AutoCanada Inc.

Consolidated Financial Statements
December 31, 2012

March 26, 2013

Independent Auditor's Report

To the Shareholders of
AutoCanada Inc.

We have audited the accompanying consolidated financial statements of AutoCanada Inc., which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011, and the consolidated statements of comprehensive income, statement of changes in equity, and statements of cash flow for the years ended at December 31, 2012 and December 31, 2011, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

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Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AutoCanada Inc. as at December 31, 2012 and December 31, 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

AutoCanada Inc.

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

	December 31, 2012 $	December 31, 2011 $
Revenue (Note 9)	1,103,913	1,009,326
Cost of sales (Note 10)	(913,548)	(840,165)
Gross profit	190,365	169,161
Operating expenses (Note 11)	(149,140)	(136,846)
Operating profit before other income	41,225	32,315
Loss on disposal of assets	(95)	(41)
Reversal of impairment of assets (Note 20)	222	25,543
Income from investment in associate (Note 15)	468	-
Operating profit	41,820	57,817
Finance costs (Note 13)	(10,583)	(9,848)
Finance income (Note 13)	1,575	1,324
Net income for the year before taxation	32,812	49,293
Income tax (Note 14)	8,576	12,509
Net comprehensive income for the year	24,236	36,784
Earnings per share		
Basic	1.222	1.850
Diluted	1.222	1.850
Weighted average shares		
Basic	19,840,802	19,880,930
Diluted	19,840,802	19,880,930

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

Approved on behalf of the Company:

(Signed) "Gordon R. Barefoot", Director

(Signed) "Robin Salmon", Director

AutoCanada Inc.

Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

	December 31, 2012 $	December 31, 2011 $
ASSETS		
Current assets		
Cash and cash equivalents (Note 16)	34,472	53,641
Restricted cash (Note 16)	10,000	-
Trade and other receivables (Note 17)	47,944	42,448
Inventories (Note 18)	199,226	137,016
Other current assets	1,102	1,120
	292,744	234,225
Property and equipment (Note 19)	38,513	25,975
Intangible assets (Note 20)	66,403	66,181
Goodwill	380	380
Other long-term assets (Note 22)	7,699	7,609
Investment in associate (Note 15)	4,730	-
	410,469	334,370
LIABILITIES		
Current liabilities		
Trade and other payables (Note 23)	35,697	32,279
Revolving floorplan facilities (Note 24)	203,525	150,816
Current tax payable (Note 14)	3,719	2,046
Current lease obligations (Note 25)	1,282	1,204
Current indebtedness (Note 24)	3,000	2,859
	247,223	189,204
Long-term indebtedness (Note 24)	23,937	20,115
Deferred tax (Note 14)	14,809	12,056
	285,969	221,375
EQUITY	124,500	112,995
	410,469	334,370

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

AutoCanada Inc.

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

	Share capital	Treasury shares	Contributed surplus	Total capital	Accumulated deficit	Equity
	$		$	$	$	$
Balance, January 1, 2012	190,435	-	3,918	194,353	(81,358)	112,995
Net comprehensive income	-	-	-	-	24,236	24,236
Dividends declared on common shares (Note 28)	-	-	-	-	(12,301)	(12,301)
Common shares repurchased (Note 28)	-	(935)	-	(935)	-	(935)
Share-based compensation	-	-	505	505	-	505
Balance, December 31, 2012	190,435	(935)	4,423	193,923	(69,423)	124,500

	Share capital	Treasury Shares	Contributed surplus	Total capital	Accumulated deficit	Equity
	$		$	$	$	$
Balance, January 1, 2011	190,435	-	3,918	194,353	(111,979)	82,374
Net comprehensive income	-	-	-	-	36,784	36,784
Dividends declared on common shares (Note 28)	-	-	-	-	(6,163)	(6,163)
Balance, December 31, 2011	190,435	-	3,918	194,353	(81,358)	112,995

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

AutoCanada Inc.

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

	December 31, 2012 $	December 31, 2011 $
Cash provided by (used in)		
Operating activities		
Net comprehensive income	24,236	36,784
Income taxes (Note 14)	8,576	12,509
Amortization of prepaid rent	452	452
Amortization of property and equipment (Note 11)	4,311	4,251
Loss on disposal of assets	95	41
Reversal of impairment of assets (Note 20)	(222)	(25,543)
Share-based compensation	739	302
Income from investment in associate (Note 15)	(468)	-
Income taxes paid	(4,255)	-
Net change in non-cash working capital (Note 31)	(12,392)	1,231
	21,072	30,027
Investing activities		
Addition to restricted cash (Note 16)	(10,000)	-
Business acquisitions	-	(1,753)
Investment in associate (Note 15)	(4,262)	-
Purchases of property and equipment	(16,069)	(2,954)
Disposal (purchase) of other assets	(58)	11
Proceeds on sale of property and equipment	32	68
Proceeds on divestiture of dealership	-	1,464
Prepayments of rent (Note 30)	(540)	(2,160)
	(30,897)	(5,324)
Financing activities		
Proceeds from long-term indebtedness (Note 24)	6,218	-
Repayment of long-term indebtedness	(2,349)	(2,440)
Common shares repurchased (Note 28)	(912)	-
Dividends paid (Note 28)	(12,301)	(6,163)
	(9,344)	(8,603)
Increase (decrease) in cash	(19,169)	16,100
Cash and cash equivalents at beginning of year	53,641	37,541
Cash and cash equivalents at end of year	34,472	53,641

1 General Information

Entity information

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

2 Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and Canadian Generally Accepted Accounting Principles ("GAAP") as issued by the Canadian Institute of Chartered Accountants.

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

These financial statements were approved by the Board of Directors for issue on March 26, 2013.

3 Significant Accounting Policies

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

Basis of measurement

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

Principles of consolidation

The consolidated financial statements comprise the financial statements of AutoCanada and all of its subsidiaries. Subsidiaries are all entities over which the Company has control, either legally or in substance through power, exposure to variable returns, and the ability to use its power over the entity to affect the Company's returns. The Company has a shareholding of 100% of the voting rights in its subsidiaries. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are no longer consolidated on the date control ceases.

3 Significant Accounting Policies continued

Principles of consolidation continued

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

Business combinations

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

Investment in associate

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

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

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

The Company determines at each reporting date whether there are any indicators of impairment to the associate whereby there is a significant or prolonged decline in the investment's fair value or other objective evidence of impairment. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount, which is calculated based on the higher of value-in-use or fair value less costs to sell, of the associate and its carrying value and recognizes the amount adjacent to its share of profit or loss of the associate in the statement of comprehensive income.

