

# **AutoCanada Inc.**

Interim Consolidated Financial Statements  
(Unaudited)

**March 31, 2011**

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

# AutoCanada Inc.

## Interim Consolidated Statement of Financial Position

(Unaudited)

(in thousands of Canadian dollars)

	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents (Note 13)	39,337	37,541	21,528
Trade and other receivables (Note 14)	42,260	32,853	35,323
Inventories (Note 15)	134,865	118,365	108,324
Other current assets	1,253	1,148	1,646
	<u>217,715</u>	<u>189,907</u>	<u>166,821</u>
<b>Property and equipment</b> (Note 16)	25,578	25,590	17,600
<b>Intangible assets</b> (Note 17)	40,018	40,018	30,600
<b>Goodwill</b>	309	309	-
<b>Other long-term assets</b> (Note 19)	6,336	5,909	2,198
<b>Deferred tax</b>	1,335	-	3,492
	<u>291,291</u>	<u>261,733</u>	<u>220,711</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables (Note 20)	25,943	26,920	24,831
Revolving floorplan facilities (Note 21)	152,075	124,609	102,370
Current tax payable	3,577	-	-
Current lease obligations (Note 22)	856	907	175
Current indebtedness (Note 21)	279	277	96
	<u>182,730</u>	<u>152,713</u>	<u>127,472</u>
<b>Long-term lease obligations</b> (Note 22)	86	120	289
<b>Long-term indebtedness</b> (Note 21)	24,903	24,974	22,785
<b>Deferred tax</b>	-	1,552	-
	<u>207,719</u>	<u>179,359</u>	<u>150,546</u>
<b>EQUITY</b>			
<b>Share capital</b> (Note 24)	190,435	190,435	190,435
<b>Contributed surplus</b>	3,918	3,918	3,918
<b>Accumulated deficit</b>	(110,781)	(111,979)	(124,188)
	<u>83,572</u>	<u>82,374</u>	<u>70,165</u>
	<u>291,291</u>	<u>261,733</u>	<u>220,711</u>

Approved on behalf of the Company:

(Signed) "Gordon R. Barefoot", Director

(Signed) "Robin Salmon", Director

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

# AutoCanada Inc.

## Interim Consolidated Statement of Comprehensive Income

(Unaudited)

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

	<b>Three month period ended March 31, 2011 \$</b>	<b>Three month period ended March 31, 2010 \$</b>
<b>Revenue (Note 6)</b>	211,643	200,762
<b>Cost of sales (Note 7)</b>	(175,350)	(166,281)
<b>Gross profit</b>	36,293	34,481
<b>Operating expenses (Note 8)</b>	(31,879)	(30,740)
<b>Operating profit before other income</b>	4,414	3,741
Gain (loss) on disposal of assets	(7)	2
<b>Operating profit</b>	4,407	3,743
Finance costs (Note 10)	(2,120)	(2,023)
Finance income (Note 10)	396	210
<b>Net income for the period before taxation</b>	2,683	1,930
Income tax (Note 11)	690	516
<b>Net income and comprehensive income for the period</b>	1,993	1,414
<b>Earnings per share</b>		
Basic	0.100	0.071
Diluted	0.100	0.071
<b>Weighted average shares</b>		
Basic	19,880,930	19,880,930
Diluted	19,880,930	19,880,930

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

# AutoCanada Inc.

## Interim Consolidated Statement of Changes in Equity

(Unaudited)

(in thousands of Canadian dollars)

	Share capital	Contributed surplus	Total capital	Accumulated deficit	Total
	\$	\$	\$	\$	\$
<b>Balance, January 1, 2011</b>	190,435	3,918	194,353	(111,979)	82,374
Net comprehensive income	-	-	-	1,993	1,993
Dividends declared on common shares	-	-	-	(795)	(795)
<b>Balance, March 31, 2011</b>	<b>190,435</b>	<b>3,918</b>	<b>194,353</b>	<b>(110,781)</b>	<b>83,572</b>

	Share capital	Contributed surplus	Total capital	Accumulated deficit	Total
	\$	\$	\$	\$	\$
<b>Balance, January 1, 2010</b>	190,435	3,918	194,353	(124,188)	70,165
Net comprehensive income	-	-	-	1,414	1,414
<b>Balance, March 31, 2010</b>	<b>190,435</b>	<b>3,918</b>	<b>194,353</b>	<b>(122,774)</b>	<b>71,579</b>

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

# AutoCanada Inc.

## Interim Consolidated Statement of Cash Flows

(Unaudited)

(in thousands of Canadian dollars)

	Three month period ended March 31, 2011 \$	Three month period ended March 31, 2010 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net comprehensive income	1,993	1,414
Income taxes (Note 11)	690	516
Amortization of prepaid rent (Note 26)	113	113
Amortization of property and equipment	1,080	931
Loss (gain) on disposal of property and equipment	7	(2)
Net change in non-cash working capital	285	4,198
	<u>4,168</u>	<u>7,170</u>
<b>Investing activities</b>		
Purchases of property and equipment	(930)	(541)
Prepayments of rent (Note 26)	(540)	(540)
Proceeds on sale of property and equipment	-	62
	<u>(1,470)</u>	<u>(1,019)</u>
<b>Financing activities</b>		
Repayment of long term indebtedness	(107)	(4,063)
Dividends paid	(795)	-
	<u>(902)</u>	<u>(4,063)</u>
<b>Increase in cash</b>	1,796	2,088
<b>Cash and cash equivalents at beginning of period</b>	<u>37,541</u>	<u>21,528</u>
<b>Cash and cash equivalents at end of period</b>	<u>39,337</u>	<u>23,615</u>

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

# AutoCanada Inc.

## Notes to the Consolidated Interim Financial Statements

For the Period Ended March 31, 2011

(Unaudited)

### 1 Accounting policies

#### *General business description*

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.

