AUTOCANADA

ANNUAL REPORT

2011

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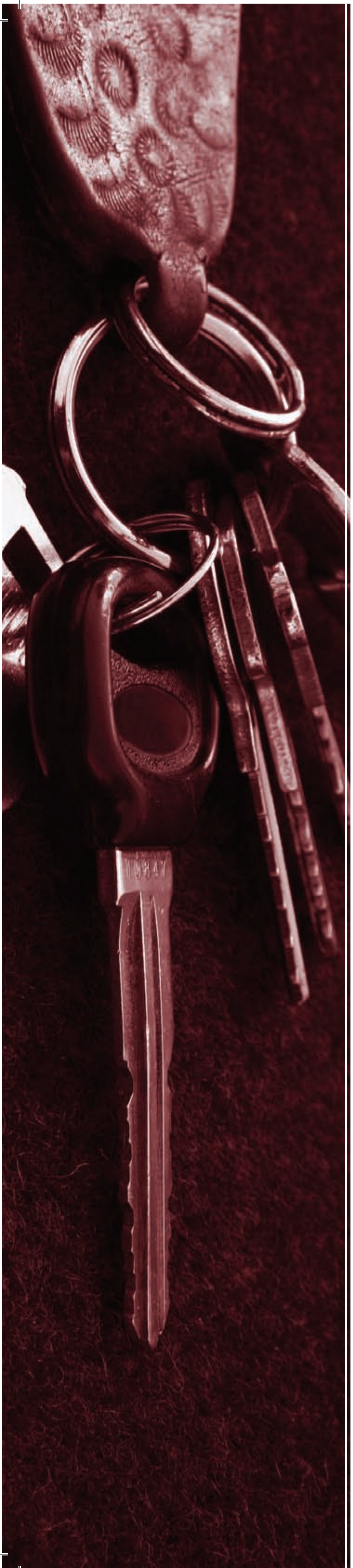


MANAGEMENT'S DISCUSSION & ANALYSIS

AutoCanada Inc.

Management's Discussion & Analysis of Financial Conditions and Results of Operations

For the year ended December 31, 2011

As of March 22, 2012

READER ADVISORIES

The Management's Discussion & Analysis ("MD&A") was prepared as of March 22, 2012 to assist readers in understanding AutoCanada Inc.'s (the "Company" or "AutoCanada") consolidated financial performance for the year ended December 31, 2011 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, 2011. 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, 2011 of the Company, and compares these to the operating results of the Company for the three-month period and year ended December 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", "AutoCanada", or the "Company") 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 2011 Annual Information Form dated March 22, 2012, 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 24 franchised dealerships in British Columbia, Alberta, Manitoba, Ontario, New Brunswick and Nova Scotia. In 2011, our dealerships sold approximately 28,000 vehicles and processed approximately 300,000 service and collision repair orders in our 333 service bays during that time.

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

The Company's geographical profile is illustrated below by number of dealerships and revenues by province for the year ended December 31, 2011 and December 31, 2010.

(In thousands of dollars except % of total and number of dealerships)	December 31, 2011			December 31, 2010		
	Number of Dealerships	Revenue	% of Total	Number of Dealerships	Revenue	% of Total
British Columbia	9	359,725	35%	7	310,314	35%
Alberta	9	411,024	41%	9	345,877	40%
Ontario	3	107,704	11%	4	111,367	13%
All other	3	130,405	13%	3	101,949	12%
Total	24	1,008,858	100%	23	869,507	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 December 31, 2011:			
Edmonton, Alberta	Crosstown Chrysler Jeep Dodge FIAT	Chrysler	1994
Edmonton, Alberta	Capital Chrysler Jeep Dodge FIAT	Chrysler	2003
Grande Prairie, Alberta	Grande Prairie Chrysler Jeep Dodge	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
Ponoka, Alberta	Ponoka Chrysler Jeep Dodge	Chrysler	1998
Sherwood Park, Alberta	Sherwood Park Hyundai	Hyundai	2006
Abbotsford, British Columbia	Abbotsford Volkswagen(2)	Volkswagen	2011
Chilliwack, British Columbia	Chilliwack Volkswagen(2)	Volkswagen	2011
Kelowna, British Columbia	Okanagan Chrysler Jeep Dodge	Chrysler	2003
Maple Ridge, British Columbia	Maple Ridge Chrysler Jeep Dodge FIAT	Chrysler	2005
Maple Ridge, British Columbia	Maple Ridge Volkswagen	Volkswagen	2008
Prince George, British Columbia	Northland Chrysler Jeep Dodge	Chrysler	2002
Prince George, British Columbia	Northland Hyundai	Hyundai	2005
Prince George, British Columbia	Northland Nissan	Nissan	2007
Victoria, British Columbia	Victoria Hyundai	Hyundai	2006
Thompson, Manitoba	Thompson Chrysler Jeep Dodge	Chrysler	2003
Moncton, New Brunswick	Moncton Chrysler Jeep Dodge	Chrysler	2001
Dartmouth, Nova Scotia	Dartmouth Chrysler Jeep Dodge	Chrysler	2006
Cambridge, Ontario	Cambridge Hyundai	Hyundai	2008
Mississauga, Ontario	401/Dixie Hyundai	Hyundai	2010
Newmarket, Ontario	Newmarket Infiniti Nissan	Nissan / Infiniti	2008
Dealerships sold during 2011:			
Woodbridge, Ontario	Colombo Chrysler Jeep Dodge (1)	Chrysler	2005

[1] On June 21, 2011 the Company sold its Colombo Chrysler Jeep Dodge dealership, located in Woodbridge, Ontario.
[2] On November 4, 2011 the Company acquired Abbotsford Volkswagen and Chilliwack Volkswagen.

OUR PERFORMANCE

New light vehicle sales in Canada in 2011 were up 1.8% when compared to 2010. Annual sales of new light vehicles in Alberta and British Columbia, our primary markets, were up by 8.7% and 1.4% respectively. The Company's same store sales of new vehicles have increased by 26.6% during this period. The Company's manufacturer partners all outperformed the market this year and our dealerships performed particularly well, picking up market share in most sales regions. Management is pleased with the Company's ability to outperform the market in new vehicle sales during the period.

The following table summarizes Canadian new light vehicle sales for 2011 by Province:

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

	December Year to Date		Percentage Change	Units Change
	2011	2010		
Province				
British Columbia	156,515	154,373	1.4%	2,142
Alberta	217,425	200,088	8.7%	17,337
Saskatchewan	49,607	46,517	6.6%	3,090
Manitoba	46,681	44,025	6.0%	2,656
Ontario	588,402	576,629	2.0%	11,773
Quebec	406,996	413,635	-1.6%	-6,639
New Brunswick	38,309	37,740	1.5%	569
PEI	5,970	6,112	-2.3%	-142
Nova Scotia	45,015	46,422	-3.0%	-1,407
Newfoundland	30,599	31,580	-3.1%	-981
Total	**1,585,519**	**1,557,121**	**1.8%**	**28,398**

[1] *DesRosiers Automotive Consultants Inc.*

AutoCanada's success in 2011 is largely driven by the increase in new vehicle sales. The Company's manufacturer partners have performed well in Canada in 2011; led by Volkswagen (sales up 15.9% in 2011), Chrysler (sales up 12.5% in 2011), Hyundai (sales up 9.1% in 2011), Nissan (sales up 3.9% in 2011) and an increase from Mitsubishi (sales up 5.2% in 2011). Various manufacturers also provide our dealerships with performance based incentives for meeting and exceeding monthly new vehicle sales targets. These performance based incentives have increased significantly in 2011 as compared to the prior year. As a result, we have seen a shift in focus at our dealerships to selling higher volumes of new vehicles as opposed to used vehicles. We cannot project the duration of these performance based incentives; the decrease or loss of such incentives would make it difficult for the Company to maintain its current level of profitability in its new vehicle department. In addition, the Company experienced inventory shortages in 2011 with respect to some of its brands and we expect these shortages to continue into the 2012 fiscal year.

The improvement in the new vehicle market during 2011 has also positively impacted the Company's finance and insurance business. The Company realized an increase in finance and insurance revenue of 18.6% during 2011. The sales increase translated into a $7.5 million or 19.1% increase in finance and insurance gross profit over the prior year. Consumer credit also continued to improve as more of our customers were able to finance the purchase of their vehicle, accessories and other products.

Due to a very aggressive used vehicle market in Canada in 2011, our used vehicle sales volumes decreased by 1% in 2011. In spite of this reduction in unit sales, used vehicle gross profits increased by $0.5 million or 2.9% over 2010. We continue to see a decrease in supply of quality one to five year old used vehicles as vehicle leasing essentially ended in 2009. AutoCanada continues to focus on sourcing quality one to five year old vehicles through customer trade-ins and vehicle auctions.

Our parts and service departments posted modest gains in revenue and gross margins mainly due to an increase in the average revenue per repair order completed over the prior year. The Company continues to invest in new technology to improve the customer experience in our service departments. We expect that the impact the technology will have on customer satisfaction and improvement in customer awareness of maintenance requirements will lead to increased sales and higher margins in our parts, service and collision repair departments.

Operating expenses decreased to 80.9% of gross margin in 2011 compared to 86.8% in 2010 as a result of a number of initiatives undertaken by Management to decrease overhead and semi-variable costs.

SELECTED ANNUAL FINANCIAL INFORMATION

The following table shows the audited results of the Company for the years ended December 31, 2009, December 31, 2010 and December 31, 2011. The results of operations for these periods are not necessarily indicative of the results of operations to be expected in any given comparable period. The column below marked "CGAAP" represents financial information which has not been restated for the Company's adoption of IFRS and readers are cautioned that this column may not provide appropriate comparative information.

(In thousands of dollars except Operating Data and gross profit %)	**The Company CGAAP**	**The Company IFRS**	**The Company IFRS**
	(Audited)	**(Audited)**	**(Audited)**
	2009	**2010**	**2011**
Income Statement Data			
Revenue	775,836	869,507	1,008,858
New vehicles	412,203	514,676	640,721
Used vehicles	212,234	202,552	206,030
Parts, service & collision repair	108,164	108,558	110,262
Finance, insurance & other	43,235	43,721	51,845
Gross profit	141,976	150,020	169,124
New vehicles	29,308	38,164	47,705
Used vehicles	19,913	16,885	17,381
Parts, service & collision repair	53,338	55,888	57,480
Finance, insurance & other	39,417	39,083	46,558
Gross profit %	18.3%	17.3%	16.8%
Operating expenses	121,813	130,237	136,846
Operating expenses as % of gross profit	85.8%	86.8%	80.9%
Finance costs - floorplan	4,855	7,536	8,057
Finance costs – long term debt	1.647	1,076	1,136
(Reversal of) Impairment of intangible assets	-	(8,059)	(25,543)
Income taxes	449	4,956	12,509
Net earnings	12,578	14,596	36,784
EBITDA [1]	18,352	16,740	29,131
Cash dividends per share	0.062	0.120	0.310
Basic earnings (loss) per share	0.633	0.734	1.850
Diluted earnings (loss) per share	0.633	0.734	1.850
Operating Data			
Vehicles (new and used) sold	23,083	24,239	27,998
New retail vehicles sold	11,117	12,767	14,499
New fleet vehicles sold	2,233	2,717	4,832
Used retail vehicles sold	9,733	8,755	8,667
Number of service & collision repair orders completed	301,282	309,705	305,298
Absorption rate [2]	89%	86%	88%
# of dealerships	22	23	24
# of same store dealerships [3]	19	21	21
# of service bays at period end	331	339	333
Same store revenue growth [3]	(10.5)%	10.5%	17.3%
Same store gross profit growth [3]	(7.8)%	4.1%	13.9%

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

(In thousands of dollars except Operating Data and gross profit %)	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011
Income Statement Data								
New vehicles	114,520	144,655	141,533	113,967	128,303	196,850	172,688	142,880
Used vehicles	49,034	57,181	50,922	45,414	44,906	52,054	55,351	53,719
Parts, service & collision repair	26,168	27,501	26,540	28,351	26,462	28,256	26,871	28,673
Finance, insurance & other	10,067	12,442	11,060	10,151	11,113	13,577	14,109	13,046
Revenue	199,789	241,779	230,055	197,883	210,784	290,737	269,019	238,318
New vehicles	8,128	11,030	9,983	9,023	9,724	13,974	12,740	11,267
Used vehicles	4,099	4,906	4,221	3,659	3,486	4,302	5,020	4,573
Parts, service & collision repair	13,252	14,612	14,031	13,994	13,277	15,159	14,493	14,551
Finance, insurance & other	9,082	11,107	9,843	9,050	9,947	12,117	12,641	11,853
Gross profit	34,561	41,655	38,078	35,725	36,434	45,552	44,894	42,244
Gross profit %	17.3%	17.2%	16.6%	18.1%	17.3%	15.7%	16.7%	17.7%
Operating expenses	30,740	34,280	33,207	32,010	31,891	35,127	35,742	34,086
Operating exp. as % of gross profit	88.9%	82.3%	87.2%	89.6%	87.5%	77.1%	79.6%	80.7%
Finance costs – floorplan	1,670	2,230	2,042	1,594	1,685	2,311	2,190	1,871
Finance costs – long-term debt	236	230	278	332	283	323	296	234
Reversal of impairment of intangibles	-	-	-	(8,059)	-	-	-	(25,543)
Income taxes	516	1,330	692	2,418	690	2,029	1,646	8,144
Net earnings [4]	1,414	3,624	1,983	7,575	1,995	5,951	5,230	23,608
EBITDA [1, 4]	3,096	6,164	4,011	3,469	4,047	9,321	8,216	7,547
Basic earnings (loss) per share	0.071	0.182	0.100	0.381	0.100	0.299	0.263	1.187
Diluted earnings (loss) per share	0.071	0.182	0.100	0.381	0.100	0.299	0.263	1.187
Operating Data								
Vehicles (new and used) sold	5,676	6,994	6,350	5,219	5,826	8,210	7,649	6,313
New retail vehicles sold	2,787	3,614	3,358	3,008	3,050	4,158	3,907	3,405
New fleet vehicles sold	661	919	831	306	796	1,900	1,340	775
Used retail vehicles sold	2,228	2,461	2,161	1,905	1,980	2,152	2,402	2,133
Number of service & collision repair orders completed	75,311	80,072	77,285	77,037	72,360	80,851	76,176	75,911
Absorption rate [2]	85%	87%	85%	86%	80%	91%	90%	91%
# of dealerships at period end	22	23	23	23	23	22	22	24
# of same store dealerships [3]	19	19	19	21	22	21	21	21
# of service bays at period end	331	339	339	339	339	322	322	333
Same store revenue growth [3]	16.9%	19.4%	6.7%	2.4%	2.7%	19.3%	21.6%	24.8%
Same store gross profit growth [3]	11.1%	7.5%	(4.0)%	2.9%	2.9%	8.2%	22.9%	20.6%
Balance Sheet Data								
Cash and cash equivalents	23,615	31,880	34,329	37,541	39,337	43,837	49,366	53,641
Accounts receivable	40,701	46,787	37,149	32,832	42,260	51,539	44,172	42,448
Inventories	153,847	177,294	137,507	118,088	134,865	149,481	159,732	136,869
Revolving floorplan facilities	160,590	194,388	145,652	124,609	152,075	172,600	175,291	150,816

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, 2011 increased by 74.0% to $29.1 million, from $16.7 million when compared to the results of the Company for the prior year. The increase in EBITDA for the year 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 year ended December 31, for the last three years of operations.

Period from January 1 to December 31th	EBITDA (In thousands of dollars)
2009	18,352
2010	16,740
2011	29,131

Pre-tax earnings before other items (reversal of impairment of intangible assets) increased by $12.3 million to $23.8 million in 2011 from $11.5 million in the prior year. Net earnings before other items (reversal of impairment of intangible assets and its related tax effect) increased by $9.0 million to $17.6 million in 2011 from $8.6 million in the prior year. The percentage increase in results not including other items represents a 107% increase in pre-tax earnings and a 105% increase in net earnings over 2010 annual results.