3 Significant Accounting Policies continued

Investment in associate continued

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

Revenue recognition

(a) Vehicles, parts, service and collision repair

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

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

(b) Finance and insurance

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

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.

3 Significant 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.

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

(b) Current tax

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

Manufacturer incentives and other rebates

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

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

3 Significant Accounting Policies continued

Manufacturer incentives and other rebates continued

Advertising

Manufacturer advertising rebates that are reimbursements of costs associated with specific advertising expenses are earned in accordance with the respective manufacturers' reimbursement-based advertising assistance programs, which is typically after the corresponding advertising expenses have been incurred, and are reflected as a reduction in advertising expense included in selling, general and administrative expense in the statement of comprehensive income.

Share-based compensation

(a) Restricted Share Units (RSUs)

The Company grants RSUs to designated management employees entitling them to receive a combination of cash and common shares based on the Company's share price at each vesting date. The RSUs are also entitled to earn additional units based on dividend payments made by the Company and the share price on the date of payment. The RSUs granted are scheduled to vest evenly over three years conditional upon continued employment with the Company.

(b) Deferred Share Units (DSUs)

The Company grants DSUs to independent directors of the Company which are cash-settled. DSUs are granted based on the Company's average share price for the five business days prior to the date on which quarterly directors' fees are paid. The DSUs granted are scheduled to vest upon the termination date of the director, at which time, the DSUs will be settled in cash no sooner than the termination date and no later than December 15 of the calendar year following the director's termination date.

Financial instruments

Financial instruments are recognized when the Company becomes a party to the contractual provisions of the instrument. 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. Financial liabilities are derecognized when the obligation is discharged, cancelled or expired. 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. The Company's financial liabilities, including accounts payable and accrued liabilities, revolving floorplan facilities, lease obligations and long-term debt, are classified as other liabilities at the time of initial recognition. Other liabilities are non-derivative financial liabilities and are initially recognized at fair value and subsequently carried at amortized cost using the effective interest method.

3 Significant Accounting Policies continued

Cash and cash equivalents

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

Restricted cash

Restricted cash is cash held in a segregated account in connection with the facility from Scotiabank. The restricted cash earns interest income to partially offset the interest expense incurred on the borrowings. (See Note 21 - *Financial instruments - Credit risk* for explanation of credit risk associated with restricted cash balances).

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 statement of comprehensive income within operating expenses.

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

Inventories

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

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

3 Significant Accounting Policies continued

Property and equipment

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

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

Buildings are amortized on a straight-line basis over 25-41 years based on the estimated useful lives of the buildings. The useful lives are determined based on the Company's understanding and experience as to how the related assets depreciate.

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

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

Goodwill and intangible assets

(a) Goodwill

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

(b) Intangible assets

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

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

3 Significant Accounting Policies continued

Goodwill and intangible assets continued

(b) Intangible assets continued

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

Impairment

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

(a) Non-financial assets

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

(b) Intangible assets and goodwill

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

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

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.

3 Significant Accounting Policies continued

Provisions

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

Leases

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

(a) Finance lease

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

(b) Operating lease

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

New Accounting Policies

During the year ended December 31, 2012, the Company elected to early adopt the following standards:

- IFRS 10, *Consolidated financial statements*, replaces all the guidance on control and consolidation in IAS 27, *Consolidated and separate financial statements*, and SIC-12, *Consolidation - special purpose entities*. Full retrospective application is required in accordance with the transition provisions of the standard, unless impracticable, in which case the Company applies it from the earliest practicable date.
- IAS 27 was amended following the issuance of IFRS 10. The revised IAS 27 deals only with the accounting for subsidiaries, associates and joint ventures in the separate financial statements of the parent company.

3 Significant Accounting Policies continued

New Accounting Policies continued

- IFRS 11, *Joint Arrangements*, supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities - Non-monetary Contributions by Venturers*. Under IAS 31, entities have the choice to proportionately consolidate or equity account for interests in jointly controlled entities. IFRS 11 requires an entity to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures are accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation.
- IFRS 12, *Disclosure of Interests in Other Entities*, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interest in other entities.
- IAS 28 was amended following the issuance of IFRS 11. The revised IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The Company has applied the above standards retrospectively. The above standards did not result in significant changes to the Company's previously filed financial statements and related disclosures.

4 Changes in significant accounting estimates

On October 1, 2012, the Company changed the method of amortizing buildings from declining balance to straight line over the estimated useful life of the building to reflect the change in the Company's evaluation of the nature of depreciation of buildings. The Company believes buildings depreciate evenly over time as opposed to declining balance depreciation that is more applicable to other types of assets. The change in amortization method has been applied prospectively beginning on October 1, 2012. As a result of the change in amortization method, amortization expense for the year ended December 31, 2012 is $128 lower than under the declining balance method.

5 Accounting standards and amendments issued but not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee (“IFRIC”) that are not yet effective for the financial year ended December 31, 2012. The standards issued that are applicable to the Company are as follows:

- IFRS 9, *Financial Instruments* - The new standard will ultimately replace IAS 39, *Financial Instruments: Recognition and Measurement*. The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments and the issuance of IFRS 9 is part of the first phase. This standard becomes effective on January 1, 2015.

5 Accounting standards and amendments issued but not yet adopted continued

- IFRS 13, *Fair Value Measurement*, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures. This standard becomes effective on January 1, 2013.
- IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.

6 Critical accounting estimates, judgments & measurement uncertainty

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

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

Intangible assets and goodwill

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

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

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

Inventories

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

6 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.

Critical judgments in applying accounting policies:

Investment in associate

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

AutoCanada has a non-voting equity interest in an entity, Dealer Holdings Ltd. ("DHL"), for which the voting interests are held 100% by the Company's Chief Executive Officer ("CEO") (as described in Note 17). When assessing whether the Company has control of DHL, management has considered the Company's relationship with its CEO and whether the Company has the ability to direct decision-making rights of the CEO pertaining to their investment in DHL. In making this assessment, the Company considered that the CEO has de facto control over AutoCanada; therefore, the CEO should not be perceived to be a de facto agent of AutoCanada. The following facts were considered to assess the relationship between AutoCanada and its CEO:

- Regardless of employment at AutoCanada, the CEO's interest in DHL would remain with full ability to control decisions as they pertain to DHL.
- The CEO has not relied on any financial support from the Company in making his investment, and therefore the risk of loss and reward to the CEO personally is significant.
- There are no contractual rights providing the Company with decision making power over the CEO.
- The CEO's level of expertise and knowledge in operating DHL.