#### *Basis of preparation*

The unaudited interim consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB") and using the accounting policies described herein. These consolidated financial statements represent the first consolidated financial statements of the Company and its subsidiaries prepared in accordance with IFRS, as issued by the 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 March 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 29 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, March 31, 2010 and January 1, 2010, and the statement of operations for the three month period ended March 31, 2010 and the year ended December 31, 2010.

The consolidated financial statements have been prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through the income statement.

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 2.

# AutoCanada Inc.

## Notes to the Consolidated Interim Financial Statements

For the Period Ended March 31, 2011

(Unaudited)

### 1 Accounting policies continued

#### *Principles of consolidation*

The consolidated financial statements comprise the financial statements of AutoCanada (hereinafter referred to as "AutoCanada" or the "Company") 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. Generally, the Company has a shareholding of 100% of the voting rights in its subsidiaries. The effect of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are de-consolidated from the date control ceases.

Inter-company transactions, balances and gains or losses on transactions between AutoCanada entities 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.

#### *Property and equipment*

Property and equipment are stated at cost less accumulated amortization and any impairment in value. 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 and lease 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.

# AutoCanada Inc.

## Notes to the Consolidated Interim Financial Statements

For the Period Ended March 31, 2011

(Unaudited)

### 1 Accounting policies continued

#### *Revenue recognition*

- (a) Vehicle, 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 to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. 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 undertaken.

- (b) Finance and insurance

The Company arranges financing for customers through various financial institutions and receives a commission from the lender based on the difference between the interest rate charged to the customer and the interest rate set by the financing institution, or a flat fee.

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

#### *Inventories*

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

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



# AutoCanada Inc.

## Notes to the Consolidated Interim Financial Statements

For the Period Ended March 31, 2011

(Unaudited)

### 1 Accounting policies continued

#### *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 18 - *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.

#### *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 CGU include the carrying amount of goodwill relating to the CGU sold.

##### (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 our 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 us.

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.

# AutoCanada Inc.

## Notes to the Consolidated Interim Financial Statements

For the Period Ended March 31, 2011

(Unaudited)

### 1 Accounting policies continued

#### *Impairment*

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

#### (a) Non-financial assets

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

#### (b) Intangible assets and goodwill

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

- Our 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.

#### *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.

# AutoCanada Inc.

## Notes to the Consolidated Interim Financial Statements

For the Period Ended March 31, 2011

(Unaudited)

### 1 Accounting policies continued

#### *Onerous contracts*

A provision for onerous contracts is recognised when the cost of the obligation under contract exceeds the economic benefit expected to be received. The provision is calculated as the present value of the lower of the cost to fulfill the contract and the cost to terminate it. Before a provision is established, impairment losses are recognised on assets associated with the contract.

#### *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.

#### *Financial assets*

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.

# AutoCanada Inc.

## Notes to the Consolidated Interim Financial Statements

For the Period Ended March 31, 2011

(Unaudited)

### 1 Accounting policies continued

#### *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.

##### (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.

# AutoCanada Inc.

## Notes to the Consolidated Interim Financial Statements

For the Period Ended March 31, 2011

(Unaudited)

## 2 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 continually 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 annually whether intangible assets and goodwill has suffered impairment, in accordance with its accounting policies. The recoverable amounts of CGU's have been determined based on the greater of fair value less costs to sell and value-in-use calculations. These calculations require the use of estimates.

### *Inventories*

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

# AutoCanada Inc.

## Notes to the Consolidated Interim Financial Statements

For the Period Ended March 31, 2011

(Unaudited)

## 2 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.

## 3 Recent accounting pronouncements

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.

The Company has yet to assess the impact of the new standard on its results of operations, financial position and disclosures.

## 4 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 is managed on a dealership basis. Dealerships operate a number of business streams such as new and used vehicle sales, parts, service and collision repair and finance and insurance products. Management is organized based on the dealership operations as a whole rather than the specific business streams.

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

# AutoCanada Inc.

## Notes to the Consolidated Interim Financial Statements

For the Period Ended March 31, 2011

(Unaudited)

### 5 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 our major vehicle manufacturers and parts suppliers, and Ally Credit, which provides the Company with revolving floorplan facilities for all of its dealerships.

The Company's consolidated financial statements include the operations of twenty-three 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 March 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 March 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:

	<b>March 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Accounts receivable	3,575	4,040	3,196
New vehicle inventory	61,070	61,790	51,743
Demonstrator vehicle inventory	4,684	4,847	3,574
Parts and accessories inventory	4,533	4,929	4,484

The Company maintains revolving floorplan facilities for all of its 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 March 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:

	<b>March 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash and cash equivalents	28,310	24,575	9,580
Revolving floorplan facilities	152,075	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.

