Company's liquidity). The Company's financial liabilities have contractual maturities which are summarized below:

	Current within 12 months	**Non-current 1-5 years**
	$	**$**
Accounts payable and accrued liabilities	26,920	-
Revolving floorplan facilities	124,609	-
Long-term debt and lease obligations	2,304	26,495
	153,833	26,495

(iv) Fair value

The estimated fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and revolving floorplan facilities approximate carrying value due to the relatively short-term nature of the instruments. The estimated fair value of long-term debt approximates the carrying value due to the relatively short time period between the original signing or subsequent amendments of the debt agreements and balance sheet date for the current reporting period. Management has determined that any difference between fair value and carrying value of long-term debt would be insignificant. Outstanding vehicle repurchase obligations included in lease obligations have individual terms not to exceed six months. Management has determined that the fair value approximates the carrying value of these instruments due to the short term nature of the contracts and that the historical resale values of the vehicles to be repurchased approximate the repurchase obligations.

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. Management has continued to evaluate its facilities to determine whether purchases of real estate may provide sufficient value for shareholders over the long term. The Company has purchase two facilities since its IPO and will continue to evaluate real estate opportunities in the future.

The Company relocated its Crosstown Body Shop located in Edmonton, Alberta in January of 2011. The majority of capital expenditure for the relocation was incurred in 2010. The Crosstown Body Shop has been relocated to a facility within close proximity of the newly relocated Crosstown Chrysler Jeep Dodge, which management believes will provide greater operational efficiencies and cost savings.

All such relocations result in additional capital expenditures for leasehold improvements, furniture and fixtures, service vehicles, computer hardware, and computer software. The purpose of these relocations is to offer customers improved facilities to better enhance the sales and service experience, as well as offer increased service capacity which in turn should lead to increased profitability.

On September 16, 2010 the Company purchased the land and building used to operate our Newmarket Infiniti Nissan dealership located in Newmarket, Ontario for approximately $6.1 million. The Company expects a reduction in annual rent costs of approximately $0.54 million as a result of this purchase. The purchase of the land and building was financed by a combination of a Non-Revolving Term Loan from HSBC in the amount of $3.5 million, a draw on the Revolving Term Loan from HSBC in the amount of $2 million and the remaining amount through the original deposit made on the land and building and cash from operations.

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)	**October 1, 2010 to December 31, 2010**	**January 1, 2010 to December 31, 2010**
	$	**$**
Leasehold improvements	120	772
Machinery and equipment	197	589
Furniture and fixtures	33	245
Computer equipment	202	329
Company & lease vehicles	-	223
	552	2,158

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 year ended December 31, 2010 growth capital expenditures of $1.6 million and $2.2 million respectively were incurred. These expenditures related primarily to purchases of equipment for our Crosstown body shop relocation and additional assets for the recently relocated Capital Chrysler Jeep Dodge facility and the Crosstown Chrysler Jeep Dodge facility. Dealership relocations are included as growth expenditures if they contribute to the expansion of sales and service capacity of the dealership.

The Company has historically not included assets purchased by way of acquisitions or real estate purchases in the calculation of

growth or non-growth capital expenditures. Real estate purchases do not provide an increase in sales and service capacity, nor are they incurred to maintain existing levels of sales and service capacity. We also do not include assets purchased by way of acquisitions or real estate purchases in the calculation of adjusted free cash flow or free cash flow (determined below) for the reasons explained above.

(In thousands of dollars)	October 1, 2010 to December 31, 2010 $	January 1, 2010 to December 31, 2010 $
Purchase of property and equipment from the Statement of Cash Flows	2,130	10,487
Less: Amounts related to the expansion of sales and service capacity	(1,578)	(2,241)
Less: Purchase of dealership facilities	-	(6,088)
Purchase of non-growth property and equipment	552	2,158

Repairs and maintenance expenditures are expensed as incurred and have been deducted from earnings for the period. Repairs and maintenance expense incurred during the three-month period and year ended December 31, 2010, were $0.5 million and $1.8 million respectively.

Planned Capital Expenditures

The Company anticipates capital expenditures in 2011 with respect to the opening of FIAT dealerships. As noted above, Management continues to evaluate the cost effectiveness of opening FIAT dealerships for the three locations in which franchise agreements have been awarded and will provide an update with respect to this issue in the future when anticipated costs are known.

Contractual Obligations

(a) AIR MILES Promotional Partnership Program

On May 20, 2010, the Company signed an agreement for exclusive partnership rights in the AIR MILES Promotional Partnership Program ("the Program"). The Program grants AutoCanada's dealerships with exclusive rights to issue AIR MILES reward miles to customers in conjunction with the sale of new or used vehicles and accessories to our customers. As part of the program, AutoCanada has committed to purchase a minimum of $2 million in AIR MILES reward miles over the first 12 months of the program in exchange for certain sole-exclusivities for the term of the program. At December 31, 2010 the Company had a remaining commitment of $0.93 million associated with this program which will mature in 2011.

(b) Obligations under leases

The Company has operating lease commitments, with varying terms through 2029, to lease premises and equipment used for business purposes. The Company leases the majority of the lands and buildings used in its franchised automobile dealership operations from related parties (note 18) and other third parties.

