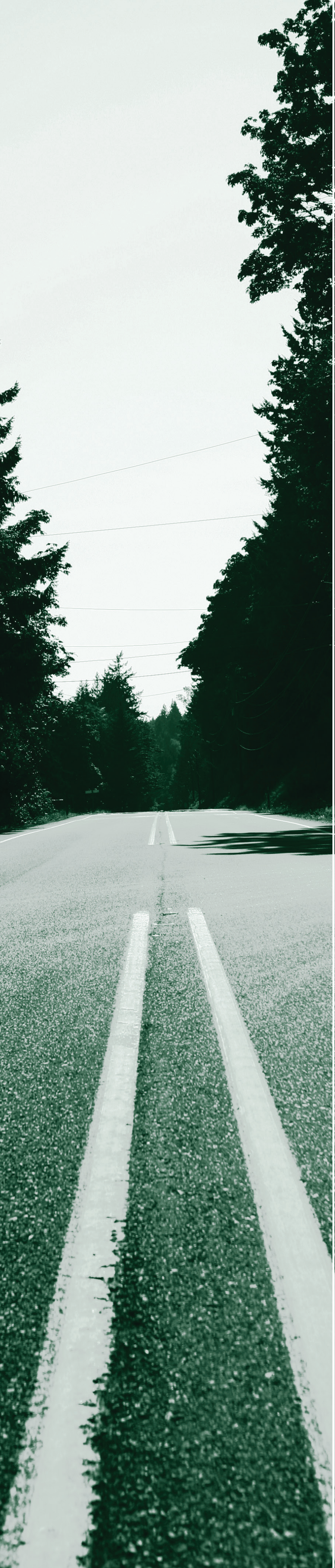
AUTOCANADA

ANNUAL REPORT

2013



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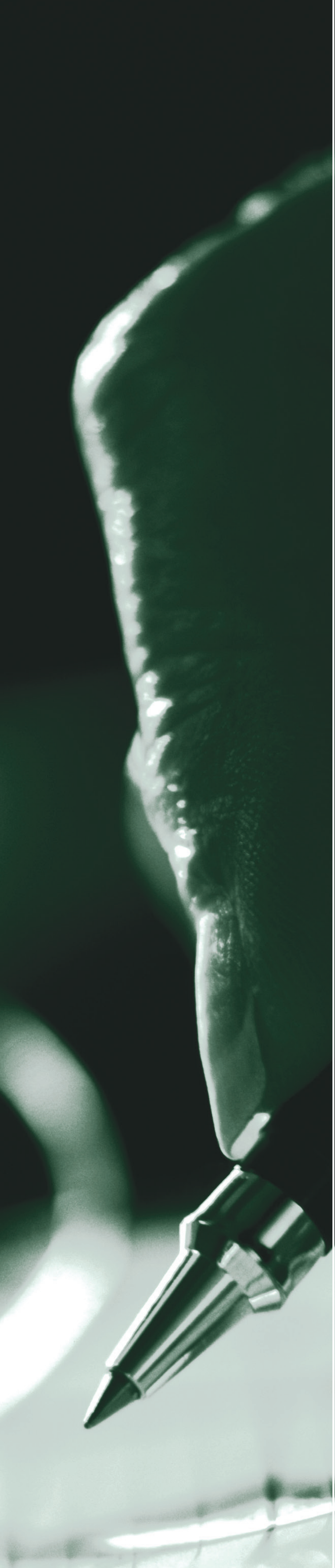

MANAGEMENT'S DISCUSSION & ANALYSIS

AutoCanada Inc.

Management's Discussion & Analysis of Financial Conditions and Results of Operations

For the year ended December 31, 2013

As of March 20, 2014

READER ADVISORIES

The Management's Discussion & Analysis ("MD&A") was prepared as of March 20, 2014 to assist readers in understanding AutoCanada Inc.'s (the "Company" or "AutoCanada") consolidated financial performance for the year ended December 31, 2013 and significant trends that may affect AutoCanada's future performance. The following discussion and analysis should be read in conjunction with the audited annual consolidated financial statements and accompanying notes (the "Consolidated Financial Statements") of AutoCanada as at and for the year ended December 31, 2013. Results are reported in Canadian dollars. Certain dollar amounts have been rounded to the nearest thousand dollars. References to notes are to the Notes of the Consolidated Financial Statements of the Company unless otherwise stated.

To provide more meaningful information, this MD&A typically refers to the operating results for the three month period and year ended December 31, 2013 of the Company, and compares these to the operating results of the Company for the three month period and year ended December 31, 2012. The Company has investments in three General Motors dealerships and account for the investments utilizing the equity method, whereby the operating results of these investments are included in one line item on the statement of comprehensive income known as *Income from investments in associates*. As a result, the Company does not incorporate the consolidated results of its investments in associates in its discussion and analysis. Management has provided limited discussion and analysis of these investments in *Results from operations – Income from Investments in Associates* below.

This MD&A contains forward-looking statements. Please see the section "FORWARD-LOOKING STATEMENTS" for a discussion of the risks, uncertainties and assumptions used to develop our forward-looking information. This MD&A also makes reference to certain non-GAAP measures to assist users in assessing AutoCanada's performance. Non-GAAP measures do not have any standard meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. These measures are identified and described under the section "NON-GAAP MEASURES".

OVERVIEW OF THE COMPANY

Corporate Structure

AutoCanada Inc. ("ACI", "AutoCanada", or the "Company") was incorporated under the Canada Business Corporations Act on October 29, 2009 in connection with participating in an arrangement with AutoCanada Income Fund and the conversion to a corporate structure on December 31, 2009. The principal and head office of ACI is located at 200 - 15505 Yellowhead Trail, Edmonton, Alberta, T5V 1E5. AutoCanada Inc. holds interests in a number of limited partnerships, corporations, and investments in associates that each carry on the business of a franchised automobile dealership. AutoCanada is a reporting issuer in each of the provinces of Canada. AutoCanada's shares trade on the Toronto Stock Exchange under the symbol "ACQ".

Additional information relating to AutoCanada, including our 2013 Annual Information Form dated March 20, 2014, is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com.

The Business of the Company

AutoCanada is one of Canada's largest multi-location automobile dealership groups, currently operating 28 wholly-owned franchised dealerships and managing 5 franchised dealership investments (see "GROWTH, ACQUISITIONS, RELOCATIONS AND REAL ESTATE") in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick and Nova Scotia. In 2013, our dealerships sold approximately 36,000 vehicles and processed approximately 364,000 service and collision repair orders in our 381 service bays during that time.

Our dealerships derive their revenue from the following four inter-related business operations: new vehicle sales; used vehicle sales; parts, service and collision repair; and finance and insurance. While new vehicle sales are the most important source of revenue, they generally result in lower gross profits than used vehicle sales, parts, service and collision repair operations and finance and insurance sales. Overall gross profit margins increase as revenues from higher margin operations increase relative to revenues from lower margin operations.

