AUTOCANADA INC.

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

For the three months ended March 31, 2011

As of May 12, 2011

READER ADVISORIES

The Management's Discussion & Analysis ("MD&A") was prepared as of May 12, 2011 to assist readers in understanding AutoCanada Inc.'s (the "Company" or "AutoCanada") consolidated financial performance for the three months ended March 31, 2011 and significant trends that may affect AutoCanada's future performance. The following discussion and analysis should be read in conjunction with the unaudited consolidated financial statements and accompanying notes (the "Interim Consolidated Financial Statements") of AutoCanada for the three months ended March 31, 2011, the consolidated financial statements and accompanying notes of the Company for the year ended December 31, 2010 and management's discussion and analysis for the year ended December 31, 2010. Results are reported in Canadian dollars. Certain dollar amounts have been rounded to the nearest thousand dollars. References to notes are to the Notes of the Interim Consolidated Financial Statements of the Company unless otherwise stated.

To provide more meaningful information, this MD&A typically refers to the operating results for the three-month period ended March 31, 2011 of the Company, and compares these to the operating results of the Company for the three-month period ended March 31, 2010.

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

OVERVIEW OF THE COMPANY

Corporate Structure

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

Additional information relating to AutoCanada, including our 2010 Annual Information Form dated March 17, 2011, is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com.

The Business of the Company

AutoCanada is one of Canada's largest multi-location automobile dealership groups, currently operating 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 three months ended March 31, 2011 and March 31, 2010.

(In thousands of dollars except % of total and number of dealerships)	March 31, 2011			March 31, 2010		
	Number of Dealerships	Revenue	% of Total	Number of Dealerships	Revenue	% of Total
British Columbia	7	77,564	37%	7	69,986	35%
Alberta	9	82,441	39%	9	88,136	44%
Ontario	4	27,555	13%	3	21,120	10%
All other	3	24,083	11%	3	21,520	11%
Total	23	211,643	100%	22	200,762	100%

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

Location of Dealerships	Operating Name	Franchise	Year Opened or Acquired
Dealerships as of March 31, 2011:			
Victoria, British Columbia	Victoria Hyundai	Hyundai	2006
Maple Ridge, British Columbia	Maple Ridge Chrysler Jeep Dodge(1)	Chrysler	2005
Maple Ridge, British Columbia	Maple Ridge Volkswagen	Volkswagen	2008
Prince George, British Columbia	Northland Chrysler Jeep Dodge	Chrysler	2002
Prince George, British Columbia	Northland Hyundai	Hyundai	2005
Prince George, British Columbia	Northland Nissan	Nissan	2007
Kelowna, British Columbia	Okanagan Chrysler Jeep Dodge	Chrysler	2003
Grande Prairie, Alberta	Grande Prairie Chrysler Jeep Dodge	Chrysler	1998
Grande Prairie, Alberta	Grande Prairie Hyundai	Hyundai	2005
Grande Prairie, Alberta	Grande Prairie Subaru	Subaru	1998
Grande Prairie, Alberta	Grande Prairie Mitsubishi	Mitsubishi	2007
Grande Prairie, Alberta	Grande Prairie Nissan	Nissan	2007
Edmonton, Alberta	Crosstown Chrysler Jeep Dodge(1)	Chrysler	1994
Edmonton, Alberta	Capital Chrysler Jeep Dodge(1)	Chrysler	2003
Sherwood Park, Alberta	Sherwood Park Hyundai	Hyundai	2006
Ponoka, Alberta	Ponoka Chrysler Jeep Dodge	Chrysler	1998
Thompson, Manitoba	Thompson Chrysler Jeep Dodge	Chrysler	2003
Woodbridge, Ontario	Colombo Chrysler Jeep Dodge	Chrysler	2005
Mississauga, Ontario	401/Dixie Hyundai (2)	Hyundai	2010
Newmarket, Ontario	Newmarket Infiniti Nissan (3)	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] In 2010, the Company was awarded the following FIAT franchises at three of its Chrysler Jeep Dodge dealerships: Crosstown FIAT, Capital FIAT and Maple Ridge FIAT. We do not consider these franchises to be additional dealerships as they will be largely integrated with our current Chrysler Jeep Dodge dealerships at these locations.
[2] 401/Dixie Hyundai was acquired by the Company on April 12, 2010.
[3] Both the Infiniti and Nissan brands are sold out of the Doner Infiniti Nissan dealership facility, therefore we consider these two brands to be one dealership for MD&A reporting purposes.

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, 2008 and 2007 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 in the three month period ended March 31, 2011 were up 2.1% when compared to the same period in 2010. Sales of new light vehicles for the first quarter of 2011 in Alberta and British Columbia, our primary markets, were up by 5.3% and 4.4% respectively. The Company's same store sales of new vehicles have increased by 6.6% in the first quarter of 2011 primarily as a result of higher sales volumes in Western Canada, where sixteen of our twenty-three dealerships included in our same store analysis operate. Management is pleased with the Company's ability to continue to outperform the market in new vehicle sales.