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

	$
2011	11,447
2012	8,066
2013	5,551
2014	5,212
2015	4,917
Thereafter	50,489
Total	85,682

Financial Position

The following table shows selected audited balances of the Company for December 31, 2010 and December 31, 2009 as well as unaudited balances of the Company at September 30, 2010, June 30, 2010, March 31, 2010, September 30, 2009, June 30, 2009 and March 31, 2009.

	The Company							
Balance Sheet Data	**December 31, 2010**	**September 30, 2010**	**June 30, 2010**	**March 31, 2010**	**December 31, 2009**	**September 30, 2009**	**June 30, 2009**	**March 31, 2009**
Cash and cash equivalents	37,541	34,329	31,880	23,615	22,465	23,224	14,842	12,522
Accounts receivable	32,853	37,149	46,826	40,752	35,388	38,134	27,034	33,821
Inventories	118,365	137,507	177,524	153,847	108,324	107,431	90,141	116,478
Total assets	268,049	283,678	325,669	285,508	233,665	233,283	198,946	229,839
Revolving floorplan facilities	124,609	145,652	194,388	160,590	102,650	105,254	73,161	114,625
Total long term liabilities	25,094	25,396	19,133	19,406	23,074	19,064	20,576	25,438

Net Working Capital

The automobile manufacturers represented by the Company require the Company to maintain net working capital for each individual dealership. At December 31, 2010, the aggregate of net working capital requirements was approximately $33.0 million. At December 31, 2010, 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 as shown below using GAAP measures. The Company defines new working capital amounts stated below as current assets less current liabilities as presented in the Consolidated Financial Statements for the periods presented below. The following table summarizes net working capital at the end of each period:

	December 31, 2010	**September 30, 2010**	**June 30, 2010**	**March 31, 2010**	**December 31, 2009**	**September 30, 2009**	**June 30, 2009**	**March 31, 2009**
Net working capital	33,339	38,257	37,118	35,660	37,837	34,902	31,074	32,388

Off Balance Sheet Arrangements

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

Related Party Transactions

The total management fees received from a director and companies with common directors for the year ended December 31, 2010 was $276 (2009 - $305). We lease thirteen of our twenty-three locations as of December 31, 2009 from related parties of the Company. The total rent paid by us to the related parties for the year ended December 31, 2010 was $8,171 (2009 - $7,484). This amount represented approximately 65.3% of our total rent expense in 2010. During the year, the Company prepaid rent amounts to a company with common directors as part of an agreement for a long term rent reduction which was entered into in 2009. Total prepayments of rent for the year ended December 31, 2010 was $4,160 (2009 - $2,180) of which $452 (2009 - $38) has been amortized as a reduction in rent. We have received advice from a national real estate appraisal company that the market rents at

each of our facilities leased from related parties of the Company were at fair market value rates when the leases were entered into.

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.

On May 12, 2010, AutoCanada announced the reinstatement of a quarterly dividend of $0.04 per common share (annual rate of $0.16 per common share).

The following table summarizes the dividends declared by the Company in 2010:

(In thousands of dollars)

Record date	Payment date	Total Declared $	Total Paid $
May 31, 2010	June 15, 2010	795	795
August 31, 2010	September 15, 2010	795	795
November 30, 2010	December 15, 2010	796	796
		2,386	2,386

On January 13, 2011 the Board of Directors of AutoCanada Inc. declared a quarterly eligible dividend of $0.04 per common share on AutoCanada's outstanding Class A common shares, payable on March 15, 2011 to shareholders of record at the close of business on February 28, 2011.

Cautionary Note Regarding our Dividends

Future quarterly 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 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.

Stock Option Plan

Effective December 31, 2009, as part of the conversion to a corporation, we established the AutoCanada Inc. Stock Option Plan under which options may be granted to our directors, officers, employees and consultants, in order to provide an opportunity for these individuals to increase their proprietary interest in our long-term success. At December 31, 2010, no options have been granted under the plan. Options issued under the Plan vest at a rate of one third on the three subsequent award date anniversaries. All the options must be exercised over specified periods not to exceed ten years from the dates granted.

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).

(In thousands of $ except unit and per unit amounts)	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010
Cash provided by operating activities	(3,213)	2,611	9,657	2,319	6,231	14,382	4,984	7,811
Deduct:								
Purchase of property and equipment	(1,065)	(2,175)	(458)	(614)	(541)	(1,156)	(572)	(2,130)
Free Cash Flow[1]	(4,278)	436	9,199	1,705	5,690	13,226	4,412	5,681
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	(0.215)	0.022	0.463	0.086	0.286	0.665	0.222	0.286
Free cash flow – 12 month trailing	23,773	11,711	11,427	7,062	16,880	29,557	24,656	29,009
Free cash flow –Year-to-date				7,062				29,009

[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 accounts receivable and inventory levels and the timing of the payments of accounts payable and revolving floorplan facilities.

Changes in non-cash working capital consist of fluctuations in the balances of accounts receivable, inventories, prepaid expenses, accounts payable and accrued liabilities, 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. As seen below, a significant amount of the free cash flow generated was a result of changes in non-cash working capital in 2010. The majority of cash flow generated through changes in non-cash working capital was a result of an increase in flooring of used vehicles in 2010. The Company is able to finance the purchase of used vehicles and offset the interest on the vehicles by depositing the cash in an account with Ally Credit which provides for interest on cash equal to the interest rate for flooring vehicles. Management finances the purchase of used vehicles in order to encourage dealerships to better manage used inventories since they incur interest charges on the vehicles.