Not including other items, pre-tax earnings increased by $29.7 million to $49.3 million in 2011 from $19.6 million in 2010. Net earnings increased by $22.2 million to $36.8 million in 2011 from a $14.6 million when compared to the prior year. Income tax expense increased to $12.5 million in 2011 from $5.0 million in 2010 due to higher pre-tax earnings and future income tax expense related to the reversal of impairment of intangible assets.

Revenues

Revenues for the year ended December 31, 2011 increased by $139.4 million or 16.0% as compared to the prior year. This increase was mainly driven by increases in new vehicle sales with modest increases in the finance and insurance and parts, service and collision repair business. In 2011, new vehicle sales increased by $126.0 million or 24.5% to $640.7 million from $514.7 million in the prior year. The increase in new vehicle sales was a key driver of the increase in finance and insurance revenue of $8.1 million or 18.6% for the year ended December 31, 2011. Used vehicle sales also increased by $3.5 million or 1.7% during 2011. Parts, service and collision repair revenue posted a modest increase of $1.7 million or 1.6% for the year ended December 31, 2011.

The tables in the "Same-Store Analysis" sections below summarize the results for the year ended December 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, 2010 are included in this same store analysis. In addition, dealership divestitures are also not included in same store operating results. As a result, the current and historical operating results of Colombo Chrysler Jeep Dodge (divested in the second quarter of 2011) are not included in same store analysis.

Revenues - Same Store Analysis

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

Same Store Revenue and Vehicles Sold

(In thousands of dollars except % change and vehicle data)	For the Year Ended December 31, 2011	December 31, 2010	% Change
Revenue Source			
New vehicles	605,547	479,978	26.2%
Used vehicles	199,254	194,973	2.2%
Finance, insurance and other	49,627	41,605	19.3%
Subtotal	854,428	716,556	19.3%
Parts, service and collision repair	104,630	100,858	3.7%
Total	959,058	817,413	17.3%
New vehicles - retail sold	13,415	11,737	14.3%
New vehicles – fleet sold	4,706	2,572	83.0%
Used vehicles sold	8,284	8,405	(1.4)%
Total	26,405	22,714	16.2%
Total vehicles retailed	21,699	20,142	7.7%

Same store revenue increased by $141.6 million or 17.3% in the year ended December 31, 2011 when compared to 2010. New vehicle revenues increased by $125.6 million or 26.2% for the year ended December 31, 2011 over the prior year due in part to a net increase in new vehicle sales of 3,809 units consisting of an increase of 1,678 retail units and 2,134 low margin fleet unit sales. This increase was partially offset by a decrease in the average selling price per new vehicle retailed (“PNVR”) of $120 over the prior year largely as a result of the higher volume of fleet units which typically sell for less than retail vehicles.

Same store used vehicle revenues increased by $4.3 million or 2.2% for the year ended December 31, 2011 over the prior year. This increase was due to an increase in the average selling price per used vehicle retailed of $856, partially offset by a decrease in the number of used vehicles retailed of 121 units.

Same store parts, service and collision repair revenue experienced a modest gain of $3.8 million or 3.7% for the year ended December 31, 2011 compared to the prior year and was primarily a result of an increase in the average selling price per repair order of $9 and an increase in the number of repair orders performed of 2,866 or 1.0%.

Same store finance, insurance and other revenue increased by $8.0 million or 19.3% for the year ended December 31, 2011 over the prior year. This was due to an increase in the average revenue per unit retailed of 10.7% along with a modest increase in the number of new and used vehicles retailed of 1,557 units. Credit conditions have continued to improve in 2011 which has allowed our finance and insurance departments to earn higher commissions on the increased ability of our customers to finance vehicles, parts, accessories and other insurance products.

Gross profit

Gross profit increased by $19.1 million or 12.7% for the year ended December 31, 2011 when compared to the prior year. Similar to revenues, gross profit increased due to increases in new vehicle sales, finance and insurance and parts, service and collision repair revenue. Gross profit on the sale of new vehicles increased by $9.5 million or 25.0% for the year ended December 31, 2011. The increase in new vehicle gross can be mainly attributed to an increase in new vehicle unit sales of 3,847 units or 24.8%. The Company's finance and insurance gross profit increased by $7.5 million or 19.1% during 2011. This increase can be mainly attributed to an increase in the average gross profit per unit retailed of $194. The increase in overall gross profit of the Company for the year was supplemented by an increase in used vehicle gross profit of $0.5 million or 2.9%. Parts, service and collision repair gross profit increased by $1.6 million or 2.9% in 2011.

Gross Profit - Same Store Analysis

The following table summarizes the results for the year ended December 31, 2011, on a same store basis by revenue source, and compares these results to the same periods in 2010.

Same Store Gross Profit and Gross Profit Percentage

	For the Year Ended					
	Gross Profit			Gross Profit %		
(In thousands of dollars except % change and gross profit %)	**Dec. 31, 2011**	**Dec. 31, 2010**	**% Change**	**Dec. 31, 2011**	**Dec. 31, 2010**	**Change**
Revenue Source						
New vehicles	45,772	36,389	25.8%	7.6%	7.6%	0.0%
Used vehicles	16,897	16,772	0.7%	8.5%	8.6%	(0.1)%
Finance, insurance and other	44,941	37,407	20.1%	90.6%	89.9%	0.6%
Subtotal	107,610	90,568	19.4%			
Parts, service and collision repair	54,609	51,886	5.2%	52.2%	51.4%	0.7%
Total	162,219	142,454	13.9%	16.9%	17.4%	(0.5)%

Same store gross profit increased by $19.8 million or 13.9% for the year ended December 31, 2011 when compared to the prior year. New vehicle gross profit increased by $9.4 million or 25.8% in the year ended December 31, 2011 when compared to 2010 as a result of the previously discussed increase in new vehicle sales of 3,809 units.

Used vehicle gross profit increased by $0.1 million or 0.7% in the year ended December 31, 2011 over the prior year. This was primarily due to a decrease in the number of used vehicles sold of 121 units or 1.4%, more than offset by an increase in the average gross profit per vehicle retailed of $44 or 2.2%.

Parts, service and collision repair gross profit increased by $2.7 million or 5.2% in the year ended December 31, 2011 when compared to the same period in the prior year as a result of an increase of $8 in the average gross profit earned per repair order and an increase of 2,866 in the number of repair orders completed during the year.

Finance and insurance gross profit increased by 20.1% or $7.5 million in the year ended December 31, 2011 when compared to the prior year as a result of an increase in the average gross profit per unit sold of $214 and an increase in units retailed of 1,557.

Operating expenses

Operating expenses increased by 5.1% or $6.6 million during the year ended December 31, 2011 as compared to 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 80.9% in 2011 from 86.8% in 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 year ended December 31, 2011, employee costs increased by $6.4 million to $82.3 million from $75.9 million in the prior year. Employee costs as a percentage of gross profit decreased to 48.7% in 2011from 50.6% in 2010. Management attributes the decrease to lower termination and employee benefit costs realized in the year ended December 31, 2011.

Selling and administrative costs
During the year ended December 31, 2011, selling and administrative costs increased by $1.0 million or 2.6% due to an increase in advertising and other administrative expenses. Selling and administrative expenses as a percentage of gross profit decreased to 22.9% in 2011 from 25.1% in 2010. This decrease is due to less advertising and fixed costs as a percentage of gross profit. The Company has focused over the past year on decreasing its advertising expense through more effective use of the internet. These efforts have resulted in a decrease in advertising expense per vehicle retailed.

Facility lease costs
During the year ended December 31, 2011, facility lease costs decreased by 7.0% to $11.6 million from $12.5 million. The Company sold its Colombo Chrysler Jeep Dodge location in June of 2011 and purchased one of its previously leased facilities in late 2010 which has attributed to this decrease.

Amortization
During the year ended December 31, 2011, amortization remained relatively flat at $4.2 million. The 1.8% increase in amortization over the prior year is mainly due to the purchase of the Newmarket Infiniti Nissan facility in late 2010.

Reversal of impairment of intangible assets

The Company has a number of franchise agreements for its individual dealerships which it classifies as intangible assets. These intangible assets are tested for impairment at least annually as they are considered to be indefinite-lived intangible assets. Under IFRS, previously recognized impairment charges, with the exception of impairment charges related to goodwill, may potentially be reversed if the circumstances causing the impairment have improved or are no longer present. If such circumstances change, a new recoverable amount should be calculated and all or part of the impairment charge should be reversed to the extent the recoverable amount exceeds carrying value. The financial results of many of the Company's cash generating units ("CGUs") have significantly improved in 2011, which led to a reversal of previously recorded impairments to intangible assets. During the year ended December 31, 2011, the Company recorded a reversal of impairment of $25,543 (2010 - $8,059).

Finance costs

The Company incurs finance costs on its revolving floorplan facilities, long term indebtedness and banking arrangements. During the year ended December 31, 2011, finance costs on our revolving floorplan facilities increased to $8.1 million from $7.5 million in 2010. Finance costs on long term indebtedness remained steady at $1.1 million in 2011. Finance costs, net of finance income has remained relatively flat year over year due to the Company holding cash in its Ally account which is used to offset floorplan costs at the current rate of 4.20%.

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

	Q1 2010	**Q2 2010**	**Q3 2010**	**Q4 2010**	**Q1 2011**	**Q2 2011**	**Q3 2011**	**Q4 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 year ended December 31, 2011, the net floorplan credits were $5,501 (2010 - $4,223). The increase in floorplan credits is a result of higher turnover in new vehicle inventory. Accounting standards require the floorplan credits to be accounted for as a reduction in the cost of new vehicle inventory and subsequently a reduction in the cost of sales as vehicles are sold.

The following table summarizes the net floorplan credits that were received in 2011.

(In thousands of dollars)	**Q1 2011**	**Q2 2011**	**Q3 2011**	**Q4 2011**	**For the year ended December 31, 2011**
Net floorplan credits	1,185	1,593	1,423	1,300	5,501

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

	Year ended December 31, 2011	**Year ended December 31, 2010**
Floorplan financing costs	8,057	7,536
Floorplan credits earned	(5,501)	(4,223)
Net carrying cost of vehicle inventory	2,556	3,313

Income taxes

Income tax expense for the year ended December 31, 2011 increased by $7.5 million to $12.5 million from $5.0 million in 2010. As a result of the reversal of impairments of intangible assets, the Company recorded deferred tax expense in the amount of $6.4 million (2010 - $2.1 million) as a result of the revised temporary differences between the tax basis and carrying value of these assets.

Until December 31, 2009, our previous trust structure was such that current income taxes were passed on to our unitholders. In conjunction with our conversion from a trust to a corporation, we became subject to normal corporate tax rates starting in 2010. The corporate income tax rate applicable to 2010 was approximately 29.0%; however, we did not pay any corporate income tax in 2010 due to the tax deductions available to us and the effect of the deferral of our partnership income.

In December 2011, legislation was passed implementing tax measures outlined in the 2011 budget (Bill C-13), which included the elimination of the ability of a corporation to defer income as a result of timing differences in the year-end of the corporation and of any partnership of which it is a member, subject to transitional relief over five years. AutoCanada's deferred tax liability includes deferred partnership income of $6.7 million that will be reduced over the transition relief period of five years. Although the amounts below can change based on our future taxable income, the Company estimates the following amounts to be recorded as current income tax payable over the next five years in conjunction with the payment of the deferral. The Company notes that these amounts paid will be in addition to the normal current income tax payable of future years:

(In thousands of dollars)	**2012**	**2013**	**2014**	**2015**	**2016**
Increase to current tax payable	3,555	557	794	784	980

The Company expects income tax to have a more significant effect on our free cash flow and adjusted free cash flow as the Company will now be required to pay current income taxes, as well as, income tax instalments for the anticipated current tax expense for the fiscal year.

Until 2012, the Company has yet to pay any corporate tax or installments for corporate tax. In 2012, the Company expects to pay approximately $4.2 million of cash taxes which relates to the fiscal 2011 taxation year and installments toward the 2012 taxation year. The payment of cash taxes will have an impact on adjusted free cash flow. As seen in the chart located in "Adjusted Free

Cash Flow", adjusted free cash flow for the 2011 fiscal year was $27.7 million, which was not impacted by cash taxes. If the Company maintained the same results in the 2012 fiscal year, adjusted free cash flow would be $23.5 million due to the payment of $4.2 million of cash taxes in 2012. Investors are cautioned that income taxes will have a more significant effect on the Company's cash flow in the future, and as a result, the current level of adjusted free cash flow will inherently be lowered by cash taxes in the future.

Fourth Quarter Operating Results

EBITDA for the three month period ended December 31, 2011 increased by 117.6% to $7.5 million, from $3.5 million when compared to the results of the Company for the same period in the prior year. The increase in EBITDA for the fourth quarter can be attributed to the improvement in new vehicle sales and the resulting finance and insurance product sales. As explained below, the Company's parts, service and collision repair department and its used vehicle department also had strong gains in revenue and gross profit which contributed to strong EBITDA in the fourth quarter of 2011.

The following table illustrates EBITDA for the three month period ended December 31, for the last 3 years of operations:

Period from October 1st to December 31th	**EBITDA (In thousands of dollars)**
2009	3,271
2010	3,469
2011	7,547

Pre-tax earnings before other items (reversal of impairment of intangible assets) increased by $4.3 million to $6.2 million in the fourth quarter of 2011 from $1.9 million in the same period of the prior year. Net earnings before other items (reversal of impairment of intangible assets and its related tax effect) increased by $3.0 million to $4.5 million in the fourth quarter of 2011 from $1.5 million in the prior year.

Not including other items, pre-tax earnings increased by $21.8 million to $31.8 million for the three month period ended December 31, 2011 from $10.0 million in the same period of 2010. Net earnings increased by $16.0 million to $23.6 million from $7.6 million when compared to the same period of the prior year. Income tax expense increased to $8.1 million in the fourth quarter of 2011 from $2.4 million in the same period of 2010 due to higher pre-tax earnings and future income tax expense related to the reversal of impairment of intangible assets.

Revenues

Revenues for the three month period ended December 31, 2011 increased by $40.4 million or 20.4% as compared to the same period of the prior year. This increase was mainly driven by increases in new and used vehicle sales with modest increases in the finance and insurance and parts, service and collision repair business. In the fourth quarter of 2011, new vehicle sales increased by $28.9 million or 25.4% to $142.9 million from $114.0 million in the prior period. Used vehicle sales also increased by $8.3 million or 18.3% in the fourth quarter of 2011 as compared to 2010. The increase in new and used vehicle sales contributed to the increase in finance and insurance revenue of $2.9 million or 28.5% for the three month period ended December 31, 2011. Parts, service and collision repair revenue remained relatively flat quarter over quarter.

Revenue - Same Store Analysis

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

Same Store Revenue and Vehicles Sold

	For the Three-Month Period Ended		
(In thousands of dollars except % change and vehicle data)	**December 31, 2011**	**December 31, 2010**	**% Change**
Revenue Source			
New vehicles	136,761	103,981	31.5%
Used vehicles	52,121	43,499	19.8%
Finance, insurance and other	12,575	9,518	32.1%
Subtotal	201,457	156,998	28.3%
Parts, service and collision repair	27,452	26,368	4.1%
Total	228,909	183,366	25.0%
New vehicles - retail sold	3,226	2,687	20.1%
New vehicles – fleet sold	775	279	177.8%
Used vehicles sold	2,056	1,798	14.3%
Total	6,057	4,764	27.1%
Total vehicles retailed	5,282	4,485	17.8%

Same store revenue increased by $45.5 million or 24.8% in the three month period ended December 31, 2011 when compared to the same period in 2010. New vehicle revenues increased by $32.8 million or 31.5% for the fourth quarter of 2011 over the prior period due in part to a net increase in new vehicle sales of 1,005 units consisting of an increase of 539 retail units and 496 low margin fleet unit sales. This increase was partially offset by a decrease in the average selling price per new vehicle retailed (“PNVR”) of $524 over the prior year largely as a result of the higher volume of fleet units which typically sell for less than retail vehicles.