When combining these considerations with the fact that the CEO has the casting vote on decisions of the Board of DHL, and therefore governs relevant activities of the investee, management has concluded that the Company does not have power over DHL, and therefore does not consolidate this investment.

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

6 Critical accounting estimates, judgments & measurement uncertainty continued

Should the nature of the relationship between the CEO and the Company change in the future, this assessment would need to be further evaluated.

7 Segment information

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

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

8 Economic dependence

The Company has significant commercial and economic dependence on Chrysler Canada. As a result, the Company is subject to significant risk in the event of the financial distress of Chrysler Canada, one of the Company's major vehicle manufacturers and parts suppliers.

The Company's consolidated financial statements include the operations of franchised automobile dealerships, representing the product lines of eight global automobile manufacturers. The Company's Chrysler, Jeep, Dodge, Ram ("CJDR") dealerships, which generated 73% of the Company's revenue in the period-ended December 31, 2012 (2011 – 74%), purchase all new vehicles, a significant portion of parts and accessories and certain used vehicles from Chrysler Canada. In addition to these inventory purchases, the Company is eligible to receive monetary incentives from Chrysler Canada if certain sales volume targets are met and is also eligible to receive payment for warranty service work that is performed for eligible vehicles.

At December 31, 2012 and December 31, 2011, the Company had recorded the following assets that relate to transactions it has entered into with Chrysler Canada:

	December 31, 2012 $	**December 31, 2011 $**
Accounts receivable	6,655	5,032
New vehicle inventory	122,595	72,749
Demonstrator vehicle inventory	4,784	4,338
Parts and accessories inventory	6,043	6,081

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

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

9 Revenue

	2012 $	2011 $
New vehicles	683,375	640,722
Used vehicles	243,351	206,030
Finance, insurance and other	62,587	51,896
Parts, service and collision repair	114,600	110,678
	1,103,913	1,009,326

10 Cost of sales

	2012 $	2011 $
New vehicles	625,800	593,017
Used vehicles	227,040	188,649
Finance, insurance and other	5,751	5,301
Parts, service and collision repair	54,957	53,198
	913,548	840,165

11 Operating expenses

	2012 $	2011 $
Employee costs (Note 12)	93,012	82,381
Administrative costs (1)	39,949	38,655
Facility lease costs	11,868	11,559
Depreciation	4,311	4,251
	149,140	136,846

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

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

12 Employees

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

	2012	2011
Sales	477	442
Service	612	605
Administration	138	123
	1,227	1,170

Operating expenses incurred in respect of employees were:

	2012 $	2011 $
Wages, salaries and commissions	86,555	76,016
Withholding taxes and insurance	3,903	3,652
Employee benefits and other	2,554	2,713
	93,012	82,381

13 Finance costs and finance income

	2012 $	2011 $
Finance costs:		
Long-term debt	984	1,136
Floorplan financing	8,832	8,057
Other interest expense	767	655
	10,583	9,848
Finance income:		
Short term bank deposits	(1,575)	(1,324)

Cash interest paid during the year ended December 31, 2012 was $10,620 (2011 - $9,812).

14 Taxation

Components of income tax expense are as follows:

	2012 $	2011 $
Current	5,823	2,046
Deferred tax	2,753	10,463
Total income tax expense	8,576	12,509

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

14 Taxation continued

Factors affecting tax expense for the year:

	2012 $	2011 $
Income before taxes	32,812	49,293
Income before tax multiplied by the standard rate of Canadian corporate tax of 25.5% (2011 - 27.0%)	8,367	13,309
Effects of:		
Change in deferred tax rate	11	(200)
Difference between future and current rate	(14)	(717)
Non-deductible expenses	259	74
Other, net	(47)	43
Total income tax expense	8,576	12,509

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

Deferred tax assets (liabilities)	Deferred income from partnerships $	Property and equipment $	Goodwill and intangible assets $	Other $	Total $
January 1, 2011	(4,260)	643	1,671	394	(1,552)
(Expense) benefit to income statement	(2,419)	(198)	(7,490)	(356)	(10,463)
Deferred tax acquired on acquisition	-	-	-	(41)	(41)
December 31, 2011	(6,679)	445	(5,819)	(3)	(12,056)
Benefit (expense) to income statement	(1,630)	(242)	(818)	(63)	(2,753)
December 31, 2012	(8,309)	203	(6,637)	(66)	(14,809)

Changes in the deferred income tax components are adjusted through deferred tax expense. Of the above components of deferred income taxes, $8,309 of the deferred tax liabilities is expected to be recovered within 12 months. The decrease in standard rate of Canadian corporate tax is due to general decreases in the corporate tax rate in the jurisdictions in which the Company operates. The Company applies a blended rate in determining its overall income tax expense.

15 Investment in associate

During 2012, the Company invested a total of $4,262 to acquire a 60.8% participating, non-voting equity interest in Dealer Holdings Ltd. ("DHL"). DHL is an entity formed between a subsidiary of AutoCanada and Mr. Patrick Priestner ("Priestner"), the Company's CEO. DHL was formed to acquire future General Motors of Canada ("GM Canada") franchised dealerships, whereby Priestner is required to maintain voting control of the dealerships, in accordance with the agreement with GM Canada. All shareholders participate equally in the equity and economic risks and rewards of DHL and its interests, based on the percentage of ownership acquired. DHL's principal place of business is Alberta, Canada.

Although the Company holds no voting rights in DHL, the Company exercises significant influence by virtue of its ability to appoint one member of the board of directors of DHL and its ability to participate in financial and operating policy decisions of DHL. However, the Company does not have the power to make key decisions or block key decisions due to a casting vote held by Priestner. As a result, the Company has accounted for its investment in DHL under the equity method. There are no guarantees to DHL or significant relationships other than those disclosed in Note 30.

During the second quarter of 2012, DHL acquired a 49% voting equity interest in Nicholson Chevrolet ("Nicholson") with an option to increase its interest to 51% upon Nicholson's successful relocation to a new facility. DHL exercised this option in the fourth quarter of 2012 subsequent to Nicholson's relocation to Sherwood Park, Alberta and change in operating name to Sherwood Park Chevrolet. In conjunction with the Nicholson investment, DHL is subject to a put option with Romland Development Holdings Ltd. ("Romland"), the owner of the dealership and body shop real estate used in Sherwood Park Chevrolet's operations, whereby DHL may be required to purchase up to 49% of Romland at fair value. Upon Romland exercising the put option, DHL will have 180 days to purchase its portion of shares of Romland, which would require further investment in DHL from its shareholders.