The following table summarizes the net increase in cash due to changes in non-cash working capital for the year ended December 31, 2009 and December 31, 2010.

(In thousands of dollars)	January 1, 2009 to December 31, 2009	January 1, 2010 to December 31, 2010
	$	$
Accounts receivable	(4,193)	2,554
Inventories	31,402	(9,776)
Prepaid expenses	(84)	532
Accounts payable and accrued liabilities	1,911	1,287
Lease repurchase obligations	-	742
Revolving floorplan facility	(34,803)	21,959
Net increase (decrease)	(5,767)	17,298

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 $ except unit and per unit amounts)	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010
Cash provided by operating activities before changes in non-cash working capital	2,071	5,723	6,101	3,246	1,424	6,061	4,143	4,482
Deduct:								
Purchase of non-growth property and equipment	(187)	(132)	(187)	(240)	(409)	(819)	(365)	(552)
Adjusted Free Cash Flow[1]	1,884	5,591	5,914	3,006	1,015	5,242	3,778	3,917
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 per share	0.095	0.281	0.297	0.151	0.051	0.264	0.190	0.197
Adjusted Free cash flow – 12 month trailing	20,569	18,535	16,833	16,395	15,375	14,913	12,663	13,952
Adjusted Free cash flow – Year-to-date				16,395				13,952

[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.

Return on Capital Employed

The Company has defined 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).

(In thousands of $ except unit and per unit amounts)	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010
EBITDA[1]	2,230	6,135	6,716	3,271	3,079	6,180	4,015	3,469
Deduct:								
Amortization	(872)	(902)	(937)	(961)	(905)	(950)	(1,032)	(1,134)
EBIT[1]	1,358	5,233	5,779	2,310	2,174	5,230	2,983	2,335
Average long-term debt	26,045	25,663	24,432	23,441	21,314	19,244	21,924	25,461
Average shareholders' equity	69,217	70,907	75,848	79,253	80,819	82,961	85,049	86,049
Average capital employed[1]	95,262	96,570	100,280	102,693	102,133	102,205	106,973	111,510
Return on capital employed[1]	1.4%	5.4%	5.8%	2.2%	2.1%	5.1%	2.8%	2.1%
Return on capital employed – YTD				14.7%				11.8%

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

Management believes that Return on Capital Employed (see "NON-GAAP MEASURES") is a good measure to evaluate the return of our invested capital. Management of AutoCanada may use this measure to compare potential acquisitions and other capital investments against our internally computed cost of capital to determine whether the investment 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

Critical Accounting Policies and Estimates

We prepare our audited annual consolidated financial statements in conformity with GAAP, which requires management to make estimates, judgments and assumptions that management believes are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the audited annual consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Management bases its estimates on historical experience and other assumptions which it believes to be reasonable under the circumstances. Management also evaluates its estimates on an ongoing basis. Management estimates are also based on current economic conditions and may change as these conditions improve or decline.

Our significant accounting policies are described in *Note 3 - Summary of Significant Accounting Policies* of the audited annual consolidated financial statements of the Company for the year ended December 31, 2010. The policies which management believes are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

Revenue Recognition

Vehicles, parts, service and collision repair

Revenue from the sale of new and used vehicles is recognized upon delivery, passage of title, signing of the sales contract and approval of financing or receipt of payment. Revenue from the sale of parts, service and collision repair is recognized upon delivery of parts to the customer or at the time vehicle service or repair work is completed. Manufacturer vehicle incentives and rebates are recognized as a component of new vehicle cost of sales when earned, generally at the time the related vehicles are sold. Dealer trades are recognized on a net basis upon delivery. Net revenue associated with dealer trades is nominal.

Finance and insurance

The Company arranges financing for customers through various financial institutions and receives a commission from the lender based on the difference between the interest rate charged to the customer and the interest rate set by the financing institution, or a flat fee. This revenue is included in vehicles revenue on the statement of operations.

The Company also receives commissions for facilitating the sale of third party insurance products to customers, including credit and life insurance policies and extended service contracts. These commissions are recorded as revenue at the time the customer enters into the contract and the Company is entitled to the commission. The Company is not the obligor under any of these contracts. In the case of finance contracts, a customer may prepay or fail to pay their contract, thereby terminating the contract. Customers may also terminate extended service contracts and other insurance products, which are fully paid at purchase, and become eligible for refunds of unused premiums. In these circumstances, a portion of the commissions the Company receives may be charged back to the Company based on the terms of the contracts. The revenue the Company records relating to commissions is net of an estimate of the amount of chargeback's the Company will be required to pay. This estimate is based upon historical chargeback experience arising from similar contracts, including the impact of refinance and default rates on retail finance contracts and cancellation rates on extended service contracts and other insurance products.

Inventory Valuation

Inventory is valued at the lower of cost and net realizable value. The value of our inventory is dependent upon our ability to plan and manage our inventory so as to avoid miscalculation in brand or model popularity. Any such miscalculation could adversely affect the value of our inventory. Our planning procedures and our supply chain structure are designed to minimize inventory write downs.

