AutoCanada Inc.

Consolidated Financial Statements
December 31, 2011

March 22, 2012

Independent Auditor's Report

To the Shareholders of
AutoCanada Inc.

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

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

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

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

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

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

"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, 2011, December 31, 2010 and January 1, 2010 and their financial performance and their cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

AutoCanada Inc.

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

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

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

Approved on behalf of the Company:

(Signed) "Gordon R. Barefoot", Director

(Signed) "Robin Salmon", Director

AutoCanada Inc.

Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

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

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

AutoCanada Inc.

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

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

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

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

AutoCanada Inc.

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

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

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

1 General Information

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

2 Basis of presentation and adoption of IFRS

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

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

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

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

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

3 Significant Accounting Policies

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

Basis of measurement

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

Principles of consolidation

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

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

Business combinations

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

Revenue recognition

(a) Vehicles, parts, service and collision repair

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

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

3 Significant Accounting Policies continued

Revenue recognition continued

(b) Finance and insurance

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

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

Taxation

(a) Deferred tax

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

Deferred tax liabilities:

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

Deferred tax assets:

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

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

3 Significant Accounting Policies continued

Taxation continued

(b) Current tax

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

Financial instruments

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

Cash and cash equivalents

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

Trade and other receivables

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

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

3 Significant Accounting Policies continued

Inventories

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

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

Property and equipment

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

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

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

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

Goodwill and intangible assets

(a) Goodwill

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

3 Significant Accounting Policies continued

Goodwill and intangible assets continued

(b) Intangible assets

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

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

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

Impairment

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

(a) Non-financial assets

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

(b) Intangible assets and goodwill

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

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

3 Significant Accounting Policies continued

Trade Payables

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

Provisions

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

Leases

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

(a) Finance lease

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

(b) Operating lease

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

4 Accounting standards and amendments issued but not yet adopted

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

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

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

5 Critical accounting estimates, judgments & measurement uncertainty

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

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

Intangible assets and goodwill

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

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

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

Inventories

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

Income taxes

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

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

5 Critical accounting estimates, judgments & measurement uncertainty continued

Allowance for doubtful accounts

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

Estimated useful life of property and equipment

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

6 Segment information

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

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

7 Economic dependence

The Company has significant commercial and economic dependence on Chrysler Canada and Ally Credit, formerly known as GMAC Canada. As a result, the Company is subject to significant risk in the event of the financial distress of Chrysler Canada, one of the Company's major vehicle manufacturers and parts suppliers, and Ally Credit, which provides the Company with revolving floorplan facilities for 22 of its 24 dealerships.

The Company's consolidated financial statements include the operations of franchised automobile dealerships, representing the product lines of eight global automobile manufacturers. The Company's Chrysler, Jeep, Dodge, Ram ("CJDR") dealerships, which generated 74% of the Company's revenue in the period-ended December 31, 2011 (2010 – 73%), purchase all new vehicles, a significant portion of parts and accessories and certain used vehicles from Chrysler Canada. In addition to these inventory purchases, the Company is eligible to receive monetary incentives from Chrysler Canada if certain sales volume targets are met and is also eligible to receive payment for warranty service work that is performed for eligible vehicles.

At December 31, 2011, December 31, 2010 and January 1, 2010 the Company had recorded the following assets that relate to transactions it has entered into with Chrysler Canada:

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

The Company maintains revolving floorplan facilities for 22 of its 24 dealerships with Ally Credit. The Company also maintains cash balances with Ally Credit which it uses to offset interest charges on its various revolving floorplan facilities.

At December 31, 2011, December 31, 2010 and January 1, 2010, the Company had recorded the following assets and liabilities that relate to transactions it has entered into with Ally Credit:

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

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

8 Revenue

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

9 Cost of sales

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

10 Operating expenses

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

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

11 Employees

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

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

Operating expenses incurred in respect of employees were:

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

12 Finance costs

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

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

13 Taxation

Components of income tax expense are as follows:

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

13 Taxation continued

Factors affecting tax expense for the year:

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

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

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

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

14 Business acquisitions

Valley Autohouse

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

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

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

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

14 Business acquisitions continued

Future Hyundai

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

Purchase price allocation

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

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

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

15 Business divestiture

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

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

16 Cash and cash equivalents

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

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

17 Trade and other receivables

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

17 Trade and other receivables continued

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

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

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

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

18 Inventories

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

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

19 Property and equipment

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

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

20 Intangible assets

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

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

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

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

20 Intangible assets continued

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

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

Impairment test of indefinite life intangible assets

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

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

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

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

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

Valuation Techniques

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

20 Intangible assets continued

Value in Use

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

Fair value less costs to sell

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

Significant Assumptions for Value in Use

Growth

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

Discount Rate

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

20 Intangible assets continued

Significant Assumptions for Fair Value Less Costs to Sell

EBITDA

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

Costs to sell

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

Additional Assumptions

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

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

Sensitivity

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

20 Intangible assets continued

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

21 Financial instruments

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

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

Financial Risk Management Objectives

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

Market Risk

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

21 Financial instruments continued

Foreign Currency Risk

Foreign currency risk arises from fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. The Company is not directly exposed to significant foreign currency risk with respect to its financial instruments.

