

# **AutoCanada Inc.**

Consolidated Financial Statements  
**December 31, 2014**



March 19, 2015

## **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, 2014 and December 31, 2013 and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, 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 audit 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.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



**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, 2014 and December 31, 2013 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP*

**Chartered Accountants**

Edmonton, Canada

# 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, 2014 \$	December 31, 2013 \$
<b>Revenue</b> (Note 7)	2,214,778	1,409,040
<b>Cost of sales</b> (Note 8)	(1,841,629)	(1,163,005)
<b>Gross profit</b>	373,149	246,035
<b>Operating expenses</b> (Note 9)	(290,904)	(188,519)
<b>Operating profit before other income (expense)</b>	82,245	57,516
Lease and other income, net	5,524	-
Loss on disposal of assets, net	(183)	(210)
Recovery of impairment of intangible assets (Note 22)	1,767	746
Income from investments in associates (Note 15)	3,490	2,241
<b>Operating profit</b>	92,843	60,293
Finance costs (Note 11)	(20,363)	(9,618)
Finance income (Note 11)	2,147	1,187
<b>Net income for the year before taxation</b>	74,627	51,862
Income tax (Note 12)	18,335	13,696
<b>Net and comprehensive income for the year</b>	56,292	38,166
<b>Net and comprehensive income for the year attributable to:</b>		
AutoCanada shareholders	53,132	38,166
Non-controlling interests	3,160	-
	56,292	38,166
<b>Net earnings per share attributable to AutoCanada shareholders</b>		
Basic	2.31	1.83
Diluted	2.30	1.83
<b>Weighted average shares</b>		
Basic	23,018,588	20,868,726
Diluted	23,139,403	20,934,828

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

### Approved on behalf of the Company:



Gordon R. Barefoot, Director



Michael Ross, Director

# AutoCanada Inc.

## Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

	December 31, 2014	December 31, 2013
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (Note 17)	72,462	35,113
Trade and other receivables (Note 18)	92,138	57,771
Inventories (Note 19)	563,277	278,091
Current portion of finance lease receivables (Note 20)	3,537	-
Other current assets	5,166	1,603
	<hr/>	<hr/>
	736,580	372,578
<b>Property and equipment</b> (Note 21)	214,938	122,915
<b>Investments in associates</b> (Note 15)	-	13,131
<b>Intangible assets</b> (Note 22)	356,612	96,985
<b>Goodwill</b> (Note 22)	29,620	6,672
<b>Long-term portion of finance lease receivables</b> (Note 20)	10,292	-
<b>Other long-term assets</b> (Note 24)	6,713	6,797
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	1,354,755	619,078
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank indebtedness (Note 17)	2,181	-
Trade and other payables (Note 25)	82,670	50,428
Revolving floorplan facilities (Note 26)	527,780	264,178
Current tax payable	9,708	4,906
Vehicle repurchase obligations (Note 27)	1,539	1,398
Current indebtedness (Note 26)	4,651	2,866
Current portion of redemption liabilities (Notes 13 & 14)	7,665	-
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	636,194	323,776
<b>Long-term indebtedness</b> (Note 26)	223,009	83,580
<b>Deferred income tax</b> (Note 12)	24,963	21,480
<b>Redemption liabilities</b> (Notes 13 & 14)	34,133	-
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	918,299	428,836
<b>EQUITY</b>		
<b>Attributable to AutoCanada shareholders</b>	381,428	190,242
<b>Attributable to Non-controlling interests</b>	55,028	-
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	436,456	190,242
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	1,354,755	619,078
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Commitments and contingencies (Note 28)

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)

	Attributable to AutoCanada shareholders				Non- controlling interests	Total Equity
	Share capital	Contributed surplus	Accumulated deficit	Total		
	\$	\$	\$	\$		
<b>Balance, January 1, 2014</b>	232,938	4,758	(47,454)	190,242	-	190,242
Net and comprehensive income	-	-	53,132	53,132	3,160	56,292
Dividends declared on common shares (Note 30)	-	-	(21,745)	(21,745)	-	(21,745)
Non-controlling interests arising on business combinations and acquisitions (Notes 13 & 14)	-	-	-	-	52,309	52,309
Recognition of redemption liability granted to non-controlling interests (Notes 13 & 14)	-	-	(41,798)	(41,798)	-	(41,798)
Dividends declared by subsidiaries to non-controlling interests (Note 16)	-	-	-	-	(441)	(441)
Common shares issued (Note 30)	203,655	-	-	203,655	-	203,655
Treasury shares acquired (Note 30)	(2,776)	-	-	(2,776)	-	(2,776)
Shares settled from treasury (Note 30)	755	(760)	-	(5)	-	(5)
Share-based compensation	-	723	-	723	-	723
<b>Balance, December 31, 2014</b>	<b>434,572</b>	<b>4,721</b>	<b>(57,865)</b>	<b>381,428</b>	<b>55,028</b>	<b>436,456</b>

	Attributable to AutoCanada shareholders				Non- controlling interests	Equity
	Share capital	Contributed surplus	Accumulated deficit	Total capital		
	\$	\$	\$	\$		
<b>Balance, January 1, 2013</b>	189,500	4,423	(69,423)	124,500	-	124,500
Net and comprehensive income	-	-	38,166	38,166	-	38,166
Dividends declared on common shares (Note 30)	-	-	(16,197)	(16,197)	-	(16,197)
Common shares issued (Note 30)	43,811	-	-	43,811	-	43,811
Treasury shares acquired (Note 30)	(579)	-	-	(579)	-	(579)
Shares settled from treasury (Note 30)	206	(240)	-	(34)	-	(34)
Share-based compensation	-	575	-	575	-	575
<b>Balance, December 31, 2013</b>	<b>232,938</b>	<b>4,758</b>	<b>(47,454)</b>	<b>190,242</b>	<b>-</b>	<b>190,242</b>

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, 2014	December 31, 2013
	\$	\$
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
Net and comprehensive income	56,292	38,166
Income taxes (Note 12)	18,335	13,696
Amortization of prepaid rent	452	452
Depreciation of property and equipment (Note 21)	13,624	6,346
Loss on disposal of assets	183	210
Recovery of impairment of intangible assets (Note 22)	(1,767)	(746)
Share-based compensation - equity-settled	723	575
Share-based compensation - cash-settled	(487)	2,054
Income from investment in associates (Note 15)	(3,490)	(2,241)
Income taxes paid	(16,824)	(10,559)
Gain on embedded derivative	(243)	-
Net change in non-cash working capital (Note 33)	4,339	(9,968)
	<u>71,137</u>	<u>37,985</u>
<b>Investing activities</b>		
Business acquisitions, net of cash acquired (Note 13)	(269,983)	(65,368)
Investments in associates (Note 15)	(43,900)	(7,057)
Dividends received from investments in associates (Note 15)	1,458	897
Combination of entities under common control (Note 14)	4,699	-
Purchases of property and equipment (Note 21)	(23,441)	(67,105)
Proceeds on sale of property and equipment	32	3,304
Proceeds on divestiture of dealership	-	1,354
Reduction in restricted cash	-	10,000
	<u>(331,135)</u>	<u>(123,975)</u>
<b>Financing activities</b>		
Proceeds from long-term indebtedness	770,449	241,287
Repayment of long-term indebtedness	(787,945)	(181,757)
Common shares repurchased (Note 30)	(2,776)	(513)
Dividends paid (Note 30)	(21,745)	(16,197)
Dividends paid to non-controlling interests by subsidiaries (Note 16)	(441)	-
Proceeds from issuance of common shares (Note 30)	191,262	43,811
Proceeds from senior unsecured notes (Note 26)	146,362	-
	<u>295,166</u>	<u>86,631</u>
<b>Increase in cash</b>	35,168	641
<b>Cash and cash equivalents at beginning of year (Note 17)</b>	35,113	34,472
<b>Cash and cash equivalents at end of year (Note 17)</b>	<u>70,281</u>	<u>35,113</u>

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

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

## 1 General Information

AutoCanada Inc. ("AutoCanada" or the "Company") is incorporated in 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, Saskatchewan, Manitoba, Ontario, Quebec, 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

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB") and Canadian Generally Accepted Accounting Principles ("GAAP") as set out in the CPA Canada Handbook - Accounting ("CPA Handbook").

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 for issue by the Board of Directors on March 19, 2015.

## 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 all financial assets and financial liabilities to fair value, including derivative instruments, redemption liabilities and liabilities for cash-settled share-based payment arrangements.

### *Principles of consolidation*

The consolidated financial statements comprise the financial statements of AutoCanada and its subsidiaries. Subsidiaries are all entities over which the Company has control. For accounting purposes, control is established by an investor when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are no longer consolidated on the date control ceases.

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is generally presented as a component of equity; in situations where the non-controlling interest holder has a contractual right to require the Company to repurchase the interest, it is presented as a liability.

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.

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

## 3 Significant Accounting Policies continued

### *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 consolidated statement of comprehensive income. Transaction costs are expensed as incurred.

### *Investments in associates*

An associate is an entity over which the Company has significant influence, but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights, but with considerations over the relationships between the investors and the investees. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Company's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss, where appropriate.

The Company's share of post-acquisition profit or loss is recognized in the income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Company determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to its share of profit or loss of the associate in the consolidated statement of comprehensive income.

Profits and losses resulting from upstream and downstream transactions between the Company and its associate are recognized in the Company's financial statements only to the extent of unrelated investors' interests in the associate. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the assets transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Company. Dilution gains and losses arising from the investment in the associate are recognized in the consolidated statement of comprehensive income.

### *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. It excludes sales related taxes and intercompany transactions.

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

## 3 Significant Accounting Policies continued

### *Revenue recognition continued*

(a) Vehicles, parts, service and collision repair continued

Revenue is recognized when the risks and rewards of ownership have been transferred to the customer, 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.

(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.

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 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.

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

## 3 Significant Accounting Policies continued

### *Taxation continued*

#### (a) Deferred tax continued

##### 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.

#### (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.

### *Manufacturer incentives and other rebates*

Various incentives from manufacturers are received based on achieving certain objectives, such as specified sales volume targets. These incentives are typically based upon units sold to retail or fleet customers. These manufacturer incentives are recognized as a reduction of new vehicle cost of sales when earned, generally at the latter of the time the related vehicles are sold or upon attainment of the particular program goals.

Manufacturer rebates to our dealerships and assistance for floorplan interest are reflected as a reduction in the carrying value of each vehicle purchased by us. These incentives are recognized as a reduction to the cost of sales as the related vehicles are sold.

### *Advertising*

Manufacturer advertising rebates that are reimbursements of costs associated with specific advertising expenses are earned in accordance with the respective manufacturers' reimbursement-based advertising assistance programs, which is typically after the corresponding advertising expenses have been incurred, and are reflected as a reduction in advertising expense included in administrative costs as an operating expense in the consolidated Statement of Comprehensive Income.