Intangible assets

The identifiable intangible assets are rights under franchise agreements with automobile manufacturers. Franchise agreements are expected to continue for an indefinite period. Where these agreements do not have indefinite terms, the Company anticipates and has generally experienced routine renewals without substantial cost and material modifications. As the franchise agreements will contribute to cash flows for an indefinite period, the carrying amount of franchise rights is not amortized. The Company assesses the carrying value of these unlimited life intangible assets for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. An impairment loss is recorded when it is determined that the carrying amount exceeds its fair value and is not reversed for subsequent increases in fair value.

Finance and Insurance Commission Reserve

As discussed above we may be required to pay back a portion of the commissions earned from the sale of third party finance and insurance products in the event of early contract termination by customers. A reserve for future repayments is established at the time the sale is made. Our process for establishing the reserve carefully considers our historical repayment percentages and the timing of such repayments.

Income Taxes

AutoCanada follows the liability method of accounting for income taxes. Under this method, AutoCanada recognizes both the current and future income tax consequences of all transactions that have been recognized in the financial statements. Future income tax assets and liabilities are determined based on differences between the financial reporting and the tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that are expected to be in effect when these differences are expected to reverse.

New Accounting Policies

In January 2009, the CICA issued three new accounting standards: Section 1582 – *Business combinations,* Section 1601 *Consolidated Financial Statements,* and Section 1602 – *Non-controlling interest.*

In 2010, the Company early adopted *Section 1582 - Business Combinations* that was issued by the Canadian Institute of Chartered Accountants ("CICA"). This section replaces the former *Section 1581 - Business combinations* and provides the Canadian equivalent to International Financial Reporting Standard *IFRS 3R - Business Combinations* (January 2008). The new standard requires the acquiring entity in a business combination to recognize most of the assets acquired and liabilities assumed in the transaction at fair value including contingent assets and liabilities; and recognize and measure the goodwill acquired in the business combination or a gain from a bargain purchase. Acquisition related costs are also to be expensed. The Company applied the new standard to the acquisition of Future Hyundai as described in Note 6 of these consolidated financial statements. The new standard is to be applied prospectively; therefore acquisitions prior to January 1, 2010 are not affected by the change in accounting policy. The adoption of this Section did not have a material impact on our financial position or results of operations.

In 2010, the Company also early adopted Sections 1601 and 1602 which together replace the former Section 1600 – *Consolidated financial statements.* Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602, which converges with the requirements of International Accounting Standards 27 (IAS 27), *Consolidated and Separate Financial Statements,* establishes standards for accounting of a non-controlling interest resulting from a business acquisition, recognized as a distinct component of shareholders' equity. Net income will present the allocation between the controlling and non-controlling interest. The adoption of this Section did not have any impact on our financial position or results of operations.

Transition to International Financial Reporting Standards

The Canadian Accounting Standards Board ("AcSB") confirmed in February 2008 that publicly accountable entities will be required to adopt International Financial Reporting Standards (IFRS) for interim and annual financial statements beginning on or after January 1, 2011. Accordingly, the Company will issue its last financial statements prepared in accordance with Canadian GAAP in 2010. Beginning in the three month period ended March 31, 2011, the Company's financial statements will be prepared in accordance with IFRS, with 2010 comparative figures and a January 1, 2010 (the "date of transition") opening balance sheet restated to conform to IFRS.

Current Status of our IFRS Changeover Plan

The Company has developed a multiyear transition plan which includes three phases:

Phase 1 – Diagnostic and project planning - Completed
In this phase we engaged a consultant to perform an IFRS diagnostic comparing Canadian GAAP to IFRS and identifying key areas that may be impacted by the transition to IFRS. Accounting policies were ranked by potential significance of impact on the financial statements as well as potential level of implementation effort. We also prepared a project plan which outlined the project budget, training requirements, key milestones and implementation plans. The plan is updated on a continual basis as the project progresses. This phase was completed in 2009.

Phase 2 – Impact assessment and policy design – Completed
In this phase, each area identified in the diagnostic and project planning phase is addressed by determining the changes required to existing accounting policies and making accounting choices with respect to the accounting issues identified in the diagnostic and project planning phase, including choices with respect to IFRS 1 – *First time adoption of IFRS* and the related exemptions available under this standard. As discussed in more detail below, the Company has evaluated all accounting issues identified in the diagnostic and project planning stage. This phase also incorporates the determination of changes to business activities, information technology and data systems, developing financial reporting expertise, internal controls over financial reporting and disclosure controls. As impact assessments were completed by our internal finance team, the impact of the accounting policy choices were incorporated into the analysis and any major operational or technological issues identified were addressed in the implementation phase. These analyses have been completed concurrently with the impact assessments described above.

On October 12, 2010, the finance team provided the audit committee with an overview of the impact assessments and recommended accounting policies based on the analyses prepared. The finance team obtained preliminary approval to apply the proposed accounting policies in order to quantify the impact of IFRS at the opening balance sheet date.