Same store used vehicle revenues increased by $8.6 million or 19.8% for the three month period ended December 31, 2011 over the same period in the prior year. This increase was due to an additional 258 units sold in the quarter over 2010 and an increase in the average selling price per used vehicle retailed of $1,158.

Same store parts, service and collision repair revenue experienced a modest gain of $1.1 million or 4.2% for the fourth quarter of 2011 compared to the prior period and was primarily a result of an increase in the number of repair orders performed of 2,932 or 4.2%.

Same store finance, insurance and other revenue increased by $3.1 million or 32.1% for the three month period ended December 31, 2011 over the prior period. This was due to an increase in the average revenue per unit retailed of 12.2% along with an increase in the number of new and used vehicles retailed of 797 units. The increases we experienced in both new and used retail sales reflected positively in our finance and insurance revenue for the quarter.

Gross profit

Gross profit increased by $6.5 million or 18.2% for the three month period ended December 31, 2011 when compared to the same period in the prior year. Similar to revenues, gross profit increased due to increases in all four of our major revenue streams. Gross profit earned on the sale of new vehicles increased by $2.2 million or 24.9% for the fourth quarter of 2011. The increase in new vehicle gross can be mainly attributed to an increase in new vehicle unit sales of 866 units or 26.1%. The Company's finance and insurance gross profit increased by $2.8 million or 31.0% during the fourth quarter of 2011. This increase can be mainly attributed to an increase in the average gross profit per unit retailed of $298 and increases in new and used vehicle sales. The increase in overall gross profit of the Company for the quarter was supplemented by an increase in used vehicle gross profit of $0.9 million or 25.0%. Parts, service and collision repair gross profit increased by $0.6 million or 4.0% in the fourth quarter of 2011.

Gross Profit - Same Store Analysis

The following table summarizes the results for the three-month period ended December 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 %) **Revenue Source**	**Dec. 31, 2011**	**Dec. 31, 2010**	**% Change**	**Dec. 31, 2011**	**Dec. 31, 2010**	**Change**
New vehicles	10,835	8,554	26.7%	7.9%	8.2%	(0.3)%
Used vehicles	4,398	3,620	21.5%	8.4%	8.3%	0.1%
Finance, insurance and other	11,507	8,558	34.5%	91.5%	89.9%	1.6%
Subtotal	26,740	20,732	29.0%			
Parts, service and collision repair	13,923	12,981	7.3%	50.7%	49.2%	1.5%
Total	40,663	33,713	20.6%	17.8%	18.4%	(0.6)%

Same store gross profit increased by $7.0 million or 20.6% for the three month period ended December 31, 2011 when compared to the same period in the prior year. The Company's gross profit on new vehicles increased by $2.3 million or 26.7% in the fourth quarter of 2011, when compared to 2010, as a result of an increase in new vehicle sales of 1,005 units.

Used vehicle gross profit increased by $0.8 million or 21.5% in the fourth quarter of 2011 over the prior period. This was primarily due to an increase in the number of used vehicles sold of 258 units or 14.3% and an increase in the average gross profit per vehicle retailed of $126 or 6.3%.

Parts, service and collision repair gross profit increased by $0.9 million or 7.3% in the three months ended December 31, 2011 when compared to the same period in the prior year as a result of an increase of $6 in the average gross profit earned per repair order and an increase of 2,932 in repair orders completed during the quarter.

Finance and insurance gross profit increased by 34.5% or $2.9 million in the three month period ended December 31, 2011 when compared to the prior period as a result of an increase in the average gross profit per unit sold of $271 and an increase in new and used vehicle units retailed of 797.

Operating expenses

Operating expenses increased by 6.5% or $2.1 million during the three month period ended December 31, 2011 as compared to the prior period. 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 80.7% in the fourth quarter of 2011 from 89.6% in 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 December 31, 2011, employee costs increased by $2.0 million to $20.3 million from $18.3 million in the prior year. Employee costs as a percentage of gross profit decreased to 48.1% from 51.3% in the fourth quarter of 2010. Although commissioned wages generally increase as a percentage of gross profit, salaried wages do not increase with sales which will generally decrease employee costs as a percentage of gross profit during times of increased sales, as was the case in the fourth quarter of 2011.

Selling and administrative costs

During the three month period ended December 31, 2011, selling and administrative costs increased by $0.3 million or 3.0% due to an increase in advertising and other administrative expenses. Selling and administrative expenses as a percentage of gross profit decreased to 23.1% in the fourth quarter of 2011 from 26.5% in 2010. This decrease is due to less advertising and fixed costs as a percentage of gross profit.

Facility lease costs

During the three month period ended December 31, 2011, facility lease costs decreased by 3.2% to $3.0 million from $3.1 million in the fourth quarter of 2010.

Amortization

During the three month period ended December 31, 2011, amortization decreased slightly by $0.1 million.

Finance costs

The Company incurs finance costs on its revolving floorplan facilities, long term indebtedness and banking arrangements. During the three month period ended December 31, 2011, finance costs on our revolving floorplan facilities increased to $1.9 million from $1.6 million in 2010. Finance costs on long term indebtedness decreased by $0.1 million in the fourth quarter of 2011. Finance costs, net of finance income has remained relatively flat quarter over quarter due to the Company holding cash in its Ally account which is used to offset floorplan costs at the current rate of 4.20%.

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.

GROWTH, ACQUISITIONS, AND RELOCATIONS

The Company currently owns 24 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 eleven additional dealerships and has sold one of its dealerships.

On June 20, 2011, the Company sold its Colombo Chrysler Jeep Dodge dealership. Although the Company is pleased with the performance of its Chrysler Jeep Dodge Ram dealerships generally, profitability at Colombo had been a challenge for the Company. As the current facility lease was due to expire within 12 months, a relocation with its attendant costs was likely, and as it was expected that the incremental impact of this sale on the Company's net income would be positive for 2011, it was determined that shareholder value would be best served by the sale of the dealership, allowing Management to better focus its efforts and resources on its other dealerships.

On November 4, 2011, the Company purchased substantially all of the net operating and fixed assets of Valley Autohouse (1984) Ltd. operating two dealerships as Valley Autohouse ("Abbotsford and Chilliwack Volkswagen") for total cash consideration of $1,753. The acquisition was financed with cash from operations. The Abbotsford facility is an approximately 9,300 sq. ft. leased facility which includes eight service bays and a six car showroom. The dealership has been in operation since 1986 and in 2010 retailed approximately 210 new and 190 used vehicles. The Chilliwack facility is an approximately 4,500 sq. ft. leased facility which includes 3 service bays and a single car showroom. The dealership has been in operation since 2002 and in 2010 retailed approximately 30 new and 40 used vehicles.

With respect to FIAT franchises, the Company has substantially completed the facility improvements at the three locations that were awarded FIAT franchises. For the year ended December 31, 2011, the Company incurred $0.6 million in renovations to its showrooms to accommodate FIAT franchises. Management does not expect a significant incremental increase in earnings as a result of the three new franchises (Crosstown FIAT, Capital FIAT and Maple Ridge FIAT) during the first two years due to limited product availability and costs associated with operating the additional franchises.

Management is currently developing a capital plan which includes the possible relocation of four of its dealerships. Management estimates the potential capital requirement of the relocations to be in the range of $20 – 25 million over a two to three year period. Management expects to finance the relocations with a combination of mortgage debt, revolver debt and cash from operations. Management expects the non-mortgage debt financing requirement related to these relocations to be in the range of $6 – 8 million over the same period. Management will provide further guidance as to the timing and costs associated with relocations as the plans develop. Relocation of dealerships provides long-term earnings sustainability and is necessary to meet Manufacturer facility requirements.

On June 22, 2011, the Company had announced that in view of the continued resistance of some manufacturers to the public ownership model, shareholder value could be best achieved by aligning its business model with a strategy that contemplated modest growth, with an emphasis on returning to shareholders a fair share of earnings by way of dividends. Since that time, Management has continued to seek opportunities to work with both new and current Manufacturers, and is currently pursuing a number of growth opportunities, some of which are open points. Management will consider only those open points which it determines provide long term shareholder value. If Management is successful in respect to one or more of these opportunities, the likelihood of which cannot at this juncture be determined, the growth opportunities of the Company will have improved beyond what the Company had previously determined.

LIQUIDITY AND CAPITAL RESOURCES

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

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

Cash Flow from Operating Activities

Cash flow from operating activities (including changes in non-cash working capital) of the Company for the year ended December 31, 2011 was $30.0 million (cash provided by operating activities of $28.8 million plus net change in non-cash working capital of $1.2 million) compared to $34.3 million (cash provided by operating activities of $16.2 million plus net change in non-cash working capital of $18.2 million) in the prior year.

Cash flow from operating activities of the Company for the three month period ended December 31, 2011 was $9.7 million (cash provided by operating activities of $7.8 million plus net change in non-cash working capital of $1.9 million) compared to $7.8 million (cash provided by operating activities of $3.3 million plus net change in non-cash working capital of $4.5 million) in the fourth quarter of 2010.

Cash Flow from Investing Activities

Cash flow from investing activities of the Company for the year ended December 31, 2011 was a net outflow of $5.3 million compared to $18.1 million in the prior year. In 2010, the Company purchased the land and building at its Newmarket Nissan Infiniti location for $6.0 million and purchased the assets of 401 Dixie Hyundai in the second quarter of 2010 for $3.6 million. These two factors were main contributors to the decrease in cash flow from investing activities in 2011.

For the three month period ended December 31, 2011, cash flow from investing activities of the Company was a net outflow of $2.9 million as compared to a net outflow of $4.7 million in the same period of the prior year. In the fourth quarter of 2010 the Company prepaid an additional $2.0 million in rent which is the main contributor to the decrease in 2011.

Cash Flow from Financing Activities

Cash flow from financing activities of the Company for the year ended December 31, 2011 was a net outflow of $8.6 million compared to $0.2 million in the prior year. In third quarter of 2010, the Company financed the purchase of the land and building at its Newmarket Nissan Infiniti location and made a draw on its revolving term facility for the purchase of 401 Dixie Hyundai for total proceeds of $5.5 million. In 2011, the Company repaid $2.4 million of its long term debt and increased its dividends paid during the year by $3.8 million when compared to the same period in the prior year.

For the three month period ended December 31, 2011, cash flow from financing activities was a net outflow of $2.5 million as compared to a net inflow of $0.1 million in the same period of 2010. In the fourth quarter of 2011, the Company paid $2.4 million in dividends which is the main contributor to this decrease in cash flow.

Economic Dependence

As stated in Note 7 of the annual audited consolidated financial statements, the Company has significant commercial and economic dependence on Chrysler Canada and Ally Credit Canada Limited ("Ally Credit"). As a result, the Company is subject to significant risk in the event of the financial distress of Chrysler Canada, one of our major vehicle manufacturers and parts suppliers, and Ally Credit, which provides the Company with revolving floorplan facilities for 22 of its 24 dealerships. Details of these relationships and balances of assets with Chrysler Canada and Ally Credit are described in Note 7 of the annual consolidated financial statements for the year ended December 31, 2011.

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 0.75% (currently 3.75% 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 priority agreements signed by HSBC, Ally Credit, VW Credit Canada Inc. and the Company, the collateral for the HSBC Revolver excludes all new, used, and demonstrator inventory financed with the Revolving Floorplan Facilities (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 including a copy of the agreement 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, 2012, 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, 2013. The HSBC Term Loan bears interest at HSBC's Prime Rate plus 1.75% (4.75% at December 31, 2011).

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 twenty-two 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, 2011) 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, 2011) or 4.00%.

The Ally Facilities are collateralized by the respective 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 twenty-two dealerships provided with the Ally Facilities. 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.

In conjunction with the purchase of Abbotsford and Chilliwack Volkswagen in the fourth quarter of 2011, the Company arranged revolving floorplan facilities with VW Credit Canada Inc. ("VCCI Facilities") for these two dealerships. The VCCI Facilities consist of a $5.25 million revolving floorplan facility to finance new and demonstrator vehicles from Volkswagen Canada ("VW Canada"). The new and demonstrator vehicle facilities are due on demand and bear interest at Royal Bank of Canada prime rate plus 0.75% per annum (3.75% at December 31, 2011) and is payable monthly in arrears. The VCCI Facilities also provide the two dealerships with used vehicle floorplan financing to a maximum of $2.05 million during peak selling season. The used vehicle facilities are due on demand and bear interest between Royal Bank of Canada prime plus 1.00% - 1.25% depending on the type of used vehicles financed (4.00% - 4.25% at December 31, 2011).

The VCCI Facilities are collateralized by the all new, used and demonstrator inventory financed by VCCI and a general security agreement with each of the two dealerships. The individual notes payable of the VCCI Facilities are due when the related vehicle is sold or according to an aging based repayment policy as mandated by VCCI.

The VCCI Facilities require maintenance of financial covenants which require both dealerships to maintain minimum cash and equity balances. At December 31, 2011 the financial covenants had been met.

Our ability to finance our new, used and demonstrator inventory is a significant factor in the Company's liquidity management. The Company is generally able to increase or decrease the number of vehicles it finances, subject to limits imposed by floorplan lenders, as part of its treasury management function. If floorplan limits are reduced, the Company may not be able to maintain its current level of inventories which may impact our results.

Financial Instruments

Details of the Company's financial instruments, including risks and uncertainties are included in Note 21 of the annual consolidated financial statements for the year ended December 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)	October 1, 2011 to December 31, 2011	January 1, 2011 to December 31, 2011
	$	
Leasehold improvements	32	143
Machinery and equipment	116	265
Furniture and fixtures	67	198
Computer equipment	193	413
Company & lease vehicles	-	52
	408	1,071

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 year ended December 31, 2011 growth capital expenditures of $1.9 million were incurred. These expenditures related primarily to leasehold improvements and purchases of equipment for our Crosstown body shop relocation and the renovation of three dealerships to accommodate newly appointed FIAT franchises. Dealership relocations are included as growth expenditures if they contribute to the expansion of sales and service capacity of the dealership.

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

(In thousands of dollars)	October 1, 2011 to December 31, 2011	January 1, 2011 to December 31, 2011
	$	$
Purchase of property and equipment from the Statement of Cash Flows	718	2,954
Less: Amounts related to the expansion of sales and service capacity	(310)	(1,883)
Purchase of non-growth property and equipment	408	1,071

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, 2011, were $0.5 million and $2.1 million, respectively (2010 - $0.5 million and $2.0 million).

Planned Capital Expenditures

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

Management is also considering the purchase of real estate for some of the properties in which it currently leases. Based on current lease rates, our estimates of appraisal values and current market financing rates, Management believes that the purchase of certain properties may provide value and will continue to evaluate this option if opportunities arise in which a property is available to purchase. If a significant real estate purchase is undertaken, the Company may seek additional debt and/or equity financing to fund the purchase.

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

Contractual Obligations

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 and other third parties.

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

	$
2012	10,109
2013	8,611
2014	8,307
2015	7,984
2016	6,881
Thereafter	56,481
Total	98,373

Information regarding our contractual obligations with respect to long-term debt, capital lease obligations and other long-term obligations is included in the *Liquidity Risk* section of *Note 21 – Financial Instruments* of the Company's annual consolidated financial statements.

Financial Position

The following table shows selected audited balances of the Company (in thousands) for December 31, 2011 and December 31, 2010 as well as unaudited balances of the Company at September 30, 2011, June 30, 2011, March 31, 2011, September 30, 2010, June 30, 2010 and March 31, 2010.