# AutoCanada Inc.

Notes to the Consolidated Interim Financial Statements  
For the Period Ended March 31, 2011  
(Unaudited)

## 6 Revenue

	<b>2011</b>	<b>2010</b>
	\$	\$
New vehicles	128,318	114,531
Used vehicles	44,906	49,034
Finance and insurance	11,255	10,275
Parts, service and collision repair	27,164	26,922
	<u>211,643</u>	<u>200,762</u>

## 7 Cost of sales

	<b>2011</b>	<b>2010</b>
	\$	\$
New vehicles	118,789	106,556
Used vehicles	41,420	44,935
Finance and insurance	1,122	975
Parts, service and collision repair	14,019	13,815
	<u>175,350</u>	<u>166,281</u>

## 8 Operating expenses

	<b>2011</b>	<b>2010</b>
	\$	\$
Employee costs	18,067	18,179
Administrative costs <sup>(1)</sup>	9,813	8,574
Facility lease costs	2,919	3,056
Depreciation and amortization	1,080	931
	<u>31,879</u>	<u>30,740</u>

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



# AutoCanada Inc.

## Notes to the Consolidated Interim Financial Statements

For the Period Ended March 31, 2011

(Unaudited)

### 9 Employees

The average number of people employed by the Group in the following area was:

	2011	2010
Sales	401	404
Service	583	596
Administration	125	135
	<hr/>	<hr/>
	1,109	1,135

Operating expenses incurred in respect of employees were:

	2011	2010
	\$	\$
Wages, salaries and commissions	16,379	16,274
Withholding taxes and insurance	1,165	1,138
Employee benefits	729	718
Termination benefits	(206)	49
	<hr/>	<hr/>
	18,067	18,179

### 10 Finance costs

	2011	2010
	\$	\$
Finance costs:		
Long term debt	283	236
Floorplan financing	1,685	1,670
Other interest expense	152	117
	<hr/>	<hr/>
	2,120	2,023
Finance income:		
Short term bank deposits	(396)	(210)
	<hr/>	<hr/>

# AutoCanada Inc.

## Notes to the Consolidated Interim Financial Statements

For the Period Ended March 31, 2011

(Unaudited)

### 11 Taxation

Components of income tax expense were as follows:

	2011	2010
	\$	\$
Current	3,577	1,100
Deferred tax	(2,887)	(584)
<b>Income tax expense</b>	<b>690</b>	<b>516</b>

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual rates used for the year ended December 31, 2010 was 29% and the three month period ended March 31, 2011 was 27%.

### 12 Business acquisitions

#### *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 Hyundai dealerships across Canada and is expected to contribute to the Company's reputation as providing excellent service in the communities within which it operates.

# AutoCanada Inc.

Notes to the Consolidated Interim Financial Statements  
For the Period Ended March 31, 2011  
(Unaudited)

## 12 Business acquisitions continued

### *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 \$
<b>Current assets</b>			
Trade and other receivables	19	-	19
Inventories	1,598	-	1,598
Other current assets	31	-	31
	<hr/>		
	1,648	-	1,648
<b>Long term assets</b>			
Property and equipment	400	-	400
Intangible assets	-	1,359	1,359
	<hr/>		
<b>Total assets</b>	<hr/>		
	2,048	1,359	3,407
<b>Current liabilities</b>			
Trade and other payables	78	-	78
	<hr/>		
	78	-	78
<b>Long term liabilities</b>			
Deferred tax liabilities	-	88	88
	<hr/>		
<b>Total liabilities</b>	<hr/>		
	78	88	166
<b>Net assets acquired</b>			
	1,970	1,271	3,241
Goodwill	-	309	309
	<hr/>		
<b>Total net assets acquired</b>	<hr/>		
	1,970	1,580	3,550

The excess of the purchase price over the net tangible and identifiable intangible assets and assumed liabilities was recorded as goodwill and reflects synergies and the value of the acquired workforce.

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, 2010 was \$15,934.

# AutoCanada Inc.

## Notes to the Consolidated Interim Financial Statements

For the Period Ended March 31, 2011

(Unaudited)

### 13 Cash and cash equivalents

	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Cash at bank and on hand	11,027	12,966	11,948
Short-term deposits	28,310	24,575	9,580
	<u>39,337</u>	<u>37,541</u>	<u>21,528</u>

Short-term deposits consists of cash held with Ally Credit. Our revolving floorplan facility agreements allow us 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 18 for further detail regarding cash balances held with Ally Credit.

### 14 Trade and other receivables

	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Trade receivables	41,258	32,363	33,948
Less: Allowance for doubtful accounts	(518)	(402)	(332)
<b>Net trade receivables</b>	<u>40,740</u>	<u>31,961</u>	<u>33,616</u>
Other receivables	1,520	892	1,707
<b>Trade and other receivables</b>	<u>42,260</u>	<u>32,853</u>	<u>35,323</u>

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

	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Current	37,955	27,433	30,683
Past due 31 - 60 days	2,704	3,375	3,250
Past due 61 - 90 days	414	751	916
Past due 91 - 120 days	311	613	250
Past due > 120 days	876	681	224
	<u>42,260</u>	<u>32,853</u>	<u>35,323</u>

# AutoCanada Inc.

## Notes to the Consolidated Interim Financial Statements

For the Period Ended March 31, 2011

(Unaudited)

### 14 Trade and other receivables continued

The Company is exposed to normal credit risk with respect to its accounts receivable and maintains provisions for potential credit losses. Potential for such losses is mitigated because there is no significant exposure to any single customer and because customer creditworthiness is evaluated before credit is extended.