Phase 3 – Implementation – In progress
The implementation phase consists of providing formal accounting policy recommendations to the audit committee; obtaining approval of all IFRS accounting policies and implementing changes in accounting policies and practices to the different business processes, information systems and internal controls. These changes will be adequately tested before the changeover date to ensure all differences have been successfully resolved by the first quarter of 2011. We have quantified the impact of our accounting policy choices under IFRS on our opening balance sheet for all accounts, except for the quantitative impact that IFRS will have on our intangible assets. At present, and as discussed in further detail below, a significant amount of work has been performed in developing a template for impairment tests due to the difference between IFRS and Canadian GAAP with respect to impairment of assets. We have engaged our auditors to perform audit procedures on the opening balance sheet under IFRS standards during Q4 of 2010 and we expect to have the procedures completed prior to the issuance of the first quarter financial statements expected in May of 2011. The finance team plans to provide full comparative information under IFRS upon release of its first financial statements prepared under IFRS for the period ended March 31, 2011. Further quantification of the impact will take place during the first quarter of 2011.

This phase also involves the development of draft IFRS financial statements. We have engaged an external consultant to work with management to prepare a skeleton financial statement using our suggested disclosures for each financial statement item as a result of analysis performed during impact assessments. The draft IFRS financial statements are still in the development stage, however we expect to complete the full draft in the first quarter of 2011. The new IFRS compliant financial statement will be developed to generate financial statements directly from our reporting system which we expect will improve our internal controls over financial reporting and disclosure controls.

Update on Key Elements of our IFRS Changeover Plan

Accounting Policies:

The standard setting body of IFRS has significant ongoing projects that could affect the ultimate differences between GAAP and IFRS and these changes may have a material impact on the Company’s financial statements. As a result, the final effect on the Company’s consolidated financial statements will only be measurable once all of the applicable IFRS standards at the final changeover are known.

We have identified a number of differences between GAAP and IFRS. Many of the differences are not expected to have a material

effect on the reported results of operations or financial position of AutoCanada. The most significant change largely relates to the valuation of intangible assets and the related future income tax effect of changes in the accounting value of intangible assets. There is also a minor change with respect to the componentization of property and equipment, which we have quantified and provided below.

AutoCanada's significant areas of impact have been determined to be:

- IAS 36 – *Impairment of assets*
- IAS 1 – *Presentation of financial statements*
- IAS 16 – *Property, plant and equipment,* and
- IFRS 1 – *First-time adoption of international financial reporting standards.*

The key areas identified to date that will impact AutoCanada are as follows:

Accounting Policy: IAS 36 - Impairment of Assets	**Impact:** High
Preliminary Conclusions Reached: This standard uses a one-step approach for testing and measuring asset impairments, with asset carrying values being compared to the higher of "value in use" and "fair value less costs to sell". The use of discounted cash flows under IFRS to test and measure asset impairment differs from Canadian GAAP where undiscounted cash flows are used to compare against the asset's carrying value to determine if impairment exists. This difference will likely result in more frequent write-downs in the carrying value of assets under IFRS. Under IAS 36, previous impairment losses may be reversed where circumstances change such that the impairment has reduced. This may result in certain reversals of impairment for financial statement items such as property and equipment and intangible assets. This differs from Canadian GAAP which prohibits the reversal of previously recognized impairment losses. We expect the carrying value of intangible assets to change as at the date of transition (January 1, 2010) under IFRS due to the differences in the calculation of impairments between Canadian GAAP and IFRS. We are currently determining the impact on our opening balance sheet and cannot provide a quantification of the impact until the amount has been fully determined and the impairment test has been determined acceptable by our Board of Directors and auditors. The changes with respect to impairment will not have a negative impact on our debt covenants since intangible assets are removed from our calculation of tangible net worth.	**Status Update:** We have completed the impact assessment for this standard. At this time, we cannot reasonably determine the full impact of this standard on our financial statements and opening balance sheet under IFRS as we have not completed the analysis and calculations relating to this section.
Effect on Other Key Elements of the Changeover Plan: We expect the adoption of this policy to have an effect on our internal controls over financial reporting, disclosure controls and procedures as well as our information technology systems.	

Accounting Policy: IAS 1 – *Presentation of Financial Statements*	**Impact:** High
Preliminary Conclusions Reached: IFRS requires significantly more disclosure than existing Canadian GAAP. In addition, classification and presentation may be different for some balance sheet and income statement items. The Company planned for additional disclosure through its development of the IFRS skeleton financial statement. The Company is finalizing the impact of classification and presentation changes on its financial statements as accounting policy decisions are finalized.	**Status Update:** We are substantially complete the IFRS skeleton financial statements and expect our auditors to complete a disclosure review of the financial statements prior to release of our first quarter financial statements in 2011.
Effect on Other Key Elements of the Changeover Plan: We expect the adoption of this policy to have an effect on our internal controls over financial reporting, disclosure controls and procedures as well as our information technology systems.	

<table>
<tr><td>Accounting Policy: IAS 16 - Property, Plant and Equipment</td><td>Impact: Moderate</td></tr>
<tr><td>Preliminary Conclusions Reached:
Consistent with Canadian GAAP, under IFRS, separable components of property, plant and equipment are recognized initially at cost. Under IAS 16 – Property, plant and equipment an entity is required to choose, for each class, to use either the cost model (consistent with Canadian GAAP) or the revaluation model. Under the revaluation model, an item of property, plant and equipment is carried at its revalued amount, which is its fair value at the date of revaluation less any accumulated amortization and impairment losses. Increases in fair value are recorded in a revaluation surplus account in equity. Decreases in fair value will reduce the revaluation surplus account with any excess recognized in income. The Company will use the cost model for its property, plant and equipment. Further investigation was performed in Q2 of 2010 to determine whether the revaluation model should be applied for the Company's land and building, however this analysis concluded that the revaluation model was not appropriate for our range of assets. The adoption of the cost model will have no effect on our opening balances upon transition to IFRS; however the "componentization" rules associated with IAS 16 have produced a difference in our opening balance sheet and subsequent periods.</td><td rowspan="2">Status Update:
We completed our impact assessment for this policy in Q2 of 2010.

