AutoCanada Inc.
(formerly AutoCanada Income Fund)
Consolidated Financial Statements
December 31, 2009
(expressed in Canadian dollar thousands except share and per share amounts)

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

March 22, 2010

Auditors' Report

To the Shareholders of
AutoCanada Inc.

We have audited the consolidated balance sheets of **AutoCanada Inc.** as at December 31, 2009 and 2008 and the consolidated statements of operations, comprehensive income (loss) and deficit and cash flows for the years then ended December 31, 2009 and 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended December 31, 2009 and 2008 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

AutoCanada Inc.

Consolidated Balance Sheet

As at December 31, 2009

(expressed in Canadian dollar thousands)

	2009 $	2008 $
ASSETS		
Current assets		
Cash and cash equivalents	22,465	19,592
Restricted cash	-	3,238
Accounts receivable	35,388	31,195
Inventories (note 8)	108,324	139,948
Prepaid expenses	1,649	1,565
Future income taxes (note 20)	500	-
	168,326	195,538
Property & equipment (note 9)	17,794	17,227
Intangible assets (note 10)	43,700	43,700
Future income taxes (note 20)	1,647	585
Leasehold inducements (note 19)	2,142	-
Other assets	56	54
	233,665	257,104
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	25,556	21,990
Revolving floorplan facilities (note 12)	102,650	137,453
Distributions payable (note 18)	-	1,656
Current portion of long-term debt (note 13)	271	570
Future income taxes (note 20)	2,012	-
	130,489	161,669
Long-term debt (note 13)	23,074	25,522
	153,563	187,191
Economic dependence (note 3)		
Contingencies (note 15)		
SHAREHOLDERS' EQUITY		
Shareholders' capital (note 16(a))	190,435	-
Fund Units (note 16(b))	-	101,588
Exchangeable Units (note 16(c))	-	88,847
Contributed surplus (note 17)	3,918	3,822
Deficit	(114,251)	(124,344)
	80,102	69,913
	233,665	257,104

Approved on behalf of the Company:

(Signed) "Gordon R. Barefoot" Director (Signed) "Robin Salmon" Director

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

AutoCanada Inc.

Consolidated Statement of Operations, Comprehensive Income (Loss) and Deficit
For the years ended December 31, 2009 and December 31, 2008

(expressed in Canadian dollar thousands except share and per share amounts)

	Year ended December 31, 2009	*Year ended December 31, 2008*
	$	**$**
Revenue		
Vehicles	666,850	720,541
Parts, service and collision repair	108,448	103,743
Other	1,635	2,210
	776,933	826,494
Cost of sales (note 8)	634,957	679,442
Gross profit	141,976	147,052
Expenses		
Selling, general and administrative	118,141	114,881
Interest (note 21)	7,136	8,615
Amortization	3,672	3,319
Asset impairments (notes 10 & 11)	-	125,382
	128,949	252,197
Earnings (loss) before income taxes	13,027	(105,145)
Future income taxes expense (recovery) (note 20)	449	(9,970)
Net earnings (loss) & comprehensive income (loss) for the year	12,578	(95,175)
Deficit, beginning of year	(124,344)	(8,989)
Distributions declared (note 18)	(2,485)	(20,180)
Deficit, end of year	(114,251)	(124,344)
Earnings (loss) per share/unit		
Basic	0.633	(4.711)
Diluted	0.633	(4.711)
Weighted average shares/units		
Basic	19,880,930	20,201,744
Diluted	19,880,930	20,201,744

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

AutoCanada Inc.

Consolidated Statement of Cash Flows

For the years ended December 31, 2009 and December 31, 2008

(expressed in Canadian dollar thousands)

	Year ended December 31, 2009	*Year ended December 31, 2008*
Cash provided by (used in)	**$**	**$**
Operating activities		
Net earnings (loss) for the period	12,578	(95,175)
Items not affecting cash		
Future income taxes expense (recovery) (note 20)	449	(9,970)
Unit-based compensation (note 17)	96	169
Amortization	3,672	3,319
Loss (gain) on disposal of property & equipment	308	(1)
Asset impairments (notes 10 & 11)	-	125,382
	17,103	23,724
Net change in non-cash working capital balances	(5,767)	10,590
	11,336	34,314
Investing activities		
Business acquisitions (note 7)	-	(23,705)
Purchase of property & equipment	(4,312)	(3,938)
Disposal (purchase) of other assets	-	24
Payment of leasehold inducements (note 19)	(2,142)	-
Proceeds on sale of property & equipment	88	117
Restricted cash	3,238	1,118
	(3,128)	(26,384)
Financing activities		
Proceeds from long-term debt	20,286	15,496
Repayment of long-term debt	(23,136)	(750)
Repurchase of Fund Units	-	(918)
Distributions paid to Unitholders	(2,485)	(20,180)
	(5,335)	(6,352)
Increase in cash	2,873	1,578
Cash and cash equivalents, beginning of period	19,592	18,014
Cash and cash equivalents, end of period	22,465	19,592
Supplementary information		
Cash interest paid	7,047	8,775
Transfer of inventory to property & equipment	1,362	1,416
Transfer of property & equipment to inventory	1,140	851

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

(expressed in Canadian dollar thousands except share and per share amounts)

1 Nature of operations and basis of presentation

AutoCanada Inc. ("AutoCanada" or "The Company") was incorporated on October 29, 2009 under the laws of the Province of Alberta. The business of AutoCanada, held in its subsidiaries and limited partnerships, is the operation of franchised automobile dealerships in British Columbia, Alberta, Manitoba, Ontario, Nova Scotia and New Brunswick. The Company offers a diversified range of automotive products and services, including new vehicles, used vehicles, vehicle parts, vehicle maintenance and collision repair services, extended service contracts, vehicle protection products and other after-market products. The Company also arranges financing and insurance for vehicle purchases by its customers through third-party finance and insurance sources. AutoCanada was formed pursuant to the provisions of the *Business Corporations Act* (Alberta) to participate in a plan of arrangement (the "Conversion") involving, among others, AutoCanada's predecessor AutoCanada Income Fund (the "Fund"), AutoCanada and the securityholders of the Fund. Effective December 31, 2009, the Conversion restructured the Fund from an unincorporated open-ended trust to AutoCanada Inc., a publicly listed corporation (note 2).