### 15 Inventories

	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
New vehicles	98,748	84,915	73,264
Demonstrator vehicles	6,813	7,267	5,816
Used vehicles	21,798	18,052	22,197
Parts and accessories	7,506	8,131	7,047
	<u>134,865</u>	<u>118,365</u>	<u>108,324</u>

During the period ended March 31, 2011, \$175,350 of inventory (2010 - \$166,281) was expensed as cost of goods sold which included a net recovery of write-downs on used vehicles of \$70 (2010 - \$102 net write-down on used vehicles). During the period ended March 31, 2011, \$332 of demonstrator expense (2010 - \$329) was included in selling, general, and administration expense. As at March 31, 2011 and December 31, 2010, the Company had recorded reserves for inventory write downs of \$1450 and \$1701 respectively.

# AutoCanada Inc.

## Notes to the Consolidated Interim Financial Statements

For the Period Ended March 31, 2011

(Unaudited)

### 16 Property and equipment

	Company & lease vehicles \$	Leasehold Improvements \$	Machinery & Equipment \$	Land & buildings \$	Furniture, fixtures & other \$	Computer hardware \$	Total \$
<b>Cost:</b>							
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
<b>December 31, 2010</b>	<b>3,751</b>	<b>6,900</b>	<b>10,605</b>	<b>10,226</b>	<b>4,497</b>	<b>3,126</b>	<b>39,105</b>
Capital expenditures	-	365	393	-	71	101	930
Disposals	11	(292)	459	-	196	401	775
Transfer in (out) of inventory, net	55	-	-	-	-	-	55
<b>March 31, 2011</b>	<b>3,817</b>	<b>6,973</b>	<b>11,457</b>	<b>10,226</b>	<b>4,764</b>	<b>3,628</b>	<b>40,865</b>
<b>Accumulated depreciation:</b>							
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
<b>December 31, 2010</b>	<b>(1,078)</b>	<b>(3,419)</b>	<b>(4,623)</b>	<b>(678)</b>	<b>(1,833)</b>	<b>(1,884)</b>	<b>(13,515)</b>
Current year depreciation	(190)	(193)	(334)	(132)	(128)	(103)	(1,080)
Disposals	4	289	(458)	-	(207)	(413)	(785)
Transfers out of inventory	93	-	-	-	-	-	93
<b>March 31, 2011</b>	<b>(1,171)</b>	<b>(3,323)</b>	<b>(5,415)</b>	<b>(810)</b>	<b>(2,168)</b>	<b>(2,400)</b>	<b>(15,287)</b>
<b>Carrying amount:</b>							
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
March 31, 2011	2,646	3,650	6,042	9,416	2,596	1,228	25,578

Fully depreciated assets are retained in asset 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.

# AutoCanada Inc.

Notes to the Consolidated Interim Financial Statements  
For the Period Ended March 31, 2011  
(Unaudited)

## 17 Intangible assets

	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
<b>Cost:</b>			
Opening balance	77,130	75,771	75,771
Acquisition	-	1,359	-
<b>Closing balance</b>	<u>77,130</u>	<u>77,130</u>	<u>75,771</u>
<b>Accumulated amortization:</b>			
Opening balance	37,112	45,171	45,171
Reversals of impairment	-	(8,059)	-
<b>Closing balance</b>	<u>37,112</u>	<u>37,112</u>	<u>45,171</u>
<b>Carrying amount</b>	<u>40,018</u>	<u>40,018</u>	<u>30,600</u>

The following table shows the carrying amount of indefinite-lived identifiable intangible assets by cash generating unit:

	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
<b>Cash Generating Unit</b>			
A	10,375	10,375	5,825
B	7,035	7,035	2,762
C	3,181	3,181	2,372
D	922	922	922
E	9,626	9,626	9,626
F	3,785	3,785	3,652
G	863	863	1,234
H	2,053	2,053	2,053
I - W combined	2,178	2,178	2,154
	<u>40,018</u>	<u>40,018</u>	<u>30,600</u>

# AutoCanada Inc.

## Notes to the Consolidated Interim Financial Statements

For the Period Ended March 31, 2011

(Unaudited)

### 17 Intangible assets continued

#### *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 carrying value of intangible assets for each significant CGU is identified separately in the table above. "I - W 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.

#### *Value in Use*

Value in use 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 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 3.5 to 6.0 times forecasted EBITDA.



# AutoCanada Inc.

Notes to the Consolidated Interim Financial Statements

For the Period Ended March 31, 2011

(Unaudited)

## 17 Intangible assets continued

### *Significant Assumptions*

#### *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 1% 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.

#### *Additional Assumptions*

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

	<b>Discount Rate</b>	<b>Perpetual Growth Rate</b>
A	15.20	1.00
B	18.17	1.00
C	16.42	1.00
D	14.32	1.00
E	18.17	1.00
F	18.34	1.00
G	16.59	1.00
H	14.67	1.00
I - W combined	15.2% - 18.7%	1.00

# AutoCanada Inc.

Notes to the Consolidated Interim Financial Statements

For the Period Ended March 31, 2011

(Unaudited)

## 17 Intangible assets continued

### *Sensitivity*

The recoverable amount for each CGU that was in excess of its carrying value ranged from 162% to 205% of the carrying value of the applicable CGU. The fair value for each CGU that was below its carrying value ranged from 9% to 87% 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.