The Company's geographical profile is illustrated below by number of wholly-owned dealerships and revenues by province for the years ended December 31, 2013 and December 31, 2012.

(Revenue in $000s)	**December 31, 2013**			**December 31, 2012**		
Location of Dealerships	**Number of Dealerships**	**Revenue $**	**% of Total**	**Number of Dealerships**	**Revenue $**	**% of Total**
British Columbia	9	431,519	31 %	9	405,500	37 %
Alberta	11	637,414	45 %	9	467,819	42 %
Ontario	3	105,594	7 %	3	92,110	8 %
All other	5	234,513	17 %	3	136,473	13 %
Total	28	1,409,040	100 %	24	1,101,902	100 %

The following table sets forth the dealerships that we currently own and operate and the date opened or acquired by the Company or its predecessors, organized by location.

Location of Dealerships	Operating Name	Franchise	Year Opened or Acquired
Wholly-Owned Dealerships:			
Calgary, Alberta	Courtesy Chrysler Dodge	Chrysler	2013
Edmonton, Alberta	Crosstown Chrysler Jeep Dodge FIAT	Chrysler	1994
Edmonton, Alberta	Capital Chrysler Jeep Dodge FIAT	Chrysler	2003
Grande Prairie, Alberta	Grande Prairie Chrysler Jeep Dodge FIAT	Chrysler	1998
Grande Prairie, Alberta	Grande Prairie Hyundai	Hyundai	2005
Grande Prairie, Alberta	Grande Prairie Subaru	Subaru	1998
Grande Prairie, Alberta	Grande Prairie Mitsubishi	Mitsubishi	2007
Grande Prairie, Alberta	Grande Prairie Nissan	Nissan	2007
Grande Prairie, Alberta	Grande Prairie Volkswagen	Volkswagen	2013
Ponoka, Alberta	Ponoka Chrysler Jeep Dodge	Chrysler	1998
Sherwood Park, Alberta	Sherwood Park Hyundai	Hyundai	2006
Abbotsford, British Columbia	Abbotsford Volkswagen	Volkswagen	2011
Chilliwack, British Columbia	Chilliwack Volkswagen	Volkswagen	2011
Kelowna, British Columbia	Okanagan Chrysler Jeep Dodge FIAT	Chrysler	2003
Maple Ridge, British Columbia	Maple Ridge Chrysler Jeep Dodge FIAT	Chrysler	2005
Maple Ridge, British Columbia	Maple Ridge Volkswagen	Volkswagen	2008
Prince George, British Columbia	Northland Chrysler Jeep Dodge	Chrysler	2002
Prince George, British Columbia	Northland Hyundai	Hyundai	2005
Prince George, British Columbia	Northland Nissan	Nissan	2007
Victoria, British Columbia	Victoria Hyundai	Hyundai	2006
Winnipeg, Manitoba	St. James Audi	Audi	2013
Winnipeg, Manitoba	St. James Volkswagen	Volkswagen	2013
Winnipeg, Manitoba	Eastern Chrysler Jeep Dodge	Chrysler	2013
Moncton, New Brunswick	Moncton Chrysler Jeep Dodge	Chrysler	2001
Dartmouth, Nova Scotia	Dartmouth Chrysler Jeep Dodge	Chrysler	2006
Cambridge, Ontario	Cambridge Hyundai	Hyundai	2008
Mississauga, Ontario	401/Dixie Hyundai	Hyundai	2008
Newmarket, Ontario	Newmarket Infiniti Nissan	Nissan / Infiniti	2008
Dealership Investments:			
Sherwood Park, Alberta	Sherwood Park Chevrolet	General Motors	2012
Sherwood Park, Alberta	Sherwood Buick GMC (1)	General Motors	2012
Duncan, British Columbia	Peter Baljet Chevrolet GMC Buick	General Motors	2013
Saskatoon, Saskatchewan	Saskatoon Motor Products	General Motors	2014
Prince Albert, Saskatchewan	Mann-Northway Auto Source	General Motors	2014

(1) Formerly Petersen Pontiac Buick GMC

Seasonality

The results from operations historically have been lower in the first and fourth quarters of each year, largely due to consumer purchasing patterns during the holiday season, inclement weather and the reduced number of business days during the holiday season. As a result, our operating results are generally not as strong during the first and fourth quarters than during the other quarters of each fiscal year. The timing of acquisitions may have also caused substantial fluctuations in operating results from quarter to quarter.

OUR PERFORMANCE

Performance vs. the Canadian New Vehicle Market

The Canadian automotive retail sector performed very well in 2013. A combination of a strong performing economy, some pent-up demand for new vehicles, attractive financing rates and strong manufacturer incentives on new vehicles resulted in record new vehicle sales volumes during the year. New light vehicle sales in Canada in the year ended December 31, 2013 were up 4.0% when compared to the same period in 2012 and surpassed 1.7 million in unit sales for the first time since 2002. The Company's same store unit sales of new vehicles increased by 16.1% during this period, which includes an increase in new vehicle units retailed of 16.0% in 2013. Management is very pleased with our dealerships' collective ability to outperform the market.

New vehicle sales were particularly strong in Alberta and British Columbia, our primary markets, which were up by 7.3% and 4.7% respectively. The relatively strong economy in Western Canada has contributed to our ability to outperform the overall market and in particular, the light truck market in these two provinces is very strong, which contributed to the Company's overall increase in sales and gross profit during the year.

Regardless of the strength of the particular markets in which we operate, our dealerships have been picking up market share in many sales regions. We accredit the improvement in market share of many of our dealerships to their management teams and their ability to leverage best practices from operating within a dealer group. We believe that the advances our dealership management teams have made in integrating technology, leveraging marketing expertise, and sharing of best practices have contributed greatly to their ability to outperform the market in new vehicle sales.

The following table summarizes Canadian new light vehicle unit sales for the year ended December 31, 2013 by Province:

December Year to Date Canadian New Vehicle Sales by Province [1]

	December Year to Date			
	2013	**2012**	**Percent Change**	**Unit Change**
British Columbia	180,163	172,126	4.7 %	8,037
Alberta	256,218	238,884	7.3 %	17,334
Saskatchewan	57,485	54,728	5.0 %	2,757
Manitoba	54,476	49,667	9.7 %	4,809
Ontario	645,323	617,767	4.5 %	27,556
Quebec	414,697	415,694	(0.2)%	(997)
New Brunswick	40,300	38,789	3.9 %	1,511
PEI	7,312	6,885	6.2 %	427
Nova Scotia	51,839	47,985	8.0 %	3,854
Newfoundland	35,299	33,150	6.5 %	2,149
Total	1,743,112	1,675,675	4.0 %	67,437

[1] DesRosiers Automotive Consultants Inc.

Performance vs. the Prior Year

AutoCanada's record sales and earnings in fiscal 2013 is a direct result of acquisitions completed during the year and strong gains in same store sales and gross profit. The Company completed acquisitions of six dealerships and achieved same store sales and gross profit increases of 17.2% and 17.5%, respectively. As a result, the Company improved its adjusted earnings before tax (see "NON-GAAP MEASURES") by $18.5 million or 56.7% over the prior year. Although the Company issued shares during the year to finance the increased acquisition activity, adjusted earnings per share improved by $0.61 per share or 50.0% over the prior year.