The following table summarizes Canadian new light vehicle sales for the three-month period ended March 31, 2011 by Province:

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

	March Year to Date		Percentage Change	Units Change
	2011	2010		
Province				
British Columbia	34,249	32,816	4.4%	1,433
Alberta	45,149	42,860	5.3%	2,289
Saskatchewan	10,349	9,787	5.7%	562
Manitoba	9,695	8,737	11.0%	958
Ontario	124,374	119,184	4.4%	5,190
Quebec	85,600	88,897	-3.7%	-3,297
New Brunswick	7,964	7,892	0.9%	72
PEI	1,313	1,123	16.9%	190
Nova Scotia	9,217	9,892	-6.8%	-675
Newfoundland	6,090	6,064	0.4%	26
Total	**334,000**	**327,252**	**2.1%**	**6,748**

[1] *DesRosiers Automotive Consultants Inc.*

The improvement in the new vehicle market in Canada during the first quarter of 2011 has also positively impacted the Company's finance and insurance business. The Company realized an increase in finance and insurance revenue of 9.5% in the first quarter compared to the same period in the prior year. The sales increase translated into an 8.9% increase in finance and insurance gross margin in the first quarter as the finance and insurance business typically generates a gross margin of approximately 90%. Consumer credit continues to improve as more of our customers are able to finance the purchase of their vehicle, accessories and other products.

Management is disappointed with the used vehicle sales results in the first quarter of 2011. The used vehicle market continues to be challenging due to increased competition, a decrease in supply of nearly-new used vehicles and the continued loss of overall market share to private sellers on the internet and independent used vehicle retailers. Management continues to direct resources to improve the Company's online presence and marketing efforts.

Our parts and service departments posted modest gains in revenue and gross margin despite a decrease in repair orders over the first quarter of 2010. A number of marketing initiatives have been undertaken by our parts and service departments to address the decrease in repair orders and we continue to focus on customer service as a means to maintain long-term relationships with our valued customers.

The management changes and head office restructuring undertaken in 2010 is continuing to show progress. Operating expenses decreased to 87.8% of gross margin in the first quarter of 2011 compared to 89.2% in the first quarter of 2010. Management has undertaken a number of initiatives to decrease overhead and semi-variable costs and these actions are beginning to produce cost savings.

Management is also pleased with the decision of the Board of Directors to increase the dividend by 25% by declaring a quarterly dividend of $0.05 on May 12, 2011 (annual dividend rate of $0.20). Net earnings and cash flows improved relative to the first quarter of 2010 and the Company intends to continue to provide value to its shareholders by providing an attractive yield on its shares.

The Company's original business model contemplated being an industry consolidator of Canadian auto dealerships, and notwithstanding the significant and unprecedented challenge of the Federal Government's changed position in respect to income trusts; the bankruptcy and re-emergence of the Company's primary supplier of vehicles; the cancellation of the Company's floorplan credit; and a major economic downturn, the Company in its first years had been successful with its consolidating efforts.

The Company, however, continues to experience resistance to the public model by some manufacturers, with the result that, as has been disclosed for some time, the Company cannot presume that it will be able to purchase and grow with any brands that it currently does not own or which are related to these brands. And this impacts growth prospects meaningfully.

As a result, the Company has been obliged to align its business model such that rather than pursue shareholder value through aggressive growth, the future model contemplates much more modest growth with the primary emphasis being on future earnings of same store operations, and the return to shareholders a fair share of these earnings by way of dividends and/or share repurchases, each option to be regularly reviewed by Management and the Board to determine the appropriate method and amount, subject to ensuring provision to take advantage of appropriate acquisition opportunities with existing or related brands as they become available. In addition, Management shall undertake a review of its options in respect to those dealerships that are operating sub-optimally.

In addition, as same store future earnings are very much the product of the Company's key employees, including its dealer principals, the Company recognizes the enhanced importance such individuals will play in driving same store profitability. Management is currently reviewing its business model with the intention of developing innovative means to continue to attract and retain key employees to ensure that the Company remains able to generate consistently the earnings it seeks. This review may consider alternate forms of relationships, or such other structures as may be appropriate, provided they meet the key criteria of retaining key individuals and contribute to long term profitability.

SELECTED QUARTERLY FINANCIAL INFORMATION

The following table shows the unaudited results of the Company for each of the eight most recently completed quarters. The results of operations for these periods are not necessarily indicative of the results of operations to be expected in any given comparable period. Columns marked "IFRS" represent financial information which has been restated for the Company's adoption of International Financial Reporting Standards ("IFRS") on January 1, 2010. Columns marked "CGAAP" represent financial information which has not been restated for the Company's adoption of IFRS and readers are cautioned that these columns may not provide appropriate comparative information.