# **AutoCanada Inc.**

## **Notes to the Financial Statements**

### **For the Years Ended December 31, 2014 and 2013**

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

### **3 Significant Accounting Policies continued**

#### ***Financial instruments***

Financial assets and financial liabilities are recognized on the consolidated Statement of Financial Position when the Company becomes a party to the contractual provisions of the financial instrument. All financial instruments are required to be measured at fair value on initial recognition. The Company's own credit risk and the credit risk of the counter-party are taken into consideration in determining the fair value of financial assets and financial liabilities.

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 the Bank of Nova Scotia ("Scotiabank") that are readily available to the Company (See Note 23 - Financial instruments - Credit risk for explanation of credit risk associated with amounts held with Scotiabank).

#### ***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 consolidated Statement of Comprehensive Income 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 consolidated Statement of Comprehensive Income.

#### ***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 carried 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.

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

### 3 Significant Accounting Policies continued

#### *Property and equipment*

Property and equipment are stated at cost less accumulated depreciation 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 depreciation are reviewed, and adjusted if appropriate, at each financial year end. Land is not depreciated. Other than as noted below, depreciation 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:

Machinery and equipment	20%
Furniture, fixtures and other	20%
Company & lease vehicles	30%
Computer hardware	30%

Buildings are depreciated on a straight-line basis over the estimated useful lives of the buildings. Useful lives are determined based on independent appraisals.

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 depreciated using the straight-line method over the life of the lease.

Depreciation of leased vehicles is based on a straight line depreciation 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 determine whether depreciation rates are reasonable.

#### *Intangible assets and goodwill*

##### (a) 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 accumulated 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.

##### (b) Goodwill

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate a potential impairment, and is 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.

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

## 3 Significant Accounting Policies continued

### *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 dealer agreements with indefinite lives are subject to an annual impairment assessment. For purposes of impairment testing, the fair value of our dealer 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 before aggregation. Goodwill is allocated to those CGU's that are expected to benefit from the business combination in which the goodwill arose.

### *Trade and other payables*

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. Trade and other 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 represent liabilities 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*

Lease obligations 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.

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

## 3 Significant Accounting Policies continued

### *Leases continued*

(a) Finance leases

Leases in which substantially all the risks and rewards of ownership are transferred are classified as finance leases.

*The Company as a lessor:*

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

The method for allocating gross earnings to accounting periods is referred to as the "actuarial method". The actuarial method allocates rentals between finance income and repayment of capital in each accounting period in such a way that finance income will emerge as a constant rate of return on the lessor's net investment in the lease.

*The Company as a lessee:*

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 leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

*The Company as a lessor:*

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset. Lease income on operating leases is recognised over the term of the lease on a straight-line basis.

*The Company as a lessee:*

Payments under an operating lease (net of any incentives received from the lessor) are recognized on a straight-line basis over the period of the lease.

### *Redemption liabilities*

The potential cash payments related to put options issued by the Company over the equity of subsidiary companies are accounted for as financial liabilities when such options may only be settled other than by exchange of a fixed amount of cash, or another financial asset, or for a fixed number of shares in the subsidiary. The amount that may become payable under the option on exercise is initially recognised at fair value within redemption liabilities with a corresponding charge directly to equity attributable to AutoCanada shareholders. Subsequently, if the Company revises its estimates, the carrying amount of the redemption liability is adjusted and the adjustment will be recognised as income or expenses in the consolidated statement of comprehensive income. Options that are not exercisable for at least one year from the balance sheet date are presented as non-current liabilities.

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

## 3 Significant Accounting Policies continued

### *Share capital*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds. Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's shareholders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's shareholders.

### *Dividends*

Dividends on common shares are recognized in the Company's consolidated financial statements in the period the dividends are declared by the Company's board of directors.

### *Earnings per share*

Basic earnings per share is computed based on the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the treasury stock method, which assumes that the cash that would be received on the exercise of options is applied to purchase shares at the average price during the period and that the difference between the number of shares issued on the exercise of options and the number of shares obtainable under this computation, on a weighted average basis, is added to the number of shares outstanding. Antidilutive options are not considered in computing diluted earnings per share.

### *Changes in accounting policies*

The Company has adopted the following interpretation, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions:

- IFRIC 21, *Levies*, requires the Company to consider certain government imposed payments, or levies, such as property tax, to determine whether the obligating event requiring recognition of a liability arises at a point in time, or over a period of time. The adoption of IFRIC 21 did not require any current or retrospective adjustments at January 1, 2014.

### *New accounting policies*

During the year ended December 31, 2014 the Company adopted the following accounting policies:

- *Acquisition of entities under common control.* There is currently no guidance in IFRS on the accounting treatment for business combinations among entities under common control. The Company has elected to apply the predecessor values method upon the date of acquisition. As such, all assets and liabilities of the acquiree are incorporated by the acquirer at their predecessor carrying values and no fair value adjustments are recorded. No goodwill arises from the transaction. In the financial statements the acquired entities' financial results and balance sheets are consolidated on the date of acquisition, with prospective application. The critical judgments as it pertains to this policy is further described in Note 5.

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

### 3 Significant Accounting Policies continued

#### *New accounting policies continued*

- IFRS 17, *Leases*, requires lessors to recognize assets held under a finance lease in their statements of financial position and present them as a receivable at an amount equal to the net investment in the lease. They are initially recognized at amounts equal to the present value of the minimum lease payments receivable. Payments considered to be part of the leasing arrangement are apportioned between a reduction in the finance lease receivable and finance lease income. Finance lease income is recognized in a manner that produces a constant rate of return on the Company's investment in the lease and is included in revenue.

### 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, 2014. The standards issued 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, 2018, with earlier adoption permitted.
- IFRS 15, *Revenue from Contracts with Customers* - in May 2014, the IASB issued IFRS 15, which supersedes IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single model to determine how and when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of its revenue recognition criteria. IFRS 15 is to be applied prospectively and is effective for annual periods beginning on or after January 1, 2017, with earlier application permitted.

The Company is in the process of evaluating the impact that the new standards may have on the financial statements.

### 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.

#### **Critical estimates and assumptions in determining the value of assets and liabilities:**

##### *Intangible assets and goodwill*

Intangible assets and goodwill generally arise from 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.

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

#### 5 Critical accounting estimates, judgments & measurement uncertainty continued

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 may record impairment charges in the future.

The Company tests, at least annually, whether intangible assets and goodwill have 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 (see Note 22).

##### *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.

##### *Redemption liabilities*

Redemption liabilities arise during business combinations where non-controlling interest shareholders have the right to require the Company to redeem their equity interests in certain non-wholly owned subsidiaries (See Note 16). The redemption amounts are determined with reference to the future profitability generated by those subsidiaries and their operating businesses. The Company will initially recognise a financial liability at the present value of the estimated redemption amount, and at the end of each subsequent reporting period, the Company will revisit their estimates. If the Company revises its estimates, the Company will adjust the carrying amount of the financial liability to reflect revised estimated profitability and the adjustments will be recognised as income or expenses in the consolidated statement of comprehensive income.

#### **Critical judgments in applying accounting policies:**

##### *Investments in associates*

When assessing control over an investee, an investor considers the nature of its relationship with other parties and whether those other parties are acting on the investor's behalf; that is, acting as a de facto agent. The determination of whether other parties are acting as de facto agents requires judgment, considering not only the nature of the relationship but also how those parties interact with each other and the investor.

On July 11, 2014, Canada One Auto Group Ltd. ("COAG"), a company controlled by Mr. Patrick Priestner ("Priestner"), the Chief Executive Officer ("CEO") of the Company, completed a secondary offering of shares in AutoCanada held by COAG and its subsidiaries. As a result of the transaction, COAG reduced its ownership interest in AutoCanada to 9.6% of the outstanding common voting shares. This caused the Company to re-evaluate its significant judgment dealing with the accounting for its investments in associates (the "investees"). Since the Company does not hold voting shares in the investees, the Company evaluated whether it exercised power over the investees through a de facto agency relationship with its then CEO.

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

#### 5 *Critical accounting estimates, judgments & measurement uncertainty continued*

The following facts were considered to assess the relationship between AutoCanada and its then CEO:

- The Company has the ability to control the decision making of the CEO by virtue of the employment agreement with the CEO. Should the CEO no longer be employed by the Company, this assessment would need to be further evaluated.
- The directors and officers of the investees are related parties to the Company; and
- The Company is involved in the operational decision making of its investees.

Prior to the secondary offering, the CEO was considered to have de facto control over AutoCanada, which was considered an overarching factor in concluding that he also controlled the investees. The loss of de facto control over AutoCanada changed the Company's assessment with respect to a number of factors, including those listed above. As a result of its assessment, management has concluded that, as of July 11, 2014, the Company has power over its investees, and has consolidated the results of its investees on a common control basis using the predecessor values method. (See Note 14).

Effective January 1, 2015, Priestner transitioned out of the role of CEO and into the role of Executive Chair and remains an employee of the Company. The Company has assessed that this change does not change the nature of his relationship with the Company. Should the nature of the relationship and/or the relevant agreements between Priestner and the Company change in the future, this assessment would need to be further evaluated.

#### *Combinations with entities under common control*

There is currently no guidance in IFRS on the accounting treatment for business combinations among entities under common control. As such, the Company has elected to consolidate the assets and liabilities of the investees using the predecessor values method on a prospective basis. The application of this method applies the concept of IAS 8 *Accounting Policies, Changes in Estimates, and Errors* whereby if no applicable standard or interpretation exists, then management must develop a policy that is relevant to the decision-making needs of the users, and that is reliable.

#### 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 CEO, 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.

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

#### 7 Revenue

	2014	2013
	\$	\$
New vehicles	1,342,346	882,858
Used vehicles	495,352	300,881
Finance, insurance and other	121,373	82,958
Parts, service and collision repair	255,707	142,343
	<u>2,214,778</u>	<u>1,409,040</u>

#### 8 Cost of sales

	2014	2013
	\$	\$
New vehicles	1,236,344	807,023
Used vehicles	465,851	280,608
Finance, insurance and other	12,293	6,786
Parts, service and collision repair	127,141	68,588
	<u>1,841,629</u>	<u>1,163,005</u>

#### 9 Operating expenses

	2014	2013
	\$	\$
Employee costs (Note 10)	186,161	121,854
Administrative costs <sup>(1)</sup>	77,478	48,571
Facility lease costs	13,641	11,748
Depreciation of property and equipment (Note 21)	13,624	6,346
	<u>290,904</u>	<u>188,519</u>

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

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

#### 10 Employees

Operating expenses incurred in respect of employees were:

	2014	2013
	\$	\$
Wages, salaries and commissions	170,804	113,417
Withholding taxes and insurance	8,040	5,196
Employee benefits	6,677	3,241
Other benefits	640	-
	<u>186,161</u>	<u>121,854</u>

#### 11 Finance costs and finance income

	2014	2013
	\$	\$
<b>Finance costs:</b>		
Interest on long-term indebtedness	7,850	1,007
Unrealized gain on embedded derivative	(243)	-
Floorplan financing	10,452	7,353
Other interest expense	2,304	1,258
	<u>20,363</u>	<u>9,618</u>
<b>Finance income:</b>		
Short-term bank deposits	(2,147)	(1,187)

Cash interest paid during the year ended December 31, 2014 was \$20,605 (2013 - \$9,556).