The Company achieved overall sales of $1.4 billion in 2013 as compared to $1.1 billion in 2012, representing an increase of $307.1 million or 27.9%. The increase is a result of same store sales increases of $181.9 million or 17.2% over 2012; as well as revenue from acquired dealerships. With the exception of our parts, service and collision repair department which had a strong increase in revenue of $9.8 million or 9.0% on a same store basis, all other departments achieved double-digit same store sales increases. We believe that our dealerships had very strong sales performances in all departments during the year.

Management typically uses gross profit as its most important measure of top line growth. Overall revenues can vary significantly year over year as a result of fluctuations in sales mix, as well as, fluctuations in low margin fleet sales and used vehicle wholesale sales. As such, Management believes that growth is a better indicator of overall corporate performance. Overall gross profit increased by 29.2% as a result of strong same store sales gross profit and recently completed acquisitions. Same store gross profit increased by 17.5% in 2013 as compared to the prior year which was comprised of gross profit increases across all four business lines. The Company's new vehicle department, as well as its finance and insurance department, achieved over 20% year over year same store gross profit increases. Management is particularly pleased with the 14.8% increase in same store used vehicle gross profit achieved in 2013. This increase is partially due to strong used vehicle retail sales during the year as well as improvement in used wholesale gross profit. We believe that the used vehicle market in Canada has been slowly improving for franchised dealers as increased new vehicle sales volumes over the past three years have helped to supply franchised dealerships with an increased supply of high quality used vehicles. Management is also pleased with the 8.6% increase in its parts, service and collision repair same store gross profit during the year. This department is a very important source of revenue for the Company, as it helps to provide greater earnings stability over the long term. The Company has made improvements in technology and process in its parts and service departments, and we believe that these improvements are beginning to produce results.

The majority of our operating expenses are variable in nature, mainly consisting of employee costs. Many of our dealership employee pay structures are tied to meeting sales objectives, maintaining customer satisfaction indexes, as well as improving gross profit and net income. Our dealership management teams typically do not promote a reduction in wages as a means to control costs, but rather controlling wages to promote the achievement of its objectives and rewarding employees for the achievement of above average performance. The Company regularly reviews the operating performance of its dealerships and utilizes the leverage of a large dealer group to reduce its overall operating expenses. The Company operates a centralized marketing department and information technology department which provides services to the dealerships in order to leverage the size of the group as a means to lower the operating costs of the dealerships. As a result of pay structures tied to dealership performance and the ability to leverage the group operating structure, the Company has reduced its overall operating expenses as a percentage of gross profit to 76.6% in fiscal 2013 as compared to 78.3% in the prior year. The Company did, however, incur additional expense with respect to the six acquisitions that it completed during the year. Management estimates additional legal and administration expense of approximately $0.2 million for each acquisition that it completes, therefore, we estimate that we incurred approximately $0.6 million in additional acquisition costs in 2013 over 2012. The Company also completed two syndicated credit facilities during the fourth quarter which resulted in additional legal and administration costs of approximately $0.5 million during the year.

The Company's investments in General Motors dealerships performed very well during the year. The Company earned income from these investments in the amount of $2.2 million (after-tax) during the 2013 fiscal year. Our General Motors dealerships have been performing very well and the returns achieved on these investments have been excellent.

The Company's interest costs, net of interest earned, decreased by $0.6 million or 7.1% during 2013. Although the Company maintained higher inventory levels during the year, lower financing rates obtained in November of 2012 and late 2013 resulted in a decrease in overall financing costs.

Overall, management is very pleased with 2013 financial results. We are particularly proud of the performance of our dealership teams, which is evidenced by double-digit increases in same store sales and gross profit. The dealerships that we acquired during the year are integrating very well and are providing a good platform for future growth in sales and gross profit. We have begun to develop platforms in new markets which we plan to expand in the future. The new platforms represent additional geographic areas of growth for the Company and further solidify our position as the one of the largest and truly coast-to-coast operators of automotive dealerships in Canada.

SELECTED ANNUAL FINANCIAL INFORMATION

The following table shows the audited results of the Company for the years ended December 31, 2011, December 31, 2012 and December 31, 2013. The results of operations for these periods are not necessarily indicative of the results of operations to be expected in any given comparable period.

(in thousands of dollars, except Operating Data and gross profit %)	The Company (Audited) 2011	The Company (Audited) 2012	The Company (Audited) 2013
Income Statement Data			
New vehicles	640,721	683,034	882,858
Used vehicles	206,030	243,351	300,881
Parts, service and collision repair	110,465	114,276	142,343
Finance, insurance and other	51,126	61,241	82,958
Revenue	1,008,342	1,101,902	1,409,040
New vehicles	47,762	57,833	75,835
Used vehicles	17,395	16,299	20,273
Parts, service and collision	57,699	59,898	73,755
Finance and insurance	46,364	56,399	76,172
Gross profit	169,220	190,429	246,035
Gross Profit %	16.8 %	17.3 %	17.5 %
Operating expenses	136,846	149,140	188,519
Operating exp. as a % of gross profit	80.9 %	78.3 %	76.6 %
Finance costs - floorplan	8,473	9,279	7,353
Finance costs - long term debt	1,069	960	1,007
Reversal of impairment of intangibles	(25,172)	(222)	(746)
Income from investments in associates	-	468	2,241
Income tax	12,509	8,576	13,696
Net comprehensive income	36,784	24,236	38,166
EBITDA (1)	29,070	37,861	58,469
Basic earnings (loss) per share	1.850	1.219	1.829
Diluted earnings per share	1.850	1.219	1.829
Operating Data			
Vehicles (new and used) sold	27,998	29,780	35,774
Vehicles (new and used) sold including GM (4)	27,998	31,554	40,136
New vehicles sold including GM (4)	19,331	21,501	28,024
New retail vehicles sold	14,499	16,226	20,523
New fleet vehicles sold	4,832	4,096	4,876
Used retail vehicles sold	8,667	9,458	10,375
Number of service & collision repair orders completed	305,298	309,488	364,361
Absorption rate (2)	88 %	86 %	87 %
# of dealerships at year end	24	24	28
# of dealership investments at year end	-	2	3
# of same store dealerships (3)	21	22	21
# of service bays at period end	333	333	381
Same store revenue growth (3)	17.3 %	8.6 %	17.2 %
Same store gross profit growth (3)	13.9 %	10.9 %	17.5 %
Balance Sheet Data			
Cash and cash equivalents	53,641	34,472	35,113
Restricted cash	-	10,000	-
Trade and other receivables	42,448	47,944	57,771
Inventories	137,646	199,119	278,091
Revolving floorplan facilities	150,816	203,525	264,178

1 EBITDA has been calculated as described under "NON-GAAP MEASURES".
2 Absorption has been calculated as described under "NON-GAAP MEASURES".
3 Same store revenue growth & same store gross profit growth is calculated using franchised automobile dealerships that we have owned for at least 2 full years.
4 The Company has investments in General Motors dealerships that are not consolidated. This number includes 100% of vehicles sold by these dealerships in which we have less than 100% investment.