In applying componentization rules under IAS 16, the Company has recognized a difference in net book value of its buildings. The impact of componentization has resulted in a decrease in the net book value of buildings of $0.2 million at the date of transition with a resulting decrease in equity. The Company will also realize an additional $0.1 million decrease in net book value of its buildings for the 2010 fiscal year with a resulting increase in amortization.</td></tr>
<tr><td>Effect on Other Key Elements of the Changeover Plan:
We expect this section to have low impact on other key elements of the changeover plan.</td></tr>
</table>

<table>
<tr><td>Accounting Policy: IFRS 1 – First-time Adoption of IFRS</td><td>Impact: Moderate</td></tr>
<tr><td>Preliminary Conclusions Reached:
As a first-time adopter of IFRS, the Company is required to apply IFRS 1 First-time adoption of International Financial Reporting Standards. IFRS 1 provides a number of optional exemptions to first-time adopters. The exemptions which are significant to AutoCanada are discussed below:

Business Combinations – For business combinations that occurred before the date of transition, the Company has the choice to either restate all of these business combinations under IFRS, restate all business combinations after an internally elected date, or not to restate any business combinations. Assets and liabilities acquired in a business combination that are not restated may still be derecognized if they do not qualify for recognition under IFRS. The Company has participated in several business combinations prior to the date of transition and has decided to use this exemption so that business combinations entered into prior to January 1, 2010 will remain unchanged.

Fair-value or Revaluation as Deemed Cost – IFRS requires property, plant and equipment to be measured at a cost in accordance with IFRS. An exemption exists, at the date of transition, which permits an asset to be recorded at deemed cost which is the fair value at the date of transition, or an event-driven valuation. This exemption may be applied to individual classes of property, plant and equipment. Any write-up of the asset to a fair value above cost will be recorded in retained earnings as a revaluation reserve. We have decided to apply the cost model for equipment and will not restate to fair value under IFRS.

Other Issues – We have performed a full scope review of other IFRS 1 exemptions to ensure that we have analyzed all options available to our company upon changeover to IFRS. No other exemptions or elections were considered to have a significant impact on the financial statements.</td><td rowspan="2">Status Update:
We have completed impact assessments for IFRS 1 elections and exemptions.

The adoption of IFRS 1 did not have a significant impact on the financial statements at the date of transition.</td></tr>
<tr><td>Effect on Other Key Elements of the Changeover Plan:
We do not expect these elections/exemptions to have a significant effect on other key elements of our IFRS changeover plan.</td></tr>
</table>

Accounting Policy: IFRS 3 – Business Combinations	**Impact:** Moderate
Preliminary Conclusions Reached: Business combinations will be accounted for in accordance with IFRS 3 – *Business Combinations* which requires that acquisition related costs, such as legal and consulting fees be expensed, which under Canadian GAAP, these costs are eligible to be included as part of the purchase price allocation. The IFRS 3 standard also requires that the acquisition date be the date on which the acquirer obtains control over the entity. Under IFRS 3, any gain on the purchase of an entity (negative goodwill) must be immediately recognized in net income. As discussed below, we have used an exemption available under IFRS 1 that gives us the ability not to restate business combinations entered into prior to the date of transition to IFRS (January 1, 2010). In addition, the Company has elected to early adopt Section 1582 – *Business Combinations* under Canadian GAAP which was designed to align the accounting for future business combinations under Canadian GAAP to IFRS. As a result, there are no significant changes to how we have accounted for past acquisitions or future acquisitions. **Effect on Other Key Elements of the Changeover Plan:** We do not expect the adoption of this policy to have a significant effect on other key elements of our changeover plan.	**Status Update:** We have completed the impact assessment for this standard. We have early adopted CICA 1582 – *Business Combinations* to align accounting for future acquisitions with IFRS, therefore implementation of this policy has been completed.

Accounting Policy: Other Policies	**Impact:** Low
Preliminary Conclusions Reached: We have analyzed a number of additional accounting policies that we expect to have a low impact on our financial statements. These policies include income taxes, segment reporting, revenue recognition, leases, financial instruments, provisions and contingencies, related party disclosures, financial statement presentation and disclosure. We have reached conclusions on accounting policy choices for these topics and we do not expect these policy choices to have a significant impact on the financial statements. We are continuing to perform work over financial statement presentation and disclosure as we prepare the set of IFRS compliant financial statements during the implementation stage. **Effect on Other Key Elements of the Changeover Plan:** As a result of the adoption of the above policies, we do expect some impact on our internal controls over financial reporting and disclosure controls and procedures. In particular, the implementation of the new financial statement presentation and disclosure standards under IFRS will result in changes to our reporting system and related controls. We expect a significant impact on our financial reporting expertise; however a minimal impact on our information technology systems.	**Status Update:** We have completed impact assessments for other policies that were expected to impact the financial statements as a result of the diagnostic review performed. We will continue to assess financial statement presentation and disclosure issues as we continue to prepare the set of IFRS compliant financial statements during the implementation stage.