During the second quarter of 2012, DHL also acquired a 51% voting equity interest in Petersen Buick GMC ("Petersen").

The Sherwood Park Chevrolet and Petersen dealerships are both subject to financial covenants as part of its borrowing arrangements that may restrict their ability to transfer funds to DHL if the payment of such funds resulted in a breach of covenants. The dealerships are also subject to minimum working capital requirements imposed by GM Canada, which may restrict the dealerships' ability to transfer funds to DHL if minimum working capital requirements are not met.

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

15 Investment in associate continued

As a result of DHL's investments, the Company has indirectly acquired a 31% interest in Sherwood Park Chevrolet and a 31% interest in Petersen. Summarized information in respect of the investment in DHL is as follows:

	Carrying amount	Fair value adjustments	Fair value	Interest in Dealer Holdings Ltd.
	$	$	$	$
Current assets	29,837	(92)	29,745	9,221
Non-current assets	18,072	592	18,664	5,786
Current liabilities	24,611	-	24,611	7,629
Non-current liabilities	10,050	-	10,050	3,116
Equity attributable to DHL	13,248	500	13,748	
Equity	4,107	155	4,262	4,262

From the date of acquisition to December 31, 2012, on a consolidated basis, DHL generated revenue of $88,045 and total net comprehensive income of $784. For the year ended December 31, 2012, no dividends have been received from DHL. The fair value of the Company's investment in DHL approximates the carrying value presented below. The following table summarizes the Company's carrying value of its investment in DHL:

	Year ended December 31, 2012
	$
Balance, beginning of the year	-
Investment in Dealer Holdings Ltd.	4,262
Income from investment in associate	468
Balance, end of year	4,730

16 Cash, cash equivalents and restricted cash

	December 31, 2012	December 31, 2011
	$	$
Cash at bank and on hand	13,992	14,911
Short-term deposits	20,480	38,730
Cash and cash equivalents	34,472	53,641
Restricted cash	10,000	-
Cash and cash equivalents and restricted cash	44,472	53,641

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

16 Cash, cash equivalents and restricted cash continued

Short-term deposits consist of cash held with Scotiabank. The Company's revolving floorplan facility agreements allow the Company to hold excess cash in accounts with Scotiabank, which is used to offset our finance costs on our revolving floorplan facilities. Restricted cash relates to cash required by Scotiabank to be held in a separate account, which would be used to repay our facilities if we are in default of our facilities. See Note 21 for further detail regarding cash balances held with Scotiabank.

17 Trade and other receivables

	December 31, 2012 $	December 31, 2011 $
Trade receivables	45,998	41,294
Less: Allowance for doubtful accounts	(447)	(359)
Net trade receivables	45,551	40,935
Other receivables	2,393	1,513
Trade and other receivables	47,944	42,448

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

	December 31, 2012 $	December 31, 2011 $
Current	41,986	36,741
Past due 31 - 60 days	3,473	3,165
Past due 61 - 90 days	957	613
Past due 91 - 120 days	1,201	602
Past due > 120 days	327	1,327
	47,944	42,448

Included in amounts greater than 120 days are $327 (2011 - $559) of receivables related to corporate fleet leasing arrangements.

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

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

18 Inventories

	December 31, 2012 $	December 31, 2011 $
New vehicles	158,251	101,135
Demonstrator vehicles	7,333	6,302
Used vehicles	25,622	21,531
Parts and accessories	8,020	8,048
	199,226	137,016

During the year ended December 31, 2012, $913,548 of inventory (2011 - $840,165) was expensed as cost of goods sold which included net write-downs on used vehicle inventory of $899 (2011 - $85). During the year ended December 31, 2012, $1,150 of demonstrator expense (2011 - $1,219) was included in selling, general, and administration expense. During the year ended December 31, 2012, demonstrator reserves increased by $207 (2011 - $237). As at December 31, 2012, the Company had recorded reserves for inventory write downs of $2,121 (2011 - $1,429).

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

19 Property and equipment

	Company & lease vehicles $	Leasehold Improvements $	Machinery & Equipment $	Land & buildings $	Furniture, fixtures & other $	Computer hardware $	Total $
Cost:							
December 31, 2010	3,751	6,900	10,605	10,226	4,497	3,126	39,105
Capital expenditures	-	1,124	811	-	539	480	2,954
Acquisitions of dealership assets	546	9	117	-	102	27	801
Disposals	-	(2,100)	(387)	-	(13)	(24)	(2,524)
Transfer in to inventory, net	768	-	-	-	-	-	768
December 31, 2011	5,065	5,933	11,146	10,226	5,125	3,609	41,104
Capital expenditures	-	747	514	-	207	673	2,141
Acquisitions of real estate	-	-	-	13,928	-	-	13,928
Disposals	-	(40)	(90)	-	(70)	(275)	(475)
Transfer in to (from) inventory, net	112	-	-	-	-	-	112
December 31, 2012	5,177	6,640	11,570	24,154	5,262	4,007	56,810
Accumulated depreciation:							
December 31, 2010	(1,078)	(3,419)	(4,623)	(678)	(1,833)	(1,884)	(13,515)
Current year depreciation	(961)	(543)	(1,258)	(527)	(568)	(394)	(4,251)
Disposals	-	1,958	89	-	(142)	(90)	1,815
Transfers in to inventory	822	-	-	-	-	-	822
December 31, 2011	(1,217)	(2,004)	(5,792)	(1,205)	(2,543)	(2,368)	(15,129)
Current year depreciation	(1,118)	(568)	(1,112)	(494)	(554)	(465)	(4,311)
Disposals	-	40	59	-	51	179	329
Transfers in to (from) inventory, net	814	-	-	-	-	-	814
December 31, 2012	(1,521)	(2,532)	(6,845)	(1,699)	(3,046)	(2,654)	(18,297)
Carrying amount:							
December 31, 2011	3,848	3,929	5,354	9,021	2,582	1,241	25,975
December 31, 2012	3,656	4,108	4,725	22,455	2,216	1,353	38,513

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

Bank borrowings are secured on land and buildings for the value of $6,960 (2011 - $6,960).