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 change in the discount rate would have the most impact on the recoverable amounts of CGU's. A 1% decrease in the discount rate for all CGU's would result in a \$2,700 increase in the value of intangible assets. A 1% increase in the discount rate for all CGU's would result in a \$2,200 decrease in the value of intangible assets. As such, 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.

# AutoCanada Inc.

## Notes to the Consolidated Interim Financial Statements

For the Period Ended March 31, 2011

(Unaudited)

### 18 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 policy note. 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:

	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
<b>Financial assets</b>			
Cash and cash equivalents	39,337	37,541	21,528
Trade and other receivables	42,260	32,853	35,323
<b>Financial liabilities</b>			
Current indebtedness	279	277	96
Long-term indebtedness	24,903	24,974	22,785
Revolving floorplan facilities	152,075	124,609	102,370
Trade and other payables	25,943	26,920	24,831

#### ***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.

##### Foreign Currency Risk Management

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

# AutoCanada Inc.

## Notes to the Consolidated Interim Financial Statements

For the Period Ended March 31, 2011

(Unaudited)

### 18 Financial instruments continued

#### Interest Rate Risk Management

The Revolving floorplan 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 Revolving floorplan 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 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%.

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 is used when reporting interest risk internally to key management personnel and represents management’s assessment of the possible change in interest rates.

	<u>+ 100 Basis Point</u>		<u>- 100 Basis Point</u>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Finance costs	368	441	(368)	(441)
Finance income	71	24	(71)	(24)

#### *Credit Risk Management*

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 5 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 14.

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 14.

# AutoCanada Inc.

## Notes to the Consolidated Interim Financial Statements

For the Period Ended March 31, 2011

(Unaudited)

### 18 Financial instruments continued

#### *Credit Risk Management continued*

Concentration of cash and cash equivalents exist due to the significant amount of cash held with Ally Credit (see Note 5 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 Revolving floorplan facilities (4.20% at March 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 Revolving floorplan facilities. As a result, there is a concentration of cash balances risk to the Company in the event of a default under the Revolving floorplan facilities.

#### *Liquidity Risk Management*

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

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.

	2011	2012	2013	Thereafter	Total
	\$	\$	\$	\$	\$
<b>March 31, 2011</b>					
Trade and other payables	25,943	-	-	-	25,943
Revolving floorplan facilities	152,075	-	-	-	152,075
HSBC revolving term facility	-	-	19,000	-	19,000
HSBC fixed term loan	176	3,071	-	-	3,247
BMO fixed rate term loan	103	2,553	-	-	2,656
Lease obligations	856	72	14	-	942
Contractual interest payable	1,138	919	201	-	2,258
	<u>180,291</u>	<u>6,615</u>	<u>19,215</u>	<u>-</u>	<u>206,121</u>

# AutoCanada Inc.

Notes to the Consolidated Interim Financial Statements  
For the Period Ended March 31, 2011  
(Unaudited)

## 19 Other long-term assets

	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Prepaid rent (Note 26)	6,277	5,850	2,142
Other assets	59	59	56
	<u>6,336</u>	<u>5,909</u>	<u>2,198</u>

## 20 Payables, accruals and provisions

	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Trade payables	16,379	17,315	16,796
Accruals	1,511	1,069	1,154
Sales tax payable	351	2,132	1,832
Wages and withholding taxes payable	7,702	6,404	5,049
	<u>25,943</u>	<u>26,920</u>	<u>24,831</u>

## 21 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 18.

	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
<b>Current indebtedness</b>			
Current portion of indebtedness	279	277	96
Revolving floorplan facilities (i)	152,075	124,609	102,370
	<u>152,354</u>	<u>124,886</u>	<u>102,466</u>
<b>Non-current indebtedness</b>			
HSBC revolving term loan (ii)	19,000	19,000	20,000
HSBC non-revolving fixed term loan (iii)	3,247	3,291	-
BMO fixed rate term facility (iv)	2,656	2,683	2,785
	<u>24,903</u>	<u>24,974</u>	<u>22,785</u>
<b>Total indebtedness</b>	<u>177,257</u>	<u>149,860</u>	<u>125,251</u>

# AutoCanada Inc.

## Notes to the Consolidated Interim Financial Statements

For the Period Ended March 31, 2011

(Unaudited)

### 21 Indebtedness continued

Terms and conditions of outstanding loans were as follows:

- i The revolving floorplan facilities (“Ally facilities”) are available to the Company from Ally Credit to finance new, demonstrator and used vehicles bears interest at the Prime Rate plus 0.20% (4.20% at March 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 March 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. 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 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 1.25% (4.25% at March 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 and the Company, the collateral for the HSBC Revolver excludes all new, used and demonstrator inventory financed with the Ally facilities provided by Ally Credit.
- iii 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, 2011, 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, 2012. The HSBC Term Loan bears interest at HSBC’s Prime Rate plus 1.75% (4.75% at March 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 March 31, 2011, the carrying amount of the Newmarket Infiniti Nissan property was \$5,901.
- iv 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 March 31, 2011, the carrying amount of the Cambridge Hyundai property was \$3,515.

# AutoCanada Inc.

## Notes to the Consolidated Interim Financial Statements

For the Period Ended March 31, 2011

(Unaudited)

### 22 Lease obligations

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

	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
<b>Current</b>			
Current finance lease obligations (ii)	159	165	175
Vehicle repurchase obligations (i)	697	742	-
	<hr/>	<hr/>	<hr/>
	856	907	175
<b>Non-current</b>			
Long-term finance lease obligations (ii)	86	120	289
	<hr/>	<hr/>	<hr/>
<b>Total lease obligations</b>	942	1,027	464

Terms and conditions of lease obligations were as follows:

- i The Company has committed to provide 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.