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars rounded to the nearest thousand ($000), except share and per share amounts or where otherwise indicated.

Included in these consolidated financial statements are the accounts of AutoCanada and its predecessor, the Fund, (collectively hereinafter referred to as "AutoCanada" or the "Company") and all of its subsidiary limited partnerships and incorporated companies. The results of acquired business operations are included in these consolidated financial statements from their effective dates of acquisition. All significant inter-entity balances and transactions have been eliminated.

2 Corporate conversion

On December 17, 2009, Unitholders of the Fund voted in favour of converting the Fund into a corporation, AutoCanada, pursuant to a plan of arrangement (the "Conversion"). The Conversion was completed on December 31, 2009. As a result of the Conversion, Unitholders of the Fund received one common share ("share") of AutoCanada for each one Unit of the Fund. The trust structure of AutoCanada was reorganized into a publicly listed corporation, which owns all of the Fund Units. AutoCanada also now holds all the assets and liabilities, previously held, directly or indirectly, by the Fund.

The Conversion has been accounted for as a continuity of interests of the Fund since there has been no change of control and since AutoCanada will continue to operate the business of the Fund. Accordingly, these consolidated financial statements reflect AutoCanada as a corporation at December 31, 2009 and as AutoCanada Income Fund prior thereto. All references to "shares" refer collectively to AutoCanada's common shares on and subsequent to December 31, 2009 and to the Fund Units prior to the Conversion. All references to "shareholders" refer collectively to holders of AutoCanada's shares on and subsequent to December 31, 2009 and to Fund Unitholders prior to the Conversion.

(expressed in Canadian dollar thousands except share and per share amounts)

3 Economic dependence, use of estimates and measurement uncertainty

The Company has significant commercial and economic dependence on Chrysler Canada and GMAC Canada. As a result, the Company is subject to significant risk in the event of the financial distress of Chrysler Canada, one of our major vehicle manufacturers and parts suppliers, and GMAC Canada, which provides the Company with revolving floorplan facilities for all of its dealerships.

The Company's consolidated financial statements include the operations of twenty-two franchised automobile dealerships, representing the product lines of seven global automobile manufacturers. The Company's Chrysler, Jeep, Dodge ("CJD") dealerships, which generated 72% of the Company's revenue in the year-ended December 31, 2009 (2008 – 78%), purchase all new vehicles, a significant portion of parts and accessories and certain used vehicles from Chrysler Canada. In addition to these inventory purchases, the Company is eligible to receive monetary incentives from Chrysler Canada if certain sales volume targets are met and is also eligible to receive payment for warranty service work that is performed for eligible vehicles.

At December 31, 2009 and 2008, the Company had recorded the following assets that relate to transactions it has entered into with Chrysler Canada:

	December 31, 2009 $	December 31, 2008 $
Accounts receivable	3,196	3,156
New vehicle inventory	51,743	78,019
Demonstrator vehicle inventory	3,574	4,827
Parts and accessories inventory	4,484	4,171

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

At December 31, 2009 and 2008, the Company had recorded the following assets that relate to transactions it has entered into with GMAC Canada:

	December 31, 2009 $	December 31, 2008 $
Cash and cash equivalents	9,580	-
Revolving floorplan facility	102,650	-

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

(expressed in Canadian dollar thousands except share and per share amounts)

On April 30, 2009, Chrysler LLC ("Old Chrysler") filed for Chapter 11 creditor protection. As part of this filing, the U.S. government announced its acceptance of the long-term viability plan for Chrysler Group to form a strategic alliance with FIAT SpA, a European auto manufacturer. Through its acceptance of the plan, over $10 billion was committed to the Chrysler/FIAT alliance in the form of debtor-in-possession financing in order to allow Old Chrysler to fulfill its obligations under Chapter 11 creditor protection and emerge as a financially viable company.

On June 10, 2009, a new company, Chrysler Group, emerged from creditor protection and was formed under a strategic alliance with FIAT SpA and resumed production of vehicles on June 29, 2009. Given the uncertainty surrounding the future operations of the Chrysler Group/FIAT alliance, the Company continues to monitor its measurement process for the valuation of its assets and has determined that the use of estimates in this process involves a degree of uncertainty with respect to the future operations of the Chrysler Group/FIAT alliance and its potential effect on the valuation of its assets and future revenues.

Use of estimates and measurement uncertainty

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In preparing these consolidated financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. We base our estimates and judgments on historical experience and other assumptions that we believe are reasonable. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ materially from these estimates. We periodically evaluate estimates and assumptions used in the preparation of the financial statements and make changes on a prospective basis when adjustments are necessary.

The following significant estimates have been made by the Company in the accompanying consolidated financial statements, which given events as described above, could require a material change in future periods.

Inventories

Inventories are recorded at the lower of cost and net realizable value with cost determined on a specific item basis. 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.

Intangible assets

The Company's identifiable intangible assets are rights under franchise agreements with automobile manufacturers. The Company assesses the carrying value of these unlimited life intangible assets for impairment annually, or more frequently, if events or changes in circumstances indicate that their carrying value may not be recoverable.

Allowance for doubtful accounts

The Company evaluates receivables for collectability based on the age of the receivable, the credit history of the customer and past collection experience.