Balance Sheet Data	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
Cash and cash equivalents	53,641	49,366	43,837	39,337	37,541	34,329	31,880	23,615
Accounts receivable	42,448	44,172	51,539	42,260	32,832	37,149	46,787	40,701
Inventories	136,869	159,732	149,481	134,865	118,088	137,326	177,294	153,847
Total assets	334,223	327,568	318,956	291,291	261,435	271,635	314,662	274,657
Revolving floorplan facilities	150,816	175,291	172,600	152,075	124,609	145,652	194,388	160,590
Non-current debt and lease obligations	20,115	20,210	24,895	24,989	25,094	24,200	18,942	19,010

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, 2011, the aggregate of net working capital requirements was approximately $31.4 million. At December 31, 2011, all working capital requirements had been met by each dealership. The working capital requirements imposed by the automobile manufacturers' may limit our ability to fund capital expenditures, acquisitions, dividends, or other commitments in the future if sufficient funds are not generated by the Company. Net working capital, as defined by automobile manufacturers, may not reflect net working capital as determined using GAAP measures. As a result, it is possible that the Company may meet automobile manufacturers' net working capital requirements without having sufficient aggregate working capital using GAAP measures. The Company defines net working capital amounts as current assets less current liabilities as presented in the annual consolidated financial statements. At December 31, 2011, the Company had aggregate working capital of approximately $45.0 million.

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

Off Balance Sheet Arrangements

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

Related Party Transactions

Note 30 of the annual 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 review 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)

		Total	
Record date	**Payment date**	**Declared**	**Paid**
		$	**$**
February 28, 2011	March 15, 2011	795	795
May 31, 2011	June 15, 2011	995	995
August 31, 2011	September 15, 2011	1,988	1,988
November 30, 2011	December 15, 2011	2,385	2,385

On February 15, 2012, the Board declared a quarterly eligible dividend of $0.14 per common share on AutoCanada's outstanding Class A common shares, payable on March 15, 2012 to shareholders of record at the close of business on February 29, 2012. The quarterly eligible dividend of $0.14 represents an annual dividend rate of $0.56 per share or a 17% increase in the dividend from the prior quarter. The next scheduled dividend review will be in May of 2012.

AutoCanada's dividend policy is to target quarterly dividends between 70% and 80% of fully diluted earnings per share. This dividend policy shall be reviewed on a quarterly basis and adjusted, as required, to address changing market 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, our future capital requirements, and the Company's growth prospects. The impact of items such as asset impairments, the future income tax effect of impairments and other unusual items are typically removed from the calculation of diluted earnings per share used in calculating the target dividend level of 70% - 80% of fully diluted earnings per share. The current dividend level set by Management and the Board of Directors is 63% of fully diluted earnings per share, normalized for factors noted above.

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. At this time, the Company is well within its covenants, as such, Management does not believe that a restriction from declaring dividends is likely in the foreseeable future.

Free Cash Flow

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

(In thousands of $ except unit and per unit amounts)	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011
Cash provided by operating activities	7,169	14,382	4,983	7,810	4,166	5,292	10,851	9,718
Deduct:								
Purchase of property and equipment	(541)	(1,156)	(572)	(2,130)	(930)	(612)	(694)	(718)
Free Cash Flow [1]	6,628	13,226	4,411	5,680	3,236	4,680	10,157	9,000
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	0.333	0.665	0.222	0.286	0.163	0.235	0.511	0.453
Free cash flow – 12 month trailing	17,968	30,758	25,970	29,945	26,553	18,007	23,753	27,073

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

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

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

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

(In thousands of dollars)	January 1, 2011 to December 31, 2011 $	January 1, 2010 to December 31, 2010 $
Accounts receivable	(9,808)	2,510
Inventories	(25,933)	(9,499)
Prepaid expenses	33	529
Accounts payable and accrued liabilities	5,165	1,656
Leased vehicle repurchase obligations	340	742
Revolving floorplan facility	31,441	22,239
	1,238	18,177

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.

(In thousands of $ except unit and per unit amounts)	Q1 2010 IFRS	Q2 2010 IFRS	Q3 2010 IFRS	Q4 2010 IFRS	Q1 2011 IFRS	Q2 2011 IFRS	Q3 2011 IFRS	Q4 2011 IFRS
Cash provided by operating activities before changes in non-cash working capital	2,971	6,047	3,836	3,313	3,882	9,076	8,032	7,799
Deduct:								
Purchase of non-growth property and equipment	(409)	(819)	(365)	(565)	(232)	(188)	(244)	(407)
Adjusted Free Cash Flow[1]	2,562	5,228	3,471	2,748	3,650	8,888	7,788	7,392
Weighted average shares outstanding at end of period	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930	19,880,930
Adjusted Free Cash Flow / Share	0.129	0.263	0.175	0.138	0.184	0.447	0.392	0.372
Adjusted Free Cash flow – 12 Month Trailing	17,073	16,710	14,267	14,009	15,097	18,757	23,074	27,718

[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.

The Company expects the payment of corporate income taxes to have a more significant negative affect on free cash flow and adjusted free cash flow. See "RESULTS FROM OPERATIONS – Annual Operating Results – *Income Taxes*" for further detail regarding the impact of corporate income taxes on cash flow.

Adjusted Return on Capital Employed

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

(In thousands of $ except share and per share amounts)	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011
EBITDA[1]	3,096	6,164	4,011	3,469	4,047	9,321	8,216	7,547
Add (deduct):								
Amortization	(931)	(961)	(1,058)	(1,207)	(1,079)	(1,018)	(1,044)	(1,104)
EBIT[1]	2,165	5,203	2,953	2,262	2,967	8,303	7,172	6,443
Average long-term debt	21,314	19,244	21,924	25,461	26,201	26,071	25,201	24,282
Average shareholders' equity	70,872	72,991	75,000	78,985	82,973	86,056	89,156	102,383
Average capital employed[1]	92,185	92,235	96,924	104,445	109,174	111,127	114,357	126,665
Return on capital employed[1]	2.3%	5.6%	3.0%	2.2%	2.7%	7.5%	6.3%	5.1%
Comparative adjustment[2]	9,301	9,301	9,301	3,579	3,579	3,579	3,579	(15,376)
Adjusted average capital employed[2]	101,486	101,536	106,225	110,885	112,753	114,706	117,936	120,766
Adjusted return on capital employed[2]	2.1%	5.1%	2.8%	2.0%	2.6%	7.2%	6.1%	5.3%
Adjusted return on capital employed - 12 month trailing				11.7%				21.3%

[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 3 of the annual consolidated financial statements for the year ended December 31, 2011.

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are not yet effective for the financial year ended December 31, 2011. The standards impacted that are applicable to the Company are as follows:

- IFRS 9, *Financial Instruments* - The new standard will ultimately replace IAS 39, *Financial Instruments: Recognition and Measurement*. 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. This standard becomes effective on January 1, 2013.
- IFRS 10, *Consolidated Financial Statements*, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, *Consolidation—Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*.
- IFRS 13, *Fair Value Measurement*, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.
- IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.
- IFRS 7, *Financial Instruments: Disclosures*, has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual periods beginning on or after July 1, 2011, with earlier application permitted.
- IAS 12, *Income Taxes*, was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendment, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale when considering the expected manner or recovery or settlement. SIC 21, In*come Taxes - Recovery of Revalued Non-Depreciable Assets*, will no longer apply to investment properties carried at fair value. The amendment also incorporates into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.

The Company is currently assessing the impact of new standards affecting its 2012 fiscal year. The Company has yet to assess the impact of the new standards on its results of operations, financial position and disclosures for the 2013 fiscal year.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER 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, 2011, 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, 2011, 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, 2011.

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, 2011.

OUTLOOK

The outlook regarding vehicle sales in Canada is difficult to predict. New light vehicle unit sales in Canada are expected to increase by 1.1 percent in 2012 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	2011	2012f
Canada	**1,446**	**1,637**	**1,461**	**1,557**	**1,589**	**1,605**
Atlantic	**102**	**119**	**115**	**122**	**119**	**120**
Central	**936**	**1,002**	**927**	**990**	**997**	**1,002**
Quebec	366	411	392	414	408	409
Ontario	570	591	535	576	589	593
West	**408**	**516**	**419**	**445**	**473**	**483**
Manitoba	42	45	43	44	47	48
Saskatchewan	36	43	44	46	50	51
Alberta	166	239	182	200	218	224
British Columbia	164	189	150	155	158	160

* Includes cars and light trucks

Source: Scotia Economics - Global Auto Report, February 27, 2012

AutoCanada continued to benefit from the general improvement in the economy in Canada in 2011. 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). Canadian new vehicle sales over the first two months of 2012 continue to be strong and sales in January and February are estimated to be running at an annualized rate of 1.70 million. 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. With respect to macroeconomic factors, Management does not expect inflationary or vehicle pricing concerns to have a significant impact on our business. We do believe that higher gasoline prices may impact our sales of light trucks which may have a significant impact on our operations if sales volumes of light trucks decrease. Both unemployment rates and consumer confidence indexes are macroeconomic factors that we believe are good indicators of the health of the retail automotive industry in Canada and we have seen improvement in these two factors over the past two years. Due to the unpredictability of the economy, 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, 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 2011 Annual Information Form dated March 22, 2012 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:

- the future level of performance based incentives and its effect on our profitability;
- the impact of investments in technology on customer satisfaction, sales and profitability;
- whether permitting senior management to privately purchase dealerships will better ensure the retention of such employees and allow for cost savings synergies;
- our expectation that if the business landscape changes and new brands consider the acceptance of the public ownership model, that Management and the Board may revise the dividend policy to better align the Company's capital structure to fund future growth expectations;
- guidance with respect to future acquisition and open point opportunities;
- our assessment of the addition of FIAT franchises and its effect on earnings;
- our belief that relocation of certain dealerships may provide incremental long-term earnings growth and better align some of our dealerships with the growth expectations of our manufacturer partners;

- management's assessment of our dividend policy and its effect on liquidity;
- our expectation to incur annual non-growth capital expenditures;
- the impact of dealership real estate relocations and purchases and its impact on liquidity, financial performance and the Company's capital requirements;
- the impact of working capital requirements and its impact on future liquidity;
- Our assumptions regarding financial covenants and our ability to meet covenants in the future;
- 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;
- expectations and estimates regarding income taxes and their effect on cash flow and dividends;
- assumptions over non-GAAP measures and their impact on the Company;
- management's assumptions and expectations over the future economic and general outlook.

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

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

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

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

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

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

NON-GAAP MEASURES

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

EBITDA

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

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

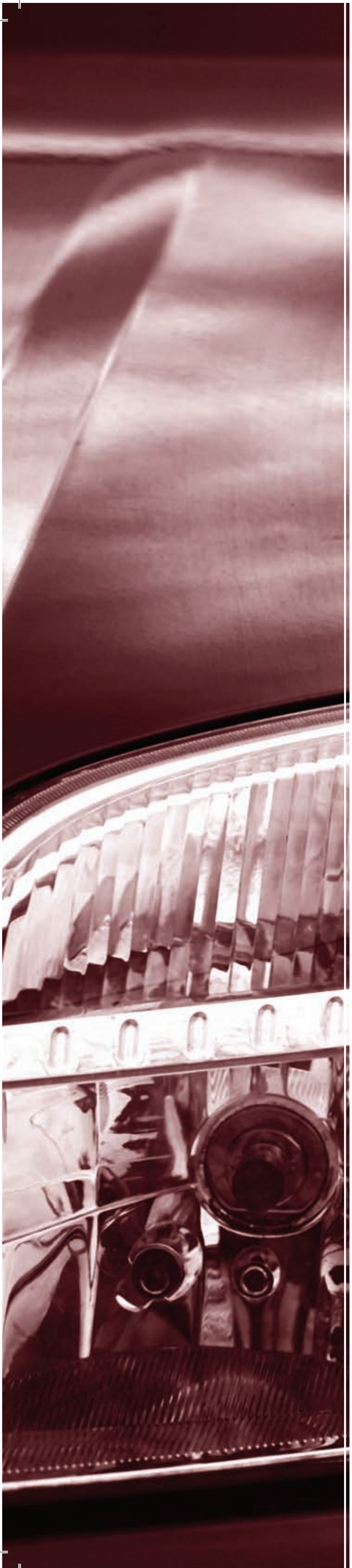
Return on capital employed is a measure used by management to evaluate the profitability of our invested capital. As a corporation, management of AutoCanada may use this measure to compare potential acquisitions and other capital investments against our internally computed cost of capital to determine 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.



CONSOLIDATED FINANCIAL STATEMENTS

AutoCanada Inc.

Consolidated Financial Statements

December 31, 2011

pwc

March 22, 2012

Independent Auditor's Report

To the Shareholders of
AutoCanada Inc.

We have audited the accompanying consolidated financial statements of AutoCanada Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010, and January 1, 2010, and the consolidated statements of comprehensive income, statement of changes in equity, and statements of cash flow for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP, Chartered Accountants
TD Tower, 10088 102 Avenue NW, Suite 1501, Edmonton, Alberta, Canada T5J 3N5
T: +1 780 441 6700, F: +1 780 441 6776

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AutoCanada Inc. and its subsidiaries as at December 31, 2011, December 31, 2010 and January 1, 2010 and their financial performance and their cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

AutoCanada Inc.

Consolidated Statements of Comprehensive Income
For the Years Ended
(in thousands of Canadian dollars except for share and per share amounts)

	December 31, 2011 $	December 31, 2010 $
Revenue (Note 8)	1,008,858	869,507
Cost of sales (Note 9)	(839,734)	(719,487)
Gross profit	169,124	150,020
Operating expenses (Note 10)	(136,846)	(130,237)
Operating profit before other income	32,278	19,783
Gain (loss) on disposal of assets	(41)	6
Reversal of impairment of assets (Note 20)	25,543	8,059
Operating profit	57,780	27,848
Finance costs (Note 12)	(9,848)	(9,217)
Finance income (Note 12)	1,361	921
Net comprehensive income for the year before taxation	49,293	19,552
Income tax (Note 13)	12,509	4,956
Net comprehensive income for the year	36,784	14,596
Earnings per share		
Basic	1.850	0.734
Diluted	1.850	0.734
Weighted average shares		
Basic	19,880,930	19,880,930
Diluted	19,880,930	19,880,930

The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of the Company:

(Signed) "Gordon R. Barefoot", Director

(Signed) "Robin Salmon", Director

AutoCanada Inc.

Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
ASSETS			
Current assets			
Cash and cash equivalents (Note 16)	53,641	37,541	21,528
Trade and other receivables (Note 17)	42,448	32,832	35,323
Inventories (Note 18)	136,869	118,088	108,324
Other current assets	1,120	1,148	1,646
	234,078	189,609	166,821
Property and equipment (Note 19)	25,975	25,590	17,600
Intangible assets (Note 20)	66,181	40,018	30,600
Goodwill	380	309	-
Other long-term assets (Note 22)	7,609	5,909	2,198
Deferred tax	-	-	3,492
	334,223	261,435	220,711
LIABILITIES			
Current liabilities			
Trade and other payables (Note 23)	32,132	26,622	24,831
Revolving floorplan facilities (Note 24)	150,816	124,609	102,370
Current tax payable (Note 13)	2,046	-	-
Current lease obligations (Note 25)	1,204	907	175
Current indebtedness (Note 24)	2,859	277	96
	189,057	152,415	127,472
Long-term lease obligations (Note 25)	-	120	289
Long-term indebtedness (Note 24)	20,115	24,974	22,785
Deferred tax (Note 13)	12,056	1,552	-
	221,228	179,061	150,546
EQUITY			
Share capital (Note 28)	190,435	190,435	190,435
Contributed surplus	3,918	3,918	3,918
Accumulated deficit	(81,358)	(111,979)	(124,188)
	112,995	82,374	70,165
	334,223	261,435	220,711

The accompanying notes are an integral part of these consolidated financial statements.

AutoCanada Inc.

Consolidated Statements of Changes in Equity
For the Years Ended
(in thousands of Canadian dollars)

	Share capital	Contributed surplus	Total capital	Accumulated deficit	Equity
	$	$	$	$	$
Balance, January 1, 2011	190,435	3,918	194,353	(111,979)	82,374
Net comprehensive income	-	-	-	36,784	36,784
Dividends declared on common shares	-	-	-	(6,163)	(6,163)
Balance, December 31, 2011	190,435	3,918	194,353	(81,358)	112,995

	Share capital	Contributed surplus	Total capital	Accumulated deficit	Equity
	$	$	$	$	$
Balance, January 1, 2010	190,435	3,918	194,353	(124,188)	70,165
Net comprehensive income	-	-	-	14,596	14,596
Dividends declared on common shares	-	-	-	(2,387)	(2,387)
Balance, December 31, 2010	190,435	3,918	194,353	(111,979)	82,374

The accompanying notes are an integral part of these consolidated financial statements.