(In thousands of dollars except Operating Data and gross profit %)	Q2 2009 CGAAP	Q3 2009 CGAAP	Q4 2009 CGAAP	Q1 2010 IFRS	Q2 2010 IFRS	Q3 2010 IFRS	Q4 2010 IFRS	Q1 2011 IFRS
Income Statement Data								
New vehicles	107,158	116,577	102,124	114,531	144,727	142,044	114,382	128,318
Used vehicles	55,940	57,202	48,805	49,034	57,181	50,922	45,414	44,906
Parts, service & collision repair	27,340	26,849	27,639	26,922	28,376	27,279	29,165	27,164
Finance, insurance & other	11,613	11,916	10,069	10,275	12,966	11,909	10,771	11,255
Revenue	202,051	212,544	188,637	200,672	243,250	232,154	199,732	211,643
New vehicles	7,906	8,731	7,157	7,975	10,831	9,557	8,856	9,528
Used vehicles	5,579	5,838	4,396	4,099	4,893	4,221	3,659	3,486
Parts, service & collision repair	13,712	13,373	13,428	13,107	14,443	13,831	13,835	13,146
Finance, insurance & other	10,637	10,881	9,150	9,300	11,679	10,725	9,689	10,133
Gross profit	37,834	38,823	34,131	34,481	41,846	38,334	36,038	36,293
Gross profit %	18.7%	18.3%	18.1%	17.2%	17.1%	16.4%	18.0%	17.2%
Operating expenses	30,450	30,565	29,313	30,740	33,273	32,136	30,812	31,879
Operating exp. as % of gross profit	80.5%	78.7%	85.9%	89.2%	79.5%	83.8%	85.5%	87.8%
Finance costs – floorplan	1,104	1,399	1,382	1,670	2,198	2,022	1,556	1,685
Finance costs – long-term debt	552	802	552	236	442	442	534	283
Income taxes	67	37	248	516	1,338	699	2,404	690
Net earnings [4]	4,750	5,099	1,675	1,414	3,621	1,976	7,585	1,993
EBITDA [1, 4]	6,135	6,716	3,271	3,096	6,164	4,011	3,469	4,046
Operating Data								
Vehicles (new and used) sold	6,067	6,415	5,451	5,676	7,017	6,363	5,219	5,826
New retail vehicles sold	3,030	3,236	2,559	2,787	3,613	3,358	3,008	3,050
New fleet vehicles sold	446	619	695	661	943	844	306	796
Used retail vehicles sold	2,591	2,560	2,197	2,228	2,461	2,161	1,905	1,980
Number of service & collision repair orders completed	75,062	79,346	76,853	75,311	80,072	77,285	85,035	72,360
Absorption rate [2]	90%	92%	91%	85%	87%	85%	86%	80%
# of dealerships	22	22	22	22	23	23	23	23
# of same store dealerships [3]	17	18	19	19	19	19	21	22
# of service bays at period end	319	321	331	331	339	339	339	339
Same store revenue growth [3]	(15.3)%	(3.9)%	1.3%	16.9%	19.4%	6.7%	2.4%	2.7%
Same store gross profit growth [3]	(8.7)%	(6.3)%	(1.1)%	11.1%	7.5%	(4.0)%	2.9%	2.9%
Balance Sheet Data								
Cash and cash equivalents	14,842	23,224	22,465	23,615	31,880	34,329	37,541	39,337
Accounts receivable	27,034	38,134	35,388	40,701	46,787	37,149	32,853	42,260
Inventories	90,141	107,431	108,324	153,847	177,524	137,507	118,365	134,865
Revolving floorplan facilities	73,161	105,254	102,650	160,590	194,388	145,652	124,609	152,075

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

First Quarter Operating Results

EBITDA for the three month period ended March 31, 2011 increased by 30.7% to $4.0 million, from $3.1 million when compared to the results of the Company for the same period in the prior year. The increase in EBITDA for the quarter can be mainly attributed to the improvement in new vehicle sales which is a main driver of our business and tends to provide additional sales opportunities in our finance and insurance and parts, service and collision repair departments.

The following table illustrates EBITDA for the three months ended March 31, for the last three years of operations.

Period from January 1 to March 31st	EBITDA (In thousands of dollars)
2009	2,230
2010	3,096
2011	4,046

Pre-tax earnings increased by $0.8 million or 39.0% to $2.7 million for the three month period ended March 31, 2011 from $1.9 million in the same period of the prior year. Net earnings increased by $0.6 million or 40.9% to a profit of $2.0 million in the first quarter of 2011 from a $1.4 million profit when compared to the prior year. Income tax expense increased to $0.7 million in the first quarter of 2011 from $0.5 million in the same period of 2010.

Revenues

Revenues increased by $10.9 million or 5.4% during the first quarter of 2011 as compared to the same period of the prior year. This increase was mainly driven by increases in new vehicle sales and finance and insurance revenue. New vehicle sales increased by $13.8 million or 12.0% for the three month period ended March 31, 2011 to $128.3 million from $114.5 million in the same period of the prior year. The increase in new vehicle sales was a key driver of an increase in finance and insurance revenue of $1.0 million or 9.5% in the first quarter of 2011. Used vehicle sales decreased by $4.1 million or 8.4% for the three month period ended March 31, 2011 when compared to the same period in the prior year. Many of our dealerships continue to see a decline in used vehicle sales and the Company has undertaken a number of initiatives to address this issue. Parts, service and collision repair revenue posted a modest increase of $0.2 million or 0.9% for the first quarter of 2011 and the increase can be attributed to the acquisition of 401 Dixie Hyundai in April of 2010.

The tables in the “Same-Store Analysis” sections below summarize the results for the three months ended March 31, 2011 on a same store basis by revenue source and compare these results to the same period in 2010. An acquired or open point dealership may take as long as two years in order to reach normalized operating results. As a result, in order for an acquired or open point dealership to be included in our same store analysis, the dealership must be owned and operated by us for eight complete quarters. For example, if a dealership was acquired on December 1, 2008, the results of the acquired entity would be included in quarterly same store comparisons beginning with the quarter ended March 31, 2011 and in annual same store comparisons beginning with the year ended December 31, 2011. As a result, only dealerships opened or acquired prior to January 1, 2009 are included in this same store analysis.