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

## 12 Taxation

Components of income tax expense were as follows:

	2014	2013
	\$	\$
Current tax	21,610	11,478
Deferred tax	(3,275)	2,218
<b>Total income tax expense</b>	<b>18,335</b>	<b>13,696</b>

Factors affecting tax expense for the year:

	2014	2013
	\$	\$
Comprehensive income before taxes	74,627	51,863
Comprehensive income before tax multiplied by the standard rate of Canadian corporate tax of 25.8% (2013 - 25.7%)	19,276	13,329
<b>Effects of:</b>		
Impact of non-deductible (non-taxable) items	(259)	209
Change in deferred tax rate	60	(91)
Difference between future and current rate	16	(52)
Reversal of deferred tax on outside basis of equity investments	(754)	-
Other, net	(4)	301
<b>Total income tax expense</b>	<b>18,335</b>	<b>13,696</b>

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

	Deferred income from partnerships	Property and equipment	Goodwill and intangible assets	Restricted partnership losses	Other	Total
	\$	\$	\$	\$	\$	\$
<b>Deferred tax assets (liabilities)</b>						
<b>January 1, 2013</b>	(8,309)	203	(6,637)	-	(66)	(14,809)
(Expense) benefit to consolidated statement of comprehensive income	(981)	(928)	(11)	(321)	23	(2,218)
Deferred tax acquired on acquisition	-	-	(4,453)	-	-	(4,453)
<b>December 31, 2013</b>	(9,290)	(725)	(11,101)	(321)	(43)	(21,480)
Benefit (expense) to consolidated statement of comprehensive income	2,702	2,886	(2,473)	321	(161)	3,275
Deferred tax acquired on acquisition	-	-	(5,090)	-	-	(5,090)
Deferred tax acquired on combination of entities under common control	-	-	(5,920)	-	-	(5,920)
Measurement period adjustment	-	-	2,416	-	-	2,416
Deferred tax on share issuance costs	-	-	-	-	1,820	1,820
Other	-	-	-	-	16	16
<b>December 31, 2014</b>	<b>(6,588)</b>	<b>2,161</b>	<b>(22,168)</b>	<b>-</b>	<b>1,632</b>	<b>(24,963)</b>

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

## 12 Taxation continued

Changes in the deferred income tax components are adjusted through deferred tax expense. Of the above components of deferred income taxes, \$6,588 of the deferred tax liabilities are expected to be recovered within 12 months. The increase in standard rate of Canadian corporate tax is due to the expansion of the Company to a new jurisdiction with a higher tax rate, and a small increases in the corporate tax rate in one jurisdiction in which the Company operates. The Company applies a blended rate in determining its overall income tax expense.

## 13 Business acquisitions

During the year ended December 31, 2014, the Company completed eight business acquisitions comprising thirteen automotive dealerships, including fifteen franchises. All acquisitions have been accounted for using the acquisition method. Acquisitions completed during this period are as follows:

### *BMW Canbec and MINI Mont Royal*

On June 1, 2014, the Company purchased 100% of the voting shares of Automobile Canbec Inc. ("BMW Canbec"), which owns and operates a BMW franchise and a MINI franchise, both located in Montreal, Quebec, for total cash consideration of \$27,000. The acquisition was funded by drawing on the Company's revolving term facility. The purchase of this business is the Company's first BMW and MINI franchises and first dealership in Quebec.

### *Dodge City*

On June 16, 2014, the Company purchased substantially all of the operating and fixed assets of Dodge City Auto 1984 Ltd. ("Dodge City"), in Saskatoon, Saskatchewan, for total cash consideration of \$34,229. The acquisition was financed by drawing on the Company's revolving term facility. The purchase of this business complements the Company's other Chrysler dealerships and further expands its presence in Saskatoon, Saskatchewan.

### *Hyatt Group of Dealerships*

Between the period of June 23, 2014 and July 1, 2014, the Company purchased all of the operating and fixed assets of 678938 Alberta Ltd. ("Calgary Hyundai"), 1446691 Alberta Ltd. ("Crowfoot Hyundai"), 998699 Alberta Ltd. ("Hyatt Mitsubishi"), 588338 Alberta Ltd. ("Northland Volkswagen"), 969642 Alberta Ltd. ("Fish Creek Nissan"), and 1791109 Alberta Ltd. ("Hyatt Infiniti"), herein referred to as (the "Hyatt Group"), located in Calgary, Alberta, for total cash consideration of \$91,389. The initial purchase price of the Hyatt Group was financed by drawing on the Company's revolving term facility. In addition, the Company issued 18,753 common shares at a deemed price of \$79.99 per share (for total consideration of \$1,500) on July 1, 2014 as consideration for the purchase of the exclusive right to build and operate a Nissan motor vehicle franchise on a designated property in southeast Calgary. The purchase of the Hyatt Group complements the Company's existing and open point brands and expands its presence in Calgary, Alberta.

### *Tower Chrysler*

On August 18, 2014, the Company purchased substantially all of the operating and fixed assets of Tower Chrysler Plymouth Ltd. ("Tower Chrysler"), in Calgary, Alberta, for total cash consideration of \$20,438. The acquisition was financed by drawing on the Company's revolving term facility. The purchase of this business complements the Company's other Chrysler dealerships and further expands its presence in Calgary, Alberta.

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

## 13 Business acquisitions continued

### *Lakewood Chevrolet*

On September 2, 2014, the Company purchased a 75% non-voting equity interest in the shares of Lakewood Chevrolet ("Lakewood"), a Chevrolet dealership located in Edmonton, Alberta, for total cash consideration of \$19,800. The acquisition was financed with cash from operations. To comply with GM Canada's approval, Priestner is required to have 100% voting control of Lakewood.

In accordance with the terms of the ownership structure for GM dealerships approved by GM Canada, the Company purchased a 75% non-voting equity interest, with Priestner being named Dealer Operator, personally holding a 15% equity interest and 100% voting control of the dealership. The remaining 10% equity interest is held by the dealership's general manager. The transaction was reviewed and approved by the Company's independent members of its Board of Directors. The purchase of this business complements the Company's other General Motors dealerships and further expands its presence in Edmonton, Alberta.

As part of the acquisition agreement, the non-controlling interest has an option to put the shares back to Lakewood at any time following the expiry of 36 months from the acquisition date. As a result, this interest has been recorded as a liability carried at fair value.

The Company also purchased the dealership land and facility through a wholly-owned subsidiary, Lakewood Properties Inc., for \$19,000. Of the \$1,200 goodwill purchased on the acquisition of the land and building, 17%, or \$204, was purchased by Priestner.

### *Toronto Chrysler*

On October 20, 2014, the Company purchased substantially all of the operating and fixed assets of Toronto Dodge Chrysler Ltd. ("Toronto Chrysler"), in Toronto, Ontario, for total cash consideration of \$2,159. The acquisition was financed with cash from operations. The purchase of this business complements the Company's other Chrysler dealerships and further expands its presence in the greater Toronto area.

### *Bridges Chevrolet*

On November 24, 2014, the Company, through an 80% owned subsidiary, NCFG Holdings Inc. ("NCFG"), purchased the assets of Bridges Chevrolet Buick GMC Ltd. ("Bridges Chevrolet"), a Chevrolet dealership located in North Battleford, Saskatchewan, for total cash consideration of \$4,577. The acquisition was financed with cash from operations. To comply with GM Canada's approval, Priestner is required to have 100% voting control of Bridges Chevrolet.

In accordance with the terms of the ownership structure for GM dealerships approved by GM Canada, the Company purchased an 80% non-voting equity interest, with Priestner, being named Dealer Operator, personally holding a 15% equity interest and 100% voting control of the dealership. The remaining 5% equity interest is held by minority shareholders. The transaction was reviewed and approved by the Company's independent members of its Board of Directors. The purchase of this business complements the Company's other General Motors dealerships and further expands its presence in Saskatchewan.

The Company also purchased the dealership land and facility through a wholly-owned subsidiary, NCFG Properties Inc., for \$3,000.

# **AutoCanada Inc.**

## **Notes to the Financial Statements**

### **For the Years Ended December 31, 2014 and 2013**

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

#### **13 Business acquisitions continued**

##### *BMW Laval and MINI Laval*

On December 15, 2014, the Company, through an 85% owned subsidiary, AutoCanada B Holdings Inc., purchased the assets of Auto Boulevard St. Martin Inc. ("BMW Laval") which owns and operates a BMW franchise and a MINI franchise, both located in Laval, Quebec, for total cash consideration of \$22,516 and contingent consideration with a present value of \$2,353. The acquisition was financed with cash from operations. The purchase of this business complements the Company's other BMW/MINI franchises and further expands its presence in Quebec.

As part of the transaction, the Company entered into an agreement with the former majority owner of BMW Laval, whereby he retained the remaining ownership interest in the two Laval franchises as well as acquired a 15% ownership interest in BMW Canbec from the Company for cash consideration. The non-controlling interest in BMW Canbec at the date of the transaction was equal to \$2,729.

In addition to the business, the Company also purchased the land and a building used for business operations through a wholly-owned subsidiary, LMB Properties Inc., for \$31,233.

##### **Recognition of redemption liabilities**

During the year \$8,687 of redemption liabilities were recognized in connection with the business acquisitions completed. These liabilities relate to put options held by certain non-controlling interests.

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

## 13 Business acquisitions continued

The business acquisitions completed during the year ended December 31, 2014 are summarized as follows:

	BMW Canbec	Dodge City	Hyatt Group	Tower Chrysler	Lakewood Chevrolet	Toronto Chrysler	Bridges Chevrolet	BMW Laval	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Current assets</b>									
Cash and cash equivalents	-	3	2	2	2,350	-	1	2	2,360
Trade and other receivables	6,715	512	693	120	2,187	64	71	3,729	14,091
Inventories	25,504	16,075	48,448	16,175	12,216	2,031	1,576	36,386	158,411
Other current assets	312	121	223	37	53	67	12	14	839
	32,531	16,711	49,366	16,334	16,806	2,162	1,660	40,131	175,701
<b>Long term assets</b>									
Property and equipment	4,096	6,489	1,439	2,344	18,115	148	3,236	32,890	68,757
Intangible assets	15,078	24,494	82,415	14,659	25,417	1,643	3,625	18,042	185,373
Other long-term assets	12	-	-	-	-	-	-	423	435
<b>Total assets</b>	51,717	47,694	133,220	33,337	60,338	3,953	8,521	91,486	430,266
<b>Current liabilities</b>									
Bank indebtedness	1,435	-	-	-	-	-	-	-	1,435
Trade and other payables	2,113	658	348	318	2,887	-	175	3,112	9,611
Revolving floorplan facility	22,092	13,313	44,569	14,095	11,460	1,867	-	31,191	138,587
	25,640	13,971	44,917	14,413	14,347	1,867	175	34,303	149,633
<b>Long term liabilities</b>									
Long-term indebtedness	-	-	-	-	-	-	-	415	415
Deferred income tax	1,776	-	-	-	3,314	-	-	-	5,090
<b>Total liabilities</b>	27,416	13,971	44,917	14,413	17,661	1,867	175	34,718	155,138
<b>Net assets acquired</b>	24,301	33,723	88,303	18,924	42,677	2,086	8,346	56,768	275,128
Goodwill	2,699	506	3,086	1,514	2,723	73	375	3,724	14,700
Non-controlling interest	-	-	-	-	(6,804)	-	(1,144)	(4,390)	(12,338)
<b>Total net assets acquired</b>	27,000	34,229	91,389	20,438	38,596	2,159	7,577	56,102	277,490

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

#### 13 Business acquisitions continued

Acquisitions completed during the year ended December 31, 2014 generated revenue and net earnings of \$329,775 and \$11,270, respectively, since the time of acquisition. The purchase prices allocated, as presented above, are estimates and subject to change due to finalization of the associated allocations. Acquisition related costs of \$1,629 have been charged to administrative expenses in the consolidated statement of comprehensive income for the year ended December 31, 2014. The full amount of acquired receivables is expected to be collected.