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

20 Intangible assets

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

	December 31, 2012 $	December 31, 2011 $
Cost:		
Opening balance	74,003	77,130
Acquisitions	-	620
Divestitures	-	(3,747)
Closing balance	74,003	74,003
Accumulated impairment:		
Opening balance	7,822	37,112
Recovery of impairment of intangible assets	(222)	(25,543)
Divestitures	-	(3,747)
Closing balance	7,600	7,822
Carrying amount	66,403	66,181

Cash generating units have been determined to be individual dealerships. The following table shows the carrying amount of dealer agreements by cash generating unit:

Cash Generating Unit	December 31, 2012 $	December 31, 2011 $
A	21,687	21,687
B	9,431	9,431
C	3,670	3,303
D	9,626	9,626
E	8,497	8,497
F	3,258	3,258
G	1,234	1,234
H	1,413	1,102
I	1,359	1,359
J	955	2,053
K	1,726	1,726
L	394	57
M	185	693

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

20 Intangible assets continued

Cash Generating Unit	December 31, 2012 $	December 31, 2011 $
Other N - T combined	2,968	2,155
	66,403	66,181

The following table shows the impairments (recoveries of impairment) of dealer agreements by cash generating unit:

Cash Generating Unit	December 31, 2012 $	December 31, 2011 $
A	-	(11,313)
B	-	(2,397)
C	(368)	(122)
D	-	-
E	-	(4,712)
F	-	(3,258)
G	-	(371)
H	(311)	(1,102)
I	-	(1,013)
J	1,098	-
K	-	-
L	(337)	(57)
M	508	693
Other N - T combined	(812)	(1,891)
	(222)	(25,543)

Impairment test of dealer agreements

The Company performed its annual test for impairment at December 31, 2012. As a result of the test performed, the Company recorded a net reversal of impairment in the amount of $222 for the year ended December 31, 2012 (2011 - $25,543).

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

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

20 Intangible assets continued

Valuation Techniques

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

Value in Use

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

Fair value less costs to sell

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

Significant Assumptions for Value in Use

Growth

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

Discount Rate

The Company applied a discount rate 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 CGUs to which intangible assets are allocated. The WACC is an estimate of the overall required rate of return on an investment for both debt and equity owners and serves as the basis for developing an appropriate discount rate. Determination of the discount rate requires separate analysis of the cost of equity and debt and considers a risk premium based on an assessment of risks related to the projected cash flows of each CGU.

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

20 Intangible assets continued

Significant Assumptions for Fair Value Less Costs to Sell

EBITDA

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

Costs to sell

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

Additional Assumptions

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

	Basis of Recoverable Amount	Discount Rate	Perpetual Growth Rate
A	VIU	14.68 %	2.00 %
B	VIU	15.02 %	2.00 %
C	VIU	14.51 %	2.00 %
D	VIU	15.36 %	2.00 %
E	VIU	15.70 %	2.00 %
F	VIU	14.68 %	2.00 %
G	FVLCS	15.02 %	2.00 %
H	FVLCS	15.87 %	2.00 %
I	VIU	14.68 %	2.00 %
J	VIU	14.51 %	2.00 %
K	VIU	15.02 %	2.00 %
L	VIU	15.19 %	2.00 %
M	FVLCS	16.04 %	2.00 %
N - T combined	VIU/FVLCS	14.00 - 15.36 %	2.00 %

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

20 Intangible assets continued

Sensitivity

The recoverable amount for the CGUs that were in excess of their carrying values was 289.7% of the carrying value of the applicable CGUs based on a weighted average. On a weighted-average basis, the fair value for the CGUs that were below their carrying values was 10.7% of the carrying value of the applicable CGUs. 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 1% change in the discount rate would not have a significant impact on the recoverable amounts of CGUs. The recoverable amount of each CGU is sensitive to changes in market conditions and could result in material changes in the carrying value of intangible assets in the future.

21 Financial instruments

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

	December 31, 2012 $	December 31, 2011 $
Financial assets		
Cash and cash equivalents	34,472	53,641
Restricted cash	10,000	-
Trade and other receivables	47,944	42,448
Financial liabilities		
Current indebtedness	3,000	2,859
Long-term indebtedness	23,937	20,115
Revolving floorplan facilities	203,525	150,816
Trade and other payables	35,697	32,279

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.

21 Financial instruments continued

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

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

Interest Rate Risk

The Scotiabank revolving floorplan facilities ("Scotiabank 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 Scotiabank facilities bear interest at Bankers' Acceptance Rate plus 1.40%-1.90% (Bankers' Acceptance Rate as at December 31, 2012 is 1.22%).

The VW Credit Canada, Inc. revolving floorplan facilities ("VCCI facilities") are subject to interest rate fluctuations and the degree of volatility in these rates. The Company does not currently hold any financial instruments that mitigate this risk. The VCCI facilities bear interest at Prime Rate plus 0.50% for new vehicles and Prime Rate plus 0.75-1.00% for used vehicles. These facilities define Prime Rate as the Royal Bank of Canada Prime Rate (3.00% as at December 31, 2012).

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 0.75% and the HSBC Term Loan bears interest at the HSBC Prime Rate plus 1.75% (HSBC Prime Rate as at December 31, 2012 is 3.00%).

The BMO Term Loan is a fixed rate term loan that matured on September 30, 2012, at which time became subject to market rates of interest until the amount is refinanced.

The Servus Mortgage is a fixed rate mortgage bearing interest at an annual rate of 3.90%.

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

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

21 Financial instruments continued

Interest Rate Risk continued

	+ 200 Basis Point		- 200 Basis Point		+ 100 Basis Point		- 100 Basis Point	
	2012	2011	2012	2011	2012	2011	2012	2011
	$	$	$	$	$	$	$	$
Finance costs	4,433	1,936	(4,433)	(450)	2,216	225	(2,216)	(225)
Finance income	360	387	(360)	-	180	-	(180)	-

Credit Risk

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

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

Concentration of cash and cash equivalents exist due to the significant amount of cash held with Scotiabank. 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 Scotiabank which bears interest equal to the interest rates of the Scotiabank facilities for new vehicles (2.62% at December 31, 2012). In the event of a default by a dealership in its floorplan obligation, the cash may be used to offset unpaid balances under the Scotiabank facilities. Additionally, the restricted cash balance is held at a Canadian chartered bank with a credit rating of A+ as at December 31, 2012, and as a result, credit risk is considered nominal. As a result, there is a concentration of cash balances risk to the Company in the event of a default under the Scotiabank facilities.