SELECTED QUARTERLY FINANCIAL INFORMATION

The following table shows the unaudited results of the Company for each of the eight most recently completed quarters. The results of operations for these periods are not necessarily indicative of the results of operations to be expected in any given comparable period.

(in thousands of dollars, except Operating Data and gross profit %)	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013
Income Statement Data								
New vehicles	147,383	186,560	190,065	159,026	174,278	254,261	257,222	197,097
Used vehicles	60,453	62,822	62,816	57,260	62,656	77,113	85,975	75,137
Parts, service and collision repair	26,953	28,915	28,488	29,920	29,515	34,456	37,104	41,268
Finance, insurance and other	13,399	16,139	16,775	14,928	17,602	22,555	22,530	20,271
Revenue	248,188	294,436	298,144	261,134	284,051	388,385	402,831	333,773
New vehicles	12,066	14,684	15,556	15,527	16,022	20,793	20,694	18,326
Used vehicles	4,420	4,238	4,004	3,637	3,789	5,794	6,240	4,450
Parts, service and collision	14,049	15,298	15,133	15,418	15,233	17,586	20,114	20,822
Finance and insurance	12,344	14,842	15,428	13,785	16,096	20,676	20,666	18,734
Gross profit	42,879	49,062	50,121	48,367	51,140	64,849	67,714	62,332
Gross Profit %	17.3 %	16.7 %	16.8 %	18.5 %	18.0 %	16.7 %	16.8 %	18.7 %
Operating expenses	35,381	37,659	38,361	37,739	40,353	48,639	51,080	48,447
Operating exp. as a % of gross profit	82.5 %	76.8 %	76.5 %	78.0 %	78.9 %	75.0 %	75.4 %	77.7 %
Finance costs - floorplan	2,053	2,622	2,745	1,859	1,675	1,888	1,903	1,887
Finance costs - long term debt	214	239	250	257	237	244	139	387
Reversal of impairment of intangibles	-	-	-	(222)	-	-	-	(746)
Income from investments in associates	-	83	130	255	201	648	555	837
Income tax	1,441	2,216	2,379	2,540	2,309	3,976	3,920	3,491
Net earnings (4)	4,112	6,712	6,806	6,606	6,822	10,823	10,968	9,553
EBITDA (1)(4)	6,792	10,195	10,575	10,299	10,557	16,532	16,626	14,754
Basic earnings (loss) per share	0.207	0.338	0.344	0.334	0.345	0.532	0.507	0.441
Diluted earnings per share	0.207	0.338	0.344	0.334	0.345	0.532	0.507	0.441
Operating Data								
Vehicles (new and used) sold	6,836	8,154	8,087	6,703	7,341	10,062	10,325	8,046
Vehicles (new and used) sold including GM (5)	6,836	8,557	8,783	7,378	8,123	11,399	11,405	9,209
New vehicles sold including GM (5)	4,403	5,964	6,178	4,956	5,665	8,246	8,023	6,090
New retail vehicles sold	3,434	4,400	4,410	3,982	4,118	5,487	5,986	4,932
New fleet vehicles sold	969	1,313	1,265	549	1,036	1,923	1,365	552
Used retail vehicles sold	2,433	2,441	2,412	2,172	2,187	2,652	2,974	2,562
Number of service & collision repair orders completed	74,439	78,104	78,944	78,001	77,977	93,352	97,074	95,958
Absorption rate (2)	91 %	81 %	89 %	89 %	85 %	82 %	90 %	90 %
# of dealerships at period end	24	24	24	24	25	27	29	28
# of same store dealerships (3)	21	21	21	22	22	22	22	21
# of service bays at period end	333	333	333	333	341	341	388	381
Same store revenue growth (3)	20.2 %	2.4 %	8.0 %	7.4 %	12.9 %	26.2 %	19.9 %	8.9 %
Same store gross profit growth (3)	18.3 %	7.1 %	7.9 %	11.9 %	16.9 %	25.8 %	18.5 %	9.2 %
Balance Sheet Data								
Cash and cash equivalents	53,403	51,198	54,255	34,472	41,975	35,058	37,940	35,113
Restricted cash	-	-	-	10,000	10,000	10,000	-	-
Trade and other receivables	51,364	52,042	54,148	47,944	57,144	69,136	62,105	57,771
Inventories	156,262	201,692	194,472	199,119	217,707	232,878	237,460	278,091
Revolving floorplan facilities	178,145	221,174	212,840	203,525	225,387	246,325	228,526	264,178

1 EBITDA has been calculated as described under "NON-GAAP MEASURES".
2 Absorption has been calculated as described under "NON-GAAP MEASURES".
3 Same store revenue growth & same store gross profit growth is calculated using franchised automobile dealerships that we have owned for at least 2 full years.
4 The results from operations have been lower in the first and fourth quarters of each year, largely due to consumer purchasing patterns during the holiday season, inclement weather and the reduced number of business days during the holiday season. As a result, our financial performance is generally not as strong during the first and fourth quarters than during the other quarters of each fiscal year. The timing of acquisitions may have also caused substantial fluctuations in operating results from quarter to quarter.
5 The Company has investments in General Motors dealerships that are not consolidated. This number includes 100% of vehicles sold by these dealerships in which we have less than 100% investment.

RESULTS FROM OPERATIONS

Annual Operating Results

EBITDA for the year ended December 31, 2013 increased by 54.4% to $58.5 million, from $37.9 million when compared to the results of the Company for the same period in the prior year. The increase in EBITDA for the quarter can be mainly attributed to improvements in all four business streams and the dealership acquisitions completed during 2013.

The following table reconciles EBITDA to net comprehensive income for the years ended December 31:

(in thousands of dollars)	2013	2012	2011
Net comprehensive income	38,166	24,236	36,784
Impairment of intangible assets	(746)	(222)	(25,543)
Income tax	13,696	8,576	12,509
Amortization of property and equipment	6,346	4,311	4,251
Interest on long-term indebtedness	1,007	960	1,069
EBITDA	58,469	37,861	29,070

Adjusted pre-tax earnings increased by $18.5 million or 56.7% to $51.1 million in 2013 from $32.6 million in the prior year. Adjusted earnings increased by $13.3 million or 54.7% to $37.6 million in 2013 from $24.3 million in the prior year.

As the pre-tax net effects of reversals of impairment of intangible assets for the year ended December 31, 2013 was $0.7 million, as compared to total reversals of $0.2 million before taxes in 2012, the variances in the following paragraph include the effects of reversals of impairments, which resulted in an increase in overall net earnings in 2013 due to the increase in reversals of impairment of intangible assets compared to the prior year.