(expressed in Canadian dollar thousands except share and per share amounts)

4 Summary of significant accounting policies

These financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

(a) Revenue recognition

Vehicles, Parts, Service and Collision Repair

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

Finance and Insurance

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

The Company also receives commissions for facilitating the sale of third-party insurance products to customers, including credit and life insurance policies and extended service contracts. These commissions are recorded as revenue at the time the customer enters into the contract and the Company is entitled to the commission. The Company is not the obligor under any of these contracts. In the case of finance contracts, a customer may prepay or fail to pay their contract, thereby terminating the contract. Customers may also terminate extended service contracts, 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.

(b) Business combinations

Business combinations are accounted for using the purchase method of accounting. The purchase price for an acquisition is allocated to the related net identifiable assets based on their estimated fair market values at the date of acquisition.

(c) Cash and cash equivalents

Cash and cash equivalents include amounts on deposit with financial institutions and amounts with General Motors Acceptance Corporation of Canada ("GMAC Canada") with a term to maturity of 90 days or less at the date of acquisition.

(expressed in Canadian dollar thousands except share and per share amounts)

(d) Accounts receivable

Accounts receivable includes amounts due from contracts in transit, commercial service and parts, fleet vehicle and warranty and rebate receivables. Contracts in transit are amounts due from financing institutions, usually within ten days, on retail finance contracts from vehicle sales. Commercial service and parts receivables are due from customers that maintain fleets of vehicles. Fleet vehicle receivables are due on sales of vehicles to commercial customers. Warranty and rebate amounts are due from the manufacturer or the warranty company. The Company evaluates receivables for collectability based on the age of the receivable, the credit history of the customer and past collection experience.

(e) Inventories

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

(f) Property and equipment

Property and equipment are initially recorded at cost. Other than as noted below, amortization on the property and equipment is provided for over the estimated useful life of the assets on the declining balance basis at the following annual rates:

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

Leasehold improvements are amortized using the straight-line method over the lease term. The cost of lease vehicles less their estimated net realizable value at the end of the lease term is amortized on a straight-line basis over the term of the individual lease contracts.

Leases that transfer substantially all of the benefits and risks of ownership of the property to the Company are accounted for as capital leases. At the time a capital lease is entered into an asset is recorded together with its related long-term obligation. Equipment under capital lease is recorded at cost and is amortized using the same rates as purchased equipment.

(expressed in Canadian dollar thousands except share and per share amounts)

(g) Accounting for the impairment of long-lived assets

Long-lived assets, including property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is assessed by a comparison of the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed by sale are reported at the lower of carrying amount or fair value less costs to sell.

(h) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the identifiable assets acquired, less the liabilities assumed, based on their fair values at the date of acquisition. Goodwill is allocated as of the date of the business combination to the Company's reporting units that are expected to benefit from the business combination.

Goodwill is not amortized but is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination as described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price.

(i) Intangible assets

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

(j) Income taxes

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

(expressed in Canadian dollar thousands except share and per share amounts)

(k) Financial instruments

AutoCanada's cash and cash equivalents are classified as financial assets held for trading and are measured at fair value. Gains and losses related to subsequent revaluations are recorded in net earnings. Accounts receivable are classified as loans and receivables and are initially measured at fair value with subsequent measurement at amortized cost. All accounts receivable bad debts are charged to selling, general and administrative expenses.

Accounts payable and accrued liabilities, revolving floorplan facilities and long-term debt are classified as other liabilities and are initially measured at fair value with subsequent measurement at amortized cost. Transaction costs are expensed as incurred for financial instruments and interest expense is recorded in net earnings.

The Company reviews all assets, including financial instruments, for impairment when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

(l) Pre-opening costs

Costs incurred to develop and start up new dealership locations are expensed as incurred.

5 New accounting policies

In 2009, the Company adopted new accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"). The new standards and accounting policy changes are as follows:

a) Goodwill and intangible assets

In February, 2008, the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets", replacing Handbook Section 3062, "Goodwill and Other Intangible Assets" and Handbook Section 3450, "Research and Development Costs". The new pronouncement establishes standards for the recognition, measurement, presentation, and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in previous Handbook Section 3062. The new standard applied to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008, specifically January 1, 2009 for the Company. The adoption of this Section did not have any impact on our financial position or results of operations.

b) Credit risk and the fair value of financial assets and financial liabilities

On January 20, 2009, the Emerging Issues Committee ("EIC") issued a new abstract EIC 173 "Credit risk and the fair value of financial assets and financial liabilities". This abstract concludes that an entity's own credit risk and the credit risk of the counterparty should be taken into account when determining the fair value of financial assets and financial liabilities, including derivative instruments. This abstract is to apply to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of this abstract did not impact the Company's financial statements.

(expressed in Canadian dollar thousands except share and per share amounts)

c) Conversion of an unincorporated entity to an incorporated entity

In April 2008, the Emerging Issues Committee ("EIC") issued a new abstract EIC 170 "Conversion of an unincorporated entity to an incorporated entity". This abstract clarifies accounting issues related to conversions, when there has been no change of control. The guidance specifies the following: such a transaction is to be treated as a change in business form and accounted for as a continuity of interests; any changes in tax balances are to be included in income tax expense in the conversion period; any transaction costs incurred are to be expensed in the period incurred; and all comparative information would be that of the pre-conversion entity, as previously reported. Note 2 of these consolidated financial statements explain AutoCanada's conversion from an unincorporated open-ended trust to a publicly listed corporation.