AutoCanada Inc.

Consolidated Statements of Cash Flows
For the Years Ended
(in thousands of Canadian dollars)

	December 31, 2011 $	December 31, 2010 $
Cash provided by (used in)		
Operating activities		
Net comprehensive income	36,784	14,596
Income taxes (Note 13)	12,509	4,956
Shared-based payments	302	57
Amortization of property and equipment (Note 10)	4,245	4,171
Amortization of prepaid rent	452	452
Loss (gain) on disposal of property and equipment	40	(6)
Reversal of impairment of assets	(25,543)	(8,059)
Net change in non-cash working capital	1,238	18,177
	30,027	34,344
Investing activities		
Business acquisitions (Note 14)	(1,753)	(3,550)
Purchases of property and equipment (Note 19)	(2,954)	(10,487)
Proceeds on sale of property and equipment	79	64
Prepayments of rent	(2,160)	(4,163)
Proceeds on divestiture of dealership (Note 15)	1,464	-
	(5,324)	(18,136)
Financing activities		
Repayment of long term indebtedness	(2,440)	(4,318)
Proceeds from long term indebtedness	-	6,510
Dividends paid	(6,163)	(2,387)
	(8,603)	(195)
Increase in cash	16,100	16,013
Cash and cash equivalents at beginning of year	37,541	21,528
Cash and cash equivalents at end of year	53,641	37,541

The accompanying notes are an integral part of these consolidated financial statements.

1 General Information

AutoCanada Inc. ("AutoCanada" or "The Company") is a corporation from Alberta, Canada with common shares listed on the Toronto Stock Exchange ("TSX") under the symbol of "ACQ". The business of AutoCanada, held in its subsidiaries, is the operation of franchised automobile dealerships in British Columbia, Alberta, Manitoba, Ontario, Nova Scotia and New Brunswick. The Company offers a diversified range of automotive products and services, including new vehicles, used vehicles, vehicle parts, vehicle maintenance and collision repair services, extended service contracts, vehicle protection products and other after-market products. The Company also arranges financing and insurance for vehicle purchases by its customers through third-party finance and insurance sources. The address of its registered office is 200, 15505 Yellowhead Trail, Edmonton, Alberta, Canada, T5V 1E5.

2 Basis of presentation and adoption of IFRS

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") as issued by the Canadian Institute of Chartered Accountants. In 2010, Canadian GAAP was revised to incorporate International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Company adopted IFRS in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards*. The first date at which IFRS was applied was January 1, 2010. In accordance with IFRS, the Company has:

- provided comparative financial information;
- applied the same accounting policies throughout all periods presented;
- retrospectively applied all effective IFRS standards as of December 31, 2011, as required; and
- applied certain optional exemptions and certain mandatory exceptions as applicable for first time IFRS adopters.

The Company's consolidated financial statements were previously prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). Canadian GAAP differs in certain areas from IFRS. In preparing these financial statements, management has amended certain accounting and measurement methods previously applied in the Canadian GAAP financial statements to comply with IFRS. Note 32 contains reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, earnings and comprehensive income along with line-by-line reconciliations of the statement of financial position as at December 31, 2010 and January 1, 2010, and the statement of comprehensive income for the year ended December 31, 2010.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are described in Note 5.

These financial statements were approved by the Board of Directors for issue on March 22, 2012.

3 Significant Accounting Policies

The significant accounting policies used in the preparation of these consolidated financial statements are as follows:

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value, including liabilities for cash-settled share-based payment arrangements.

Principles of consolidation

The consolidated financial statements comprise the financial statements of AutoCanada and all of its subsidiaries. Subsidiaries are all entities over which the Company has control, where control is defined as the power to govern financial and operating policies. The Company has a shareholding of 100% of the voting rights in its subsidiaries. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are no longer consolidated on the date control ceases.

Intercompany transactions, balances, income and expenses, and gains or losses on transactions are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the accounting policies adopted by the Company.

Business combinations

Business combinations are accounted for using the acquisition method of accounting. This involves recognizing identifiable assets (including intangible assets not previously recognised by the acquiree) and liabilities (including contingent liabilities) of acquired businesses at fair value at the acquisition date. The excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill. If the acquisition cost is less than the fair value of the net assets acquired, the fair value of the net assets is re-assessed and any remaining difference is recognized directly in the statement of operations. Transaction costs are expensed as incurred.

Revenue recognition

(a) Vehicles, parts, service and collision repair

Revenue from the sale of goods and services is measured at the fair value of the consideration receivable, net of rebates and any discounts and includes finance and insurance commissions. It excludes sales related taxes and intercompany transactions.

Revenue is recognized when the risks and rewards of ownership have been transferred to the customer and the revenue and costs can be reliably measured and it is probable that economic benefits will flow to the Company. In practice, this means that revenue is recognized when vehicles are invoiced and physically delivered to the customer and payment has been received or credit approval has been obtained by the customer. Revenue for parts, service and collision repair is recognized when the service has been performed.

3 Significant Accounting Policies continued

Revenue recognition continued

(b) 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 vehicle 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, 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 chargebacks 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.

Taxation

(a) Deferred tax

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the statement of financial position. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax liabilities:

- are generally recognized for all taxable temporary differences; and
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets:

- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

3 Significant Accounting Policies continued

Taxation continued

(b) Current tax

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Financial instruments

Financial assets are recognized on the settlement date, which is the date on which the asset is delivered to or by the Company. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or were transferred and the Company has transferred substantially all risks and rewards of ownership. The Company's financial assets, including cash and cash equivalents and trade and other receivables, are classified as loans and receivables at the time of initial recognition. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents include amounts on deposit with financial institutions and amounts with Ally Credit Canada ("Ally Credit") that are readily available to the Company (See Note 21 - *Financial instruments - Credit risk* for explanation of credit risk associated with amounts held with Ally Credit).

Trade and other receivables

Trade and other receivables are amounts due from customers, financial institutions and suppliers from providing services or sale of goods in the ordinary course of business. Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement within operating expenses.

When a trade and other receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement.

3 Significant Accounting Policies continued

Inventories

New, used and demonstrator vehicle inventories are recorded at the lower of cost and net realizable value with cost determined on a specific item basis. Parts and accessories inventories are valued at the lower of cost and net realizable value. Inventories of parts and accessories are accounted for using the "weighted-average cost" method.

In determining net realizable value for new vehicles, the Company primarily considers the age of the vehicles along with the timing of annual and model changeovers. For used vehicles, the Company considers recent market data and trends such as loss histories along with the current age of the inventory. Parts inventories are primarily assessed considering excess quantity and continued usefulness of the part. The risk of loss in value related to parts inventories is minimized since excess or obsolete parts can generally be returned to the manufacturer.

Property and equipment

Property and equipment are stated at cost less accumulated amortization and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Residual values, useful lives and methods of amortization are reviewed, and adjusted if appropriate, at each financial year end. Land is not amortized. Other than as noted below, amortization of property and equipment is provided for over the estimated useful life of the assets on the declining balance basis at the following annual rates :

Buildings	4%
Machinery and equipment	20%
Furniture, fixtures and other	20%
Company vehicles	30%
Computer equipment	30%

The useful life of leasehold improvements is determined to be the lesser of the lease term or the estimated useful life of the improvement. Leasehold improvements are amortized using the straight-line method if useful life is determined to be the lease term and declining balance method if other than the lease term is used.

Amortization of leased vehicles is based on a straight line amortization of the difference between the cost and the estimated residual value at the end of the lease over the term of the lease. Leased vehicle residual values are regularly reviewed to determined whether amortization rates are reasonable.

Goodwill and intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of a cash-generating unit ("CGU") include the carrying amount of goodwill relating to the CGU sold.

3 Significant Accounting Policies continued

Goodwill and intangible assets continued

(b) Intangible assets

Intangible assets consist of rights under franchise agreements with automobile manufacturers ("dealer agreements"). The Company has determined that dealer agreements will continue to contribute to cash flows indefinitely and, therefore, have indefinite lives due to the following reasons:

- Certain of our dealer agreements continue indefinitely by their terms; and
- Certain of our dealer agreements have limited terms, but are routinely renewed without substantial cost to the Company.

Intangible assets are carried at cost less impairment losses. When acquired in a business combination, the cost is determined in connection with the purchase price allocation based on their respective fair values at the acquisition date. When market value is not readily determinable, cost is determined using generally accepted valuation methods based on revenues, costs or other appropriate criteria.

Impairment

Impairments are recorded when the recoverable amount of assets are less than their carrying amounts. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. Impairment losses, other than those relating to goodwill, are evaluated for potential reversals of impairment when events or changes in circumstances warrant such consideration.

(a) Non-financial assets

The carrying values of non-financial assets with finite lives, such as property and equipment are assessed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

(b) Intangible assets and goodwill

The carrying values of all intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Additionally, the carrying values of identifiable intangible assets with indefinite lives and goodwill are tested annually for impairment. Specifically:

- Our dealership franchise agreements with indefinite lives are subject to an annual impairment assessment. For purposes of impairment testing, the fair value of our franchise agreements is determined using a combination of a discounted cash flow approach and earnings multiple approach.
- For the purpose of impairment testing, goodwill is allocated to cash-generating units ("CGU") based on the level at which management monitors it, which is not higher than an operating segment. Goodwill is allocated to those CGU's that are expected to benefit from the business combination in which the goodwill arose.

3 Significant Accounting Policies continued

Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. Trade payables are recognized initially at fair value and subsequently measured at amortized cost, and are classified as current liabilities if payment is due within one year or less.

Provisions

Provisions represent liabilities to the Company for which the amount or timing is uncertain. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expected expenditures to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in provision due to passage of time is recognized as interest expense.

Leases

Leases are classified as either operating or finance, based on the substance of the transaction at inception of the lease. Classification is re-assessed if the terms of the lease are changed.

(a) Finance lease

Leases in which substantially all the risks and rewards of ownership are transferred to the Company are classified as finance leases. Assets meeting finance lease criteria are capitalized at the lower of the present value of the related lease payments or the fair value of the leased asset at the inception of the lease. Minimum lease payments are apportioned between the finance charge and the liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(b) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under an operating lease (net of any incentives received from the lessor) are recognized in the income statement on a straight-line basis over the period of the lease.

4 Accounting standards and amendments issued but not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are not yet effective for the financial year ended December 31, 2011. The standards impacted that are applicable to the Company are as follows:

- IFRS 9, *Financial Instruments* - The new standard will ultimately replace IAS 39, *Financial Instruments: Recognition and Measurement*. 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. This standard becomes effective on January 1, 2013.
- IFRS 10, *Consolidated Financial Statements*, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces *SIC-12, Consolidation—Special Purpose Entities and parts of IAS 27, Consolidated and Separate Financial Statements*.
- IFRS 13, *Fair Value Measurement*, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.
- IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.
- IFRS 7, *Financial Instruments: Disclosures*, has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual periods beginning on or after July 1, 2011, with earlier application permitted.
- IAS 12, *Income Taxes*, was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendment, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale when considering the expected manner or recovery or settlement. SIC 21, *Income Taxes - Recovery of Revalued Non-Depreciable Assets*, will no longer apply to investment properties carried at fair value. The amendment also incorporates into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.

The Company is currently assessing the impact of new standards affecting its 2012 fiscal year. The Company has yet to assess the impact of the new standards on its results of operations, financial position and disclosures for the 2013 fiscal year.

5 Critical accounting estimates, judgments & measurement uncertainty

The preparation of financial statements requires management to make estimates and judgments about the future. Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The following discussion sets forth management's:

- most critical estimates and assumptions in determining the value of assets and liabilities; and
- most critical judgments in applying accounting policies.

Intangible assets and goodwill

Intangible assets and goodwill arise out of business combinations. The Company applies the acquisition method of accounting to these transactions, which involves the allocation of the cost of an acquisition to the underlying net assets acquired based on their respective estimated fair values. As part of this allocation process, the Company must identify and attribute values to the intangible assets acquired. These determinations involve significant estimates and assumptions regarding cash flow projections, economic risk and weighted average cost of capital.

These estimates and assumptions determine the amount allocated to intangible assets and goodwill. If future events or results differ significantly from these estimates and assumptions, the Company could record impairment charges in the future.

The Company tests at least annually whether intangible assets and goodwill has suffered impairment, in accordance with its accounting policies. The recoverable amounts of CGU's have been estimated based on the greater of fair value less costs to sell and value-in-use calculations.

Inventories

Inventories are recorded at the lower of cost and net realizable value with cost determined on a specific item basis for new and used vehicles. In determining net realizable value for new vehicles, the Company primarily considers the age of the vehicles along with the timing of annual and model changeovers. For used vehicles, the Company considers recent market data and trends such as loss histories along with the current age of the inventory. The determination of net realizable value for inventories involves the use of estimates.

Income taxes

The Company computes an income tax provision in each of the jurisdictions in which it operates using an annualized effective tax rate for the interim period. However, actual amounts of income tax expense only become final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the financial statements. Additionally, estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions before they expire against future taxable income. The assessment is based upon existing tax laws and estimates of future taxable income. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period.

In interim periods, the income tax provision is based on an estimate of how much earnings will be in a full year by jurisdiction. The estimated average annual effective income tax rates are re-estimated at each interim reporting date, based on full year projections of earnings by jurisdiction. To the extent that forecasts differ from actual results, true-ups are recorded in subsequent periods.

5 Critical accounting estimates, judgments & measurement uncertainty continued

Allowance for doubtful accounts

The Company must make an assessment of whether accounts receivable are collectible from customers. Accordingly, management establishes an allowance for estimated losses arising from non-payment and other sales adjustments, taking into consideration customer creditworthiness, current economic trends and past experience. If future collections differ from estimates, future earnings would be affected.

Estimated useful life of property and equipment

The Company estimates the useful life and residual values of property and equipment and reviews these estimates at each financial year end. The Company also tests for impairment when a trigger event occurs.

6 Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker ("CODM"), the Company's Chief Executive Officer, who is responsible for allocating resources and assessing performance of the operating segment. The Company has identified one reportable business segment since the Company is operated and managed on a dealership basis. Dealerships operate a number of business streams such as new and used vehicle sales, parts, service and collision repair and finance and insurance products. Management is organized based on the dealership operations as a whole rather than the specific business streams.

These dealerships are considered to have similar economic characteristics and offer similar products and services which appeal to a similar customer base. As such, the results of each dealership have been aggregated to form one reportable business segment. The CODM assesses the performance of the operating segment based on a measure of both revenue and gross profit.

(in thousands of Canadian dollars except for share and per share amounts)

7 Economic dependence

The Company has significant commercial and economic dependence on Chrysler Canada and 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 22 of its 24 dealerships.

The Company's consolidated financial statements include the operations of franchised automobile dealerships, representing the product lines of eight global automobile manufacturers. The Company's Chrysler, Jeep, Dodge, Ram ("CJDR") dealerships, which generated 74% of the Company's revenue in the period-ended December 31, 2011 (2010 – 73%), purchase all new vehicles, a significant portion of parts and accessories and certain used vehicles 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, 2011, December 31, 2010 and January 1, 2010 the Company had recorded the following assets that relate to transactions it has entered into with Chrysler Canada:

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Accounts receivable	5,032	4,040	3,196
New vehicle inventory	72,749	61,790	51,743
Demonstrator vehicle inventory	4,338	4,847	3,574
Parts and accessories inventory	6,081	4,929	4,484

The Company maintains revolving floorplan facilities for 22 of its 24 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, 2011, December 31, 2010 and January 1, 2010, the Company had recorded the following assets and liabilities that relate to transactions it has entered into with Ally Credit:

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Cash and cash equivalents	38,730	24,575	9,580
Revolving floorplan facility - Ally Credit	148,587	124,609	102,370

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.