Interest Rate Risk

The Ally Credit revolving floorplan facilities ("Ally facilities") are subject to interest rate fluctuations and the degree of volatility in these rates. The Company does not currently hold any financial instruments that mitigate this risk. The Ally facilities bear interest at Prime Rate plus 0.20%. These facilities define Prime Rate as the greater of the Royal Bank of Canada Prime Rate (“RBC Prime”) or 4.00%. Since the RBC Prime Rate is currently 3.00%, the Company is not exposed to interest rate fluctuations until the RBC Prime Rate is equal to 4.00% (increase of 1.00% from the present rate).

The VW Credit Canada, Inc. revolving floorplan facilities ("VCCI facilities") are subject to interest rate fluctuations and the degree of volatility in these rates. The Company does not currently hold any financial instruments that mitigate this risk. The VCCI facilities bear interest at Prime Rate plus 0.75% for new vehicles and Prime Rate plus 1.00%-1.25% for used vehicles. These facilities define Prime Rate as the Royal Bank of Canada Prime Rate (3.00% as at December 31, 2011).

The HSBC Revolver and the HSBC Term Loan (the “HSBC Facilities”) are also subject to interest rate fluctuations and the degree of volatility in these rates. The Company does not currently hold any financial instruments that mitigate this risk. The HSBC Revolver bears interest at the HSBC Prime Rate plus 1.25% and the HSBC Term Loan bears interest at the HSBC Prime Rate plus 1.75% (HSBC Prime Rate as at December 31, 2011 is 3.00%).

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

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

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

21 Financial instruments continued

Credit Risk

The Company's exposure to credit risk associated with its accounts receivable is the risk that a customer will be unable to pay amounts due to the Company or its subsidiaries. Concentration of credit risk with respect to contracts-in-transit and accounts receivable is limited primarily to automobile manufacturers and financial institutions (see Note 7 for further discussion of the Company's economic dependence on Chrysler Canada and associated credit risk). Credit risk arising from receivables with commercial customers is not significant due to the large number of customers dispersed across various geographic locations comprising our customer base. Details of the aging of the Company's trade and other receivables is located in Note 17.

The Company evaluates receivables for collectability based on the age of the receivable, the credit history of the customer and past collection experience. Allowances are provided for potential losses that have been incurred at the balance sheet date. The amounts disclosed on the balance sheet for accounts receivable are net of the allowance for bad debts. Details of the allowances for doubtful accounts are located in Note 17.

Concentration of cash and cash equivalents exist due to the significant amount of cash held with Ally Credit (see Note 7 for further discussion of the Company's concentration of cash held on deposit with Ally Credit). The Revolving floorplan facilities allow our dealerships to hold excess cash (used to satisfy working capital requirements of our various OEM partners) in an account with Ally Credit which bears interest equal to the interest rates of the Ally facilities (4.20% at December 31, 2011). These cash balances are fully accessible by our dealerships at any time, however in the event of a default by a dealership in its floorplan obligation; the cash may be used to offset unpaid balances under the Ally facilities. As a result, there is a concentration of cash balances risk to the Company in the event of a default under the Ally facilities.

Liquidity Risk

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

The Company is exposed to liquidity risk as a result of its economic dependence on suppliers and lenders. (See Note 7 for further information regarding the Company's economic dependence on Chrysler Canada and Ally Credit and the potential effect on the Company's liquidity).

21 Financial instruments continued

Liquidity Risk continued

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

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

22 Other long-term assets

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

23 Payables, accruals and provisions

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

24 Indebtedness

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

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

Terms and conditions of outstanding loans are as follows:

i The Revolving floorplan facilities - Ally Credit (“Ally facilities”) are available to the Company to finance new, demonstrator and used vehicles bears interest at the Prime Rate plus 0.20% (4.20% at December 31, 2011) and is payable monthly in arrears. Prime Rate is defined as the greater of the Royal Bank of Canada (“RBC”) prime rate (3.00% at December 31, 2011) or 4.00%. The maximum amounts of financing provided by the Ally facilities are based on a maximum number of new, used and demonstrator vehicles to be financed on an individual dealership basis. The Ally facilities are collateralized by all of the dealerships’ new, used and demonstrator inventory financed by the Ally facilities and a general security agreement and cross guarantee from each of the Company’s dealerships financed by Ally Credit. The individual notes payable of the Ally facilities are due when the related vehicle is sold or according to an aging based repayment policy as mandated by Ally Credit.