Liquidity Risk

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

The Company is exposed to liquidity risk as a result of its economic dependence on suppliers. (See Note 8 for further information regarding the Company's economic dependence on Chrysler Canada and the potential effect on the Company's liquidity).

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

21 Financial instruments continued

Liquidity Risk continued

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

	2013 $	2014 $	2015 $	2016 $	2017 $	Total $
December 31, 2012						
Trade and other payables	35,697	-	-	-	-	35,697
Revolving floorplan facilities	203,525	-	-	-	-	203,525
HSBC revolving term facility	-	15,000	-	-	-	15,000
HSBC fixed term loan	175	2,940	-	-	-	3,115
BMO fixed rate term loan	2,604	-	-	-	-	2,604
Lease obligations	1,282	-	-	-	-	1,282
Servus Mortgage	221	221	230	239	5,307	6,218
Contractual interest payable	1,083	511	221	212	1,745	3,772
	244,587	18,672	451	451	7,052	271,213

	2012 $	2013 $	Total $
December 31, 2011			
Trade and other payables	32,279	-	32,279
Revolving floorplan facilities	150,816	-	150,816
HSBC revolving term facility	-	17,000	17,000
HSBC fixed term loan	176	3,115	3,291
BMO fixed rate term loan	2,683	-	2,683
Lease obligations	1,204	-	1,204
Contractual interest payable	890	384	1,274
	188,048	20,499	208,547

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

22 Other long-term assets

	December 31, 2012 $	December 31, 2011 $
Prepaid rent (Note 30)	7,646	7,558
Other assets	53	51
	7,699	7,609

23 Payables, accruals and provisions

	December 31, 2012 $	December 31, 2011 $
Trade payables	19,255	15,111
Accruals and provisions	5,091	5,284
Sales tax payable	282	2,239
Wages and withholding taxes payable	11,069	9,645
	35,697	32,279

The following table provides a continuity schedule of all recorded provisions included in accruals and provisions above. Refer to Note 26 for additional information on litigation provisions:

	Finance and insurance (a) $	Litigation $	Severance (b) $	Other $	Total $
January 1, 2012	928	-	360	351	1,639
Provisions arising during the year	125	-	-	200	325
Amounts disbursed	-	-	(360)	-	(360)
December 31, 2012	1,053	-	-	551	1,604

(a) Represents an estimated chargeback reserve provided by the Company's insurance provider.

(b) For terminated employees.

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

24 Indebtedness

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

	December 31, 2012 $	December 31, 2011 $
Current indebtedness		
Current portion of indebtedness (iii, iv, v)	3,000	2,859
Revolving floorplan facilities - Scotiabank (vi)	199,001	-
Revolving floorplan facilities - Ally Credit (vii)	-	148,587
Revolving floorplan facilities - VCCI (i)	4,524	2,228
	206,525	153,674
Non-current indebtedness		
HSBC revolving term loan (ii)	15,000	17,000
HSBC non-revolving fixed term loan (iii)	2,940	3,115
Servus Mortgage (v)	5,997	-
Total indebtedness	230,462	173,789

Terms and conditions of outstanding loans were as follows:

i The revolving floorplan facilities (“VCCI facilities”) are available to the Company from VW Credit Canada, Inc. ("VCCI") to finance new and used vehicles for all of the Company's Volkswagen dealerships. The VCCI facilities bear interest at the Royal Bank of Canada ("RBC") prime rate (3.00% at December 31, 2012) plus 0.50% for new vehicles and 0.75-1.00% for used vehicles. The maximum amount of financing provided by the VCCI facilities is $15,990. The VCCI facilities are collateralized by both of the dealerships’ assets financed by VCCI and all cash and other collateral in the possession of VCCI and a general security agreement from the Company's Volkswagen dealerships. The individual notes payable of the VCCI facilities are due when the related vehicle is sold, as outlined in the agreement with VW Credit Canada, Inc. In February 2013, VCCI further reduced the interest rate on the new vehicle facilities to RBC Prime Rate.

ii HSBC Bank Canada (“HSBC”) provides the Company with a fully committed, extendible revolving term loan (the “HSBC Revolver”) in the amount of $40,000 and may be increased by $10,000 subject to approval from HSBC. The facility is repayable on June 30, 2014 and may be extended for an additional 365 days at the request of the Company and upon approval by HSBC. The HSBC Revolver bears interest at HSBC’s Prime Rate plus 0.75% (3.75% at December 31, 2012). 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 and the Company, the collateral for the HSBC Revolver excludes all new, used and demonstrator inventory financed with the Scotiabank and VCCI revolving floorplan facilities.

24 Indebtedness continued

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 January 31, 2013, 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 January 31, 2014. The HSBC Term Loan bears interest at HSBC's Prime Rate plus 1.75% (4.75% at December 31, 2012). Repayments are based on a 20 year amortization of the original loan amount; consisting of fixed monthly principal repayments of $15 plus applicable interest. The HSBC Term Loan requires maintenance of certain financial covenants and is collateralized by a first fixed charge in the amount of $3,510 registered over the Newmarket Infiniti Nissan property. At December 31, 2012, the carrying amount of the Newmarket Infiniti Nissan property was $5,370. The Company is currently in the renewal process for the HSBC Term Loan.

iv Bank of Montreal provides the Company a Fixed Rate Term Loan (the "BMO Term Loan"). The BMO Term Loan matured September 30, 2012 and bears interest at a fixed rate of 5.11%. Repayments consist of fixed monthly payments totaling $20 per month. The BMO Term Loan requires maintenance of certain financial covenants and is collateralized by a general security agreement consisting of a first fixed charge in the amount of $3,450 registered over the Cambridge Hyundai property. At December 31, 2012, the carrying amount of the Cambridge Hyundai property was $3,232. The Company is currently in the renewal process for the BMO Term Loan.

v Servus Credit Union provides the Company with a mortgage (the "Servus Mortgage"). The Servus Mortgage bears interest at a fixed annual rate of 3.90% and is repayable with monthly blended instalments of $38, originally amortized over a 20 year period with term expiring September 27, 2017. The Servus Mortgage has certain reporting requirements and financial covenants and is collateralized by a general security agreement consisting of a first fixed charge over the property. At December 31, 2012, the carrying amount of the property was $8,575.

vi During the year, the Bank of Nova Scotia ("Scotiabank") provided the Company a revolving floorplan facility in the amount of $240,000 to refinance the Ally facilities previously used to finance new and used vehicle inventory. The facility for the new vehicle inventory bears interest at Bankers' Acceptance Rate plus 1.40% per annum (2.62% at December 31, 2012). The facility for used vehicle inventory bears interest at Bankers' Acceptance Rate plus 1.90% per annum (3.12% at December 31, 2012). The facility is collateralized by the individual dealership's inventories which are directly financed by Scotiabank, a general security agreement with each dealership financed, and a guarantee from AutoCanada Holdings Inc., a subsidiary of the Company.