(in thousands of Canadian dollars except for share and per share amounts)

8 Revenue

	2011 $	2010 $
New vehicles	640,721	514,676
Used vehicles	206,030	202,552
Finance and insurance	51,845	43,721
Parts, service and collision repair	110,262	108,558
	1,008,858	869,507

9 Cost of sales

	2011 $	2010 $
New vehicles	593,017	476,511
Used vehicles	188,649	185,667
Finance and insurance	5,286	4,638
Parts, service and collision repair	52,782	52,671
	839,734	719,487

10 Operating expenses

	2011 $	2010 $
Employee costs (Note 11)	82,362	75,850
Administrative costs (1)	38,680	37,709
Facility lease costs	11,559	12,507
Depreciation	4,245	4,171
	136,846	130,237

(1) Administrative costs include professional fees, consulting services, technology-related expenses, selling and marketing, and other general and administrative costs.

(in thousands of Canadian dollars except for share and per share amounts)

11 Employees

The average number of people employed by the Company in the following areas was:

	2011	2010
Sales	442	403
Service	605	621
Administration	123	132
	1,170	1,156

Operating expenses incurred in respect of employees were:

	2011 $	2010 $
Wages, salaries and commissions	75,997	68,495
Withholding taxes and insurance	3,652	3,674
Employee benefits	2,585	2,695
Termination benefits	128	986
	82,362	75,850

12 Finance costs

	2011 $	2010 $
Finance costs:		
Long term debt	1,136	1,076
Floorplan financing	8,057	7,536
Other interest expense	655	605
	9,848	9,217
Finance income:		
Short term bank deposits	(1,361)	(921)

Cash interest paid during the year ended December 31, 2011 was $9,812 (2010 - $9,348).

13 Taxation

Components of income tax expense are as follows:

	2011 $	2010 $
Current	2,046	-
Deferred tax	10,463	4,956
Total income tax expense	12,509	4,956

(in thousands of Canadian dollars except for share and per share amounts)

13 Taxation continued

Factors affecting tax expense for the year:

	2011 $	2010 $
Income before taxes	49,293	19,552
Income before tax multiplied by the standard rate of Canadian corporate tax of 27.0% (2010 - 29.0%)	13,309	5,670
Effects of:		
Change in deferred tax rate	(200)	(86)
Difference between future and current rate	(717)	(473)
Non-deductible expenses	74	59
Change in items for which no deferred asset was recognized	-	(239)
Other	43	25
Total income tax expense	12,509	4,956

The movements of deferred tax assets and liabilities are shown below:

Deferred tax assets (liabilities)	Deferred income from partnerships $	Property and equipment $	Goodwill and intangible assets $	Other $	Total $
January 1, 2010	(2,012)	309	4,694	501	3,492
(Expense) benefit to income statement	(2,248)	334	(3,023)	(19)	(4,956)
Deferred tax acquired on acquisition	-	-	-	(88)	(88)
December 31, 2010	(4,260)	643	1,671	394	(1,552)
Benefit (expense) to income statement	(2,419)	(198)	(7,490)	(356)	(10,463)
Deferred tax acquired on acquisition	-	-	-	(41)	(41)
December 31, 2011	(6,679)	445	(5,819)	(3)	(12,056)

Changes in the deferred income tax components are adjusted through deferred tax expense. Of the above components of deferred income taxes, $6,679 of the deferred tax liabilities are expected to be recovered within 12 months. The decrease in standard rate of Canadian corporate tax is due to general decreases in the corporate tax rate in the jurisdictions in which the Company operates. The Company applies a blended rate in determining its overal income tax expense.

(in thousands of Canadian dollars except for share and per share amounts)

14 Business acquisitions

Valley Autohouse

On November 4, 2011, the Company purchased substantially all of the net operating and fixed assets of Valley Autohouse (1984) Ltd. operating two dealerships as Valley Autohouse ("Abbotsford and Chilliwack Volkswagen") for total cash consideration of $1,753. The acquisition was financed with cash from operations. The acquisition has been accounted for using the acquisition method and the consolidated financial statements include operating results of Abbotsford and Chilliwack Volkswagen subsequent to November 3, 2011. The purchase of this business complements the Company's other Volkswagen dealership in that area.

The purchase price allocated to the assets acquired and the liabilities assumed, based on their fair values, is as follows:

	Carrying amount $	Fair value adjustments $	Fair value $
Current assets			
Trade and other receivables	44	-	44
Inventories	312	-	312
Other current assets	6	-	6
	362	-	362
Long term assets			
Property and equipment	801	-	801
Intangible assets	-	620	620
Total assets	1,163	620	1,783
Current liabilities			
Trade and other payables	59	-	59
	59	-	59
Long term liabilities			
Deferred tax liabilities	-	42	42
Total liabilities	59	42	101
Net assets acquired	1,104	578	1,682
Goodwill	-	71	71
Total net assets acquired	1,104	649	1,753

The revenue of Abbotsford and Chilliwack Volkswagen from date of acquisition that was included in the consolidated statement of operations for the year ended December 31, 2011 was $2,541.

(in thousands of Canadian dollars except for share and per share amounts)

14 Business acquisitions continued

Future Hyundai

On April 12, 2010, the Company purchased substantially all of the net operating and fixed assets of 1192038 Ontario Inc. operating as Future Hyundai ("401 Dixie Hyundai") for total cash consideration of $3,550. The acquisition was funded by drawing on the Company's revolving floorplan facilities in the amount of $1,312 and the remaining $2,238 was financed with cash from operations. The acquisition has been accounted for using the acquisition method and the consolidated financial statements include operating results of 401 Dixie Hyundai subsequent to April 12, 2010. The purchase of this business complements the Company's other dealerships in the Greater Toronto Area.

Purchase price allocation

The purchase price allocated to the assets acquired and the liabilities assumed, based on their fair values, is as follows:

	Carrying amount $	Fair value adjustments $	Fair value $
Current assets			
Trade and other receivables	19	-	19
Inventories	1,598	-	1,598
Other current assets	31	-	31
	1,648	-	1,648
Long term assets			
Property and equipment	400	-	400
Intangible assets	-	1,359	1,359
Total assets	2,048	1,359	3,407
Current liabilities			
Trade and other payables	78	-	78
	78	-	78
Long term liabilities			
Deferred tax liabilities	-	88	88
Total liabilities	78	88	166
Net assets acquired	1,970	1,271	3,241
Goodwill	-	309	309
Total net assets acquired	1,970	1,580	3,550

The revenue of 401 Dixie Hyundai from date of acquisition that was included in the consolidated statement of operations for the year ended December 31, 2011 was $29,244 (2010 - $15,934).

(in thousands of Canadian dollars except for share and per share amounts)

15 Business divestiture

On June 21, 2011, the Company sold the operating assets of its Colombo Chrysler Jeep Dodge dealership located in Woodbridge, Ontario. Total cash proceeds of $1,464 resulted in a gain on divestiture of $86, which is included in gain on disposal of assets in the statement of comprehensive income. The break-down of the transaction was as follows:

	$
Current assets	6,124
Property and equipment	503
Current liabilities	(5,249)
Net assets disposed of	1,378
Net gain on divestiture	86
Net cash inflow on divestiture	1,464

16 Cash and cash equivalents

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Cash at bank and on hand	14,911	12,966	11,948
Short-term deposits	38,730	24,575	9,580
	53,641	37,541	21,528

Short-term deposits consists of cash held with Ally Credit. The Company's revolving floorplan facility agreements allow the Company to hold excess cash in accounts with Ally Credit which is used to offset our finance costs on our revolving floorplan facilities. The Company has immediate access to this cash unless we are in default of our facilities, in which case the cash may be used by Ally Credit in repayment of our facilities. If a default were to occur, the cash would be reclassified as restricted cash. See Note 21 for further detail regarding cash balances held with Ally Credit.

17 Trade and other receivables

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Trade receivables	41,293	32,343	33,948
Less: Allowance for doubtful accounts	(359)	(364)	(332)
Net trade receivables	40,934	31,979	33,616
Other receivables	1,514	853	1,707
Trade and other receivables	42,448	32,832	35,323

(in thousands of Canadian dollars except for share and per share amounts)

17 Trade and other receivables continued

The aging of trade and other receivables at each reporting date was at follows:

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Current	36,741	27,412	30,683
Past due 31 - 60 days	3,165	3,375	3,250
Past due 61 - 90 days	613	751	916
Past due 91 - 120 days	602	613	250
Past due > 120 days	1,327	681	224
	42,448	32,832	35,323

Included in amounts greater than 120 days are $559 (2010 - $nil) of receivables related to corporate fleet leasing arrangements.

The Company is exposed to normal credit risk with respect to its accounts receivable and maintains provisions for potential credit losses. Potential for such losses is mitigated because there is limited exposure to any single customer and because customer creditworthiness is evaluated before credit is extended.

18 Inventories

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
New vehicles	101,135	84,870	73,264
Demonstrator vehicles	6,302	7,261	5,816
Used vehicles	21,531	18,084	22,197
Parts and accessories	7,901	7,873	7,047
	136,869	118,088	108,324

During the period ended December 31, 2011, $839,734 of inventory (2010 - $719,487) was expensed as cost of goods sold which included net write-downs on used vehicles of $85 (2010 - $151). During the period ended December 31, 2011, $1,219 of demonstrator expense (2010 - $1,414) was included in selling, general, and administration expense. As at December 31, 2011, the Company had recorded reserves for inventory write downs of $1,440 (2010 - $1,581).

(in thousands of Canadian dollars except for share and per share amounts)

19 Property and equipment

	Company & lease vehicles $	Leasehold Improvements $	Machinery & Equipment $	Land & buildings $	Furniture, fixtures & other $	Computer hardware $	Total $
Cost:							
January 1, 2010	2,766	4,170	9,878	4,138	3,929	2,710	27,591
Capital expenditures	222	2,394	782	-	574	427	4,399
Acquisitions of dealership assets	-	336	41	-	21	2	400
Acquisitions of real estate	-	-	-	6,088	-	-	6,088
Disposals	(18)	-	(96)	-	(27)	(13)	(154)
Transfer in (out) of inventory, net	781	-	-	-	-	-	781
December 31, 2010	3,751	6,900	10,605	10,226	4,497	3,126	39,105
Capital expenditures	-	1,124	811	-	539	480	2,954
Acquisitions of dealership assets	546	9	117	-	102	27	801
Disposals	-	(2,100)	(387)	-	(13)	(24)	(2,524)
Transfer in (out) of inventory, net	768	-	-	-	-	-	768
December 31, 2011	5,065	5,933	11,146	10,226	5,125	3,609	41,104
Accumulated depreciation:							
January 1, 2010	(962)	(2,755)	(3,183)	(365)	(1,271)	(1,455)	(9,991)
Current year depreciation	(694)	(664)	(1,493)	(313)	(576)	(431)	(4,171)
Disposals	26	-	53	-	14	2	95
Transfers out of inventory	552	-	-	-	-	-	552
December 31, 2010	(1,078)	(3,419)	(4,623)	(678)	(1,833)	(1,884)	(13,515)
Current year depreciation	(961)	(543)	(1,258)	(527)	(562)	(394)	(4,245)
Disposals	-	1,958	89	-	(148)	(90)	1,809
Transfers out of inventory	822	-	-	-	-	-	822
December 31, 2011	(1,217)	(2,004)	(5,792)	(1,205)	(2,543)	(2,368)	(15,129)
Carrying amount:							
January 1, 2010	1,804	1,415	6,695	3,773	2,658	1,255	17,600
December 31, 2010	2,673	3,481	5,982	9,548	2,664	1,242	25,590
December 31, 2011	3,848	3,929	5,354	9,021	2,582	1,241	25,975

Fully depreciated assets are retained in cost and accumulated depreciation accounts until such assets are removed from service. Proceeds from disposals are netted against the related assets and the accumulated depreciation and included in the statement of operations and comprehensive income.

(in thousands of Canadian dollars except for share and per share amounts)

20 Intangible assets

Intangible assets consist of rights under franchise agreements with automobile manufacturers ("dealer agreements").

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Cost:			
Opening balance	77,130	75,771	75,771
Acquisitions (Note 14)	620	1,359	-
Divestitures (Note 15)	(3,747)	-	-
Closing balance	74,003	77,130	75,771
Accumulated impairment:			
Opening balance	37,112	45,171	45,171
Reversals of impairments	(25,543)	(8,059)	-
Divestitures (Note 15)	(3,747)	-	-
Closing balance	7,822	37,112	45,171
Carrying amount	66,181	40,018	30,600

Cash generating units have been determined to be individual dealerships. The following table shows the carrying amount of indefinite-lived identifiable intangible assets by cash generating unit:

Cash Generating Unit	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
A	21,687	10,375	5,825
B	9,431	7,035	2,762
C	3,303	3,181	2,372
D	9,626	9,626	9,626
E	8,497	3,785	3,652
F	3,258	-	-
G	1,234	863	1,234
H	1,102	-	9
I	1,359	346	-
J	2,053	2,053	2,053
K	1,726	1,726	188
Other L - T combined	2,905	1,028	2,879
	66,181	40,018	30,600

(in thousands of Canadian dollars except for share and per share amounts)

20 Intangible assets continued

The following table shows the impairments (recoveries of impairment) of indefinite-lived identifiable intangible assets by cash generating unit:

Cash Generating Unit	December 31, 2011 $	December 31, 2010 $
A	(11,313)	(4,550)
B	(2,397)	(4,273)
C	(122)	(809)
E	(4,712)	(133)
F	(3,258)	-
G	(371)	371
H	(1,102)	9
I	(1,013)	1,013
K	-	(1,538)
Other L - T combined	(1,255)	1,851
	(25,543)	(8,059)

Impairment test of indefinite life intangible assets

The Company performed a test for impairment as of January 1, 2010 (the "Transition date") upon transition to IFRS for intangible assets, which compares the recoverable amount to the carrying value of each CGU. As a result of the test performed, the Company recorded an impairment in the amount of $13,100.

The Company performed its annual test for impairment at December 31, 2010. As a result of the test performed, the Company recorded a reversal of impairment in the amount of $8,059 for the year ended December 31, 2010.

The Company performed its annual test for impairment at December 31, 2011. As a result of the test performed, the Company recorded a reversal of impairment in the amount of $25,543 for the year ended December 31, 2011.

The carrying value of intangible assets for each significant CGU is identified separately in the table above. “L - T combined” comprises intangible assets allocated to the remaining CGUs.

The valuation techniques, significant assumptions and sensitivities applied in the intangible assets impairment test are described below:

Valuation Techniques

The Company did not make any changes to the valuation methodology used to assess impairment since the impairment test on transition to IFRS. The recoverable amount of each CGU was based on the greater of fair value less cost to sell and value in use.

20 Intangible assets continued

Value in Use

Value in use ("VIU") is predicated upon the value of the future cash flows that a business will generate going forward. The discounted cash flow ("DCF") method was used which involves projecting cash flows and converting them into a present value equivalent through discounting. The discounting process uses a rate of return that is commensurate with the risk associated with the business or asset and the time value of money. This approach requires assumptions about revenue growth rates, operating margins, and discount rates.

Fair value less costs to sell

Fair value less costs to sell ("FVLCS") assumes that companies operating in the same industry will share similar characteristics and that company values will correlate to those characteristics. Therefore, a comparison of a CGU to similar companies may provide a reasonable basis to estimate fair value. Under this approach, fair value is calculated based on EBITDA ("Earnings before interest, taxes, depreciation and amortization") multiples comparable to the businesses in each CGU. Data for EBITDA multiples was based on recent comparable transactions and management estimates. Multiples used in the test for impairment for each CGU were in the range of 4.0 to 6.0 times forecasted EBITDA.

Significant Assumptions for Value in Use

Growth

The assumptions used were based on the Company's internal budget which is approved by the Board of Directors. The Company projected revenue, gross margins and cash flows for a period of one year, and applied growth rates for years thereafter commensurate with industry forecasts. Management applied a 2% terminal growth rate in its projections. In arriving at its forecasts, the Company considered past experience, economic trends and inflation as well as industry and market trends.