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

24 Indebtedness continued

iii HSBC Bank Canada (“HSBC”) provides the Company with a fully committed, extendible revolving term loan (the “HSBC Revolver”) in the amount of $30,000. The HSBC Revolver’s maturity date is June 30, 2012, however the facility may be extended for an additional 365 days prior to the maturity of the HSBC Revolver at the request of the Company and upon approval by HSBC. If the HSBC Revolver is not extended by HSBC, repayment of the outstanding amount is not due until June 30, 2013. The HSBC Revolver bears interest at HSBC’s Prime Rate plus 0.75% (3.75% at December 31, 2011). The HSBC Revolver is collateralized by all of the present and future assets of the subsidiaries of AutoCanada Inc, the various Limited Partnerships and the General Partners of each dealership within the Company. As part of a priority agreement signed by HSBC, Ally Credit, VCCI and the Company, the collateral for the HSBC Revolver excludes all new, used and demonstrator inventory financed with the Ally facilities and VCCI facilities.

iv HSBC provides the Company with a committed, extendible non-revolving term loan (the “HSBC Term Loan”). The HSBC Term Loan’s maturity date is June 30, 2012, however the facility may be extended at the request of the Company and upon approval by HSBC. If the HSBC Term Loan is not extended by HSBC, repayment of the outstanding amount is not due until June 30, 2013. The HSBC Term Loan bears interest at HSBC’s Prime Rate plus 1.75% (4.75% at December 31, 2011). Repayments are based on a 20 year amortization of the original loan amount; consisting of fixed monthly principal repayments of $15 plus applicable interest. The HSBC Term Loan requires maintenance of certain financial covenants and is collateralized by a first fixed charge in the amount of $3,510 registered over the Newmarket Infiniti Nissan property. At December 31, 2011, the carrying amount of the Newmarket Infiniti Nissan property was $5,646.

v Bank of Montreal provides the Company a Fixed Rate Term Loan (the “BMO Term Loan”). The BMO Term Loan matures September 30, 2012 and bears interest at a fixed rate of 5.11%. Repayments consist of fixed monthly payments totaling $20 per month. The BMO Term Loan requires maintenance of certain financial covenants and is collateralized by a general security agreement consisting of a first fixed charge in the amount of $3,450 registered over the Cambridge Hyundai property. At December 31, 2011, the carrying amount of the Cambridge Hyundai property was $3,375.

25 Leases

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

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

Terms and conditions of lease obligations were as follows:

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

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

Other leasing arrangements:

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

26 Commitments and Contingencies

Commitments

The Company has operating lease commitments, with varying terms through 2029, to lease premises and equipment used for business purposes. The Company leases the majority of the lands and buildings used in its franchised automobile dealership operations from related parties (Note 30) and other third parties. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

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

Lawsuits and legal claims

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

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

27 Share-based payments

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

Restricted Share Units (RSUs)

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

28 Share capital

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

Dividends

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

Earnings per share

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

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

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

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

29 Capital disclosures

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

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

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

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

30 Related party transactions

Transactions with COAG and affiliates

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

1 Prepaid rent

During the year ended December 31, 2011, the Company prepaid rent amounts to a company with common directors as part of an agreement for a long term rent reduction which was entered into in 2009. Total prepayments of rent for the year ended December 31, 2011 was $2,160 (2010 - $4,163) of which $452 (2010 - $452) has been amortized as a reduction in current period facilities lease costs. On March 1, 2012, the final prepayment was made with respect to this agreement.

30 Related party transactions continued

2 Rent paid to companies with common directors

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

3 Management fees and non-competition fees

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

Key management personnel compensation

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

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

31 Comparative figures

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

32 Transition to IFRS

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

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

32 Transition to IFRS continued

Exemption options

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

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

Mandatory exceptions

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

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

Reconciliations of Canadian GAAP to IFRS

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

Reconciliation of accumulated deficit

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

32 Transition to IFRS continued

Reconciliation of comprehensive income

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

Changes in accounting policies

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

1 **Property and equipment**

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

2 **Impairments and reversals of impairments**

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

32 Transition to IFRS continued

2 Impairments and reversals of impairments continued

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

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

At the Transition Date, as a result of the impairment test performed, the Company determined that certain of the Company's CGU's were impaired. The impairment resulted in a decrease to the carrying value of intangible assets at the Transition Date of $13,100. In accordance with the provisions of IFRS 1, this difference was recognized in the opening accumulated deficit at the Transition Date. The change in carrying value noted above resulted in an adjustment to deferred taxes, which is discussed below.

At December 31, 2010, in accordance with IAS 36, an annual test for impairment was performed. The Company determined that certain of the Company's CGU's were impaired and certain of the Company's CGU's previously recorded impairments were reduced. The impairment test resulted in an overall increase in the carrying value of intangible assets at December 31, 2010 in the amount of $8,059. In accordance with IAS 36, the overall reversal of impairment of intangible assets was recorded in the statement of operations as an increase to net comprehensive income of $8,059 for the year ended December 31, 2011. The change in carrying value noted above resulted in an adjustment to deferred taxes, which is discussed below.

Given the volatility of the retail automotive industry in Canada, the Company expects to incur more frequent impairments or reversals of impairments of intangible assets in future reporting periods.

3 Income taxes

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

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

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

32 Transition to IFRS continued

3 Income taxes continued

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

Presentation reclassifications - Statement of Financial Position

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

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

Presentation reclassifications - Statement of Comprehensive Income

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

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

32 Transition to IFRS continued

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

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

32 Transition to IFRS continued

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

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

32 Transition to IFRS continued

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

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