Revenues - Same Store Analysis

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

Same Store Revenue and Vehicles Sold

	For the Three Month Period Ended		
(In thousands of dollars except % change and vehicle data)	**March 31, 2011**	**March 31, 2010**	**% Change**
Revenue Source			
New vehicles	124,182	114,530	8.4%
Used vehicles	44,458	49,034	(9.3)%
Finance, insurance and other	10,905	10,275	6.1%
Subtotal	179,545	173,839	3.3%
Parts, service and collision repair	26,582	26,923	(1.3)%
Total	206,127	200,762	2.7%
New vehicles - retail sold	2,880	2,787	3.3%
New vehicles – fleet sold	796	661	20.4%
Used vehicles sold	1,922	2,228	(13.7)%
Total	5,598	5,676	(1.4)%
Total vehicles retailed	4,802	5,015	(4.2)%

Same store revenue increased by $5.4 million or 2.7% in the three months ended March 31, 2011 when compared to 2010. New vehicle revenues increased by $9.7 million or 8.4% for the three months ended March 31, 2011 over the prior year due in part to a net increase in new vehicle sales of 228 units consisting of an increase of 93 retail units and 135 low margin fleet unit sales. This increase was supplemented by an increase in the average selling price per new vehicle retailed ("PNVR") of $565 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 $4.6 million or 9.3% for the three months ended March 31, 2011 over the prior year. This decrease was due to a decrease in the number of used vehicles sold of 306 units, partially offset by an increase in the average selling price per used vehicle retailed of $1,123.

Same store parts, service and collision repair revenue remained relatively flat with a decrease of $0.3 million for the three months ended March 31, 2011 compared to the prior year and was primarily a result of a decrease of 6.8% in the number of service and collision repair orders completed, offset by a 6.0% increase in the average revenue per service and collision repair order completed.

Same store finance, insurance and other revenue increased by $0.6 million or 6.1% for the three months ended March 31, 2011 over the same period in the prior year. This was due to an increase in the average revenue per unit retailed of 10.8% and mitigated by a decrease in the number of new and used vehicles retailed of 213 units.

Gross profit

Gross margin increased by $1.8 million or 5.3% during the first quarter of 2011 when compared to the same period in the prior year. Similar to revenues, gross margin increased due to increases in new vehicle sales and finance and insurance revenue. Gross margins on the sale of new vehicles increased by $1.6 million or 19.5% for the three month period ended March 31, 2011. The increase in new vehicle gross can be mainly attributed to an increase in new vehicle retail unit sales of 263 units or 9.4% and an increase in the average gross profit per new vehicle of $165. The industry wide sales gains in new vehicle sales in Canada have been driven by increases in light truck sales. The sale of light trucks tends to produce a higher gross margin per vehicle sold and our first quarter results reflect this statistic. The Company's finance and insurance gross margins increased by $0.8 million or 8.9% during the first quarter of 2011. This increase can be mainly attributed to an increase in the average gross margin per unit retailed of $160. The increase in overall gross margin of the Company was partially offset by a decrease in used vehicle gross margins of $0.6 million or 14.9%. Parts, service and collision repair gross margins were relatively flat quarter over quarter.

Gross Profit - Same Store Analysis

The following table summarizes the results for the three months ended March 31, 2011 on a same store basis by revenue source and compares these results to the same period in 2010.

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 %)	March 31, 2011	March 31, 2010	% Change	March 31, 2011	March 31, 2010	% Change
Revenue Source						
New vehicles	9,281	7,974	16.4%	7.5%	7.0%	0.5%
Used vehicles	3,451	4,099	(15.8)%	7.8%	8.4%	(0.6)%
Finance, insurance and other	9,893	9,301	6.4%	90.7%	90.5%	0.2%
Subtotal	22,625	21,374	5.9%			
Parts, service and collision repair	12,854	13,107	(1.9)%	48.4%	48.7%	(0.3)%
Total	35,479	34,481	2.9%	17.2%	17.2%	0.0%

Same store gross profit increased by $1.0 million or 2.9% for the three month period ended March 31, 2011 when compared to the same period in the prior year. New vehicle gross profit increased by $1.3 million or 16.4% in the three month period ended March 31, 2011 when compared to 2010 as a result of the previously discussed increase in new vehicle sales of 228 units largely as a result of increases in our primary markets of Alberta and British Columbia. The average gross profit per new vehicle retailed increased by $212 from 2010 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 $0.6 million or 15.8% in the three month period ended March 31, 2011 over the prior year. This was primarily due to a decrease in the number of used vehicles sold of 306 units and a decrease of $44 in the average gross profit earned per vehicle retailed. Manufacturer incentives on new vehicles had a negative effect on our overall used vehicle margins. In addition, the increased competition in this market has put pressure on used vehicle margins and will continue to do so in the future. Management believes that we will continue to see pressure on used vehicle margins over the long term partly due to the increase in independent used vehicle dealerships, but more importantly due to increased ability for the public to privately sell their vehicles on the internet. Management has continued to invest in technology that we believe will improve our competitiveness for internet sales and will better inform our potential customers of the benefits of purchasing used vehicles from a recognized auto dealer. We believe that auto dealerships have a distinct advantage over private sellers in the used vehicle market due to our ability to provide multiple sources of financing, the ability to offer extended warranty and our direct access to dealer auctions which offer more competitive pricing and we intend to focus our marketing efforts on this advantage.

Parts, service and collision repair gross profit decreased by $0.3 million or 1.9% in the three month period ended March 31, 2011 when compared to the same period in the prior year as a result of a decrease of 5,132 in service and collision repair orders completed during the quarter that was partially offset by an increase of $9 in the average gross profit earned per service and collision repair order completed.