Internal Control over Financial Reporting and Disclosure Controls and Procedures:

As the review of accounting policies are completed, the Company includes an analysis of the effect on internal control over financial reporting and disclosure controls. The majority of the Company's internal controls over financial reporting are at the dealership reporting level. At this time, we have not identified any significant changes to procedures or reporting at the dealership level. However, a number of internal controls over financial reporting are executed at the head office level in which information from dealerships is compiled. For instance, our head office finance team is responsible for the accounting and reporting of business acquisitions. As a result, our internal controls as they relate to business combinations will be modified slightly as we move to IFRS. Intangible assets and capital assets are also evaluated for impairment at the head office level. As a result, our internal controls will also be modified in order to address differences in standards between Canadian GAAP and IFRS.

The Company's disclosure controls and procedures are designed to provide reasonable assurance that the information required by securities legislation is adequately disclosed, including the interim and annual financial statements and MD&A is recorded, processed, summarized and reported within required deadlines. We have engaged an external consultant to work with the Company to prepare a set of IFRS compliant financial statements and work with our other public reporting documents. The intention of the project is to more fully automate the data flow between our dealership reporting systems and our financial

reporting system in which our public reporting documents are generated. We expect to achieve significant efficiencies as part of this process as well as improve our disclosure controls and procedures in order to address the anticipated increase in disclosure requirements with respect to IFRS without significantly increasing our costs relating to information technology systems and human resources. During the implementation phase, if new internal controls or disclosure controls are to be implemented, the Company will test the new controls for design and implementation as well as the effectiveness of the controls and update our MD&A for any changes made. The Company does not have an external communication plan with respect to IFRS, however if significant differences are identified that are expected to have a profound effect on our various stakeholders, a plan will be prepared.

Financial Reporting Expertise:

The adoption of IFRS is expected to have a moderate effect on the Company's management, employees and the Board of Directors since additional technical knowledge associated with IFRS standards is critical in order to appropriately implement the accounting policy changes throughout the organization. The Company has identified resource requirements to establish appropriate IFRS financial reporting expertise throughout the organization. Training of key members of our finance team began in 2009 and continued through 2010. The Company decided that having key members of its finance team receive technical training and prepare impact assessments on the various accounting differences between Canadian GAAP and IFRS will better prepare our Company for transition by having a knowledgeable and capable finance team, rather than engaging an external consultant to perform the IFRS conversion.

On October 12, 2010, the Company held an informational session with members of the audit committee in which management provided information pertaining to the implications of IFRS standards. Accounting policies, as they relate to the Company under Canadian GAAP and IFRS, were discussed along with our choice in accounting policy in order to allow for questions and feedback from the audit committee prior to the formal approval of our accounting policies in 2011. The Chair of the Audit Committee and several employees who comprise our IFRS implementation team has attended various courses and seminars with respect to IFRS concepts and implementation.

Business Activities:

The adoption of IFRS is also expected to have an effect on our business activities. The Company's debt covenants have been reviewed and based on the impact assessments performed; the adoption of IFRS standards is not expected to have an effect on the Company's debt covenants. We realize that as IFRS standards continue to change, we may be required to adopt IFRS policies that have potential to affect our debt covenants. The adoption of IFRS standards is also expected to have an effect on the executive compensation plan that was approved on March 22, 2010. Major identified differences between Canadian GAAP and IFRS such as intangible asset impairments and reversals have been recognized and its effect on executive compensation has been considered in the development of the plan. We have not identified any other significant impacts of IFRS on our business activities at this time.

Information Technology Systems:

Our information technology systems are not expected to be significantly affected by the adoption of IFRS. No issues have been identified that will require us to make significant changes to our dealership accounting software. As mentioned earlier, an external consultant has been engaged to improve our financial reporting software in which we plan to achieve efficiencies in our financial reporting process and make any necessary changes required in order to successfully implement IFRS. We completed all required changes to our information technology systems in 2010.

CONTROLS OVER DISCLOSURE AND FINANCIAL REPORTING

Disclosure Controls & Procedures

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

As of December 31, 2010, the Company's management, with the participation of the CEO and CFO, evaluated the effectiveness of the design and operation of its disclosure controls and procedures, as defined in Multilateral Instrument 52-109 of the Canadian Securities Administrators, and have concluded that the Company's disclosure controls and procedures are effective.

Internal Controls over Financial Reporting

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

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010, based on the framework established in *Internal Control – Integrated Framework* issued by the Committee Of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concluded that the company maintained effective internal control over financial reporting as of December 31, 2010.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting during the year ended December 31, 2010.