6 Recent accounting pronouncements issued and not yet adopted

a) Convergence with International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board confirmed the mandatory changeover date from GAAP to IFRS. The change will take effect January 1, 2011. The Company will prepare IFRS compliant financial information beginning January 1, 2010 to produce comparable information for the first IFRS consolidated financial statements published in 2011.

b) Business combinations, consolidated financial statements and non-controlling interests

In January 2009, the CICA issued three new standards:

Business combinations, Section 1582
This section replaces the former Section 1581 "Business combinations" and provides the Canadian equivalent to International Financial Reporting Standard IFRS 3 "Business Combinations" (January 2008). The new standard requires the acquiring entity in a business combination to recognize most of the assets acquired and liabilities assumed in the transaction at fair value including contingent assets and liabilities; and recognize and measure the goodwill required in the business combination or a gain from a bargain purchase. Acquisition-related costs are also to be expensed.

Consolidated financial statements, Section 1601 and Non-controlling interests, Section 1602
These two sections replace Section 1600 "Consolidated financial statements". Section 1601 "Consolidated financial statements" carries forward guidance from Section 1600 "Consolidated financial statements" with the exception of non-controlling interests which are addressed in a separate section. Section 1602 "Non-controlling interests" is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27 "Consolidated and Separate Financial Statement" (January 2008). This standard requires the Company to report non-controlling interest within equity, separately from the equity of the owners of the parent, and transactions between an entity and non-controlling interests as equity transactions.

(expressed in Canadian dollar thousands except share and per share amounts)

All three standards are effective January 1, 2011, at which time Canadian public companies will have adopted either IFRS or, for certain public companies, U.S. GAAP, as permitted by Canadian securities regulations. As such, adoption of these standards by the Company is not expected unless they are early adopted. Early adoption is permitted; however, the early adoption of one of the three standards would require adoption of the other two standards. Should the Company engage in a business combination prior to 2011, consideration will be given to the potential impact of the early adoption of these standards.

7 Business acquisitions

(a) On December 7, 2009, the Company completed the transfer of ownership of Grande Prairie Nissan and Northland Nissan (the "Managed Dealerships") from CAG (a related party with a 46.8% interest in AutoCanada) to full ownership by AutoCanada. As a result of the Company's previous financing arrangements involving the purchase of the two Managed Dealerships and the related agreements, the Company had previously determined that the Managed Dealerships were variable interest entities and AutoCanada was the primary beneficiary as defined by CICA Accounting Guideline 15. Accordingly, the Company accounted for the entry into these agreements as a business combination and consolidated the results of the Managed Dealerships subsequent to the signing of the agreements in 2007. The acquisition of the Managed Dealerships has no effect on the consolidated balance sheets, statements of operations, comprehensive loss and deficit and cash flows for the years ended December 31, 2009 and 2008 as the operations were fully consolidated in accordance with CICA Accounting Guideline 15 – *Consolidation of Variable Interest Entities.*

The Company acquired the Managed Dealerships for nominal consideration, however in accordance with the terms of the credit and management agreements signed between the Company and CAG; CAG was entitled to a minimum rate of return on any investments that were directly made into the Managed Dealerships upon transfer of the net assets of the dealerships to the Company. The amount payable by the Company to CAG net of financing for transfer of the Managed Dealerships into the Company is approximately $90.

(b) On December 3, 2008, the Company purchased substantially all of the net operating and fixed assets of 101063658 Saskatchewan Inc. operating as Sport Volkswagen ("Maple Ridge Volkswagen") for total cash consideration of $2,754. The acquisition was funded by drawing on the Company's Revolving Floorplan Facility (note 12) in the amount of $1,838 and a draw on the Non-Revolving Fixed Term Facility (note 13) in the amount $916. The acquisition has been accounted for using the purchase method and the consolidated financial statements include operating results of Maple Ridge Volkswagen subsequent to December 1, 2008.

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

	$
Current assets	2,626
Property and equipment	133
Current liabilities	(5)
Net identifiable assets acquired	2,754

(expressed in Canadian dollar thousands except share and per share amounts)

(c) On July 7, 2008, the Company purchased substantially all of the net operating and fixed assets of Cambridge Motors Inc. operating as Cambridge Hyundai (“Cambridge Hyundai”) for total cash consideration of $8,447. The acquisition was funded by drawing on the Company’s Revolving Floorplan Facility (note 12) in the amount of $2,572, on the Fixed Rate Term Facility (note 13) in the amount of $3,024, a draw on the Non-Revolving Fixed Term Facility (note 13) in the amount $1,650 and the remaining $1,201 financed with cash from operations. The acquisition has been accounted for using the purchase method and the consolidated financial statements include operating results of Cambridge Hyundai subsequent to July 7, 2008.

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

	$
Current assets	2,557
Property and equipment	4,297
Intangible assets	812
Current liabilities	(32)
Net identifiable assets acquired	7,634
Goodwill	813
	8,447

(d) On April 1, 2008 the Company purchased substantially all of the net operating assets of 833676 Ontario Ltd. operating as Doner Infiniti Nissan (“Doner Infiniti Nissan”) for total cash consideration of $12,504. The acquisition was funded by drawing on the Company’s Revolving Floorplan Facility (note 12) in the amount of $7,695 and on the Non-Revolving Fixed Term Facility (note 13) in the amount of $4,809. The acquisition has been accounted for using the purchase method and the consolidated financial statements include operating results of Doner Infiniti Nissan subsequent to April 1, 2008.

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

	$
Current assets	7,530
Property and equipment	47
Intangible assets	2,053
Current liabilities	(73)
Net identifiable assets acquired	9,557
Goodwill	2,947
	12,504

(expressed in Canadian dollar thousands except share and per share amounts)

8 Inventories

	December 31, 2009 $	December 31, 2008 $
New vehicles	73,264	107,379
Demonstrator vehicles	5,816	7,305
Used vehicles	22,197	17,946
Parts and accessories	7,047	7,318
	108,324	139,948

During the year ended December 31, 2009, $634,957 of inventory (2008 - $679,442) was expensed as cost of goods sold which included inventory write downs on used vehicles of $469 (2008 - $46).