Finance and insurance gross profit increased by 6.4% or $0.6 million in the three month period ended March 31, 2011 when compared to the prior year as a result of an increase in the average gross profit per unit sold of $206, partially offset by a decrease in the number of units retailed of 213 units.

Operating expenses

Operating expenses increased by 3.7% or $1.1 million during the three month period ended March 31, 2011 as compared to the same period in the prior year. Since many operating expenses are variable in nature, management considers operating expenses as a percentage of gross profit to be a good indicator of expense control. Operating expenses as a percentage of gross profit decreased to 87.8% in the first quarter of 2011 from 89.2% in the same period of the prior year. Operating expenses consist of four major categories; employee costs, selling and administrative costs, facility lease costs and amortization.

Employee costs
During the three month period ended March 31, 2011, employee costs decreased by $0.1 million to $18.1 million from $18.2 million in the prior year period. Employee costs as a percentage of gross profit decreased to 49.8% in the first quarter of 2011 from 52.7% in the first quarter of 2010. Management attributes the decrease in employee costs to lower commissioned wages and a partial recovery in termination benefits from the departure of an executive in 2010.

Selling and administrative costs
During the three months ended March 31, 2011, selling and administrative costs increased by 14.5% to $9.8 million from $8.6 due to an increase in advertising, professional fees and other administrative expenses. Selling and administrative expenses as a percentage of gross profit increased to 27.0% in the first quarter of 2011 from 24.9% in the comparable period of 2010. This increase is due to the reasons discussed above.

Facility lease costs
During the three months ended March 31, 2011, facility lease costs decreased by 4.5% to $2.9 million from $3.1 million. The Company achieved a rent reduction at two of its facilities in 2011.

Amortization
During the three month period ended March 31, 2011, amortization was $1.1 million as compared to $0.9 million in the same period of the prior year. This increase is mainly due to the purchase of the Newmarket Infiniti Nissan real estate in late 2010.

Finance costs

The Company incurs finance costs on its revolving floorplan facilities, long term indebtedness and banking arrangements. During the three month period ended March 31, 2011, finance costs on our revolving floorplan facilities remained relatively flat at $1,685 from $1,670 in the first quarter of 2010. Finance costs on long term indebtedness increased to $0.3 million from $0.2 million in the first quarter mainly due to the additional indebtedness incurred for the purchase of the Newmarket Infiniti Nissan real estate.

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

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

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

Some of our manufacturers provide non-refundable credits on the finance costs for our revolving floorplan facilities to offset the dealership's cost of inventory that, on average, effectively provide the dealerships with interest-free floorplan financing for the first 45 to 60 days of ownership of each financed vehicle. During the three month period ended March 31, 2011, the net floorplan credits were $1,184 (2010 - $753). Accounting standards requires the floorplan credits to be accounted for as a reduction in the cost of new vehicle inventory and subsequently a reduction in the cost of sales as vehicles are sold.

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. The Company did not complete any acquisitions during the three month period ended March 31, 2011.

With respect to FIAT franchise opportunities, management continues to work with the manufacturer to produce a cost-effective plan for facility improvements at the three locations 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 favorable 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 firm guidance with respect to future acquisition opportunities, but with the improvement in the markets generally, Management is seeking to add at least one acquisition in 2011.

LIQUIDITY AND CAPITAL RESOURCES

Our principal uses of funds are for capital expenditures, repayment of debt, funding the future growth of the Company and dividends to Shareholders. We have historically met these requirements by using cash generated from operating activities and through short-term and long-term indebtedness. A significant decline in sales as a result of the inability to procure adequate supply of vehicles and/or lower consumer demand may reduce our cash flows from operations and limit our ability to fund capital expenditures, repay our debt obligations, fund future growth internally and/or fund future dividends.

Cash Flow from Operating Activities

Cash flow from operating activities (including changes in non-cash working capital) of the Company for the three month period ended March 31, 2011 was $4.2 million (cash provided by operating activities of $3.9 million plus net change in non-cash working capital of $0.3 million) compared to $7.2 million (cash provided by operating activities of $3.0 million plus net change in non-cash working capital of $4.2 million) in the same period of the prior year.

Economic Dependence

As stated in Note 5 of the interim consolidated financial statements, the Company has significant commercial and economic dependence on Chrysler Canada and Ally Credit Canada Limited ("Ally Credit"), formerly known GMAC Canada. As a result, the Company is subject to significant risk in the event of the financial distress of Chrysler Canada, one of our major vehicle manufacturers and parts suppliers, and Ally Credit, which provides the Company with revolving floorplan facilities for all of its dealerships. Details of these relationships and balances of assets with Chrysler Canada and Ally Credit are described in Note 5 of the interim consolidated financial statements for the three month period ended March 31, 2011.

Credit Facilities and Floor Plan Financing

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

Financial Instruments

Details of the Company's financial instruments, including risks and uncertainties are included in Note 18 of the interim consolidated financial statements for the three month period ended March 31, 2011.

Growth vs. Non-growth Capital Expenditures

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

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

(In thousands of dollars)	**January 1, 2011 to March 31, 2011**
	$
Leasehold improvements	26
Machinery and equipment	34
Furniture and fixtures	67
Computer equipment	105
Company & lease vehicles	-
	232

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 ended March 31, 2011 growth capital expenditures of $0.7 million were incurred. These expenditures related primarily to leasehold improvements and purchases of equipment for our Crosstown body shop relocation. Dealership relocations are included as growth expenditures if they contribute to the expansion of sales and service capacity of the dealership.