Pre-tax earnings increased by $19.1 million or 58.2% to $51.9 million from $32.8 million in 2012. Net earnings increased by $14.0 million or 57.9% to $38.2 million in 2013 from $24.2 million in 2012. Income tax expense increased by $5.1 million to $13.7 million in 2013 from $8.6 million in 2012 due to the increase in pre-tax earnings.

Revenues

Revenues for the year ended December 31, 2013 increased by $307.1 million or 27.9% compared to the prior year. This increase was driven by increases in same store sales across all four revenue streams and additional revenues from dealerships acquired during the year. In 2013 new vehicle sales increased by $199.9 million or 29.3% to $882.9 million from $683.0 million in the prior year, mainly due to a 25.0% increase in the number of new vehicles sold. Used vehicle sales increased by $57.5 million or 23.6% to $300.9 million from $243.4 million in the prior year. Finance and insurance revenue increased by $21.7 million or 35.4% for the year ended December 31, 2013. Parts, service and collision repair revenue increased by $28.1 million or 24.6% for the year ended December 31, 2013.

The tables in the "Same-Store Analysis" sections below summarize the results for the year ended December 31, 2013 on a same store basis by revenue source and compare

The tables in the “Same-Store Analysis” sections below summarize the results for the year ended December 31, 2013 on a same store basis by revenue source and compare these results to the same period in 2012. An acquired or open point dealership may take as long as two years in order to reach normalized operating results. As a result, in order for an acquired or open point dealership to be included in our same store analysis, the dealership must be owned and operated by us for eight complete quarters. For example, if a dealership was acquired on December 1, 2010, the results of the acquired entity would be included in quarterly same store comparisons beginning with the quarter ended March 31, 2013 and in annual same store comparisons beginning with the year ended December 31, 2013. As a result, only dealerships opened or acquired prior to January 1, 2011 are included in this same store analysis. In addition, dealership divestitures are also not included in same store operating results. As a result, the current and historical operating results of Abbotsford Volkswagen and Chilliwack Volkswagen (acquired in the fourth quarter of 2011), Grande Prairie Volkwsagen (acquired in the first quarter of 2013), St. James Audi and Volkswagen (acquired in the second quarter of 2013), Courtesy Chrysler (acquired in the third quarter of 2013), and Eastern Chrysler (acquired in the third quarter of 2013) are not included in same store analysis.

Revenues - Same Store Analysis

Company management considers same store gross profit and sales information to be an important operating metric when comparing the results of the Company to other industry participants. The following table summarizes the results for the year ended December 31, 2013 on a same store basis by revenue source and compare these results to the same period in 2012.

Same Store Revenue and Vehicles Sold

	For the Year Ended		
(in thousands of dollars)	**December 31, 2013**	**December 31, 2012**	**% Change**
Revenue Source			
New vehicles	782,744	656,724	19.2 %
Used vehicles	265,177	233,832	13.4 %
Finance, insurance and other	73,391	58,686	25.1 %
Subtotal	1,121,312	949,242	18.1 %
Parts, service and collision repair	118,739	108,957	9.0 %
Total	1,240,051	1,058,199	17.2 %
New retail vehicles sold	17,949	15,472	16.0 %
New fleet vehicles sold	4,754	4,090	16.2 %
Used retail vehicles sold	9,118	9,111	0.1 %
Total	31,821	28,673	11.0 %
Total vehicles retailed	27,067	24,583	9.2 %

Same store revenue increased by $181.9 million or 17.2% in the year ended December 31, 2013 when compared to 2012. New vehicle revenues increased by $126.0 million or 19.2% over the prior year due to an increase in new vehicle sales of 3,141 units or 16.1% and increase in the average revenue per new vehicle sold of $906 or 2.7%.

Same store used vehicle revenues increased by $31.3 million or 13.4% due to an increase in used vehicle sales of 7 units or 0.1% and an increase in the average revenue per used vehicle sold of $3,418 or 13.3%.

Same store parts, service and collision repair revenue increased by $9.8 million or 9.0%, due to an increase in overall repair orders completed of 14,836 and a $14 or 3.8% increase in the average revenue per repair order completed.

Same store finance, insurance and other revenue increased by $14.7 million or 25.1% due to an increase in the average revenue per unit retailed of $324 or 13.6% and an increase in the number of new and used vehicles retailed of 2,484 units or 10.1% .

Gross Profit

Gross profit increased by $55.6 or 29.2% for the year ended December 31, 2013 when compared to the prior year due to increases in gross profit across all four revenue streams. Gross profit on the sale of new vehicles increased by $18.0 million or 31.1% for the year ended December 31, 2013. The increase in new vehicles gross profit can be attributed to increases in new vehicle unit sales of 5,077 units or 25.0% and the average gross profit per new vehicle retailed of $140. Gross profit from the sale of used vehicles sold increased by $4.0 million or 24.5%. This increase can be attributed to increases in the average gross profit per used vehicle retailed of $231 and number of used vehicles sold of 917. The Company’s finance and insurance gross profit increased by $19.8 million or 35.1% in 2013 due to increases in the number of vehicles retailed of 5,214 units and average gross profit per vehicle retailed of $269. Parts, service and collision repair gross profit increased by $13.9 million or 23.2% in 2013 due to an increase of 54,873 in the number of repair orders completed.

Gross Profit - Same Store Analysis

The following table summarizes the results for the year ended December 31, 2013, on a same store basis by revenue source, and compare these results to the same periods in 2012.

Same Store Gross Profit and Gross Profit Percentage

	For the Year Ended					
	Gross Profit			**Gross Profit %**		
(in thousands of dollars)	**December 31, 2013**	**December 31, 2012**	**% Change**	**December 31, 2013**	**December 31, 2012**	**% Change**
Revenue Source						
New vehicles	66,396	54,801	21.2 %	8.5 %	8.3 %	0.2 %
Used vehicles	18,235	15,881	14.8 %	6.9 %	6.8 %	0.1 %
Finance and insurance	67,119	54,072	24.1 %	91.5 %	92.1 %	(0.6)%
Subtotal	151,750	124,754	21.6 %	13.5 %	13.1 %	0.4 %
Parts, service and collision	62,212	57,279	8.6 %	52.4 %	52.6 %	(0.2)%
Total	213,962	182,033	17.5 %	17.3 %	17.2 %	0.1 %

Same store gross profit increased by $31.9 million or 17.5% for the year ended December 31, 2013 when compared to the prior year. New vehicle gross profit increased by $11.6 million or 21.2% for the year ended December 31, 2013 when compared to the prior year which can be mainly attributed to an increase in new vehicle sales of 3,141 units or 16.1% and increase in the average gross profit per new vehicle sold of $123 or 4.4%.

Used vehicle gross profit increased by $2.4 million or 14.8% for the year ended December 31, 2013 when compared to the prior year which was mainly due to an increase in the average gross profit per vehicle retailed of $257 or 14.7% and an increase in the number of vehicles retailed of 7 units.