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

24 Indebtedness continued

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

25 Leases and vehicle repurchase obligations

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

	December 31, 2012 **$**	**December 31, 2011** **$**
Current		
Vehicle repurchase obligations (i)	1,254	1,082
Current finance lease obligations (ii)	28	122
Total lease obligations	1,282	1,204

Terms and conditions of lease obligations were as follows:

i The Company provides a corporate fleet customer with vehicles for individual terms not to exceed six months, at which time the Company has an obligation to repurchase each vehicle at a predetermined amount. The Company has determined that the transactions shall be treated as vehicle repurchase obligations, 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 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.

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

25 Leases and vehicle repurchase obligations continued

Other leasing arrangements

In conjunction with the acquisition of Valley Autohouse in 2011, the Company acquired an in-house leased vehicle portfolio in which the Company acts as lessor. The vehicles are leased to third parties pursuant to non-cancellable operating lease agreements. As at December 31, 2012, the lease terms for the remaining vehicle leases range from 36 to 48 months. The future aggregate minimum lease payments to be received under the non-cancellable operating leases are $37 within 1 year and $11 thereafter. The Company intends to wind-down the in-house lease program at this location over the next 24 months.

26 Commitments and Contingencies

Commitments

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

	December 31, 2012 $	**December 31, 2011 $**
2012	-	10,109
2013	10,605	8,611
2014	10,289	8,307
2015	9,967	7,984
2016	8,205	6,881
2017	6,460	5,689
Thereafter	50,378	50,792
	95,904	98,373

Lawsuits and legal claims

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

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

26 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 it is not probable that the ultimate resolution of any such proceedings and claims, individually or in the aggregate, would have a material adverse effect on the financial condition of the Company, taken as a whole.

27 Share-based payments

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

Restricted Share Units (RSUs)

The Company grants RSUs to designated management employees entitling them to receive a combination of cash and common shares based on the Company's share price at each vesting date. The RSUs are also entitled to earn additional units based on dividend payments made by the Company and the share price on date of payment. The RSUs granted are scheduled to vest evenly over three years conditional upon continued employment with the Company.

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

	2012 Number of RSUs	**2011 Number of RSUs**
Outstanding, beginning of the year	12,245	-
Granted	76,916	11,752
Dividends reinvested	3,549	493
Outstanding, end of the year	92,710	12,245

Deferred Share Units (DSUs)

Independent members of the Board of Directors are entitled to receive up to 100% of their cash remuneration in the form of DSUs based on the Company's average share price for the five business days prior to the date on which quarterly directors' fees are paid. The DSUs are also entitled to earn additional units based on dividend payments made by the Company and the Company's share price on the date of payment. The DSUs granted are scheduled to vest upon the termination date of the director, at which time, the DSUs will be settled in cash no sooner than the termination date and no later than December 15 of the calendar year following the director's termination date.

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

27 Share-based payments continued

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

	2012 Number of DSUs	2011 Number of DSUs
Granted	3,397	-
Dividends reinvested	38	-
Outstanding, end of the period	3,435	-

28 Share capital

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

RSU Trust

In June 2012, the Company established a share purchase trust ("Trust") to hedge the risk of future share price increases from the time Restricted Share Units ("RSU" - see Note 27) are granted to when they are fully vested and can be exercised. The beneficiaries of the Trust are members of the Executive Management Team who participate in the long-term incentive compensation plan called the Restricted Share Unit Plan (the "Plan"). Under the Trust Agreement, the trustee will administer the distribution of cash and shares to the beneficiaries upon vesting, as directed by the Company. The Company contributed cash to the trustee to purchase a total of 76,916 shares of the Company at a total cost of $912 on the open market to fund the future payment of awards to eligible individuals under the Plan. Dividends earned on the shares held in trust of $23 are reinvested to purchase additional shares. The shares held in the Trust are accounted for as treasury shares and have been deducted from the Company's consolidated equity as at December 31, 2012. As the Company controls the Trust, it has included the Trust in its consolidated financial statements for the year ended December 31, 2012.

The following table shows the change in shareholders' capital from January 1, 2012 to December 31, 2012:

	2012 Number	2012 Amount $
Outstanding, beginning of the year	19,880,930	190,435
Common shares repurchased	(78,781)	(935)
Outstanding, end of the year	19,802,149	189,500

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

28 Share capital continued

Dividends

Dividends are discretionary and are determined based on a number of factors. Dividends are subject to approval of the Board of Directors. During the year ended December 31, 2012, eligible dividends totaling $12,301 (2011 - $6,163) were declared and paid. On February 15, 2013, the Board of Directors of the Company declared a quarterly eligible dividend of $0.18 per common share on the Company's outstanding Class A common shares, payable on March 15, 2013 to shareholders of record at the close of business on February 28, 2013.

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:

	2012 $	2011 $
Earnings attributable to common shares	24,236	36,784

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

	2012	2011
Weighted-average number of shares outstanding, opening	19,881	19,881
Weighted-average common shares held in treasury	(40)	-
Weighted-average number of shares outstanding, closing	19,841	19,881

29 Capital disclosures

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

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

	December 31, 2012 $	December 31, 2011 $
Long-term indebtedness(Note 24)	23,937	20,115
Equity	124,500	112,995
	148,437	133,110

29 Capital disclosures continued

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

30 Related party transactions

Transactions with Companies Controlled by the CEO of AutoCanada

During the year ended December 31, 2012, the Company had financial transactions with entities controlled by the Company's CEO. Mr. Priestner is the controlling shareholder of Canada One Auto Group ("COAG") and its subsidiaries, which beneficially own approximately 42.3% of the Company's shares. In addition to COAG, Mr. Priestner is the controlling shareholder of other companies in which AutoCanada earns administrative fees. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. All transactions between AutoCanada and companies controlled by Mr. Priestner are approved by the Company's independent members of the Board of Directors.

a Prepaid rent

During the year ended December 31, 2012, the Company prepaid rent to a company controlled by Mr. Priestner 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 December 31, 2012 was $540 (2011 - $2,160). The total unamortized prepayment of rent to the Company as at December 31, 2012 is $7,646, which is included in "Other long term assets" on the Consolidated Statement of Financial Position. Prepayments of rent are amortized straight-line over the term of the lease as an increase in facilities lease costs. As such, a total of $452 (2011 - $452) has been amortized to current period facility lease costs.

b Rent paid to companies with common directors

During the year ended December 31, 2012, total rent paid to companies controlled by Mr. Priestner amounted to $7,875 (2011 - $7,906). The Company currently leases thirteen of twenty-six properties in which the Company operates from COAG, a company controlled by Mr. Priestner. 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.

c Administrative support fees

During the year ended December 31, 2012, total administrative support fees received from companies controlled by Mr. Priestner amount to $432 (2011 - $201). Administrative support fees consist of a fixed monthly fee in exchange for information technology, accounting, and other administrative support. The fees are determined annually based on the estimated cost of services provided.