Goodwill arose on these acquisitions due to the potential future revenue growth and synergies expected to occur. Goodwill generated on the acquisitions of BMW Canbec and Lakewood Chevrolet is not deductible for tax purposes. The Company used the fair value method to measure the non-controlling interest, resulting in goodwill including both the non-controlling interests' share and the parent's share of goodwill.

The following table summarizes the consideration paid for the Company's business acquisitions for the year ended December 31, 2014:

#### Consideration

Cash	273,637
Equity instruments (18,753 Class A common shares)	1,500
Contingent consideration	2,353
Total consideration	<u>277,490</u>

#### Prior year business acquisitions

During the year ended December 31, 2013, the Company completed four business acquisitions comprising five automotive dealerships, including five franchises. All acquisitions have been accounted for using the acquisition method. Acquisitions completed during this period are as follows:

##### *Grande Prairie Volkswagen*

On January 4, 2013, the Company purchased substantially all of the operating and fixed assets of People's Automotive Ltd. ("Grande Prairie Volkswagen") for total cash consideration of \$1,981. The acquisition was funded by drawing on the Company's VCCI facilities in the amount of \$1,413 and the remaining \$568 was financed with cash from operations. The purchase of this business complements the Company's other dealerships in Grande Prairie. In addition to the business, the Company also purchased land and a building used for business operations for \$1,800.

##### *St. James Audi and Volkswagen*

On April 1, 2013, the Company purchased the shares of The St. James Group of Companies ("St. James"), which owns and operates an Audi and a Volkswagen franchise in Winnipeg, Manitoba, for total cash consideration of \$22,831, which includes \$9,307 paid for real estate assets. The acquisition was financed with cash from operations and the revolving term facility. The purchase of this business complements the Company's other Volkswagen franchises and is the Company's first Audi franchise.

##### *Courtesy Chrysler*

On July 1, 2013, the Company purchased substantially all of the operating and fixed assets, except real estate, of Courtesy Chrysler Dodge (1987) ("Courtesy Chrysler") for total cash consideration of \$17,167. The acquisition was financed with cash from operations and the revolving term facility. The purchase of this business complements the Company's other Chrysler franchises and is the Company's first dealership in Calgary, Alberta.

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

## 13 Business acquisitions continued

### *Eastern Chrysler*

On September 9, 2013, the Company purchased substantially all of the operating and fixed assets of Eastern Chrysler Plymouth Inc. ("Eastern Chrysler") for total cash consideration of \$15,349. The acquisition was financed with cash from operations. The purchase of this business complements the Company's other Chrysler franchises and further expands its presence in Winnipeg, Manitoba. In addition to the business, the Company also purchased land and a building used for business operations for \$6,560.

The business acquisitions completed during the year ended December 31, 2013 are summarized as follows:

	Grande Prairie Volkswagen	St. James Audi and Volkswagen	Courtesy Chrysler	Eastern Chrysler	Total
	\$	\$	\$	\$	\$
<b>Current assets</b>					
Cash and cash equivalents	-	316	2	2	320
Trade and other receivables	16	1,779	581	475	2,851
Inventories	1,777	9,323	21,065	8,098	40,263
Other current assets	-	138	4	2	144
	1,793	11,556	21,652	8,577	43,578
<b>Long term assets</b>					
Property and equipment	1,897	10,668	731	13,527	26,823
Intangible assets	100	8,602	15,520	5,799	30,021
<b>Total assets</b>	3,790	30,826	37,903	27,903	100,422
<b>Current liabilities</b>					
Trade and other payables	9	1,214	351	225	1,799
Revolving floorplan facility	-	8,147	20,558	5,970	34,675
	9	9,361	20,909	6,195	36,474
<b>Long term liabilities</b>					
Deferred income tax	-	3,185	995	372	4,552
<b>Total liabilities</b>	9	12,546	21,904	6,567	41,026
<b>Net assets acquired</b>	3,781	18,280	15,999	21,336	59,396
Goodwill	-	4,551	1,168	573	6,292
<b>Total net assets acquired</b>	3,781	22,831	17,167	21,909	65,688

Acquisitions completed during the year ended December 31, 2013 generated revenue and net earnings of \$113,879 and \$4,496, respectively, during the year of acquisition. The purchase prices allocated, as presented above, are the original estimates and subject to change due to finalization of the associated allocations. During 2014 an adjustment of \$2,416 to the purchase price was recorded to reflect a reduction in deferred tax liability acquired. As a result Goodwill related to the 2013 acquisitions has decreased by \$2,416 and is reflected in Note 22. Acquisition related costs of \$453 were charged to administrative expenses in the consolidated statement of comprehensive income for the year ended December 31, 2013.

Goodwill arose on these acquisitions due to the potential future revenue growth and synergies expected to occur. Goodwill generated on these acquisitions is not deductible for tax purposes.

# **AutoCanada Inc.**

## **Notes to the Financial Statements**

### **For the Years Ended December 31, 2014 and 2013**

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

#### **14 Business combination under common control**

Subsequent to the secondary offering completed on July 11, 2014 (see Note 30), the Company has consolidated its investments in associates, comprising six automotive dealerships (see Note 15), as a common control business combination using the predecessor values method (see Note 5).

The combining entities are ultimately controlled by the same parties prior and subsequent to the business combination, which is considered a transaction under common control. The Company elected to apply predecessor accounting to the transaction and, as such, all assets and liabilities are incorporated by the Company at their predecessor carrying values and no fair value adjustments are recorded. No goodwill arose as a result of the transaction. The combination was applied on a prospective basis. The Company used the fair value method to measure the non-controlling interests, as a result goodwill recorded includes both the non-controlling interests' share and the parent's share of the goodwill which was created on the date of the initial investment.

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

#### 14 Business combination under common control continued

The business combination under common control as at July 11, 2014 is summarized as follows:

	<b>Total</b>
	<b>\$</b>
<b>Current assets</b>	
Cash and cash equivalents	4,699
Trade and other receivables	17,541
Inventories	82,454
Other current assets	700
	<hr/> 105,394
<b>Long term assets</b>	
Property and equipment	12,920
Intangible assets	72,487
Finance lease receivables	9,242
Goodwill	10,664
Other long-term assets	640
	<hr/> 211,347
<b>Total assets</b>	
<b>Current liabilities</b>	
Trade and other payables	11,966
Revolving floorplan facility	75,277
Due to related parties	2,968
	<hr/> 90,211
<b>Long term liabilities</b>	
Long-term indebtedness	9,823
Provisions and other non-current liabilities	15
Deferred income tax	5,920
	<hr/> 105,969
<b>Total liabilities</b>	
<b>Net assets acquired</b>	
Non-controlling interest	105,378
	<hr/> (37,242)
<b>Total net assets acquired</b>	
	<hr/> 68,136

Business combinations under common control during the year ended December 31, 2014 generated revenue and net earnings of \$250,866 and \$10,273, respectively, since the time of acquisition.

#### Recognition of redemption liabilities

During the year \$33,111 of redemption liabilities were recognized in connection with the business combination under common control. These liabilities relate to put options held by certain non-controlling interests.

# **AutoCanada Inc.**

## **Notes to the Financial Statements**

### **For the Years Ended December 31, 2014 and 2013**

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

## **15 Investments in associates**

### ***Dealer Holdings Ltd.***

During 2012, the Company acquired a 60.8% participating, non-voting common share interest in Dealer Holdings Ltd. ("DHL"). DHL is an entity formed between a subsidiary of AutoCanada and Priestner. DHL was formed to acquire General Motors of Canada ("GM Canada") franchised dealerships, whereby Priestner is required to maintain voting control of the dealerships, in accordance with the agreement with GM Canada. All shareholders participate equally in the equity and economic risks and rewards of DHL and its interests, based on the percentage of ownership. The investment in DHL was reviewed and approved by the independent members of AutoCanada's Board of Directors. DHL's principal place of business is Alberta, Canada.

During 2012, DHL acquired a 51% voting equity interest in Nicholson Chevrolet (now operating as Sherwood Park Chevrolet) and a 51% voting equity interest in Petersen Buick GMC (now operating as Sherwood Buick GMC), both dealerships are located in Sherwood Park, Alberta. As part of the acquisition agreement, the non-controlling interest has an option to put the shares back to Sherwood Park Chevrolet, Sherwood Park GMC commencing January 1, 2017. As a result of DHL's investments, the Company indirectly acquired a 31% interest in Sherwood Park Chevrolet and a 31% interest in Sherwood Park GMC.

### ***Green Isle G Auto Holdings Inc.***

On March 1, 2013, the Company invested a total of \$7,057 to acquire an 80.0% participating, non-voting common share interest in Green Isle G Auto Holdings Inc. ("Green Isle"). Green Isle is an entity formed between a subsidiary of AutoCanada and Priestner. Green Isle was formed to acquire General Motors of Canada ("GM Canada") franchised dealerships, whereby Priestner is required to maintain voting control of the dealerships, in accordance with the agreement with GM Canada. All shareholders participate equally in the equity and economic risks and rewards of Green Isle and its interests, based on the percentage of ownership. The investment in Green Isle was reviewed and approved by the independent members of AutoCanada's Board of Directors. Green Isle's principal place of business is British Columbia, Canada.

On March 1, 2013, a subsidiary of Green Isle acquired 100% of the operating assets of Peter Baljet Chevrolet Buick GMC ("Peter Baljet") in Duncan, British Columbia.

### ***Prairie Auto Holdings Ltd.***

On March 10, 2014, the Company invested a total of \$41,651, consisting of \$32,578 in cash and 205,000 common shares of AutoCanada issued (at a value of \$9,073) to acquire an 82.353% equity interest in Prairie Auto Holdings Ltd. ("PAH"). PAH is an entity formed between a subsidiary of AutoCanada and Priestner. PAH was formed to acquire General Motors of Canada ("GM Canada") franchised dealerships, whereby Priestner is required to maintain voting control of the dealerships, in accordance with the agreement with GM Canada. All shareholders participate equally in the equity and economic risks and rewards of PAH and its interests, based on the percentage of ownership. The investment in PAH was reviewed and approved by the independent members of AutoCanada's Board of Directors. PAH's principal place of business is Saskatchewan, Canada.