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

(In thousands of dollars)	**January 1, 2011 to March 31, 2011**
	$
Purchase of property and equipment from the Statement of Cash Flows	930
Less: Amounts related to the expansion of sales and service capacity	(698)
Purchase of non-growth property and equipment	232

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 ended March 31, 2011, were $0.430 million (2010 - $0.477 million).

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.

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 March 31, 2011, September 30, 2010, June 30, 2010, March 31, 2010, September 30, 2009 and June 30, 2009. Columns marked "IFRS" represent financial information which has been restated for the Company's adoption of International Financial Reporting Standards ("IFRS") on January 1, 2010. Columns marked "CGAAP" represent financial information which has not been restated for the Company's adoption of IFRS and readers are cautioned that these columns may not provide appropriate comparative information.

(In thousands of dollars)

Balance Sheet Data	**March 31, 2011 IFRS**	**December 31, 2010 IFRS**	**September 30, 2010 IFRS**	**June 30, 2010 IFRS**	**March 31, 2010 IFRS**	**December 31, 2009 CGAAP**	**September 30, 2009 CGAAP**	**June 30, 2009 CGAAP**
Cash and cash equivalents	39,337	37,541	34,329	31,880	23,615	22,465	23,224	14,842
Accounts receivable	42,260	32,853	37,149	46,787	40,701	35,388	38,134	27,034
Inventories	134,865	118,365	137,507	177,524	153,847	108,324	107,431	90,141
Total assets	291,291	261,733	272,027	315,107	274,657	233,665	233,283	198,946
Revolving floorplan facilities	152,075	124,609	145,652	194,388	160,590	102,650	105,254	73,161
Total long term indebtedness and lease obligations	24,989	25,094	24,200	18,941	19,010	23,074	19,064	20,576

Net Working Capital

The automobile manufacturers represented by the Company require the Company to maintain net working capital for each individual dealership. At March 31, 2011, the aggregate of net working capital requirements was approximately $32.2 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 as current assets less current liabilities as presented in the interim consolidated financial statements. At March 31, 2011, the Company had aggregate working capital of approximately $35.0 million.

Related Party Transactions

Note 26 of the interim consolidated financial statements of the Company summarize the transactions between the Company and its related parties. These transactions are prepayments of rent and rents paid to companies with common ownership, management and directors.

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

DIVIDENDS

Dividends to Shareholders

Management reviews the Company's financial results on a monthly basis. The Board of Directors reviews the financial results on a quarterly basis, or as requested by Management, and determine whether a dividend shall be paid based on a number of factors.

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

(In thousands of dollars)

Record date	Payment date	Total Declared	Total Paid
		$	$
February 28, 2011	March 15, 2011	795	795

On May 12, 2011 the Board of Directors of AutoCanada Inc. were pleased to declare a quarterly eligible dividend of $0.05 per common share on AutoCanada's outstanding Class A common shares, payable on June 15, 2011 to shareholders of record at the close of business on May 31, 2011. The declaration of the dividend represents a 25% increase over the previously declared dividend of $0.04 per share. The newly announced quarterly dividend represents an annual dividend rate of $0.20 per share as compared to $0.16 per share previously.

Cautionary Note Regarding our Dividends

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

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

Free Cash Flow

The Company has defined free cash flow to be cash flows provided by operating activities (including changes in non-cash operating working capital) less capital expenditures (not including capital assets acquired by acquisitions or purchases of real estate). Columns marked "IFRS" represent financial information which has been restated for the Company's adoption of International Financial Reporting Standards ("IFRS") on January 1, 2010. Columns marked "CGAAP" represent financial information which has not been restated for the Company's adoption of IFRS and readers are cautioned that these columns may not provide appropriate comparative information.

(In thousands of $ except unit and per unit amounts)	Q2 2009 CGAAP	Q3 2009 CGAAP	Q4 2009 CGAAP	Q1 2010 IFRS	Q2 2010 IFRS	Q3 2010 IFRS	Q4 2010 IFRS	Q1 2011 IFRS
Cash provided by operating activities	2,611	9,657	2,319	7,169	14,382	4,983	7,810	4,168
Deduct:								
Purchase of property and equipment	(2,175)	(458)	(614)	(541)	(1,156)	(572)	(2,130)	(930)
Free Cash Flow [1]	436	9,199	1,705	6,628	13,226	4,411	5,680	3,238
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	0.022	0.463	0.086	0.333	0.665	0.222	0.286	0.163
Free cash flow – 12 month trailing	11,711	11,427	7,062	17,968	30,758	25,970	29,945	26,555
Free cash flow –Year-to-date								3,238

[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 trades receivable and inventory levels and the timing of the payments of trade payables and revolving floorplan facilities.

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

The following table summarizes the net increase in cash due to changes in non-cash working capital for the three months ended March 31, 2010 and March 31, 2011.