Parts, service and collision repair gross profit increased by $4.9 million or 8.6% for the year ended December 31, 2013 when compared to the prior year which can be mainly attributed to an increase in the number of repair orders completed of 14,836 and an increase in the average gross profit per repair order completed of $7 or 3.6%.

Finance and insurance gross profit increased by $13.0 million or 24.1% for the year ended December 31, 2013 when compared to the prior year and can be attributed to an increase in the average gross profit per unit sold of $280 and an increase in units retailed of 2,484.

Operating expenses

Operating expenses increased by 26.4% or $39.4 million during the year ended December 31, 2013 as compared to the prior year. Since many operating expenses are variable in nature, management considers operating expenses as a percentage of gross profit to be a good indicator of expense control. Operating expenses as a percentage of gross profit decreased to 76.6% in 2013 from 78.3% in the prior year. Operating expenses consist of four major categories: employee costs, selling and administrative costs, facility lease costs and amortization.

Employee costs

During the year ended December 31, 2013, employee costs increased by $28.9 million to $121.9 million from $93.0 million in the prior year period. Employee costs as a percentage of gross profit increased to 49.5% in 2013 from 48.8% in 2012. Management attributes the increases primarily to an increase in commissions and incentives paid to salespeople based on achieving and exceeding sales targets.

Selling and administrative costs

During the year ended December 31, 2013, selling and administrative costs increased by $8.6 million or 21.5% primarily due to the dealership acquisitions completed during 2013. Selling and administrative expenses as a percentage of gross profit decreased to 19.7% from 21.0% in the same period of the prior year. This decrease is mainly due to less semi-variable costs such as advertising and other fixed costs as a percentage of gross profit.

Facility lease costs

During the year ended December 31, 2013, facility lease costs decreased by $0.2 million or 1.7% to $11.7 million from $11.9 million due to the purchase of the real estate properties during the fourth quarter of 2013, offset slightly by new acquisitions.

Amortization

During the year ended December 31, 2013, amortization increased by $2.0 million or 47.2% to $6.3 million from $4.3 million in the prior year due to the purchase of real estate properties throughout 2013, including buildings acquired in the Grande Prairie Volkswagen, St. James Audi and VW, and Eastern Chrysler dealership acquisitions, as well as the purchase of 11 properties in the fourth quarter of 2013.

Reversal of impairment of intangible assets

The Company has a number of franchise agreements for its individual dealerships which it classifies as intangible assets. These intangible assets are tested for impairment at least annually as they are considered to be indefinite-lived intangible assets. Under IFRS, previously recognized impairment charges, with the exception of impairment charges related to goodwill, may potentially be reversed if the circumstances causing the impairment have improved or are no longer present. If such circumstances change, a new recoverable amount should be calculated and all or part of the impairment charge should be reversed to the extent the recoverable amount exceeds carrying value. The Company performed its annual test for impairment of its cash generating units (“CGUs”) in the fourth quarter of 2013. As a result of the tests performed, the Company determined that although the financial results improved in many of the Company's CGUs, in most cases, the value of its intangible assets had been fully recovered in 2011. Since impairments of intangible assets cannot be reversed to an amount greater than the intangible asset's original cost, the improved financial results of many of the Company's CGUs has very little impact on the value of the Company's intangible assets.

As a result of the tests performed, the Company recorded a net reversal of impairment of intangible assets in the amount of $0.7 million (2012 - $0.2 million).

Income from investments in associates

During the year ended December 31, 2013, the Company earned $2.2 million, including acquisition costs, as a result of its investments in Dealer Holdings Ltd. ("DHL") and Green Isle G Auto Holdings Inc. ("Green Isle"). In addition to the income from investments in associates, during the year, the Company also earned $0.2 million in management services revenue from subsidiaries of DHL. The management services agreements are fixed monthly fees charged to the General Motors dealerships from AutoCanada in return for marketing, training, technological support, and accounting support. AutoCanada provides support services to all dealerships in which it owns and operates, however since the three dealerships are not wholly-owned by AutoCanada, the Company charges a management services fee in order to recover the costs of resources provided. Management is very pleased with the results of its investments in associates during 2013.

See GROWTH, ACQUISITIONS, RELOCATIONS AND REAL ESTATE for more information related to the investments.

Finance costs

The Company incurs finance costs on its revolving floorplan facilities, long term indebtedness and banking arrangements. During the year ended December 31, 2013, finance costs on our revolving floorplan facilities decreased by 20.4% to $7.4 million from $9.3 million in 2012, mainly due to the reduction in interest rates obtained on the changeover to Scotiabank in October of 2012 for financing of inventory. Finance costs on long term indebtedness increased by $0.05 million or 5.2% over the prior year due to additional mortgage debt acquired at the end of 2013 related to the real estate purchase, which was partially offset by the interest savings from a pooling agreement entered into in early 2013 whereby the Company may offset its cash balances against its revolving term facility in order to reduce the interest costs associated with this facility.

On September 30, 2013, the Company completed a syndicated floorplan credit facility with the Bank of Nova Scotia and the Canadian Imperial Bank of Commerce. As at December 31, 2013, our floorplan interest rate was calculated as Bankers’ Acceptance Rate plus 1.15% (2.37%).

Some of our manufacturers provide non-refundable credits on the finance costs for our revolving floorplan facilities to offset the dealership’s cost of inventory that, on average, effectively provide the dealerships with interest-free floorplan financing for the first 45 to 60 days of ownership of each financed vehicle. During the year ended December 31, 2013, the floorplan credits earned were $7.0 million (2012 - $6.1 million). Accounting standards require the floorplan credits to be accounted for as a reduction in the cost of new vehicle inventory and subsequently a reduction in the cost of sales as vehicles are sold.

The following table summarizes the net floorplan credits that were received in 2013.

(in thousands of dollars)	Q1 2013	Q2 2013	Q3 2013	Q4 2013	For the year ended December 31, 2013
Net floorplan credits	1,360	2,154	1,972	1,557	7,043

Management believes that a comparison of floorplan financing costs to floorplan credits can be used to evaluate the efficiency of our new vehicle sales relative to stocking levels. The following table details the carrying cost of vehicles based on floorplan interest net of floorplan assistance earned:

(in thousands of dollars)	For the Year Ended December 31, 2013	December 31, 2012
Floorplan financing	7,353	9,279
Floorplan credits earned	(7,043)	(6,072)
Net carrying cost of vehicle inventory	310	3,207

Income Taxes

For the year ended December 31, 2013, income tax expense increased by $5.1 million from $8.6 million to $13.7 million. As a result of the reversal of impairments of intangible assets, the Company recorded deferred tax expense in the amount of $0.2 million (2012 - $0.06 million) due to the revised temporary differences between the tax basis and carrying value of these assets.

As a result of its improved earnings over the past three years, the Company recorded $11.5 million in current tax expense in 2013, as compared to $5.8 million in fiscal 2012. As described in further detail below, the Company effectively maintains a one year deferral of its partnership income (income earned by wholly-owned dealerships). As such, the current income tax expense for 2013 is mainly calculated based on our dealerships' income from 2012. The income earned by our dealerships in fiscal 2013 will be substantially deferred until next year; however, as described in further detail below, the Company's current tax payable contains the second instalment payment of its tax deferral, expected to be fully repaid over the next 3 years.