On March 10, 2014, PAH acquired an 85% equity interest in the shares of Saskatoon Motor Products Ltd. ("SMP"), a Chevrolet dealership in Saskatoon, Saskatchewan, and Mann-Northway Auto Source ("MNAS"), a Chevrolet Buick GMC Cadillac dealership in Prince Albert, Saskatchewan. As part of the acquisition agreement, the non-controlling interest has an option to put the shares back to SMP and MNAS at any time following the expiry of 36 months from the acquisition date. To comply with GM Canada's approval, Priestner is required to have 100% voting control of PAH.

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

## 15 Investments in associates continued

### *Waverley BG Holdings Ltd.*

On April 1, 2014, the Company invested a total of \$11,322 to acquire an 80.0% participating, non-voting common share interest in Waverley BG Holdings Inc. ("WBG"). WBG is an entity formed between a subsidiary of AutoCanada and Priestner. WBG was formed to acquire General Motors of Canada ("GM Canada") franchised dealerships, whereby Priestner is required to maintain voting control of the dealerships, in accordance with the agreement with GM Canada. All shareholders participate equally in the equity and economic risks and rewards of WBG and its interests, based on the percentage of ownership. The investment in WBG was reviewed and approved by the independent members of AutoCanada's Board of Directors. WBG's principal place of business is Manitoba, Canada.

On April 1, 2014, WBG acquired 100% of the operating assets of McNaught Buick Cadillac GMC ("McNaught") in Winnipeg, Manitoba.

### *Carrying value of Investments in Associates*

The following table summarizes the Company's consolidated carrying value of its investments in associates as at December 31, 2014:

	<b>DHL</b>	<b>Green Isle</b>	<b>PAH</b>	<b>WBG</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance, beginning of the year	5,361	7,770	-	-	13,131
Investments during the year	-	-	41,651	11,322	52,973
Income from investment in associate	835	892	1,317	446	3,490
Dividends received	(458)	(1,000)	-	-	(1,458)
Combination of entities under common control (Note 14)	(5,738)	(7,662)	(42,968)	(11,768)	(68,136)
<b>Balance, end of period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

The following table summarizes the Company's consolidated carrying value of its investments in associates as at December 31, 2013:

	<b>DHL</b>	<b>Green Isle</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance, beginning of the year	4,730	-	4,730
Investment during the year	-	7,057	7,057
Income from investment in associate	1,224	1,017	2,241
Dividends received	(593)	(304)	(897)
<b>Balance, end of period</b>	<b>5,361</b>	<b>7,770</b>	<b>13,131</b>

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

## 15 Investments in associates continued

### Summarized financial information

There are no investments in associates as at December 31, 2014. The following table summarizes the financial information of the associates as at December 31, 2013:

	Carrying amount DHL \$	Carrying amount Green Isle \$
Current assets	54,518	9,555
Non-current assets	7,400	16,975
Current liabilities	43,283	6,825
Non-current liabilities	8,320	-

For the year ended December 31, 2013, on a consolidated basis, DHL generated revenue of \$173,708 and total net income of \$3,948. From the date of acquisition to December 31 2013, on a consolidated basis, Green Isle generated revenue of \$33,868 and total net comprehensive income of \$1,271.

## 16 Interests in subsidiaries

The Company owns 100% of most subsidiaries, but also has a controlling interest in certain subsidiaries that also have non-controlling interests held by other parties. The interests in these subsidiaries are summarized as follows:

Subsidiary	Principal place of business	Proportion of ownership interests held by non-controlling interests	Proportion of voting rights held by non- controlling interests	Dividends paid to non- controlling interests \$
Dealer Holdings Ltd.	Alberta	69%	100%	385
Green Isle G Auto Holdings Inc.	British Columbia	20%	100%	56
Prairie Auto Holdings Ltd.	Saskatchewan	30%	100%	-
Waverley BG Holdings Inc.	Manitoba	20%	100%	-
LWD Holdings Ltd.	Alberta	25%	100%	-
NBFG Holdings Inc.	Saskatchewan	20%	100%	-
AutoCanada B Holdings Inc.	Quebec	15%	15%	-

DHL, Green Isle, WBG, NBFG and AutoCanada B Holdings Inc. also have put options whereby the non-controlling shareholders are able to sell their shares back to the Company. These put options are recognized as redemption liabilities and measured at their fair value on the statement of financial position as \$41,798 (2013 - nil). The fair value is determined based on the dealership equity value of the related subsidiary (Note 34).

The underlying nature of the subsidiaries are holding companies which hold automotive dealerships. For purposes of disclosures, the non-controlling interest profit and loss, and accumulated non-controlling interest of the subsidiaries at the end of the reporting period are reported in aggregate as the subsidiaries are similar in nature and risk based on assessment of the interest and industry classification.

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

#### 17 Cash and cash equivalents

	December 31, 2014	December 31, 2013
	\$	\$
Cash at bank and on hand	65,244	27,975
Short-term deposits	7,218	7,138
<b>Cash and cash equivalents (excluding bank indebtedness)</b>	<b>72,462</b>	<b>35,113</b>
Bank indebtedness	(2,181)	-
<b>Cash and cash equivalents</b>	<b>70,281</b>	<b>35,113</b>

Short-term deposits includes cash held with Scotiabank. The Company's revolving floorplan facility agreements allow the Company to hold excess cash in accounts with Scotiabank, which is used to offset finance costs on revolving floorplan facilities. The Company has immediate access to this cash unless in default of the facilities, in which case the cash may be used by Scotiabank in repayment of the facilities. See Note 23 for further detail regarding cash balances held with Scotiabank. The remaining short-term deposits are term deposits that bear interest at 0.55%.

#### 18 Trade and other receivables

	December 31, 2014	December 31, 2013
	\$	\$
Trade receivables	87,336	55,707
Less: Allowance for doubtful accounts	(968)	(518)
<b>Net trade receivables</b>	<b>86,368</b>	<b>55,189</b>
Other receivables	5,770	2,582
<b>Trade and other receivables</b>	<b>92,138</b>	<b>57,771</b>

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

	December 31, 2014	December 31, 2013
	\$	\$
Current	78,266	49,386
Past due 31 - 60 days	8,421	5,458
Past due 61 - 90 days	3,679	1,917
Past due 91 - 120 days	623	678
Past due > 120 days	1,149	332
	<b>92,138</b>	<b>57,771</b>

Included in the amounts greater than 120 days are amounts considered to be collectible. 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 no significant exposure to any single customer and because customer creditworthiness is evaluated before credit is extended.

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

#### 19 Inventories

	December 31, 2014	December 31, 2013
	\$	\$
New vehicles	427,341	224,373
Demonstrator vehicles	26,452	9,375
Used vehicles	84,349	33,454
Parts and accessories	25,135	10,889
	<u>563,277</u>	<u>278,091</u>

During the year ended December 31, 2014, \$1,829,337 of inventory (2013 - \$1,156,219) was expensed as cost of sales which included write-downs on used vehicles of \$901 (2013 - \$151). During the year ended December 31, 2014, \$3,176 of demonstrator expense (2013 - \$1,314) was included in administrative costs. During the year ended December 31, 2014, demonstrator reserves increased by \$1,984 (2013 -\$740). As at December 31, 2014, the Company had recorded reserves for inventory write downs of \$4,896 (2013 - \$2,011).

#### 20 Finance lease receivables

	December 31, 2014	December 31, 2013
	\$	\$
<b>Current portion of finance lease receivables</b>		
Finance lease receivables	4,308	-
Unearned finance income - current	(771)	-
	<u>3,537</u>	<u>-</u>
<b>Long-term portion of finance lease receivables</b>		
Finance lease receivables	11,153	-
Unearned finance income - long-term	(861)	-
	<u>10,292</u>	<u>-</u>
Gross receivables from finance leases:		
No later than 1 year	4,308	-
Later than 1 year and no later than 5 years	11,153	-
Later than 5 years	-	-
	<u>15,461</u>	<u>-</u>
Unearned future finance income on finance leases	(1,632)	-
	<u>13,829</u>	<u>-</u>
<b>Net investment in finance leases</b>		
Net investment in finance leases:		
No later than 1 year	3,537	-
Later than 1 year and no later than 5 years	10,292	-
Later than 5 years	-	-
	<u>13,829</u>	<u>-</u>

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

## 21 Property and equipment

	Company & lease vehicles	Leasehold Improvements	Machinery & Equipment	Land & buildings	Furniture, fixtures & other	Computer hardware	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Cost:</b>							
January 1, 2013	5,177	6,640	11,570	24,154	5,262	4,007	56,810
Capital expenditures	348	802	1,003	-	125	880	3,158
Acquisitions of dealership assets	6,458	384	1,684	17,637	653	7	26,823
Acquisitions of real estate	-	-	-	63,947	-	-	63,947
Disposals	-	(586)	(459)	(3,248)	(158)	(178)	(4,629)
Transfers out of inventory, net	(1,164)	-	-	-	-	-	(1,164)
<b>December 31, 2013</b>	<b>10,819</b>	<b>7,240</b>	<b>13,798</b>	<b>102,490</b>	<b>5,882</b>	<b>4,716</b>	<b>144,945</b>
Capital expenditures	280	2,084	1,709	-	953	1,591	6,617
Acquisitions of dealership assets	12,641	7,767	4,434	53,533	2,025	1,277	81,677
Acquisitions of real estate	-	-	-	16,824	-	-	16,824
Disposals	-	(35)	(209)	-	(294)	(245)	(783)
Transfers out of inventory, net	(4,825)	-	-	-	-	-	(4,825)
<b>December 31, 2014</b>	<b>18,915</b>	<b>17,056</b>	<b>19,732</b>	<b>172,847</b>	<b>8,566</b>	<b>7,339</b>	<b>244,455</b>
<b>Accumulated depreciation:</b>							
January 1, 2013	(1,521)	(2,532)	(6,845)	(1,699)	(3,046)	(2,654)	(18,297)
Depreciation	(1,729)	(695)	(1,376)	(1,410)	(559)	(577)	(6,346)
Disposals	-	576	455	-	141	91	1,263
Transfers out of inventory	1,350	-	-	-	-	-	1,350
<b>December 31, 2013</b>	<b>(1,900)</b>	<b>(2,651)</b>	<b>(7,766)</b>	<b>(3,109)</b>	<b>(3,464)</b>	<b>(3,140)</b>	<b>(22,030)</b>
Depreciation	(4,168)	(1,310)	(1,735)	(4,852)	(733)	(826)	(13,624)
Disposals	-	34	189	-	259	265	747
Transfers out of inventory	5,390	-	-	-	-	-	5,390
<b>December 31, 2014</b>	<b>(678)</b>	<b>(3,927)</b>	<b>(9,312)</b>	<b>(7,961)</b>	<b>(3,938)</b>	<b>(3,701)</b>	<b>(29,517)</b>
<b>Carrying amount:</b>							
December 31, 2013	8,919	4,589	6,032	99,381	2,418	1,576	122,915
December 31, 2014	18,237	13,129	10,420	164,886	4,628	3,638	214,938

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.

Land and buildings with a carrying value of \$42,575 (2013 - \$6,960) are pledged as collateral against bank borrowings.