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

30 Related party transactions continued

Commitments with Companies controlled by the CEO of AutoCanada

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

	December 31, 2012 $	December 31, 2011 $
2012	-	7,811
2013	7,937	6,320
2014	7,916	6,299
2015	7,821	6,204
2016	6,169	5,211
2017	5,206	4,435
Thereafter	40,087	40,087
	75,136	76,367

Key management personnel compensation

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

	2012 $	2011 $
Employee costs (including directors)	3,239	3,106
Short-term employee benefits	96	117
Termination benefits	-	(265)
Share-based payments	701	302
	4,036	3,260

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

31 Net change in non-cash working capital

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

The following table summarizes the net increase in cash due to changes in non-cash working capital for the years ended December 31, 2012 and 2011:

	December 31, 2012 $	December 31, 2011 $
Accounts receivable	(5,496)	(9,808)
Inventories	(63,105)	(26,080)
Prepaid expenses	18	33
Accounts payable and accrued liabilities	3,311	5,305
Leased vehicle repurchase obligations	171	340
Revolving floorplan facility	52,709	31,441
	(12,392)	1,231

32 Subsequent Events

Real Estate

On March 26, 2013, the Real Estate Committee, comprised of independent members of the Board of Directors, completed its evaluation of the purchase of dealership real estate owned by subsidiaries of Canada One Auto Group. The Company has entered into a letter of intent to purchase 11 of these properties. The closing date is scheduled for 90 days from March 26, 2013, with the Company having the option to extend a further 90 days.

Scotiabank Floorplan Increase and Interest Rate Reduction

On March 22, 2013, the Company announced that its revolving floorplan facility agreement with The Bank of Nova Scotia ("Scotiabank") had been increased by $50 million to accommodate the growing inventory requirements of its dealerships. The total amount available under the Scotiabank facility is now $290 million. In addition to the increase, the Company received a 50 basis point interest rate reduction in both its new and used vehicle floorplan facilities with Scotiabank. Under the facility, the interest rates on the floorplan facility have been revised to Bankers' Acceptance plus 1.30% (currently 2.50%) on new vehicles and Bankers' Acceptance plus 1.80% (currently 3.00%) on used vehicles.

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

32 Subsequent Events continued

Peter Baljet Chevrolet Buick GMC

On March 1, 2013, the Company invested a total of $7,057 to acquire an 80.0% participating, non-voting equity interest in Green Isle G Auto Holdings Inc. ("GIA"). GIA is an entity formed between a subsidiary of AutoCanada and Mr. Patrick Priestner ("Priestner"), the Company's Chief Executive Officer. GIA was formed to acquire future General Motors of Canada ("GM Canada") franchised dealerships, whereby Priestner is required to maintain voting control of the dealerships, in accordance with the agreement with GM Canada. All shareholders participate equally in the equity and economic risks and rewards of GIA and its interests, based on the percentage of ownership acquired.

Although the Company holds no voting rights in GIA, the Company exercises significant influence by virtue of its ability to appoint one member of the board of directors of GIA and its ability to participate in financial and operating policy decisions of GIA. However, the Company does not have the power to make key decisions or block key decisions due to a casting vote held by Priestner. As a result, the Company is expected to account for its investment in GIA under the equity method. There are no guarantees to GIA or significant relationships.

On March 1, 2013, GIA purchased substantially all of the net operating and fixed assets of Peter Baljet Chevrolet Buick GMC ("Peter Baljet") in Duncan, British Columbia.

The dealership is subject to financial covenants as part of its borrowing arrangements that may restrict its ability to transfer funds to GIA if the payment of such funds resulted in a breach of covenants. Peter Baljet is also subject to minimum working capital requirements imposed by GM Canada, which may restrict the dealership's ability to transfer funds to GIA if minimum working capital requirements are not met.

As a result of GIA's investment, the Company has indirectly acquired an 80.0% interest in Peter Baljet. Summarized information in respect of the investment in GIA is as follows:

	Carrying amount $	Fair value adjustments $	Fair value $	Interest in Green Isle G Auto Holdings Ltd. $
Current assets	1,527	-	1,527	1,222
Non-current assets	7,294	-	7,294	5,835
Net assets	8,821	-	8,821	7,057

The financial information presented above is an estimate, based on the preliminary conclusion that Peter Baljet will be accounted for as an investment in associate. Such estimates and judgments may be subject to change.

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

32 Subsequent Events continued

Grande Prairie Volkswagen

On January 4, 2013, the Company purchased substantially all of the net operating and fixed assets of People's Automotive Ltd. ("Grande Prairie Volkswagen") for total cash consideration of $1,981. The acquisition was funded by drawing on the Company's VCCI facilities (Note 26) in the amount of $1,413 and the remaining $568 was financed with the HSBC Revolver (Note 26). The acquisition will be accounted for using the acquisition method. The purchase of this business complements the Company's other dealerships in Grande Prairie. In addition to the business, the Company also purchased land and a building used for business operations for $1,800.

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

	Carrying amount $	Fair value adjustments $	Fair value $
Current assets			
Trade and other receivables	16	-	16
Inventories	1,777	-	1,777
	1,793	-	1,793
Long term assets			
Property and equipment	1,897	-	1,897
Total assets	3,690	-	3,690
Current liabilities			
Trade and other payables	9	-	9
	9	-	9
Long term liabilities			
Total liabilities	9	-	9
Net assets acquired	3,681	-	3,681
Intangible - franchise agreement	-	100	100
Total net assets acquired	3,681	100	3,781

The purchase price allocated, as presented above, is an estimate and subject to change.