Until December 31, 2009, our previous trust structure was such that current income taxes were passed on to our unitholders. In conjunction with our conversion from a trust to a corporation, we became subject to normal corporate tax rates starting in 2010. The corporate income tax rate applicable to 2010 was approximately 29.0%; however, we did not pay any corporate income tax in 2010 due to the tax deductions available to us and the effect of the deferral of our partnership income.

In December 2011, legislation was passed implementing tax measures outlined in the 2011 budget (Bill C-13), which included the elimination of the ability of a corporation to defer income as a result of timing differences in the year-end of the corporation and of any partnership of which it is a partner, subject to transitional relief over five years. The Company estimates the following amounts to be recorded as current income tax payable over the next three years in conjunction with the payment of the deferral. The Company notes that these amounts paid will be in addition to the normal current income tax payable of future years:

(in thousands of dollars)	2014	2015	2016
Increase to current tax payable	1,366	1,366	1,707

The Company expects income tax to have a more significant effect on our free cash flow and adjusted free cash flow, as in fiscal 2012, the Company began to pay current income taxes and income tax instalments for the anticipated current tax expense for the fiscal year.

Prior to 2012, the Company had not paid any corporate tax or instalments for corporate tax. In 2013, the Company paid $10.6 million of cash taxes, which relates to the fiscal 2012 taxation year and instalments toward the 2013 taxation year. The payment of cash taxes will have an impact on adjusted free cash flow. Investors are cautioned that income taxes will have a more significant effect on the Company's cash flow in the future, and as a result, prior year levels of adjusted free cash flow will inherently be lowered by cash taxes in the future.

RESULTS FROM OPERATIONS

Fourth Quarter Operating Results

EBITDA for the three month period ended December 31, 2013 increased by 43.7% to $14.8 million, from $10.3 million when compared to the results of the Company for the same period in the prior year. The increase in EBITDA for the quarter can be mainly attributed to improvements in all four business streams.

The following table illustrates EBITDA for the three month period ended December 31, 2013, for the last three years of operations.

(in thousands of dollars)

Period from October 1, 2013 to December 31, 2013	**2013**	**2012**	**2011**
Net comprehensive income	9,553	6,606	23,611
Impairment of intangible assets	(746)	(222)	(25,543)
Income tax	3,490	2,540	8,144
Amortization of property and equipment	2,069	1,118	1,106
Interest on long-term indebtedness	388	257	217
EBITDA	14,754	10,299	7,535

Adjusted pre-tax earnings increased by $3.4 million or 38.2% to $12.3 million in the fourth quarter of 2013 from $8.9 million in the prior year. Adjusted earnings increased by $2.3 million or 34.3% to $9.0 million in 2013 from $6.7 million in the prior year.

As previously noted, the Company performed its annual test for impairment or reversal of impairment over its intangible assets in the fourth quarter. As a result, the pre-tax earnings and net earnings of the Company (including reversals of impairment) increased in 2013 as compared to 2012.

Pre-tax earnings increased by $3.9 million or 42.9% to $13.0 million for the three month period ended December 31, 2013 from $9.1 million in the same period of the prior year. Net earnings increased by $3.0 million or 45.5% to a profit of $9.6 million in the fourth quarter of 2013 from a $6.6 million profit when compared to the prior year. Strong improvements in same store sales and gross profit, as well as the impact of recently completed acquisitions, contributed to the increase in net earnings. Income tax expense increased by $1.0 million to $3.5 million in the fourth quarter of 2013 from $2.5 million in the same period of 2012 due to the increase in pre-tax earnings.

Revenues

Revenues for the three months ended December 31, 2013 increased by $72.6 million or 27.8%, as compared to the same period of the prior year. This increase was mainly driven by increases in all four revenue streams. New vehicle sales increased by $38.1 million or 24.0% for the three month period ended December 31, 2013 to $197.1 million from $159.0 million in the same period of the prior year, mainly due to an increase in new vehicles sold of 953 or 21.0%. The various manufacturer incentives offered on new vehicles, combined with low interest rates, have made purchasing a new vehicle more affordable for our customers, which we believe to be a critical driver of new vehicle sales in the industry. Used vehicle sales increased by $17.9 million or 31.3% for the three month period ended December 31, 2013. The increase in new and used vehicle retail sales greatly contributed to the increase in finance and insurance revenue, which increased by $5.3 million or 35.5% in the three month period ended December 31, 2013. Parts, service and collision repair revenue increased by $11.3 million or 37.8% for the three month period ended December 31, 2013.

Revenues - Same Store Analysis

The following table summarizes the results for the three month period and the year ended December 31, 2013 on a same store basis by revenue source and compares these results to the same period in 2012.

Same Store Revenue and Vehicles Sold

	For the Three Months Ended		
(in thousands of dollars)	**December 31, 2013**	**December 31, 2012**	**% Change**
Revenue Source			
New vehicles - retail	145,456	134,369	8.3 %
New vehicles - fleet	16,766	17,879	(6.2)%
New vehicles	162,222	152,248	6.6 %
Used vehicles - retail	45,249	43,930	3.0 %
Used vehicles - wholesale	16,322	10,925	49.4 %
Used vehicles	61,571	54,855	12.2 %
Finance, insurance and other	16,892	14,138	19.5 %
Subtotal	240,685	221,241	8.8 %
Parts, service and collision repair	31,302	28,597	9.5 %
Total	271,987	249,838	8.9 %
New retail vehicles sold	4,035	3,781	6.7 %
New fleet vehicles sold	515	547	(5.9)%
Used retail vehicles sold	2,071	2,091	(1.0)%
Total	6,621	6,419	3.1 %
Total vehicles retailed	6,106	5,872	4.0 %

Same store revenue increased by $22.1 million or 8.9% in the three month period ended December 31, 2013 when compared to the same period in 2012. New vehicle revenues increased by $10.0 million or 6.6% for the fourth quarter of 2013 over the prior year due to an increase in new vehicle sales of 222 units or 5.1% and an increase in the average revenue per new vehicle sold of $476 or 1.4%.

Same store used vehicle revenues increased by $6.7 million or 12.2% for the three month period ended December 31, 2013 over the same period in the prior year due to an increase in the average revenue per used vehicle sold of $3,497 or 13.3%, partially offset by a decrease in used vehicle sales of 20 units or 1.0%.

Same store parts, service and collision repair revenue increased by $2.7 million or 9.5% for the fourth quarter of 2013 compared to the prior period and was primarily a result of an increase in overall repair orders completed of 965 or 1.3% and a $31 or 8.0% increase in the average revenue per repair order completed.