Discount Rate

The Company assumed a discount rate in order to calculate the present value of its projected cash flows. The discount rate represented the Company's internally computed weighted average cost of capital ("WACC") for each CGU with appropriate adjustments for the risks associated with the CGU's in which intangible assets are allocated. The WACC is an estimate of the overall required rate of return on an investment for both debt and equity owners and serves as the basis for developing an appropriate discount rate. Determination of the discount rate requires separate analysis of the cost of equity and debt, and considers a risk premium based on an assessment of risks related to the projected cash flows of each CGU.

(in thousands of Canadian dollars except for share and per share amounts)

20 Intangible assets continued

Significant Assumptions for Fair Value Less Costs to Sell

EBITDA

The Company's assumptions for EBITDA were based on the Company's internal budget which is approved by the Board of Directors. The Company projected EBITDA for a period of one year and reduced the amount for allocation of corporate overhead based on a percentage of gross profit for each CGU as compared to the gross profit of the Company. As noted above, data for EBITDA multiples was based on recent comparable transactions and management estimates.

Costs to sell

Management applied a percentage of 5% of the estimated purchase price in developing an estimate of costs to sell, based on historical transactions.

Additional Assumptions

The key assumptions used in performing the impairment test, by CGU, were as follows:

	Basis of Recoverable Amount	Discount Rate	Perpetual Growth Rate
A	VIU	16.63 %	2.00
B	VIU	18.51 %	2.00
C	VIU	16.63 %	2.00
D	VIU	18.51 %	2.00
E	VIU	18.51 %	2.00
F	VIU	15.88 %	2.00
G	VIU	15.88 %	2.00
H	VIU	18.69 %	2.00
I	VIU	15.51 %	2.00
J	VIU	14.57 %	2.00
K	VIU	18.13 %	2.00
L - T combined	VIU/ FVLCS	15.3% - 18.5%	2.00

Sensitivity

The recoverable amount for each CGU that was in excess of its carrying value ranged from 104% to 1,224% of the carrying value of the applicable CGU. The fair value for each CGU that was below its carrying value ranged from 11% to 97% of the carrying value of the applicable CGU. As a result, the Company expects future impairments and reversals of impairments to occur as market conditions change and risk premiums used in developing the discount rate change.

(in thousands of Canadian dollars except for share and per share amounts)

20 Intangible assets continued

Based on sensitivity analysis, no reasonably possible change in growth rate assumptions would cause the recoverable amount of any CGU to have a significant change from its current valuation. A 1% change in the discount rate would not have a significant impact on the recoverable amounts of CGUs. The recoverable amount of each CGU is sensitive to changes in market conditions and could result in material changes in the carrying value of intangible assets in the future.

21 Financial instruments

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in the accounting policies. The Company's financial assets have been classified as loans and receivables. The Company's financial liabilities have been classified as other financial liabilities. Details of the Company's financial assets and financial liabilities are disclosed below:

	December 31, 2011 $	**December 31, 2010 $**	**January 1, 2010 $**
Financial assets			
Cash and cash equivalents	53,641	37,541	21,528
Trade and other receivables	42,448	32,832	35,323
Financial liabilities			
Current indebtedness	2,859	277	96
Long-term indebtedness	20,115	24,974	22,785
Revolving floorplan facilities	150,816	124,609	102,370
Trade and other payables	32,132	26,622	32,132

Financial Risk Management Objectives

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.

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.

(in thousands of Canadian dollars except for share and per share amounts)

21 Financial instruments continued

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 directly exposed to significant foreign currency risk with respect to its financial instruments.

Interest Rate Risk

The Ally Credit revolving floorplan facilities ("Ally facilities") 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%. These 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).

The VW Credit Canada, Inc. revolving floorplan facilities ("VCCI facilities") 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 VCCI facilities bear interest at Prime Rate plus 0.75% for new vehicles and Prime Rate plus 1.00%-1.25% for used vehicles. These facilities define Prime Rate as the Royal Bank of Canada Prime Rate (3.00% as at December 31, 2011).

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% (HSBC Prime Rate as at December 31, 2011 is 3.00%).

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.

The Company's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The sensitivity analysis below has been determined based on the exposure to interest rates at the reporting date and stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. The amounts below represent an increase to the reported account if positive and a decrease to the reported account if negative. A 100 basis point change and 200 basis point change is used when reporting interest risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

	+ 200 Basis Point		**- 200 Basis Point**		**+ 100 Basis Point**		**- 100 Basis Point**	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Finance costs	1,936	1,695	(450)	(449)	225	225	(225)	(225)
Finance income	387	246	-	-	-	-	-	-

21 Financial instruments continued

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 7 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. Details of the aging of the Company's trade and other receivables is located in Note 17.

The Company evaluates receivables for collectability based on the age of the receivable, the credit history of the customer and past collection experience. 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. Details of the allowances for doubtful accounts are located in Note 17.

Concentration of cash and cash equivalents exist due to the significant amount of cash held with Ally Credit (see Note 7 for further discussion of the Company's concentration of cash held on deposit with Ally Credit). The Revolving floorplan 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, 2011). 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.

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 7 for further information regarding the Company's economic dependence on Chrysler Canada and Ally Credit and the potential effect on the Company's liquidity).

(in thousands of Canadian dollars except for share and per share amounts)

21 Financial instruments continued

Liquidity Risk continued

The following table details the Company's remaining contractual maturity for its financial liabilities. The tables below have been drawn up based on the undiscounted contractual maturities of the financial liabilities. Contractual interest payable includes interest that will accrue to these liabilities except where the Company is entitled and intends to repay the liability before its maturity.

	2012	**2013**	**Total**
	$	**$**	**$**
Trade and other payables	32,132	-	32,132
Revolving floorplan facilities	150,816	-	150,816
HSBC revolving term facility	-	17,000	17,000
HSBC fixed term loan	176	3,115	3,291
BMO fixed rate term loan	2,683	-	2,683
Lease obligations	1,204	-	1,204
Contractual interest payable	890	384	1,274
	187,901	20,499	208,400

22 Other long-term assets

	December 31, 2011	**December 31, 2010**	**January 1, 2010**
	$	**$**	**$**
Prepaid rent (Note 30)	7,558	5,850	2,142
Other assets	51	59	56
	7,609	5,909	2,198

23 Payables, accruals and provisions

	December 31, 2011	**December 31, 2010**	**January 1, 2010**
	$	**$**	**$**
Trade payables	15,085	13,106	16,796
Accruals and provisions	5,156	4,909	1,154
Sales tax payable	2,239	2,132	1,832
Wages and witholding taxes payable	9,652	6,475	5,049
	32,132	26,622	24,831

(in thousands of Canadian dollars except for share and per share amounts)

24 Indebtedness

This note provides information about the contractual terms of the Company's interest-bearing debt, which are measured at amortized cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see Note 21.

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Current indebtedness			
Current portion of indebtedness	2,859	277	96
Revolving floorplan facilities - Ally Credit (i)	148,587	124,609	102,370
Revolving floorplan facilities - VCCI (ii)	2,228	-	-
	153,674	124,886	102,466
Non-current indebtedness			
HSBC revolving term loan (iii)	17,000	19,000	20,000
HSBC non-revolving fixed term loan (iv)	3,115	3,291	-
BMO fixed rate term facility (v)	-	2,683	2,785
	20,115	24,974	22,785
Total indebtedness	173,789	149,860	125,251

Terms and conditions of outstanding loans are as follows:

i The Revolving floorplan facilities - Ally Credit ("Ally facilities") are available to the Company to finance new, demonstrator and used vehicles bears interest at the Prime Rate plus 0.20% (4.20% at December 31, 2011) and is payable monthly in arrears. Prime Rate is defined as the greater of the Royal Bank of Canada ("RBC") prime rate (3.00% at December 31, 2011) or 4.00%. The maximum amounts of financing provided by the Ally facilities are based on a maximum number of new, used and demonstrator vehicles to be financed on an individual dealership basis. 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 financed by Ally Credit. 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.

ii The Revolving floorplan facilities - VCCI ("VCCI facilities") are available to the Company from VW Credit Canada, Inc. ("VCCI") to finance new and used vehicles for the Abbotsford and Chilliwack Volkswagen dealerships. The VCCI facilities bear interest at the Royal Bank of Canada ("RBC") prime rate plus 0.75% for new vehicles and 1.00%-1.25% for used vehicles (RBC prime rate = 3.00% at December 31, 2011). The maximum amount of financing provided by the VCCI facilities is $7,300. The VCCI facilities are collateralized by all of the dealerships' new, used and demonstrator inventory financed by VCCI and a general security agreement from the two dealerships. The individual notes payable of the VCCI facilities are due when the related vehicle is sold, as outlined in the agreement with VCCI.

24 Indebtedness continued

iii HSBC Bank Canada ("HSBC") provides the Company with a fully committed, extendible revolving term loan (the "HSBC Revolver") in the amount of $30,000. 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 HSBC Revolver at the request of the Company and upon approval by HSBC. 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 0.75% (3.75% at December 31, 2011). The HSBC Revolver is collateralized by all of the present and future assets of the subsidiaries of AutoCanada Inc, the various Limited Partnerships and the General Partners of each dealership within the Company. As part of a priority agreement signed by HSBC, Ally Credit, VCCI and the Company, the collateral for the HSBC Revolver excludes all new, used and demonstrator inventory financed with the Ally facilities and VCCI facilities.

iv HSBC provides the Company with a committed, extendible non-revolving term loan (the "HSBC Term Loan"). The HSBC Term Loan's maturity date is June 30, 2012, 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, 2013. The HSBC Term Loan bears interest at HSBC's Prime Rate plus 1.75% (4.75% at December 31, 2011). Repayments are based on a 20 year amortization of the original loan amount; consisting of fixed monthly principal repayments of $15 plus applicable interest. The HSBC Term Loan requires maintenance of certain financial covenants and is collateralized by a first fixed charge in the amount of $3,510 registered over the Newmarket Infiniti Nissan property. At December 31, 2011, the carrying amount of the Newmarket Infiniti Nissan property was $5,646.

v Bank of Montreal provides the Company a Fixed Rate Term Loan (the "BMO Term Loan"). The BMO Term Loan matures September 30, 2012 and bears interest at a fixed rate of 5.11%. Repayments consist of fixed monthly payments totaling $20 per month. 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 $3,450 registered over the Cambridge Hyundai property. At December 31, 2011, the carrying amount of the Cambridge Hyundai property was $3,375.

(in thousands of Canadian dollars except for share and per share amounts)

25 Leases

This note provides information about the contractual terms of the Company's lease obligations.

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Current			
Vehicle repurchase obligations (i)	1,082	742	-
Current finance lease obligations (ii)	122	165	175
	1,204	907	175
Non-current			
Long-term finance lease obligations (ii)	-	120	289
Total lease obligations	1,204	1,027	464

Terms and conditions of lease obligations were as follows:

i The Company provides a corporate fleet customer with vehicles for individual terms not to exceed six months, at which time the Company has an obligation to repurchase each vehicle at a predetermined amount. The Company has determined that the transactions shall be treated as operating leases, whereby the Company acts as lessor. As a result, the Company has recorded the contractual repurchase amounts as outstanding vehicle repurchase obligations and have classified the liability as current due to the short term nature of the instruments.

ii A number of equipment leases are classified as a finance leases. At inception of the leases, the Company recognized an asset and a liability at an amount equal to the estimated fair value of the equipment. The imputed finance costs on the liability were determined based on the lower of the Company's incremental borrowing rate and the rates implicit in each lease.

Other leasing arrangements:

In conjunction with the acquisition of Valley Autohouse (note 14), the Company acquired an in-house leased vehicle portfolio in which the Company acts as lessor. The vehicles are leased to third parties pursuant to non-cancellable operating lease agreements. As at December 31, 2011, the lease terms for the remaining vehicle leases range from 36 to 48 months. The future aggregate minimum lease payments receivable under the non-cancellable operating leases are $65 within 1 year and $52 thereafter. The Company intends to wind-down the in-house lease program at this location over the next 48 months.

(in thousands of Canadian dollars except for share and per share amounts)

26 Commitments and Contingencies

Commitments

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 30) and other third parties. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
2010	-	-	19,555
2011	-	11,447	10,322
2012	10,109	8,066	7,310
2013	8,611	5,551	5,328
2014	8,307	5,212	4,657
2015	7,984	4,917	4,488
2016	6,881	4,872	4,439
Thereafter	56,481	45,617	49,487
	98,373	85,682	105,586

Lawsuits and legal claims

The Company's operations are subject to federal, provincial and local environmental laws and regulations in Canada. While the Company has not identified any costs likely to be incurred in the next several years, based on known information for environmental matters, the Company's ongoing efforts to identify potential environmental concerns in connection with the properties it leases may result in the identification of additional environmental costs and liabilities. The magnitude of such additional liabilities and the costs of complying with environmental laws or remediating contamination cannot be reasonably estimated at the balance sheet date due to lack of technical information, absence of third party claims, the potential for new or revised laws and regulations and the ability to recover costs from any third parties. Thus the likelihood of any such costs or whether such costs would be material cannot be determined at this time.

In addition to the matters described above, the Company is engaged in various legal proceedings and claims that have arisen in the ordinary course of business. The outcome of all of the proceedings and claims against the Company, including those described above, is subject to future resolution, including the uncertainties of litigation. Based on information currently known to the Company and after consultation with outside legal counsel, management believes that the probable ultimate resolution of any such proceedings and claims, individually or in the aggregate, will not have a material adverse effect on the financial condition of the Company, taken as a whole.

(in thousands of Canadian dollars except for share and per share amounts)

27 Share-based payments

The Company operates a combination of cash and equity-settled compensation plan under which it receives services from employees as consideration for cash payments. The plan is described below:

Restricted Share Units (RSUs)

The Company granted 11,752 RSUs in 2011 to designated management employees entitling them to receive a combination of cash and common shares based on the Company's share price at each vesting date. The RSUs are also entitled to earn additional units based on dividend payments made by the Company and the share price on date of payment. With respect to the above granted RSUs, an additional 493 were earned during the year. The RSUs granted are scheduled to vest evenly over three years conditional upon continued employment with the Company. During the year ended December 31, 2011, $302 was expensed relating to the RSU plan (2010 - $57).

28 Share capital

Common shares of the Company are voting shares and have no par value. The authorized common share capital is an unlimited number of shares.

Dividends

Dividends are discretionary and are determined based on a number of factors. Dividends are subject to approval of the Board of Directors. During the year ended December 31, 2011, eligible dividends totaling $6,163 (2010 - $2,387) were declared and paid. On February 15, 2012, the Board of Directors of the Company declared a quarterly eligible dividend of $0.14 per common share on the Company's outstanding Class A common shares, payable on March 15, 2012 to shareholders of record at the close of business on February 29, 2012.

Earnings per share

Basic earnings per share was calculated by dividing earnings attributable to common shares by the sum of the weighted-average number of shares outstanding during the period. The Company does not have any dilutive stock options or other securities. Earnings used in determining earnings per share from continuing operations are presented below:

	2011	**2010**
	$	**$**
Earnings attributable to common shares	36,784	14,596

The weighted-average number of shares outstanding is presented below:

	2011	**2010**
Weighted-average number of shares outstanding	19,880,930	19,880,930

(in thousands of Canadian dollars except for share and per share amounts)

29 Capital disclosures

The Company's objective when managing its capital is to safeguard the Company's assets and its ability to continue as a going concern while at the same time maximize the growth of the business, returns to shareholders, and benefits for other stakeholders. The Company views its capital as the combination of long-term indebtedness, long-term lease obligations and equity.

The calculation of the Company's capital is summarized below:

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Long-term indebtedness	20,115	24,974	22,785
Long-term lease obligations	-	120	289
Equity	112,995	82,374	70,165
	133,110	107,468	93,239

The Company manages its capital structure in accordance with changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may assume additional debt, refinance existing debt with different characteristics, sell assets to reduce debt, issue new shares or adjust the amount of dividends paid to its shareholders.