# AutoCanada Inc.

## Notes to the Consolidated Interim Financial Statements

For the Period Ended March 31, 2011

(Unaudited)

### 23 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 26) and other third parties. The future aggregate minimum lease payments under non-cancelable operating leases are as follows:

	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
2010	-	-	19,555
2011	8,653	11,447	10,322
2012	8,066	8,066	7,310
2013	5,551	5,551	5,328
2014	5,212	5,212	4,657
2015	4,917	4,917	4,488
Thereafter	50,489	50,489	53,926
	<hr/> 82,888	<hr/> 85,682	<hr/> 105,586

On May 20, 2010, the Company signed an agreement for exclusive partnership rights in the AIR MILES Promotional Partnership Program (“the Program”). The Program grants AutoCanada’s dealerships with exclusive rights to issue AIR MILES reward miles to customers in conjunction with the sale of new or used vehicles and accessories to our customers. As part of the program, AutoCanada has committed to purchase a minimum of \$2 million in AIR MILES reward miles over the first 12 months of the program in exchange for certain sole-exclusivities for the term of the program. At March 31, 2011 the Company had a remaining commitment of \$0.68 million associated with this program which will mature in 2011.

#### *Lawsuits and legal claims*

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

# AutoCanada Inc.

## Notes to the Consolidated Interim Financial Statements

For the Period Ended March 31, 2011

(Unaudited)

### 23 Commitments and Contingencies continued

#### *Lawsuits and legal claims continued*

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

### 24 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 period ended March 31, 2011, eligible dividends totaling \$795 were declared and paid. On May 12, 2011, the Board of Directors of the Company declared a quarterly eligible dividend of \$0.05 per common share on the Company's outstanding Class A common shares, payable on June 15, 2011 to shareholders of record at the close of business on May 31, 2011.

#### *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:

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Earnings attributable to common shares	1,993	1,414

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

	<b>2011</b>	<b>2010</b>
Weighted-average number of shares outstanding	19,880,930	19,880,930

# AutoCanada Inc.

## Notes to the Consolidated Interim Financial Statements

For the Period Ended March 31, 2011

(Unaudited)

### 25 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:

	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Long-term indebtedness	24,903	24,974	22,785
Long-term lease obligations	86	120	289
Equity	83,572	82,374	70,165
	<u>108,561</u>	<u>107,468</u>	<u>93,239</u>

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

### 26 Related party transactions

#### *Transactions with COAG and affiliates*

As of March 31, 2011, Canada One Auto Group ("COAG") and affiliates beneficially owned approximately 46.8% 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:

#### a Prepaid rent

During the period ended March 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 period ended March 31, 2011 was \$540 (2010 - \$540) of which \$113 (2010 - \$113) has been amortized as a reduction in current period facilities lease costs.

# **AutoCanada Inc.**

## **Notes to the Consolidated Interim Financial Statements**

### **For the Period Ended March 31, 2011**

*(Unaudited)*

## **26 Related party transactions continued**

### **b Rent paid to companies with common directors**

During the period ended March 31, 2011, total rent paid to companies with common directors amounted to \$1,974 (2010 - \$2,033). The Company currently leases thirteen of twenty-three 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.

## **27 Seasonal nature of the business**

The Company's results from operations for the period ended March 31, 2011 are not necessarily indicative of the results that may be expected for the full year due to seasonal variations in sales levels. The results from operations of the Company have been lower in the first and fourth quarters of each year, largely due to consumer purchasing patterns during the holiday season, inclement weather and the number of business days during the period. As a result, the Company's financial performance is generally not as strong during the first and fourth quarters than during the other quarters of each fiscal year. The timing of acquisitions may also cause substantial fluctuations in operating results from quarter to quarter.

## **28 Comparative figures**

In addition to reclassifications identified in Note 29, certain comparative figures have been reclassified to conform with the current period's interim consolidated financial statements presentation.

## **29 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.

# AutoCanada Inc.

## Notes to the Consolidated Interim Financial Statements

For the Period Ended March 31, 2011

(Unaudited)

### 29 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*

	<b>December 31, 2010</b>	<b>March 31, 2010</b>	<b>January 1, 2010</b>
	\$	\$	\$
Accumulated deficit as reported under Canadian GAAP	(107,966)	(112,818)	(114,251)
<b>IFRS adjustments:</b>			
1. Property and equipment	(345)	(220)	(194)
2. Impairments	(5,041)	(13,100)	(13,100)
3. Income taxes	1,373	3,363	3,357
<b>Accumulated deficit as reported under IFRS</b>	<u>(111,979)</u>	<u>(122,775)</u>	<u>(124,188)</u>

# AutoCanada Inc.

## Notes to the Consolidated Interim Financial Statements

For the Period Ended March 31, 2011

(Unaudited)

### 29 Transition to IFRS continued

#### *Reconciliation of comprehensive income*

	Year ended December 31, 2010 \$	Period ended March 31 2010 \$
Net comprehensive income under Canadian GAAP	8,671	1,433
<b>Differences in GAAP increasing (decreasing) reported earnings:</b>		
1. Property and equipment	(150)	(25)
2. Reversal of impairments	8,059	-
3. Income taxes	(1,983)	6
<b>Net comprehensive income under IFRS</b>	<b>14,597</b>	<b>1,414</b>

#### *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, \$220, and \$345, reflecting increased amortization of the components of the Company's buildings at at January 1, 2010, March 31, 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.