(In thousands of dollars)	**January 1, 2010 to March 31, 2010** $	**January 1, 2011 to March 31, 2011** $
Accounts receivable	(5,378)	(9,407)
Inventories	(45,553)	(16,648)
Prepaid expenses	(367)	(105)
Accounts payable and accrued liabilities	(2,724)	(977)
Vehicle repurchase obligations	-	(45)
Revolving floorplan facility	58,220	27,467
	4,198	285

Adjusted Free Cash Flow

The Company has defined adjusted free cash flow to be cash flows provided by operating activities (before changes in non-cash operating working capital) less non-growth capital expenditures. Columns marked "IFRS" represent financial information which has been restated for the Company's adoption of International Financial Reporting Standards ("IFRS") on January 1, 2010. Columns marked "CGAAP" represent financial information which has not been restated for the Company's adoption of IFRS and readers are cautioned that these columns may not provide appropriate comparative information.

(In thousands of $ except unit and per unit amounts)	**Q2 2009 CGAAP**	**Q3 2009 CGAAP**	**Q4 2009 CGAAP**	**Q1 2010 IFRS**	**Q2 2010 IFRS**	**Q3 2010 IFRS**	**Q4 2010 IFRS**	**Q1 2011 IFRS**
Cash provided by operating activities before changes in non-cash working capital	5,723	6,101	3,246	2,971	6,047	3,836	3,256	3,883
Deduct:								
Purchase of non-growth property and equipment	(132)	(187)	(240)	(409)	(819)	(365)	(565)	(232)
Free Cash Flow[1]	5,591	5,914	3,006	2,562	5,228	3,471	2,691	3,651
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	0.281	0.297	0.151	0.129	0.263	0.175	0.135	0.184
Free cash flow – 12 month trailing	18,535	16,833	16,395	17,073	16,710	14,267	13,952	15,041
Free cash flow –Year-to-date								3,651

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

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

Adjusted Return on Capital Employed

The Company has defined Adjusted Return on Capital Employed to be EBIT (EBITDA, as defined in "NON-GAAP MEASURES", less depreciation and amortization) divided by Average Capital Employed in the Company (average of shareholders' equity and interest bearing debt, excluding floorplan financing, for the period, less the comparative adjustment defined below). Columns marked "IFRS" represent financial information which has been restated for the Company's adoption of International Financial Reporting Standards ("IFRS") on January 1, 2010. Columns marked "CGAAP" represent financial information which has not been restated for the Company's adoption of IFRS and readers are cautioned that these columns may not provide appropriate comparative information.

(In thousands of $ except share and per share amounts)	Q2 2009 CGAAP	Q3 2009 CGAAP	Q4 2009 CGAAP	Q1 2010 IFRS	Q2 2010 IFRS	Q3 2010 IFRS	Q4 2010 IFRS	Q1 2011 IFRS
EBITDA[1]	6,135	6,716	3,271	3,096	6,164	4,011	3,469	4,046
Add (deduct):								
Amortization	(902)	(937)	(961)	(931)	(975)	(1,058)	(1,207)	(1,080)
EBIT[1]	5,233	5,779	2,310	2,165	5,189	2,953	2,262	2,966
Average long-term debt	25,663	24,432	23,441	21,314	19,244	21,924	25,461	26,201
Average shareholders' equity	70,907	75,848	79,253	70,872	72,991	74,994	78,979	82,973
Average capital employed[1]	96,570	100,280	102,693	92,185	92,234	96,918	104,440	109,174
Return on capital employed[1]	5.4%	5.8%	2.2%	2.3%	5.6%	3.0%	2.2%	2.7%
Comparative adjustment[2]	-	-	-	9,301	9,301	9,301	3,579	3,579
Adjusted average capital employed[2]	96,570	100,280	102,693	101,486	101,535	106,219	110,880	112,753
Adjusted return on capital employed[2]	5.4%	5.8%	2.2%	2.1%	5.1%	2.8%	2.0%	2.6%

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

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

Management believes that Adjusted Return on Capital Employed (see "NON-GAAP MEASURES") is a good measure to evaluate the profitability of our invested capital. As a corporation, management of AutoCanada may use this measure to compare potential acquisitions and other capital investments against our internally computed cost of capital to determine whether the investment shall create value for our shareholders. Management may also use this measure to look at past acquisitions, capital investments and the Company as a whole in order to ensure shareholder value is being achieved by these capital investments.

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICY DEVELOPMENTS

A complete listing of critical accounting policies, estimates, judgments and measurement uncertainty can be found in Note 1 and Note 2 of the interim consolidated financial statements. Other than changes described below as a result of the adoption of IFRS, critical accounting policies remain largely unchanged from those described in the Company's annual management's discussion and analysis for the year ended December 31, 2010.

The IASB has issued a new standard, IFRS 9, "Financial Instruments" ("IFRS 9"), which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments and the issuance of IFRS 9 is part of the first phase of this project. This standard becomes effective on January 1, 2013. The Company has yet to assess the impact of the new standard on its results of operations, financial position and disclosures.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company has adopted International Financial Reporting Standards ("IFRS") for its 2011 fiscal year as required by the Accounting Standards Board of the Canadian Institute of Chartered Accountants. The Company provided information on its transition to IFRS in its 2010 Annual Management's Discussion and Analysis. The "Update on Key Elements of the Plan" and impacts on "Internal Control over Financial Reporting and Disclosure Controls and Procedures", "Financial Reporting Expertise", "Business Activities" and "Information Technology Systems" sections of the 2010 Annual Management's Discussion and Analysis remains largely unchanged.