30 Related party transactions

Transactions with COAG and affiliates

As of December 31, 2011, Canada One Auto Group ("COAG") and affiliates beneficially owned approximately 42.3% of the Company's shares. In the normal course of business, COAG and certain of its affiliates had transactions with the Company. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Details of these transactions are noted below:

1 Prepaid rent

During the year ended December 31, 2011, 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, 2011 was $2,160 (2010 - $4,163) of which $452 (2010 - $452) has been amortized as a reduction in current period facilities lease costs. On March 1, 2012, the final prepayment was made with respect to this agreement.

(in thousands of Canadian dollars except for share and per share amounts)

30 Related party transactions continued

2 Rent paid to companies with common directors

During the year ended December 31, 2011, total rent paid to companies with common directors amounted to $7,906 (2010 - $8,171). The Company currently leases thirteen of twenty-four properties from affiliates of COAG. The Company's independent board of directors has received advice from a national real estate appraisal company that the market rents at each of the COAG properties were at fair market value rates when the leases were entered into.

3 Management fees and non-competition fees

During the period ended December 31, 2011 total management fees received from companies with common directors amounted to $201 (2010 - $276).

Key management personnel compensation

Key management personnel consists of the Company's executive officers and directors. Key management personnel compensation is as follows:

	2011 $	2010 $
Short-term employee benefits	117	160
Employee costs (including directors)	3,106	2,377
Termination benefits	(265)	978
Share-based payments	302	57
	3,260	3,572

31 Comparative figures

In addition to reclassifications identified in Note 32, certain comparative figures have been reclassified to conform with the current year's consolidated financial statements presentation.

32 Transition to IFRS

These consolidated financial statements represent the first consolidated financial statements of the Company prepared in accordance with IFRS, as issued by the IASB. The Company's consolidated financial statements were previously prepared in accordance with Canadian GAAP. The Company adopted IFRS in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards. The first date at which IFRS was applied was January 1, 2010 (“Transition Date”). In accordance with IFRS, the Company has:

- provided comparative financial information;
- applied the same accounting policies throughout all periods presented;
- retrospectively applied all effective IFRS standards as of January 1, 2010, as required; and
- applied certain optional exemptions and certain mandatory exceptions as applicable for first time IFRS adopters.

(in thousands of Canadian dollars except for share and per share amounts)

32 Transition to IFRS continued

Exemption options

Set forth below are the IFRS 1 applicable exemptions applied in the conversion from Canadian GAAP to IFRS:

1. **Business combinations** - IFRS 1 provides the option to apply IFRS 3, Business Combinations, retrospectively or prospectively from January 1, 2010 (the "Transition Date"). The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. The Company elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to its Transition Date and such business combinations have not been restated. Any goodwill arising on such business combinations before the Transition Date has not been adjusted from the carrying value previously determined under Canadian GAAP as a result of applying these exemptions. Further, the Company did not early adopt IFRS 3 Revised and instead has adopted that standard upon its effective date which, for the Company, was January 1, 2010.

Mandatory exceptions

Set forth below are the applicable mandatory exceptions in IFRS 1 applied in the conversion from Canadian GAAP to IFRS.

1. **Estimates** - Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The Company's first time adoption of IFRS did not have an impact on the total operating, investing or financing cash flows. The following represents the reconciliations from Canadian GAAP to IFRS for the respective periods noted for the retained deficit:

Reconciliation of accumulated deficit

	December 31, 2010 $	**January 1, 2010 $**
Accumulated deficit as reported under Canadian GAAP	(107,966)	(114,251)
IFRS adjustments:		
1. Property and equipment	(345)	(194)
2. Impairments	(5,041)	(13,100)
3. Income taxes	1,373	3,357
Accumulated deficit as reported under IFRS	(111,979)	(124,188)

(in thousands of Canadian dollars except for share and per share amounts)

32 Transition to IFRS continued

Reconciliation of comprehensive income

	Year ended December 31, 2010 $
Net comprehensive income under Canadian GAAP	8,670
Differences in GAAP increasing (decreasing) reported earnings:	
1. Property and equipment	(150)
2. Reversal of impairments	8,059
3. Income taxes	(1,983)
Net comprehensive income under IFRS	14,596

Changes in accounting policies

In addition to the exemptions and exceptions discussed above, the following narratives explain the significant differences between the previous historical Canadian GAAP accounting policies and the current IFRS accounting policies applied by the Company. Only the differences having an impact on AutoCanada Inc. are described below. The following is not a complete summary of all of the differences between Canadian GAAP and IFRS. Relative to the impacts on AutoCanada Inc., the descriptive caption next to each numbered item below corresponds to the same numbered and descriptive caption in the tables above, which reflect the quantitative impacts from each change. Unless a quantitative impact was noted below, the impact from the change was not material to AutoCanada Inc.

1 **Property and equipment**

The objective of amortization under Section 3061 of the CICA Handbook is to provide a rational and systematic basis for allocating the amortizable amount of an item of property and equipment over its estimated life and useful life. Under Canadian GAAP, the components of the Company's buildings were determined to operate in combination and were amortized at the declining balance rate of 4% annual amortization. Under IFRS, accounting for components of property and equipment is required at a more detailed level than under Canadian GAAP. IAS 16 requires separate amortization for those components with a distinct rate of amortization. As a result of applying the componentization requirements of IAS 16, the net book value of property and equipment decreased by $194 and $345, reflecting increased amortization of the components of the Company's buildings at at January 1, 2010 and December 31, 2010 respectively.

2 **Impairments and reversals of impairments**

IAS 36 requires that impairment testing be done on a CGU level, which is the smallest identifiable group of assets that generates cash inflows. For AutoCanada Inc., the CGU's consist of each individual dealership, which resulted in more CGU's subject to impairment testing under IFRS than under Canadian GAAP in which impairment testing for intangible assets was performed at the single reporting unit level.

32 Transition to IFRS continued

2 Impairments and reversals of impairments continued

IAS 36 also requires a one-step approach to determine the recoverable amount of a CGU. Canadian GAAP's two-step approach required the application of discounted cash flow techniques to measure the impairment amount, but only after the use of undiscounted cash flow analysis indicated the existence of an impairment. The adoption of IAS 36 is expected to result in more frequent impairments or reversals of impairments since the carrying amount of assets which are supported by undiscounted cash flows may be determined to be impaired when the future cash flows are discounted in accordance with IFRS requirements. Unlike Canadian GAAP, previous impairments of intangible assets and property and equipment may be reversed or reduced if the circumstances which lead to the impairment change.

In accordance with IAS 36, the Company reviewed the recoverable amount for its CGU's at both the Transition Date and as at December 31, 2010. The key assumptions and methodology used in those reviews are disclosed in Note 20.

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. The change in carrying value noted above resulted in an adjustment to deferred taxes, which is discussed below.

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 $8,059. In accordance with IAS 36, the overall reversal of impairment of intangible assets was recorded in the statement of operations as an increase to net comprehensive income of $8,059 for the year ended December 31, 2011. The change in carrying value noted above resulted in an adjustment to deferred taxes, which is discussed below.

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.

3 Income taxes

As a result of the differences identified above between Canadian GAAP and IFRS, the revised carrying values of intangible assets and property and equipment resulted in revised temporary differences between the accounting basis and tax basis of these assets.

At the Transition Date, the Company recorded a net increase in deferred tax assets of $3,357. In accordance with the provisions of IFRS 1, this difference was recognized in the opening accumulated deficit at the Transition Date.

At December 31, 2010, the Company recorded a net decrease in deferred tax liabilities of $1,373. This difference reflects the reversal of impairment of intangible assets recorded during the year ended December 31, 2010 which resulted in revised temporary differences from the amounts at the Transition Date. For the year ended December 31, 2010, the Company recorded a net increase in income tax expense of $1,983 relating to the increased carrying values of intangible assets due to the reversal of impairments during the year.

32 Transition to IFRS continued

3 Income taxes continued

Due to the expectation of more frequent impairments or reversals of impairments of intangible assets and property and equipment, the Company expects to incur more volatility in its deferred tax and resulting income tax expense in the future.

Presentation reclassifications - Statement of Financial Position

Deferred tax - Under Canadian GAAP, deferred tax assets and liabilities were presented as current or long-term on the consolidated balance sheets in accordance with the assets or liabilities that gave rise to the deferred tax balances. Under IFRS, deferred tax assets and liabilities are required to be presented as non-current. The Company has reclassified the deferred taxes into non-current assets and liabilities based on the net asset and liability positions at each reporting date.

Other - All other reclassifications have been made to simplify the presentation of the statement of financial position and are not as a result of the adoption of IFRS standards.

Presentation reclassifications - Statement of Comprehensive Income

Finance costs / Finance income - Under Canadian GAAP, finance income was not required to be separated from revenue. Under IFRS, finance income is required to be presented separately from revenue and presented after operating profit. Previously under Canadian GAAP, the Company disclosed finance costs as "interest costs". This amount was included in operating profit. Under IFRS, finance costs is required to be presented after operating profit.

Other - All other reclassifications have been made to simplify the presentation of the statement of financial position and are not as a result of the adoption of IFRS standards.

(in thousands of Canadian dollars except for share and per share amounts)

32 Transition to IFRS continued

Reconciliation of Consolidated Statement of Financial Position as of January 1*, 2010*

Canadian GAAP accounts	**CGAAP Balance $**	**IFRS Adjustments $**	**IFRS Reclassifications $**	**IFRS Balance $**	**IFRS accounts**
Assets					**Assets**
Cash and cash equivalents	21,528	-	-	21,528	Cash and cash equivalents
Trade and other receivables	35,323	-	-	35,323	Trade and other receivables
Inventories	108,324	-	-	108,324	Inventories
Prepaid expenses	1,646	-	-	1,646	Other current assets
Current assets	166,821	-	-	166,821	**Current assets**
Property and equipment	17,794	(194)	-	17,600	Property and equipment
Intangible assets	43,700	(13,100)	-	30,600	Intangible assets
Future income tax	1,647	3,357	(1,512)	3,492	Deferred tax
Prepaid rent	2,142	-	(2,142)	-	
Other assets	56	-	(56)	-	
	-	-	2,198	2,198	Other long-term assets
Total assets	232,160	(9,937)	(1,512)	220,711	**Total assets**
Liabilities					**Equity and liabilities**
Accounts payable	24,831	-	-	24,831	Trade and other payables
Revolving floorplan facilities	102,370	-	-	102,370	Revolving floorplan facilities
Current portion of long term debt	271	-	(96)	175	Current lease obligations
	-	-	96	96	Current indebtedness
Future income taxes	1,512	-	(1,512)	-	
Current liabilities	128,984	-	(1,512)	127,472	**Current liabilities**
Long term debt	23,074	-	(22,785)	289	Long-term lease obligations
	-	-	22,785	22,785	Long-term indebtedness
Total liabilities	152,058	-	(1,512)	150,546	**Total liabilities**
Shareholders' equity	-	-	-	-	**Equity**
Share capital	190,435	-	-	190,435	Share capital
Contributed surplus	3,918	-	-	3,918	Contributed surplus
Deficit	(114,251)	(9,937)	-	(124,188)	Accumulated deficit
Total shareholders' equity	80,102	(9,937)	-	70,165	**Total equity**
Total liabilities and equity	232,160	(9,937)	(1,512)	220,711	**Total liabilities and equity**

(in thousands of Canadian dollars except for share and per share amounts)

32 Transition to IFRS continued

Reconciliation of Consolidated Statement of Financial Position as of December 31, 2010

Canadian GAAP accounts	CGAAP Balance $	IFRS Adjustments $	IFRS Reclassifications $	IFRS Balance $	IFRS accounts
Assets					**Assets**
Cash and cash equivalents	37,541	-	-	37,541	Cash and cash equivalents
Trade and other receivables	32,832	-	-	32,832	Trade and other receivables
Inventories	118,088	-	-	118,088	Inventories
Prepaid expenses	1,148	-	-	1,148	Other current assets
Current assets	189,609	-	-	189,609	**Current assets**
Property & equipment	25,935	(345)	-	25,590	Property and equipment
Intangible assets	45,059	(5,041)	-	40,018	Intangible assets
Goodwill	309	-	-	309	Goodwill
Future income tax	930	-	(930)	-	
Prepaid rent	5,850	-	(5,850)	-	
Other assets	59	-	(59)	-	
	-	-	5,909	5,909	Other long-term assets
Total assets	267,751	(5,386)	(930)	261,435	**Total assets**
Liabilities					**Equity and Liabilities**
Trade and other payables	26,622	-	-	26,622	Trade and other payables
Revolving floorplan facilities	124,609	-	-	124,609	Revolving floorplan facilities
Current lease obligations	907	-	-	907	Current lease obligations
Current indebtedness	277	-	-	277	Current indebtedness
Future income taxes	3,855	-	(3,855)	-	
Current liabilities	156,270	-	(3,855)	152,415	**Current Liabilities**
Lease obligations	120	-	-	120	Long-term lease obligations
Long-term debt	24,974	-	-	24,974	Long-term indebtedness
	-	(1,373)	2,925	1,552	Deferred tax
Total liabilities	181,364	(1,373)	(930)	179,061	**Total liabilities**
Shareholders' equity	-	-	-	-	**Equity**
Share capital	190,435	-	-	190,435	Share capital
Contributed surplus	3,918	-	-	3,918	Contributed surplus
Deficit	(107,966)	(4,013)	-	(111,979)	Accumulated deficit
Total shareholders' equity	86,387	(4,013)	-	82,374	**Total equity**
Total liabilities and equity	267,751	(5,386)	(930)	261,435	**Total equity and liabilities**

(in thousands of Canadian dollars except for share and per share amounts)

32 Transition to IFRS continued

Reconciliation of Consolidated Statement of Comprehensive Income for the year ended December 31, 2010

Canadian GAAP accounts	CGAAP Balance $	IFRS Adjustments $	IFRS Reclassifications $	IFRS Balance $	IFRS accounts
Vehicles	760,527	-	108,980	869,507	Revenue
Parts, service and collision repair	108,558	-	(108,558)	-	
Other	1,446	-	(1,446)	-	
Revenue	870,531	-	(1,024)	869,507	**Revenue**
Cost of sales	(719,594)	-	107	(719,487)	Cost of sales
Gross Profit	150,937	-	(917)	150,020	**Gross profit**
Selling, general and administrative	126,056	150	4,025	130,231	Operating expenses
Interest	9,217	-	(9,217)	-	
Amortization	4,021	-	(4,021)	-	
Earnings before income taxes	11,643	(150)	8,296	19,789	**Operating profit before other income**
	-	8,059	-	8,059	Reversal of impairment of intangible assets
Earnings before income taxes	11,643	7,909	8,296	27,848	**Operating profit**
	-	-	(9,217)	(9,217)	Finance costs
	-	-	921	921	Finance income
Earnings before income taxes	11,643	7,909	-	19,552	**Net income for the period before taxation**
Income tax	2,972	1,984	-	4,956	Income tax
Net earnings	8,671	5,925	-	14,596	**Net income and comprehensive income for the period**

CORPORATE INFORMATION

Shareholder Information

AutoCanada Inc.

Senior Management

Patrick Priestner,
Chief Executive Officer

Thomas Orysiuk,
President and Chief Financial Officer

Stephen Rose,
Executive Vice-President, Corporate Services

Jeffery Christie,
Vice-President, Finance

Board of Directors

Gordon Barefoot – Chairman

Michael Ross

Robin Salmon

Dennis DesRosiers

Christopher Cumming

Patrick Priestner

Thomas Orysiuk

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Auditors

PricewaterhouseCoopers, LLP
Edmonton, Alberta

Shares Listed

Toronto Stock Exchange
Trading Symbol: ACQ

Transfer Agent

Valiant Trust Company

Annual General Meeting

Wednesday, May 9, 2012
10:00 a.m. Mountain Time
AutoCanada Inc. Corporate Head Office
200 – 15505 Yellowhead Trail
Edmonton, Alberta

AUTOCANADA

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