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	2006-07	2008	2009	2010	2011f
Canada	**1,446**	**1,635**	**1,642**	**1,450**	**1,557**	**1,590**
Atlantic	**102**	**114**	**127**	**112**	**122**	**123**
Central	**936**	**999**	**1,010**	**924**	**991**	**1,006**
Quebec	366	402	430	388	415	420
Ontario	570	597	580	536	576	586
West	**408**	**522**	**505**	**414**	**444**	**461**
Manitoba	42	44	46	43	44	46
Saskatchewan	36	41	48	46	46	48
Alberta	166	243	232	180	200	210
British Columbia	164	194	179	145	154	157

* Includes cars and light trucks

Source: Scotia Economics - Global Auto Report, February 4, 2011

We expect the Canadian automotive retail market to continue to improve in 2011. Although overall Canadian car and light truck sale volumes have moderated in the last few months from a full year total volume of 1.56 million in 2010, we expect growth in our key markets to outpace the national average. The resource rich province of Alberta, in which nine of our twenty-three dealerships are located, is expected to lead the improvement in vehicle sales across Canada in 2011. The majority of our dealerships in Alberta are located in economic hubs that are critical to oil sands development, which is expected to see double digit growth in production. Employment numbers and increases in driving-age population (two key drivers of auto sales) in Edmonton and Grande Prairie continue to improve and are expected to improve in 2011. The province of British Colombia, our second largest market, is expected to see modest gains in vehicle sales in 2011. Increasing exports to emerging markets such as China have fostered continued growth in this province. Prince George, one of our key markets within British Colombia, is expected to benefit from an increase in forest product exports to the United States and China. Many of these macro-level factors can have a significant impact on our dealerships and the markets in which they operate. Most importantly, the Canadian economy continues to improve and the pace of job creation has been strong which should produce results for the overall Canadian market in 2011.

The used vehicle market in Canada continued to grow in 2010 and we expect to see growth in this market in 2011. There are two areas of concern at this time which are; the continual loss of market share in the used segment by new car dealers and the erosion of gross profits in the used vehicle market. At the beginning of the decade, new car dealers accounted for 45.5% of used vehicle sales but are now down to 29.4% in 2010. Independent used car dealers have improved their image over the last decade and, along with the private sale market, have improved their marketing efforts with the use of the internet. Management has been investing in technology to improve its presence in the used vehicle market and will continue to do so in 2011. Gross profits have been slowly deteriorating in the used vehicle market. We believe much of the decrease is due to a lower amount of lease trade-ins or nearly-new vehicles, which typically achieved higher gross margins than older used vehicles. With the deterioration of vehicle leasing over the past two years, we have and will likely continue to witness a decline in the availability of nearly-new vehicles which will negatively impact our overall gross margins on used vehicles. The used vehicle business will be one of our biggest challenges in 2011 and beyond and we will continue to focus on improving our volumes and margins in this market.

High volumes of new vehicle sales over the past decade are expected to increase the demand for parts and servicing of these vehicles in the coming years. Management expects the parts and service market to improve in 2011 and we have addressed this need over the past two years with increased service capacity of over 20%. The Company plans to capitalize on our growth in capacity in the coming years and are hopeful that the parts and service market continues to improve in 2011 and beyond.

Our outlook above is based in large part on the outlook of various analysts in the Canadian automotive retail sector and we use the outlook in our planning process. Given the number of variables and the volatility of these variables, readers should be cautioned that it is difficult to predict the direction of new and used vehicle sales and as such, the outlook above should not be relied upon as accurate. 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. Although Management is pleased with its purchase of the former Future Hyundai (now 401 Dixie Hyundai), in view of the number of brands which to date have accepted public ownership, the continuing credit market challenges generally, and the need to ensure that acquisitions are priced to be accretive, make profitable acquisitions challenging, and their timing uncertain.

Management also is carefully monitoring the recent developments in Japan resulting from the recent earthquake and tsunami. The current situation remains volatile and the end result not certain, but based on Management's best understanding; it does not anticipate any material impact on its supply of vehicles from those brands it represents.

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 incorporated by reference to the 2009 Annual Information Form dated March 22, 2010 available on the SEDAR website at www.sedar.com.

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;
- our expectation of maintaining strong relationships with our OEM partners;
- management's expectation of the emergence of used vehicle superstores and its effect on the used vehicle market;
- the results of the Company's investments in technology;
- future results of audits by manufacturers and outcomes of current audit chargeback appeals;
- our plans for the opening of FIAT dealerships and anticipated costs;
- our expectation of the effect of dealership and body shop relocations on our financial results;
- our expectation that increased service capacity will lead to increased profitability;
- the impact of general credit conditions on the Company;
- our expectation of improved credit conditions in the future;
- expectations of the amount of future capital spending and its effect on future financial performance 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;
- plans for convergence with IFRS and its impact on the Company;
- management's assumptions and expectations over the future economic and general outlook.
- management's plans of retaining a greater portion of free cash flow;

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 foregoing factors are not exhaustive and are further discussed in the Company's Annual Information Form dated March 17, 2011 which is filed on SEDAR at www.sedar.com.

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 expenditures (not including acquisitions of dealerships and dealership facilities).

Adjusted Free Cash Flow

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

Absorption Rate

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

Average Capital Employed

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

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).

Cautionary Note Regarding Non-GAAP Measures

EBITDA, EBIT, Free Cash Flow, Adjusted Free Cash Flow, Absorption Rate, Average Capital Employed and 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, Adjusted Free Cash Flow, Absorption Rate, Average Capital Employed and Return on Capital Employed may differ from the methods used by other issuers. Therefore, the Company's EBITDA, EBIT, Free Cash Flow, Adjusted Free Cash Flow, Absorption Rate, Average Capital Employed and Return on Capital Employed may not be comparable to similar measures presented by other issuers.