The Company has completed its assessment of impairment of assets. In accordance with IAS 36, the Company reviewed the recoverable amount for its CGU's at both January 1, 2010 (the "Transition Date") and as at December 31, 2010. The key assumptions and methodology used in those reviews are disclosed in Note 17 of the Interim Consolidated Financial Statements. At the Transition Date, as a result of the impairment test performed, the Company determined that certain of the Company's CGU's were impaired. The impairment resulted in a decrease to the carrying value of intangible assets at the Transition Date of $13,100. In accordance with the provisions of IFRS 1, this difference was recognized in the opening accumulated deficit at the Transition Date. This difference also resulted in an overall decrease in the carrying value of intangible assets at March 31, 2010 in the amount of $13,100, with a resulting difference recognized in the accumulated deficit, as no indicators of impairment were determined to be present at that date, which would result in a test for impairment at that time. At December 31, 2010, in accordance with IAS 36, an annual test for impairment was performed. The Company determined that certain of the Company's CGU's were impaired and certain of the Company's CGU's previously recorded impairments were reduced. The impairment test resulted in an overall increase in the carrying value of intangible assets at December 31, 2010 in the amount of $8,069. In accordance with IAS 36, the reversal of impairment of intangible assets was recorded in the statement of operations as an increase to net comprehensive income of $8,069 for the year ended December 31, 2011. Given the volatility of the retail automotive industry in Canada, the Company expects to incur more frequent impairments or reversals of impairments of intangible assets in future reporting periods.

The Company has provided a detailed explanation of the impacts of this transition in Note 29 of the Company's interim consolidated financial statements for the period ended March 31, 2011. This note includes reconciliations of the Company's statement of financial position and statement of changes in equity at January 1, 2010, March 31, 2010 and December 31, 2010. It also includes reconciliations of the Company's statement of operations and statement of comprehensive income for the period ended March 31, 2010 and December 31, 2010. Explanations of the individual impacts of adopting IFRS identified in the reconciliations are also provided, as are the Company's elections under IFRS 1 "First-time Adoption of International Financial Reporting Standards".

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The CEO and the CFO have required that disclosure controls and procedures and internal control over financial reporting be designed under their supervision. Disclosure controls and procedures have been designed and evaluated to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the CEO and CFO, on a timely basis so that applicable securities legislation requirements pertaining to public disclosure are achieved.

Internal control over financial reporting has been designed by management to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management continues to review and enhance internal controls and procedures. Due to their inherent limitations, internal control over financial reporting may not prevent or detect misstatements, errors or fraud.

The CEO and CFO have concluded that there have been no changes in internal controls for the period ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

GENERAL OUTLOOK

The outlook regarding vehicle sales in Canada is difficult to predict.

New light vehicle unit sales in Canada are expected to increase by 2.1 percent in 2011 as compared to the prior year.

New Vehicle Sales Outlook by Province*

(thousands of units, annual rates)

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

* Includes cars and light trucks

Source: Scotia Economics - Global Auto Report, March 29, 2011

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

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

RISK FACTORS

We face a number of business risks that could cause our actual results to differ materially from those disclosed in this MD&A (See "FORWARD LOOKING STATEMENTS") Investors and the public should carefully consider our business risks, other uncertainties and potential events as well as the inherent uncertainty of forward looking statements when making investment decisions with respect to AutoCanada. If any of the business risks identified by AutoCanada were to occur, our business, financial condition, results of operations, cash flows or prospects could be materially adversely affected. In such case, the trading price of our shares could decline. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also adversely affect our business and operations. A comprehensive discussion of the known risk factors of AutoCanada and additional business risks is available in our 2010 Annual Information Form dated March 17, 2011 available on the SEDAR website at www.sedar.com.

Management continues to carefully monitor the developments of supply chain disruptions. The earthquake and resulting tsunami in Japan has created uncertainty in the timing of the supply of vehicles. These disruptions may negatively impact the Company's sales and profit if the Company experiences a shortage of supply.

In addition to the developments in Japan, some of our dealerships have been experiencing shortage of availability of inventory due to transportation and delivery issues from a key manufacturer partner. We recognize that until normal shipping times resume, our revenues may be impacted by this supply disruption in the second quarter of 2011 and the foreseeable future.

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 plans to focus primarily on future earnings of same store operations and returns to shareholders;
- management's intentions of developing innovative means to attract and retain key employees;
- management's expectation of the emergence of used vehicle superstores and its effect on the used vehicle market;
- our expectation of future acquisitions and management's intention of adding one acquisition in 2011;
- 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 that increased service capacity will lead to increased profitability;
- the impact of general credit conditions on the Company;
- our expectation to incur annual non-growth capital expenditures;
- 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;
- 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.

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

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

NON-GAAP MEASURES

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

EBITDA

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

EBIT

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

Free Cash Flow

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

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

Adjusted Free Cash Flow

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

Absorption Rate

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

Average Capital Employed

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

Adjusted Average Capital Employed

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

Return on Capital Employed

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

Adjusted Return on Capital Employed

Adjusted return on capital employed is a measure used by management to evaluate the profitability of our invested capital. As a corporation, management of AutoCanada may use this measure to compare potential acquisitions and other capital investments against our internally computed cost of capital to determine whether the investment shall create value for our shareholders.

Management may also use this measure to look at past acquisitions, capital investments and the Company as a whole in order to ensure shareholder value is being achieved by these capital investments. Adjusted return on capital employed is calculated as EBIT (defined above) divided by Adjusted Average Capital Employed (defined above).

Cautionary Note Regarding Non-GAAP Measures

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