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

## 22 Intangible assets and goodwill

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

	<b>Intangible assets</b>	<b>Goodwill</b>	<b>Total</b>
	\$	\$	\$
<b>Cost:</b>			
January 1, 2013	74,004	380	74,384
Acquisitions	30,021	6,292	36,313
Divestitures	(1,828)	-	(1,828)
<b>December 31, 2013</b>	<b>102,197</b>	<b>6,672</b>	<b>108,869</b>
Acquisitions	185,373	14,700	200,073
Business combination under common control	72,487	10,664	83,151
Measurement period adjustment	-	(2,416)	(2,416)
<b>December 31, 2014</b>	<b>360,057</b>	<b>29,620</b>	<b>389,677</b>
<b>Accumulated impairment:</b>			
January 1, 2013	7,600	-	7,600
Recovery of impairment of intangible assets	(746)	-	(746)
Divestitures	(1,642)	-	(1,642)
<b>December 31, 2013</b>	<b>5,212</b>	<b>-</b>	<b>5,212</b>
Recovery of impairment of intangible assets	(1,767)	-	(1,767)
<b>December 31, 2014</b>	<b>3,445</b>	<b>-</b>	<b>3,445</b>
<b>Carrying amount:</b>			
December 31, 2013	96,985	6,672	103,657
December 31, 2014	356,612	29,620	386,232

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

## 22 Intangible assets and goodwill continued

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,	December 31,	Cash Generating Unit	December 31,	December 31,
	2014	2013		2014	2013
	\$	\$		\$	\$
AJ	27,807	-	D	9,626	9,626
AE	25,733	-	B	9,431	9,431
AN	25,417	-	AG	9,263	-
Y	24,494	-	AB	8,824	-
AI	21,809	-	U	8,602	8,602
A	21,687	21,687	E	8,497	8,497
AF	20,384	-	AH	6,591	-
AQ	18,044	-	W	5,799	5,799
V	15,520	15,520	AL	5,273	-
Z	15,077	-	C	4,634	3,420
AM	14,658	-	AP	3,625	-
AC	12,496	-	F	3,258	3,258
AA	11,431	-	Other CGUs less than \$3,000	18,632	11,145
				<u>356,612</u>	<u>96,985</u>

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

Cash Generating Unit	December 31,	December 31,
	2014	2013
	\$	\$
C	(1,215)	250
J	-	955
L	-	(1,951)
R	(531)	-
X	(21)	-
<b>Net recovery</b>	<u>(1,767)</u>	<u>(746)</u>

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

## 22 Intangible assets and goodwill continued

The valuation methodology used to assess the recoverable value of the CGUs uses level 2 inputs, indirectly derived from the market, where possible, for key assumptions such as the discount rate. Where level 2 inputs are not available, as is the case with the growth rate, the Company uses level 3 inputs, which are unobservable to the market, but reflect management's best estimates from historical performance and expectations for the future. The following table shows the recoverable amounts of CGUs with impairments or recoveries of impairments recorded in either the current year or prior year:

	December 31, 2014	December 31, 2013
	\$	\$
<b>Cash Generating Unit</b>		
C	5,302	4,145
J	-	133
L	2,514	4,391
R	1,678	123
X	3,769	1,773

### Impairment test of indefinite life intangible assets

The Company performed its annual test for impairment at December 31, 2014. As a result of the test performed, the Company recorded a recovery of previous impairment in the amount of \$1,767 for the year ended December 31, 2014 (2013 - \$746).

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

### 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.

#### *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

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

## 22 Intangible assets and goodwill continued

transactions and management estimates. Multiples used in the test for impairment for each CGU were in the range of 5.5 to 8.0 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 applied 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.

### 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 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 2.5% of the estimated purchase price in developing an estimate of costs to sell, based on historical transactions.

# AutoCanada Inc.

## Notes to the Financial Statements

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## 22 Intangible assets and goodwill continued

### Additional Assumptions

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

	<b>Basis of Recoverable Amount</b>	<b>Discount Rate</b>	<b>Perpetual Growth Rate</b>
A	FVLCS	11.63 %	2.00
B	FVLCS	11.93 %	2.00
C	VIU	11.33 %	2.00
D	FVLCS	12.23 %	2.00
E	FVLCS	12.53 %	2.00
F	FVLCS	11.63 %	2.00
J	FVLCS	11.33 %	2.00
U	FVLCS	11.03 %	2.00
V	FVLCS	11.63 %	2.00
W	FVLCS	11.33 %	2.00
Y	FVLCS	11.93 %	2.00
Z	VIU	11.03 %	2.00
AA	FVLCS	11.33 %	2.00
AB	FVLCS	11.63 %	2.00
AC	VIU	11.63 %	2.00
AE	FVLCS	11.03 %	2.00
AF	VIU	11.63 %	2.00
AG	VIU	11.63 %	2.00
AH	FVLCS	11.63 %	2.00
AI	FVLCS	11.63 %	2.00
AJ	VIU	11.63 %	2.00
AL	FVLCS	11.93 %	2.00
AM	FVLCS	11.93 %	2.00
AN	FVLCS	11.93 %	2.00
AP	VIU	11.63 %	2.00
AQ	FVLCS	11.03 %	2.00
CGUs less than 3,000, combined	FVLCS/VIU	10.88 - 12.53 %	2.00

### Sensitivity

The recoverable amount for the CGUs that were in excess of their carrying values was 212% of the carrying values of the applicable CGUs based on a weighted average. As there are CGUs that have intangible assets with original costs that exceed their current year carrying values, the Company expects future impairments and recoveries of impairments to occur as market conditions change and risk premiums used in developing the discount rate change.

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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## 22 Intangible assets and goodwill continued

Based on sensitivity analysis, no reasonably possible change in key assumptions would cause the recoverable amount of any CGU to have a significant change from its current valuation. 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.

## 23 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, 2014	December 31, 2013
	\$	\$
<b>Financial assets</b>		
Cash and cash equivalents	72,462	35,113
Trade and other receivables	92,138	57,771
Current portion of finance lease receivables	3,537	-
Long-term portion of finance lease receivables	10,292	-
<b>Financial liabilities</b>		
Current indebtedness	4,651	2,866
Long-term indebtedness	223,009	83,580
Revolving floorplan facilities	527,780	264,178
Trade and other payables	82,670	50,428
Current portion of redemption liabilities	7,665	-
Redemption liabilities	34,133	-

### *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.

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

## 23 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 significantly exposed to foreign currency risk with respect to its financial instruments as it engages in minimal transactions denominated in currencies other than the Canadian dollar.

### *Interest Rate Risk*

The Company's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note as well as the indebtedness note (see Note 26). 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 the absolute change to the reported amount, an increase in the basis point would result in a positive amount and a decrease in the basis point would result in a negative amount. 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.

	<u>+/- 200 Basis Point</u>		<u>+/- 100 Basis Point</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
	\$	\$	\$	\$
Finance costs	11,544	6,899	5,772	3,450
Finance income	143	135	72	68

### *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. 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 disclosed in Note 18.

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 doubtful accounts, details of which are disclosed in Note 18.

Concentration of cash and cash equivalents exist due to the significant amount of cash held with Scotiabank (see Note 17 for further discussion of the Company's concentration of cash held on deposit with Scotiabank). The syndicated revolving floorplan facility (see Note 26) allows our dealerships to hold excess cash (used to satisfy working capital requirements of our various OEM partners) in an account with Scotiabank which bears interest at 2.43% at December 31, 2014. 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 facility. As a result, there is a concentration of cash balances risk to the Company in the event of a default under the facility.

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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## 23 Financial instruments continued

### 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 following tables detail the Company's remaining contractual maturity for its financial liabilities. The amounts below have been determined 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.

	2015	2016	2017	2018	Thereafter	Total
	\$	\$	\$	\$	\$	\$
<b>December 31, 2014</b>						
Trade and other payables	82,670	-	-	-	-	82,670
Revolving floorplan facilities	527,780	-	-	-	-	527,780
Redemption liabilities	7,665	-	34,133	-	-	41,798
Senior unsecured notes	-	-	-	-	149,739	149,739
HSBC revolving term facility	-	-	-	38,925	-	38,925
Vehicle repurchase obligations	1,539	-	-	-	-	1,539
RBC lease financing	2,690	2,690	2,690	2,454	-	10,524
Scotiabank lease financing	422	364	197	63	-	1,046
BMO lease financing	352	352	352	45	-	1,101
Servus mortgage	230	239	248	258	4,811	5,786
VCCI mortgage	56	56	56	56	869	1,093
BMW mortgage	742	737	768	797	17,879	20,923
Other long-term debt	159	1,556	1,439	16	-	3,170
Contractual interest payable	11,739	11,614	11,491	10,240	34,306	79,390
	<u>636,044</u>	<u>17,608</u>	<u>51,374</u>	<u>52,854</u>	<u>207,604</u>	<u>965,484</u>

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

## 23 Financial instruments continued

### Liquidity Risk continued

	2014	2015	2016	2017	Thereafter	Total
	\$	\$	\$	\$	\$	\$
<b>December 31, 2013</b>						
Trade and other payables	50,428	-	-	-	-	50,428
Revolving floorplan facilities	264,178	-	-	-	-	264,178
HSBC revolving term facility	-	40,124	-	-	-	40,124
HSBC ATB syndicated facility	-	35,251	-	-	-	35,251
HSBC fixed rate term loan	176	2,764	-	-	-	2,940
BMO fixed rate term loan	2,469	-	-	-	-	2,469
Vehicle repurchase obligations	1,398	-	-	-	-	1,398
Servus mortgage	221	230	239	248	5,068	6,006
Contractual interest payable	2,649	1,696	830	785	6,133	12,093
	<u>321,519</u>	<u>80,065</u>	<u>1,069</u>	<u>1,033</u>	<u>11,201</u>	<u>414,887</u>

## 24 Other long-term assets

	December 31, 2014	December 31, 2013
	\$	\$
Prepaid rent	6,205	6,742
Other assets	508	55
	<u>6,713</u>	<u>6,797</u>

## 25 Trade and other payables

	December 31, 2014	December 31, 2013
	\$	\$
Trade payables	42,378	26,479
Accruals and provisions	9,983	7,008
Sales tax payable	4,413	1,354
Wages and withholding taxes payable	25,896	15,587
	<u>82,670</u>	<u>50,428</u>

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

#### 25 Trade and other payables continued

The following table provides a continuity schedule of all recorded provisions:

	<b>Finance and insurance (a)</b>	<b>Other</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>January 1, 2013</b>	1,053	551	1,604
Provisions arising during the year	1,131	689	1,820
Amounts expired or disbursed	(636)	(273)	(909)
<b>December 31, 2013</b>	<b>1,548</b>	<b>967</b>	<b>2,515</b>
Provisions arising during the year	1,374	228	1,602
Amounts expired or disbursed	(921)	(784)	(1,705)
<b>December 31, 2014</b>	<b>2,001</b>	<b>411</b>	<b>2,412</b>

(a) Represents an estimated chargeback reserve provided by the Company's third party underwriter of finance and insurance products.