During the year ended December 31, 2009, $1,377 of demonstrator expense (2008 - $1,110) was included in selling, general, and administration expense.

As at December 31, 2009 and December 31, 2008, the Company had recorded reserves for inventory write downs of $1,512 and $1,282 respectively.

9 Property and equipment

	December 31, 2009		
	Cost $	Accumulated Amortization $	Net $
Land	1,262	-	1,262
Buildings	2,875	170	2,705
Leasehold improvements	4,180	2,731	1,449
Machinery and equipment	9,866	3,167	6,699
Furniture and fixtures	3,836	1,254	2,582
Company vehicles	1,941	741	1,200
Lease vehicles	907	242	665
Computer equipment	2,639	1,443	1,196
Other property and equipment	36	-	36
	27,542	9,748	17,794

(expressed in Canadian dollar thousands except share and per share amounts)

	December 31, 2008		
	Cost	**Accumulated Amortization**	**Net**
	$	**$**	**$**
Land	1,262	-	1,262
Buildings	2,875	57	2,818
Leasehold improvements	4,920	2,843	2,077
Machinery and equipment	7,629	2,216	5,413
Furniture and fixtures	2,885	913	1,972
Company vehicles	1,678	601	1,077
Lease vehicles	1,543	375	1,168
Computer equipment	2,408	1,004	1,404
Other property and equipment	36	-	36
	25,236	8,009	17,227

During the year, property and equipment was acquired at an aggregate cost of $4,414 (2008 - $4,167). Of this total, $102 (2008 - $229) of property and equipment was acquired by means of capital leases, and the remaining $4,312 (2008 - $3,938) was paid in cash.

Included in lease vehicles above are vehicles earning rental income. Rental income for the period ended December 31, 2008 totaled $446 (2008 - $551).

10 Intangible assets

	December 31, 2009	**December 31, 2008**
	$	**$**
Opening balance	43,700	79,956
Acquired in business acquisitions (note 7)	-	2,865
Impairment charges	-	(39,121)
Closing balance	43,700	43,700

Intangible assets are individual store rights under franchise agreements with vehicle manufacturers (“dealer agreements”), which have indefinite lives and are tested at least annually for impairment.

In the fourth quarter of 2009 we performed our annual test for impairment and intangible assets were determined not to be impaired.

In the fourth quarter of 2008, as a result of the annual test for impairment, we recorded non-cash impairment charges of $39,121. These impairment charges were recorded in order to reduce the carrying value of the dealer agreements to estimated fair value.

(expressed in Canadian dollar thousands except share and per share amounts)

11 Goodwill

	December 31, 2009 $	December 31, 2008 $
Opening balance	-	82,501
Acquired in business acquisitions (note 7)	-	3,760
Impairment charges	-	(86,261)
Closing balance	-	-

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the identifiable assets acquired, less the liabilities assumed, based on their fair values at the date of acquisition. The Company's accounting policy with respect to goodwill is described in Note 4(h) in these consolidated financial statements.

During the 2008 fiscal year, as a result of the continuing challenging automotive retail environment and the decline in our share price, we determined that the carrying value of our single reporting unit more likely than not exceeded its fair value. Due to this change in circumstances, we were required to conduct an interim test of our single reporting unit's goodwill. The second step of the goodwill impairment test indicated that goodwill was fully impaired and as a result we recorded a non-cash goodwill impairment charge of $86,261 which represented a write down of our remaining balance of goodwill.

12 Revolving floorplan facilities

	December 31, 2009 $	December 31, 2008 $
CFC and BNS facilities:		
New vehicles	-	127,796
Demonstrator vehicles	-	5,267
Used vehicles	-	4,390
	-	137,453
GMAC facility:		
New vehicles	88,219	-
Demonstrator vehicles	4,034	-
Used vehicles	10,397	-
	102,650	137,453

The Revolving Floorplan Facility ("GMAC facility") available to the Company from GMAC Canada to finance new, demonstrator and used vehicles bears interest at the Prime Rate plus 1.00% (5.00% at December 31, 2009) and is payable monthly in arrears. Prime Rate is defined as the greater of the Royal Bank of Canada ("RBC") prime rate (2.25% at December 31, 2009) or 4.00%. The maximum amount of financing provided by the GMAC facility is based

(expressed in Canadian dollar thousands except share and per share amounts)

on a maximum number of new, used and demonstrator vehicles to be financed on an individual dealership basis. The GMAC facility is collateralized by all of the dealerships' new, used and demonstrator inventory financed by the GMAC facility and a general security agreement and cross guarantee from each of the Company's dealerships. The individual notes payable of the GMAC facility are due when the related vehicle is sold or according to an aging based repayment policy as mandated by GMAC Canada.

During the year, the Company repaid all outstanding amounts owed to Chrysler Financial Canada ("CFC") under its Revolving Floorplan Facility.

During the year, as part of the transfer of ownership of Grande Prairie Nissan and Northland Nissan (the "Managed Dealerships") from CAG (a related party with a 46.8% interest in AutoCanada) to full ownership by AutoCanada as described in note 7, the Revolving Floorplan Facility from the Bank of Nova Scotia ("BNS") was fully repaid and the agreement was terminated.