IAS 36 also requires a one-step approach to determine the recoverable amount of a CGU. Canadian

# AutoCanada Inc.

## Notes to the Consolidated Interim Financial Statements

### For the Period Ended March 31, 2011

(Unaudited)

## 29 Transition to IFRS continued

### 2 Impairments and reversals of impairments continued

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 17.

At the Transition Date, as a result of the impairment test performed, the Company determined that certain of the Company's CGU's were impaired. The impairment resulted in a decrease to the carrying value of intangible assets at the Transition Date of \$13,100. In accordance with the provisions of IFRS 1, this difference was recognized in the opening accumulated deficit at the Transition Date. This difference also resulted in an overall decrease in the carrying value of intangible assets at March 31, 2010 in the amount of \$13,100, with a resulting difference recognized in the accumulated deficit, as no indicators of impairment were determined to be present at that date, which would result in a test for impairment at that time. 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 March 31, 2010, the Company recorded a net increase in deferred tax assets of \$3,363. This difference relates to the opening net increase in deferred tax assets of \$3,357 at the Transition date, less a net decrease in income tax expense for the three month period ended March 31, 2011 of \$6 as a result of

# AutoCanada Inc.

## Notes to the Consolidated Interim Financial Statements

For the Period Ended March 31, 2011

(Unaudited)

### 29 Transition to IFRS continued

#### 3 Income taxes continued

temporary differences noted above.

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.

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 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.



# AutoCanada Inc.

## Notes to the Consolidated Interim Financial Statements

For the Period Ended March 31, 2011

(Unaudited)

### 29 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
<b>Assets</b>					<b>Assets</b>
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
<b>Current assets</b>	166,821	-	-	166,821	<b>Current assets</b>
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
<b>Total assets</b>	232,160	(9,937)	(1,512)	220,711	<b>Total assets</b>
<b>Liabilities</b>					<b>Equity and liabilities</b>
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)	-	
<b>Current liabilities</b>	128,984	-	(1,512)	127,472	<b>Current liabilities</b>
Long term debt	23,074	-	(22,785)	289	Long-term lease obligations
	-	-	22,785	22,785	Long-term indebtedness
<b>Total liabilities</b>	152,058	-	(1,512)	150,546	<b>Total liabilities</b>
<b>Shareholders' equity</b>	-	-	-	-	<b>Equity</b>
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
<b>Total shareholders' equity</b>	80,102	(9,937)	-	70,165	<b>Total equity</b>
<b>Total liabilities and equity</b>	232,160	(9,937)	(1,512)	220,711	<b>Total liabilities and equity</b>

# AutoCanada Inc.

## Notes to the Consolidated Interim Financial Statements

For the Period Ended March 31, 2011

(Unaudited)

### 29 Transition to IFRS continued

#### Reconciliation of Consolidated Statement of Financial Position as at March 31, 2010

Canadian GAAP accounts	CGAAP Balance \$	IFRS Adjustments \$	IFRS Reclassifications \$	IFRS Balance \$	IFRS accounts
<b>Assets</b>					<b>Assets</b>
Cash and cash equivalents	23,615	-	-	23,615	Cash and cash equivalents
Trade and other receivables	40,701	-	-	40,701	Trade and other receivables
Inventories	153,847	-	-	153,847	Inventories
Prepaid expenses	2,013	-	-	2,013	Other current assets
<b>Current assets</b>	220,176	-	-	220,176	<b>Current assets</b>
Property & equipment	17,400	(220)	-	17,180	Property and equipment
Intangible assets	43,700	(13,100)	-	30,600	Intangible assets
Future income tax	713	3,363	-	4,076	Deferred tax
Prepaid rent	2,569	-	(2,569)	-	
Other assets	56	-	(56)	-	
	-	-	2,625	2,625	Other long-term assets
<b>Total assets</b>	284,614	(9,957)	-	274,657	<b>Total assets</b>
<b>Liabilities</b>					<b>Equity and Liabilities</b>
Accounts payable	22,107	-	-	22,107	Trade and other payables
Revolving floorplan facilities	160,590	-	-	160,590	Revolving floorplan facilities
Income taxes payable	1,100	-	-	1,100	Current tax payable
	-	-	176	176	Current lease obligations
Current portion of long term debt	272	-	(176)	96	Current liabilities
<b>Current liabilities</b>	184,069	-	-	184,069	<b>Current Liabilities</b>
	-	-	249	249	Long-term lease obligations
Long-term debt	19,010	-	(249)	18,761	Long-term indebtedness
<b>Total liabilities</b>	203,079	-	-	203,079	<b>Total liabilities</b>
<b>Shareholders' equity</b>					<b>Equity</b>
Share capital	190,435	-	-	190,435	Share capital
Contributed surplus	3,918	-	-	3,918	Contributed surplus
Deficit	(112,818)	(9,957)	-	(122,775)	Accumulated deficit
<b>Total shareholders' equity</b>	81,535	(9,957)	-	71,578	<b>Total equity</b>
<b>Total liabilities and equity</b>	284,614	(9,957)	-	274,657	<b>Total equity and liabilities</b>