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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## 26 Indebtedness

This note provides information about the contractual terms of the Company's interest-bearing debt, which is measured at amortized cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see Note 23.

	December 31, 2014 \$	December 31, 2013 \$
<b>Revolving floorplan facilities</b>		
Revolving floorplan facilities - Syndicate (i)	340,829	248,329
Revolving floorplan facilities - VCCI (ii)	27,625	15,849
Revolving floorplan facilities - BMW Financial (iii)	66,017	-
Revolving floorplan facilities - RBC (iv)	78,431	-
Revolving floorplan facilities - Scotiabank (v)	14,878	-
	<b>527,780</b>	<b>264,178</b>
<b>Indebtedness</b>		
<i>Senior unsecured notes (vi)</i>		
Senior unsecured notes	149,739	-
Embedded derivative	18	-
Unamortized deferred financing costs	(3,444)	-
	146,313	-
<i>HSBC revolving term facility (vii)</i>		
HSBC revolving term facility	38,925	40,124
Unamortized deferred financing costs	(1,221)	(344)
	37,704	39,780
<i>Other long-term debt:</i>		
HSBC non-revolving fixed term loan	-	2,940
HSBC non-revolving term facility	-	35,251
Lease financing - RBC (viii)	10,524	-
Lease financing - Scotiabank (ix)	1,046	-
Lease financing - BMO (x)	1,101	-
Servus mortgage (xi)	5,786	6,006
VCCI mortgage (xii)	1,093	-
BMW mortgage (xiii)	20,923	-
Other long-term debt	3,170	2,469
<b>Total indebtedness</b>	<b>227,660</b>	<b>86,446</b>
<b>Current indebtedness</b>	<b>4,651</b>	<b>2,866</b>
<b>Long-term indebtedness</b>	<b>223,009</b>	<b>83,580</b>

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

## 26 Indebtedness continued

Terms and conditions of outstanding loans are as follows:

- i On April 23, 2014, the Company increased its existing syndicated floorplan credit facility (the "Facility") with Scotiabank and the Canadian Imperial Bank of Commerce ("CIBC") with Scotiabank serving as administrative agent to the Facility, by \$200,000. The availability of the facility is now \$550,000. All significant terms and conditions of the previous facility remain unchanged. The Facility bears a rate of Bankers' Acceptance plus 1.15% (2.63% as at December 31, 2014) per annum. The Facility is collateralized by each individual dealership's inventories that are directly financed by Scotiabank, a general security agreement with each dealership financed, and a guarantee from AutoCanada Holdings Inc., a subsidiary of the Company. The financial covenants and repayment terms of the Facility remain consistent with the Company's previous floorplan facility with Scotiabank.
- ii The revolving floorplan facilities ("VCCI facilities") are available from VW Credit Canada, Inc. ("VCCI") to finance new and used vehicles for all of the Volkswagen and Audi dealerships. The VCCI facilities bear interest at the greater of Royal Bank of Canada ("RBC") prime rate for new vehicles and RBC prime rate plus 0.25-1.00% for used vehicles (RBC prime rate was 3.00% at December 31, 2014). The maximum amount of financing provided by the VCCI facilities is \$44,980. The VCCI facilities are collateralized by all of the dealerships' assets financed by VCCI and all cash and other collateral in the possession of VCCI and a general security agreement over the Volkswagen and Audi dealerships. The individual notes payable of the VCCI facilities are due when the related vehicle is sold.
- iii The Company signed Inventory Financing and Security Agreements (the "BMW Facilities") with BMW Financial Services Canada ("BMW Financial"), a division of BMW Canada Inc., to finance new, used, demo and mobility vehicles for the BMW and MINI dealerships. The BMW Facilities have a current advance limit of \$100,850. The BMW Facilities bear a variable interest rate of prime minus 0.40% per 360-day annum (2.60% at December 31, 2014). The BMW Facilities are collateralized by the dealerships' movable and immovable property. The agreements require the Company to maintain certain working capital ratios.
- iv The Royal Bank of Canada ("RBC") provides floorplan financing for new, used and demo vehicles for six of the Company's General Motors dealerships (the "RBC Facilities"). The RBC Facilities bear interest rates of RBC's Cost of Funds Rate (1.920% as at December 31, 2014) plus 0.00%-1.35% and provide a maximum amount of financing of \$115,746. The RBC Facilities are collateralized by the new, used, and demo inventory financed by RBC and a general security agreement from the General Motors dealerships financed by RBC.
- v Scotiabank provides floorplan financing for new, used and demo vehicles for two of the Company's General Motors dealerships (the "Scotiabank Facilities"). The Scotiabank Facilities bear interest rates of Scotia Fixed Flooring Rate (1.35% at December 31, 2014) plus 0.93%-1.70% and provide a maximum amount of financing of \$32,400. The Scotiabank Facilities are collateralized by the new, used, and demo inventory financed by Scotiabank and a general security agreement from the Company's General Motors dealerships financed by Scotiabank.
- vi On May 22, 2014 the Company completed a private offering of \$150,000 5.625% Senior Unsecured Notes due May 25, 2021 (the "Notes"). The Notes were issued at par. Interest is payable semi-annually on May 15 and November 15 of each year the Notes are outstanding. In connection with the issuance of the Notes, the Company incurred issue costs of \$3,638 which were recorded as a deduction from the carrying amount of the long-term debt. The proceeds from the Notes were used to repay the Company's revolving term facility. The Notes agreement contains certain redemption options whereby the Company can redeem all or part of the Notes at prices set forth in the agreement from proceeds of equity offering or following certain dates specified in the agreement. In addition, the Note holders have the right to require the Company to redeem the Notes or a portion thereof, at the redemption prices set forth in the agreement in the event of change in control or in the event certain asset sale proceeds are not re-invested in the time and manner specified in the agreement. These redemption features constitute embedded derivatives that are required to be separated from the Notes and measured at fair value. The embedded derivative

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

#### 26 Indebtedness continued

components of these compound financial instruments are measured at fair value at each reporting date with gains or losses in fair value recognized through profit or loss.

- vii On May 22, 2014, the Company amended the existing Credit Agreement with HSBC Bank Canada ("HSBC") Alberta Treasury Branches ("ATB"), and RBC, with HSBC acting as administrative agent to the Credit Agreement. The revised Credit Agreement provides the Company with a \$200,000 revolving operating facility that may be used for general corporate purposes, including repayment of existing indebtedness, funding working capital requirements, capital expenditures and financing acquisitions.

Fees and interest on borrowings under the Credit Agreement are subject to a pricing grid whereby the pricing level is determined by the leverage ratio. Based on the Company's Leverage Ratio, as defined by the Lender, the interest rate on the loan ranges from HSBC's prime rate plus 0.75% to HSBC's prime rate plus 2.00%. As at December 31, 2014, the Company is in the second of five tiers of the pricing grid, with the second tier providing interest rates of HSBC's prime rate plus 1.50% (4.50% at December 31, 2014). Amounts drawn under the Credit Agreement as at December 31, 2014 are due May 22, 2018 and may be extended annually for an additional 364 days at the request of the Company and upon approval by the lenders. The Credit Agreement is collateralized by all of the present and future assets of AutoCanada Holdings Inc., a subsidiary of AutoCanada Inc., and all of its subsidiaries. As part of a priority agreement signed by HSBC, Scotiabank, VCCI, BMW Financial, and the Company, the collateral for the Credit Agreement excludes all new, used and demo inventory financed with Scotiabank, VCCI, RBC and BMW Financial revolving floorplan facilities.

- viii RBC provides financing for the lease vehicles of two of the Company's GM dealerships (the "RBC lease financing"). The RBC lease financing bear interest rates of RBC's CF Rate (1.920% at December 31, 2014) and provide a maximum amount of financing of \$13,000 repayable over the terms of the contract in varying amounts of principal. The RBC lease financing are collateralized by the lease vehicles under the related lease agreements.
- ix Scotiabank provides financing for the lease vehicles of one of the Company's GM dealerships (the "Scotiabank lease financing"). The Scotiabank lease financing bear interest rates of Scotiabank's Cost of Funds Rate plus 1.25% (4.18% at December 31, 2014) and provide a maximum amount of financing of \$2,000 repayable over the terms of the contract in varying amounts of principal. The Scotiabank lease financing is collateralized by the lease vehicles under the related lease agreement.
- x The Bank of Montreal ("BMO") provides financing for the lease vehicles of one of the Company's GM dealerships (the "BMO lease financing"). The BMO lease financing bear interest rates of BMO's Dealership Finance Base Rate plus 1.65% (3.32%-3.80%, depending on term, at December 31, 2014) and provides financing of \$1,101 repayable over the terms of the contract in varying amounts of principal. The BMO lease financing is collateralized by a general security agreement, a standard fixed rate prepayment agreement, and a priority agreement with General Motors Acceptance Corporation and other secured lenders.
- xi Servus Credit Union provides the Company with a mortgage (the "Servus Mortgage"). The Servus Mortgage bears a fixed annual rate of 3.90% and is repayable with monthly blended installments of \$38, originally amortized over a 20 year period with term expiring September 27, 2017. The Servus Mortgage requires certain reporting requirements and financial covenants and is collateralized by a general security agreement consisting of a first fixed charge over the property. At December 31, 2014, the carrying amount of the property was \$9,579.
- xii VCCI provides the Company with a mortgage (the "VCCI Mortgage"), which bears interest at a floating rate of interest per annum equal to the Royal Bank of Canada's prime rate plus 0.50% (3.50% at December 31, 2014). The VCCI Mortgage is repayable with fifty-nine equal blended monthly payments of \$8 amortized over a twenty year period with term expiring in April 2019. The VCCI Mortgage has certain reporting requirements and financial covenants and is collateralized by a general security agreement consisting of a first fixed charge over the property. At December 31, 2014, the carrying amount of the property was \$1,815.

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

## 26 Indebtedness continued

xiii BMW Financial provides the Company with a mortgage (the "BMW Mortgage"), which bears a fixed rate of interest per annum of 3.80%. The BMW Mortgage is repayable with sixty equal blended monthly payments of \$124, amortized over a twenty year period with term expiring on December 31, 2019. The BMW Mortgage has certain reporting requirements and is collateralized by the property and any other present and future property, rights and assets, movable or immovable, and a general security agreement consisting of a first fixed charge over the property. At December 31, 2014, the carrying amount of the property was \$31,181.

## 27 Vehicle repurchase obligations

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.

## 28 Commitments and contingencies

### *Commitments*

The Company has operating lease commitments, with varying terms through 2037, to lease premises used for business purposes. The Company leases certain lands and buildings used in its franchised automobile dealership operations from related parties (Note 32) and other third parties. The future aggregate minimum lease payments under non-cancelable operating leases are as follows:

	<b>December 31,</b>
	<b>2014</b>
	<b>\$</b>
2015	16,785
2016	16,401
2017	15,104
2018	12,605
2019	10,596
Thereafter	107,235
	<u>178,726</u>

### *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.

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

## 28 Commitments and contingencies continued

### *Lawsuits and legal claims continued*

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.