13 Long-term debt

	December 31, 2009 $	December 31, 2008 $
Revolving Term Loan, due October 25, 2011 bearing interest at HSBC Prime Rate plus 1.65% (i)	20,000	-
Non-Revolving Fixed Term Facility, due June 30, 2014 bearing interest at 11.36% until June 30, 2012 (ii)	-	21,600
Fixed Rate Term Loan, due September 30, 2012 bearing interest at 5.11% per annum (iii)	2,882	2,977
Lease contracts (iv)	-	946
Obligations under capital lease	463	569
	23,345	26,092
Less: Current portion	(271)	(570)
	23,074	25,522

(i) HSBC Bank Canada ("HSBC") provides the Company with a 365 day fully committed, extendible Revolving Term Loan (the "HSBC Facility") in the amount of $20,000. The HSBC Facility's maturity date is October 25, 2010, however the facility may be extended for an additional 365 days prior to the maturity of the facility at the request of the Company and upon approval by HSBC. If the HSBC Facility is not extended by HSBC, repayment of the outstanding amount is not due until October 25, 2011. The HSBC Facility bears interest at HSBC's Prime Rate plus 1.65% (3.90% at December 31, 2009). The HSBC Facility is secured by all of the present and future assets of the subsidiaries of AutoCanada Inc, the various Limited Partnerships and the General Partners of each dealership within the Company. As part of a priority agreement signed by HSBC, GMAC Canada and the Company, the collateral for the HSBC Facility excludes all new, used and demonstrator inventory financed with the Revolving Floorplan Facility provided by GMAC Canada.

(ii) During the year, the Company repaid the Non-Revolving Fixed Term Facility (the "Term Facility") with CFC. As a result of the transaction, the Term Facility with CFC has been terminated and the Company no longer has any financial obligations to CFC.

(expressed in Canadian dollar thousands except share and per share amounts)

(iii) Bank of Montreal provides the Company a Fixed Rate Term Loan (the “Term Loan”). The Term Loan matures September 30, 2012 and bears interest at a fixed rate of 5.11%. Repayments consist of fixed monthly payments totaling $20 per month. The Term Loan requires maintenance of certain financial covenants and is collateralized by a general security agreement consisting of a first fixed charge in the amount of $3,450 registered over the Cambridge Hyundai property. At December 31, 2009, the carrying amount of the Cambridge Hyundai property was $3,967.

(iv) During the year, the Company repaid CFC the outstanding balance of the lease contracts and is no longer leasing vehicles with CFC.

Principal payments as at December 31, 2009 for the next four years are as follows:

	$
2010	271
2011	20,267
2012	2,775
2013	32
	23,345

14 Commitments

(a) Capital Purchase Commitments

During the year, the Company committed to purchase the land and building on which one of its dealerships operates in the 2010 year for $6,000 less a $500 deposit previously made by the Company.

(b) Operating Lease Commitments

The Company leases the majority of the lands and buildings used in its franchised automobile dealership operations from related parties (note 19), Chrysler Canada Inc. and other third parties. The Company also leases various items of office equipment.

The minimum capital purchase commitments and operating lease payments for the next five years and thereafter are as follows:

	$
2010	19,555
2011	10,322
2012	7,310
2013	5,328
2014	4,657
Thereafter	58,414
Total	105,586

(expressed in Canadian dollar thousands except share and per share amounts)

15 Contingencies

(a) The Company is party to a number of disputes and lawsuits in the normal course of business. Management believes that the ultimate liability arising from these matters will not have a material impact on the financial statements.

(b) 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.

(c) As of December 31, 2009, the Company had $50 outstanding in letters of credit with financial institutions. These letters expire at different points in 2010. These letters of credit are being maintained as security for premium payments to an insurance company and to fulfill legislative requirements of the Motor Dealer Act in the province of British Columbia.

(expressed in Canadian dollar thousands except share and per share amounts)

16 Shareholders' capital

(a) Shareholders' capital

Authorized

The Company has authorized an unlimited number of voting common shares without nominal or par value and an unlimited number of preferred shares without nominal or par value.

Issued

	Shares #	Amount $
Opening balance as at October 29, 2009	-	-
Shares issued pursuant to the Conversion (note 2)		
Exchange of Fund Units	10,573,430	101,588
Exchange of Exchangeable Units	9,307,500	88,847
Balance as at December 31, 2009	19,880,930	190,435

(b) Fund Units

Authorized

An unlimited number of Fund Units may have been created and issued pursuant to the Declaration of Trust. Each Fund Unit was transferable and represented an equal undivided beneficial interest in any distributions from the Fund, whether of net earnings, net realized capital gains or other amounts and in the net assets of the Fund in the event of a termination or winding up of the Fund. All Fund Units entitled the holder thereof to one vote and each Fund Unit had equal voting rights and privileges. On December 31, 2009, pursuant to the Conversion (note 2), all Fund Unitholders received one common share of AutoCanada in exchange for each Fund Unit held at that time.

Issued

	Units #	Amount $
Opening balance as at January 1, 2008	10,949,500	105,200
Repurchase of Fund Units returned to treasury	(376,070)	(3,612)
Balance as at December 31, 2008, prior to conversion	10,573,430	101,588
Fund Units exchanged for AutoCanada shares (note 2)	(10,573,430)	(101,588)
Balance as at December 31, 2009	-	-

(expressed in Canadian dollar thousands except share and per share amounts)

(c) Exchangeable LP Units

Authorized

The Exchangeable LP Units issued by AutoCanada LP had economic and voting rights equivalent to the Fund Units except in connection with the exchangeability terms as described below. They were exchangeable, directly or indirectly, on a one-for-one basis for Fund Units at the option of the holder, under the terms of the Exchange Agreement. The Exchangeable LP Units were required to be exchanged for Fund Units before transferring to third parties. As a result, they had been treated as equity in accordance with the CICA Emerging Issues Committee Abstract #151. Each Exchangeable LP Unit entitled the holder to receive distributions from AutoCanada LP pro rata with distributions made by AutoCanada LP on Fund Units. On December 31, 2009, pursuant to the Conversion (note 2), all Exchangeable Unitholders received one common share of AutoCanada in exchange for each Exchangeable Unit held at that time.