# AutoCanada Inc.

## Notes to the Consolidated Interim Financial Statements

For the Period Ended March 31, 2011

(Unaudited)

### 29 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
<b>Assets</b>					<b>Assets</b>
Cash and cash equivalents	37,541	-	-	37,541	Cash and cash equivalents
Trade and other receivables	32,853	-	-	32,853	Trade and other receivables
Inventories	118,365	-	-	118,365	Inventories
Prepaid expenses	1,148	-	-	1,148	Other current assets
<b>Current assets</b>	189,907	-	-	189,907	<b>Current assets</b>
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
<b>Total assets</b>	268,049	(5,386)	(930)	261,733	<b>Total assets</b>
<b>Liabilities</b>					<b>Equity and Liabilities</b>
Trade and other payables	26,920	-	-	26,920	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)	-	
<b>Current liabilities</b>	156,568	-	(3,855)	152,713	<b>Current Liabilities</b>
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
<b>Total liabilities</b>	181,662	(1,373)	(930)	179,359	<b>Total liabilities</b>
<b>Shareholders' equity</b>	-	-	-	-	<b>Equity</b>
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
<b>Total shareholders' equity</b>	86,387	(4,013)	-	82,374	<b>Total equity</b>
<b>Total liabilities and equity</b>	268,049	(5,386)	(930)	261,733	<b>Total equity and liabilities</b>

# AutoCanada Inc.

## Notes to the Consolidated Interim Financial Statements

For the Period Ended March 31, 2011

(Unaudited)

### 29 Transition to IFRS continued

#### *Reconciliation of Consolidated Statement of Comprehensive Income for the period ended March 31, 2010*

<b>Canadian GAAP accounts</b>	<b>CGAAP Balance</b>	<b>IFRS Adjustments</b>	<b>IFRS Reclassifications</b>	<b>IFRS Balance</b>	<b>IFRS accounts</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	
Vehicles	173,630	-	27,132	200,762	Revenue
Parts, service and collision repair	26,922	-	(26,922)	-	
Other	210	-	(210)	-	
<b>Revenue</b>	<b>200,762</b>	<b>-</b>	<b>-</b>	<b>200,762</b>	<b>Revenue</b>
<b>Cost of sales</b>	<b>(166,281)</b>	<b>-</b>	<b>-</b>	<b>(166,281)</b>	<b>Cost of sales</b>
<b>Gross profit</b>	<b>34,481</b>	<b>-</b>	<b>-</b>	<b>34,481</b>	<b>Gross profit</b>
Selling, general and administrative	29,598	25	1,115	30,738	Operating expenses
Interest	2,023	-	(2,023)	-	
Amortization	905	-	(905)	-	
<b>Earnings before income taxes</b>	<b>1,955</b>	<b>(25)</b>	<b>1,813</b>	<b>3,743</b>	<b>Operating profit</b>
	-	-	(2,023)	(2,023)	Finance costs
	-	-	210	210	Finance income
<b>Earnings before income taxes</b>	<b>1,955</b>	<b>25</b>	<b>-</b>	<b>1,930</b>	<b>Net income for the period before taxation</b>
Income tax	522	(6)	-	516	Income tax
<b>Net earnings</b>	<b>1,433</b>	<b>19</b>	<b>-</b>	<b>1,414</b>	<b>Net income and comprehensive income for the period</b>

# AutoCanada Inc.

Notes to the Consolidated Interim Financial Statements  
For the Period Ended March 31, 2011  
(Unaudited)

## 29 Transition to IFRS continued

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

<b>Canadian GAAP accounts</b>	<b>CGAAP Balance</b>	<b>IFRS Adjustments</b>	<b>IFRS Reclassifications</b>	<b>IFRS Balance</b>	<b>IFRS accounts</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	
Vehicles	762,920	-	110,906	873,826	Revenue
Parts, service and collision repair	111,742	-	(111,742)	-	
Other	1,446	-	(1,446)	-	
<b>Revenue</b>	<b>876,108</b>	<b>-</b>	<b>(2,282)</b>	<b>873,826</b>	<b>Revenue</b>
Cost of sales	(725,171)	-	940	(724,231)	Cost of sales
<b>Gross Profit</b>	<b>150,937</b>	<b>-</b>	<b>(1,342)</b>	<b>149,595</b>	<b>Gross profit</b>
Selling, general and administrative	126,056	150	4,021	130,227	Operating expenses
Interest	9,217	-	(9,217)	-	
Amortization	4,021	-	(4,021)	-	
<b>Earnings before income taxes</b>	<b>11,643</b>	<b>(150)</b>	<b>7,875</b>	<b>19,368</b>	<b>Operating profit before other income</b>
	-	8,059	-	8,059	Reversal of impairment of intangible assets
<b>Earnings before income taxes</b>	<b>11,643</b>	<b>7,909</b>	<b>7,875</b>	<b>27,427</b>	<b>Operating profit</b>
	-	-	(9,217)	(9,217)	Finance costs
	-	-	1,342	1,342	Finance income
<b>Earnings before income taxes</b>	<b>11,643</b>	<b>7,909</b>	<b>-</b>	<b>19,552</b>	<b>Net income for the period before taxation</b>
Income tax	2,972	1,983	-	4,955	Income tax
<b>Net earnings</b>	<b>8,671</b>	<b>5,926</b>	<b>-</b>	<b>14,597</b>	<b>Net income and comprehensive income for the period</b>