### *Letters of guarantee*

The Company has outstanding letters of guarantee totaling \$470 as at December 31, 2014 (2013 - \$510) with various due dates. The Company will settle obligations as they arise for which these letters have been issued as security and it is not the Company's intent that draws will be made on these letters.

### *Capital Commitments*

At December 31, 2014, the Company is committed to capital expenditure obligations in the amount of \$39,691 (2013 - nil).

## 29 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 grants RSUs 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. The RSUs granted are scheduled to vest evenly over three years conditional upon continued employment with the Company.

The following table shows the change in the number of RSUs for the years ended:

	<b>2014</b>	<b>2014</b>	<b>2013</b>	<b>2013</b>
	<b>Number of</b>	<b>Amount</b>	<b>Number of</b>	<b>Amount</b>
	<b>RSUs</b>	<b>\$</b>	<b>RSUs</b>	<b>\$</b>
Outstanding, beginning of the year	107,680	2,559	92,710	1,599
Settled - equity	(26,222)	(1,345)	(16,131)	(281)
Settled - cash	(22,026)	(1,106)	(19,344)	(302)
Granted	23,823	1,148	47,608	1,413
Dividends reinvested	1,517	68	2,837	130
<b>Outstanding, end of the year</b>	<b>84,772</b>	<b>1,324</b>	<b>107,680</b>	<b>2,559</b>

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

## 29 Share-based payments continued

### Deferred Share Units (DSUs)

Independent members of the Board of Directors are paid a portion of their annual retainer in the form of DSUs. They may also elect to receive up to 100% of their remaining cash remuneration in the form of DSUs. The underlying security of DSUs are the Company's common shares and are valued based on the Company's average share price for the five business days prior to the date on which Directors' fees are paid. The DSUs are also entitled to earn additional units based on dividend payments made by the Company and the share price on date of payment. The DSUs granted are scheduled to vest upon the termination date of the Director, at which time, the DSUs will be settled in cash no earlier than the termination date and no later than December 15 of the calendar year following the Director's termination date.

The following table shows the change in the number of DSUs:

	<b>2014</b>	<b>2014</b>	<b>2013</b>	<b>2013</b>
	<b>Number of</b>	<b>Amount</b>	<b>Number of</b>	<b>Amount</b>
	<b>DSUs</b>	<b>\$</b>	<b>DSUs</b>	<b>\$</b>
Outstanding, beginning of the year	12,184	559	3,435	53
Settled	(838)	(37)	-	-
Granted	5,017	223	8,515	391
Dividends reinvested	249	11	234	11
Impact of movements in share price	-	(17)	-	104
Outstanding, end of the year	<u>16,612</u>	<u>739</u>	<u>12,184</u>	<u>559</u>

## 30 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.

The following table shows the common shares issued from January 1, 2014 to December 31, 2014:

		<b>Number</b>	<b>\$/share</b>	<b>Amount</b>
Acquisition of Prairie Auto Holdings Ltd. (Note 15)	March 10, 2014	205,000	44.26	9,073
Acquisition of Hyatt Group (Note 13)	July 1, 2014	18,753	79.99	1,500
Public offering (a)	July 11, 2014	2,565,000	78.00	193,082
		<u>2,788,753</u>		<u>203,655</u>

(a) Share issuance amount is net of issuance costs of \$8,808 and future income tax on the issuance costs of \$1,820.

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

### 30 Share capital continued

The following table shows the common shares issued from January 1, 2013 to December 31, 2013:

		<b>Number</b>	<b>\$/share</b>	<b>Amount</b>
Public offering (b)	June 3, 2013	1,840,000	25.00	43,811

(b) Share issuance amount is net of issuance costs of \$2,189.

#### ***Restricted Share Unit Trust***

In June 2012, the Company established a trust ("Trust") to hedge the risk of future share price increases from the time the Restricted Share Units ("RSU") and Deferred Share Units ("DSU") (see Note 29) are granted to when they are fully vested and can be exercised. The beneficiaries of the Trust are members of the Executive and Senior Management Team who participate in the long-term incentive compensation plan called the Restricted Share Unit Plan (the "Plan") and independent members of the Board of Directors who participate in the Deferred Share Unit Plan. Under the Trust Agreement, the third party trustee will administer the distribution of cash and shares to the beneficiaries upon vesting, as directed by the Company. Dividends earned during the twelve month period ended December 31, 2014 on the shares held in trust of \$98 are reinvested to purchase additional shares. The shares held in the Trust are accounted for as treasury shares and have been deducted from the Company's consolidated equity as at December 31, 2014. As the Company controls the Trust, it has included the Trust in its consolidated financial statements for the year ended December 31, 2014.

The following table shows the change in shareholders' capital:

	<b>2014</b>	<b>2014</b>	<b>2013</b>	<b>2013</b>
	<b>Number</b>	<b>Amount</b>	<b>Number</b>	<b>Amount</b>
		<b>\$</b>		<b>\$</b>
Outstanding, beginning of the year	21,638,089	232,938	19,802,149	189,500
Common shares issued	2,788,753	201,866	1,840,000	43,811
Treasury shares acquired	(41,833)	(2,687)	(17,925)	(513)
Dividends reinvested	(1,574)	(89)	(2,266)	(66)
Treasury shares settled	26,221	755	16,131	206
Outstanding, end of the year	24,409,656	432,783	21,638,089	232,938

As at December 31, 2014, 100,027 (2013 - 82,841) common shares were held in trust for the Restricted Share Unit Plan, resulting in a total of 24,509,683 (2013 - 21,720,930) common shares issued.

#### ***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, 2014, eligible dividends totaling \$0.94 per common share were declared and paid, resulting in total payments of \$21,745 (2013 - \$16,197).

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

## 30 Share capital continued

### *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. Basic earnings per share are adjusted by the dilutive impact of the RSUs to calculate the diluted earnings per share.

Earnings used in determining earnings per share from continuing operations are presented below:

	<b>2014</b>	<b>2013</b>
	\$	\$
Earnings attributable to common shares	53,132	38,166

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

	<b>2014</b>	<b>2013</b>
Basic	23,018,588	20,868,726
Adjustment for RSUs	120,815	66,102
Diluted	<u>23,139,403</u>	<u>20,934,828</u>

## 31 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. No specific targets or ratios are set by the Company. 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:

	<b>December 31,</b>	<b>December 31,</b>
	<b>2014</b>	<b>2013</b>
	\$	\$
Long-term indebtedness (Note 26)	223,009	83,580
Equity	436,456	190,242
	<u>659,465</u>	<u>273,822</u>

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.

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

## 32 Related party transactions

### *Transactions with Companies Controlled by the CEO of AutoCanada*

During the year ended December 31, 2014, the Company had financial transactions with entities controlled by the Company's CEO. Priestner is the controlling shareholder of Canada One Auto Company ("COAG") and its subsidiaries, which beneficially own approximately 9.6% of the Company's shares. In addition to COAG, Priestner is the controlling shareholder of other companies in which AutoCanada earns administrative fees. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. All significant transactions between AutoCanada and companies controlled by Priestner are approved by the Company's independent members of the Board of Directors.

a Rent paid to companies with common directors

During the year ended December 31, 2014, total rent paid to companies controlled by Priestner amounted to \$2,853 (2013 - \$7,061). The Company currently leases two of its leased facilities 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.

b Administrative support fees

During the year ended December 31, 2014, total administrative support fees received from companies controlled by Priestner amount to \$848 (2013 - \$766).

### *Commitments with Companies controlled by the CEO of AutoCanada*

The Company has operating lease commitments, with varying terms through 2029, to lease the lands and buildings used in certain of its franchised automobile dealerships from COAG, a Company controlled by Priestner. The future aggregate minimum lease payments under non-cancelable operating leases with COAG are as follows:

	<b>December 31,</b>
	<b>2014</b>
	<b>\$</b>
2015	2,458
2016	2,458
2017	2,458
2018	2,457
2019	2,457
Thereafter	22,720
	<hr/> <b>35,008</b> <hr/>

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

## 32 Related party transactions continued

### *Key management personnel compensation*

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

	<b>2014</b>	<b>2013</b>
	\$	\$
Employee costs (including Directors)	4,451	4,484
Short-term employee benefits	209	165
Share-based payments	1,181	374
	<u>5,841</u>	<u>5,023</u>

### *Payable to related parties*

Included in trade and other payables at December 31, 2014 is \$2,327 (December 31, 2013 - \$nil) payable to non-controlling interests. These amounts are unsecured and non interest bearing.

## 33 Net change in non-cash working capital

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:

	<b>December 31,</b>	<b>December 31,</b>
	<b>2014</b>	<b>2013</b>
	\$	\$
Trade and other receivables	(2,735)	(7,092)
Inventories	(45,065)	(43,205)
Finance lease receivables	(4,587)	-
Other current assets	(1,317)	88
Trade and other payables	8,179	11,023
Vehicle repurchase obligations	126	144
Revolving floorplan facilities	49,738	29,074
	<u>4,339</u>	<u>(9,968)</u>

# AutoCanada Inc.

## Notes to the Financial Statements

### For the Years Ended December 31, 2014 and 2013

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

#### 34 Fair value of financial instruments

The Company's financial instruments at December 31, 2014 are represented by cash and cash equivalents, trade and other receivables, finance lease receivables, trade and other payables, revolving floorplan facilities, vehicle repurchase obligations, long-term indebtedness and redemption liabilities.

The fair values of cash equivalents, trade and other receivables, finance lease receivables, trade and other payables, and revolving floorplan facilities approximate their carrying values due to their short-term nature.

The long-term indebtedness has a carrying value that approximates the fair value due to the floating rate nature of the debt. While there is a portion that has a fixed rate, the long-term indebtedness has a carrying value that is not materially different from its fair value.

Embedded derivatives (Level 2) and redemption liabilities (Level 3) are remeasured at fair value each reporting period with the gain or loss being recognized through profit or loss.

The fair value was determined based on the prevailing and comparable market interest rates.

The fair value hierarchy categorizes fair value measurement into three levels based upon the inputs to valuation technique, which are defined as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

There were no transfers between the levels of the fair value hierarchy during the year.

#### 35 Subsequent events

##### *Dividends*

On February 17, 2015, the Board of Directors of the Company declared a quarterly eligible dividend of \$0.25 per common share on the Company's outstanding Class A common shares, payable on March 16, 2015 to shareholders of record at the close of business on February 28, 2015.

##### *Normal course issuer bid*

On February 20, 2015, the Company commenced a normal course issuer bid to repurchase a maximum of 490,193 common shares, being 2% of the issued and outstanding common shares of the Company. The normal course issuer bid will be in effect until February 19, 2016 or such earlier time as the bid is completed or terminated at the option of the Company. To date no purchases have been made.

##### *Kia Open Point*

On March 16, 2015 the Company announced that it had signed a Letter of Intent with Kia Canada Inc. ("Kia") which, subject to the completion of requirements and conditions contained in the Letter of Intent, will award AutoCanada an Open Point Kia dealership in Winnipeg, Manitoba. AutoCanada intends to operate the dealership out of a new facility, designed to Kia image standards, with construction anticipated to commence in Q4, 2015 or Q1, 2016.