Issued

	Units #	**Amount** $
Balance as at December 31, 2007 and 2008	9,307,500	88,847
Units exchanged for AutoCanada shares (note 2)	(9,307,500)	(88,847)
Balance as at December 31, 2009	-	-

Fund Special Voting Units

Fund Special Voting Units were non-participating and were used solely for providing voting rights to persons holding Exchangeable LP Units. Fund Special Voting Units were not transferable separately from Exchangeable LP Units to which they relate. Fund Special Voting Units were automatically cancelled upon the exchange of the Exchangeable Units for shares in AutoCanada and subsequent cancellation of the Exchangeable Units to which they relate. The Fund Special Voting Units were not entitled to any beneficial interest in any distribution from the Fund or in the net assets of the Fund in the event of a termination or winding up of the Fund. Each Fund Special Voting Unit entitled the holder thereof to one vote at all meetings of Unitholders. If the Exchangeable LP Units were purchased in accordance with the Exchange Agreement, a like number of Fund Special Voting Units would have been redeemed by the Fund for a nominal amount.

(expressed in Canadian dollar thousands except share and per share amounts)

17 Contributed surplus

Incentive Unit Option Plan

During the year ended December 31, 2009, all holders of Unit Options under the AutoCanada Incentive Unit Option Plan ('the Unit Option Plan") agreed to cancel their outstanding options for nominal consideration. On December 31, 2009, due to the conversion to a corporation, the Unit Option Plan was cancelled. During the year ended December 31, 2009, no options (2008 – 30,000) were granted to purchase Fund Units and all remaining outstanding options of 798,424 (2008 – 125,894) were cancelled with a range in exercise price of $8.17 to $10.50. This resulted in a one-time non-cash increase of $23 in selling and administrative expense and a corresponding increase in contributed surplus. As required by Canadian Generally Accepted Accounting Principles (GAAP), this is an accelerated expense for the remaining unrecognized value of the cancelled Unit Options and is reflected in the year in which it occurred rather than over the remaining term of the options.

The impact of the Unit Options (including the impact of cancelled options) for the year ended December 31, 2009 was a net expense of $96 (2008 – $169), with a corresponding increase to contributed surplus.

	Weighted average remaining contractual life Yrs	**Units #**	**Weighted average exercise price $**
Balance, December 31, 2007	3.61	894,318	10.03
Granted	4.22	30,000	8.17
Cancelled	2.81	(125,894)	10.20
Unit Options outstanding, December 31, 2008	2.54	798,424	9.95

	Weighted average remaining contractual life Yrs	**Units #**	**Weighted average exercise price $**
Balance, December 31, 2008	2.54	798,424	9.95
Granted	-	-	-
Cancelled	1.86	(798,424)	9.95
Unit Options outstanding, December 31, 2009	-	-	-

(expressed in Canadian dollar thousands except share and per share amounts)

Stock Option Plan

On December 17, 2009, Unitholders of AutoCanada Income Fund approved the AutoCanada Inc. Stock Option Plan (the "Stock Option Plan") for certain employees, officers, directors and trustees. Options issued under the Stock Option Plan vest at a rate of one third on the three subsequent award date anniversaries. All the options must be exercised over specified periods not to exceed ten years from the date granted. The options may be exercised by purchasing the shares for the exercise price or the Stock Option Plan also provides that an optionee may, at their discretion, elect, in lieu of exercising any options, to surrender the options to the Company, which will pay the optionee the difference between the current market price of the shares on the date of surrender and the exercise price for the shares under the options being surrendered.

At December 31, 2009, 1,988,093 shares remained reserved for issuance under the Stock-Option Plan. During the year ended December 31, 2009, no options were granted to purchase shares and no options were cancelled.

Contributed surplus

	Year Ended December 31, 2009 $	Year Ended December 31, 2008 $
Opening balance	3,822	957
Cancellation of repurchased Fund Units	-	2,696
Cancellation of Unit Options – accelerated expense	23	-
Unit-based compensation expense	73	169
Closing balance	3,918	3,822

18 Distributions/Dividends

Prior to the conversion to a corporation (note 2) distributions of AutoCanada were discretionary and were determined based on earnings, before amortization, but reduced by capital expenditures, subject to approval of the Board of Trustees. Distributions totaling $0.125 were declared per Fund Unit and Exchangeable LP Unit by AutoCanada for the year ended December 31, 2009. On March 13, 2009, AutoCanada's management and Board of Trustees announced a temporary suspension of distributions for an indefinite future period.

(expressed in Canadian dollar thousands except share and per share amounts)

19 Related party transactions and balances

The following summarizes the Company's related party transactions not disclosed elsewhere:

	Year ended December 31, 2009 $	**Year ended December 31, 2008 $**
Management fees and non-competition fees received from companies with common directors	305	600
Rent paid to companies with common directors	7,484	4,898
Consulting fees paid to company controlled by a trustee	25	64
Leasehold inducements paid to a company with common directors	2,142	-

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

20 Income taxes

(a) Income tax expense reconciliation

Income tax expense differs from the amount computed by applying the statutory provincial and federal income tax rates to the respective years' earnings before income taxes. These differences result from the following items:

	Year Ended December 31, 2009 $
Net income before income taxes	13,027
Statutory income tax rates	29%
Income taxes at statutory rates	3,778
Increase (decrease) resulting from:	
Impact of corporate conversion (note 2)	(2,696)
Difference between future and current rate	(199)
Non-deductible expenses	48
Change in valuation allowance	239
Income distributed to unitholders prior to corporate conversion	(721)
Income tax expense	449
Provision for income taxes:	
Current	-
Future	449

(expressed in Canadian dollar thousands except share and per share amounts)

(b) Future income tax assets/liabilities

The tax effects of the temporary differences that give rise to significant portions of the future income tax assets and future income tax liabilities are presented below:

	Year ended December 31, 2009	**Year ended December 31, 2008**
Future income tax assets		
Cumulative eligible capital	1,386	623
Property and equipment	261	-
Restricted partnership losses	239	
Valuation allowance	(239)	
Other	500	-
	2,147	623
Future income tax liabilities		
Deferred income from partnership	2,012	-
Property and equipment	-	38
	2,012	38
Net future income tax asset	135	585
Presented on the balance sheet as follows:		
Current assets	500	-
Non-current assets	1,647	585
Current liabilities	2,012	-

21 Interest

	December 31, 2009 $	**December 31, 2008 $**
Revolving floorplan facility	4,855	7,065
Long-term debt	1,653	930
Other	628	620
	7,136	8,615

(expressed in Canadian dollar thousands except share and per share amounts)

22 Financial instruments

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

Financial risk management

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

(a) Market risk

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

i. Foreign currency risk

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

ii. Interest rate risk

The GMAC facility is subject to interest rate fluctuations and the degree of volatility in these rates. The Company does not currently hold any financial instruments that mitigate this risk. The GMAC facility bears interest at Prime Rate plus 1.00%. The GMAC facility defines Prime Rate as the greater of the Royal Bank of Canada Prime Rate ("RBC Prime") or 4.00%. Since the RBC Prime Rate is currently 2.25%, the Company is not exposed to interest rate fluctuations until the RBC Prime Rate is equal to 4.00% (increase of 1.75% from the present rate). Based on the outstanding balance at December 31, 2009, if the RBC Prime Rate were equal to 4.00%, an additional increase in the RBC Prime Rate of one percent would result in an increase in annual interest expense of approximately $1,020.

The HSBC facility is also subject to interest rate fluctuations and the degree of volatility in these rates. The Company does not currently hold any financial instruments that mitigate this risk. The HSBC facility bears interest at the HSBC Prime Rate plus 1.65%. Based on the outstanding balance at December 31, 2009, an additional increase in the HSBC Prime Rate of one percent would result in an increase in annual interest expense of approximately $200.

The Bank of Montreal Fixed Rate Term Loan is not subject to interest rate risk due to the fixed rate nature of the loan. The Loan will be subject to interest rate risk upon maturity on September 30, 2012. The Company does not currently hold any financial instruments that mitigate this risk.

(expressed in Canadian dollar thousands except share and per share amounts)

(b) Credit risk

The Company's exposure to credit risk associated with its accounts receivable is the risk that a customer will be unable to pay amounts due to the Company or its subsidiaries. Concentration of credit risk with respect to contracts-in-transit and accounts receivable is limited primarily to automobile manufacturers and financial institutions (see *Note 3 – Economic dependence and measurement uncertainty* for further discussion of the Company's economic dependence on Chrysler Canada and associated credit risk). Credit risk arising from receivables from commercial customers is not significant due to the large number of customers dispersed across various geographic locations comprising our customer base.

Accounts receivable are aged at December 31, 2009 by the following approximate percentages:

Current	86.9%
31 to 60 days	9.2%
61 to 90 days	2.6%
91 to 120 days	0.7%
Over 120 days	0.6%

The Company evaluates receivables for collectability based on the age of the receivable, the credit history of the customer and past collection experience. The allowance for doubtful accounts amounted to $332 as of December 31, 2009 ($541 as of December 31, 2008). Allowances are provided for potential losses that have been incurred at the balance sheet date. The amounts disclosed on the balance sheet for accounts receivable are net of the allowance for bad debts.

Concentration of cash and cash equivalents exist due to the significant amount of cash held with GMAC Canada.

(c) 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 amount of committed credit facilities. One of management's primary goals is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as cash flows.

The Company is exposed to liquidity risk as a result of its economic dependence on suppliers and lenders. Refer to *Note 3 – Economic dependence and measurement uncertainty* for further information regarding the Company's economic dependence on Chrysler Canada and GMAC Canada and the effect on the Company's liquidity.

(expressed in Canadian dollar thousands except share and per share amounts)

The Company's financial liabilities have contractual maturities which are summarized below:

	Current within 12 months $	Non-current 1-5 years $
Accounts payable and accrued liabilities	25,556	-
Revolving floorplan facility	102,650	-
Long-term debt	1,220	23,757
	129,426	23,757

(d) Fair value

The estimated fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and revolving floorplan facilities approximate carrying value due to the relatively short-term nature of the instruments. The estimated fair value of long-term debt approximates the carrying value due to the relatively short time period between the signing of the debt agreement and balance sheet date for the current reporting period.

23 Capital disclosures

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

The calculation of the Company's capital as of December 31, 2009 is summarized below:

	December 31, 2009 $	December 31, 2008 $
Long-term debt	23,074	25,522
Shareholders' equity	80,102	69,913
Total Capital	103,176	95,435

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.

The Company has externally imposed capital requirements as governed through its credit facilities and dealership agreements with manufacturers. These requirements are to ensure the Company continues to operate in the normal course of business and to ensure that the Company manages its working capital. The Company is subject to certain covenants on its credit facilities which include a current ratio, debt to tangible net worth (including floorplan), debt to tangible net worth (excluding floorplan) and a minimum cash balance requirement. The Company met all externally imposed capital requirements for year ending December 31, 2009.

(expressed in Canadian dollar thousands except share and per share amounts)

24 Segment information

The Company's management evaluates performance and allocates resources based on the operating results of the individual dealerships. All of the individual dealerships sell new and used vehicles, arrange financing, vehicle service, and insurance contracts, provide maintenance and repair services and sell replacement parts. The dealerships are similar in that they deliver the same products and services to a common customer group, their customers are generally individuals, they follow the same procedures and methods in managing their operations, and they operate in similar regulatory environments. Each dealership has sufficiently similar economic characteristics to allow the Company to aggregate dealerships into one reportable segment.