Same store finance, insurance and other revenue increased by $2.8 million or 19.5% for the three month period ended December 31, 2013 over the same period in 2012. This was due to an increase in the average revenue per unit retailed of $359 or 14.9% and an increase in the number of new and used vehicles retailed of 234 units.

Gross Profit

Gross profit increased by $14.0 million or 28.9% for the three month period ended December 31, 2013 when compared to the same period in the prior year. As with revenues, gross profit increased due to increases across all four revenue streams. Gross profit on the sale of new vehicles increased by $2.8 million or 18.0% for the three month period ended December 31, 2013. The increase in new vehicle gross profit can be attributed to an increase in the number of new vehicles sold of 953 or 21.0%, partially offset by a decrease in average gross profit per new vehicle sold of $85 or 2.5%. During the three month period ended December 31, 2013, gross profit from used vehicles increased by $0.8 million or 22.4% over the same period in the prior year due to an increase in the number of used vehicles sold of 390 or 18.0% and an increase in the average gross profit per used vehicle sold of $62 or 3.7%. The Company's finance and insurance gross profit increased by $4.9 million or 35.5% during the fourth quarter of 2013. This increase can mainly be attributed to an increase in the total number of vehicles retailed of 1,340 or 21.8% and an increase in the average gross profit per unit retailed of $260 or 11.6%. Parts, service and collision repair gross profit increased by $5.4 million or 35.0% in the fourth quarter of 2013, due primarily to an increase in the number of repair orders completed of 17,957 or 23.0%.

Gross Profit - Same Store Analysis

The following table summarizes the results for the three month period and the year ended December 31, 2013, on a same store basis by revenue source, and compares these results to the same periods in 2012.

Same Store Gross Profit and Gross Profit Percentage

	For the Three Months Ended					
	Gross Profit			Gross Profit %		
(in thousands of dollars)	**December 31, 2013**	**December 31, 2012**	**% Change**	**December 31, 2013**	**December 31, 2012**	**Change**
Revenue Source						
New vehicles - Retail	14,425	14,418	- %	9.9 %	10.7 %	(0.8)%
New vehicles - Fleet	339	292	16.1 %	2.0 %	1.6 %	0.4 %
New vehicles	14,764	14,710	0.4 %	9.1 %	9.7 %	(0.6)%
Used vehicles - Retail	3,610	3,171	13.8 %	8.0 %	7.2 %	0.8 %
Used vehicles - Wholesale	439	448	(2.0)%	2.7 %	4.1 %	(1.4)%
Used vehicles	4,049	3,619	11.9 %	6.6 %	6.6 %	- %
Finance and insurance	15,489	13,050	18.7 %	91.7 %	92.3 %	(0.6)%
Subtotal	34,302	31,379	9.3 %	14.3 %	14.2 %	0.1 %
Parts, service and collision	16,087	14,757	9.0 %	51.4 %	51.6 %	(0.2)%
Total	50,389	46,136	9.2 %	18.5 %	18.5 %	- %

Same store gross profit increased by $4.3 million or 9.2% for the three month period ended December 31, 2013 when compared to the same period in the prior year. New vehicle gross profit increased by $0.05 million or 0.4% in the three month period ended December 31, 2013 when compared to 2012 as a result of an increase in new vehicle sales of 222 units or 5.1% and a decrease in the average gross profit per new vehicle sold of $154 or 4.5%.

Used vehicle gross profit increased by $0.4 million or 11.9% in the three month period ended December 31, 2013 over the prior year. This was due to an increase of $224 in the average gross profit per used vehicle retailed, partially offset by a decrease in the number of used vehicles sold of 20 units.

Parts, service and collision repair gross profit increased by $1.3 million or 9.0% in the three month period ended December 31, 2013 when compared to the same period in the prior year as a result of an increase in the number of repair orders completed of 965 and an increase in the average gross profit per repair order completed of $15 or 7.5%.

Finance and insurance gross profit increased by 18.7% or $2.4 million in the three month period ended December 31, 2013 when compared to the prior year as a result of an increase in the average gross profit per unit sold of $314 and an increase in units retailed of 234.

Operating expenses

Operating expenses increased by 28.4% or $10.7 million during the three month period ended December 31, 2013 as compared to the same period in the prior year. Since many operating expenses are variable in nature, management considers operating expenses as a percentage of gross profit to be a good indicator of expense control. Operating expenses as a percentage of gross profit decreased to 77.7% in the fourth quarter of 2013 from 78.0% in the same period of the prior year. Operating expenses consist of four major categories: employee costs, selling and administrative costs, facility lease costs and amortization.

Employee costs

During the three month period ended December 31, 2013, employee costs increased by $7.5 million to $30.5 million from $23.0 million in the prior year period. Employee costs as a percentage of gross profit for the quarter ended December 31, 2013 increased to 49.0% compared to 47.5% in the same period of the prior year. Employee costs as a percentage of gross profit for the same period in the prior year. Management attributes the increases mainly to an increase in commissions and incentives paid to salespeople based on achieving and exceeding sales targets.

Selling and administrative costs

During the three month period ended December 31, 2013, selling and administrative costs increased by $2.7 million or 25.3% primarily due to the acquisitions completed in 2013. Selling and administrative expenses as a percentage of gross profit decreased to 21.4% in the fourth quarter of 2013 from 22.0% in the comparable period of 2012. These decreases are due to less semi-variable costs such as advertising and other fixed costs as a percentage of gross profit.

Facility lease costs

During the three month period ended December 31, 2013, facility lease costs decreased by 16.7% to $2.5 million from $3.0 million primarily due to the real estate purchase completed in the last quarter of 2013.

Amortization

During the three month period ended December 31, 2013, amortization increased to $2.1 million from $1.1 million in the same period of the prior year. These increases are a result of the real estate purchase in the fourth quarter of 2013 and the dealership acquisitions that occurred during 2013.

Income from investments in associates

During the three month period ended December 31, 2013, the Company earned $0.8 million, as a result of its investments in Dealer Holdings Ltd. ("DHL") and Green Isle G Auto Holdings Inc. ("Green Isle"). In addition to the income from investments in associates, during the three months ended December 31, 2013, the Company also earned $0.05 million, in management services revenue from subsidiaries of DHL. The management services agreements are fixed monthly fees charged to the General Motors dealerships from AutoCanada in return for marketing, training, technological support and accounting support. AutoCanada provides support services to all dealerships in which it owns and operates, however since the three dealerships are not wholly-owned by AutoCanada, the Company charges a management services fee in order to recover the costs of resources provided.

See GROWTH, ACQUISITIONS, RELOCATIONS AND REAL ESTATE for more information related to the investments.

Finance costs

The Company incurs finance costs on its revolving floorplan facilities, long term indebtedness and banking arrangements. During the three month period ended December 31, 2013, finance costs on our revolving floorplan facilities remained constant at $1.9 million compared to the fourth quarter of 2012. Finance costs on long term indebtedness increased by $0.13 million in the fourth quarter of 2013 due to additional mortgage debt acquired at the end of 2013 related to real estate purchases, which was partially offset by the interest savings from a pooling agreement entered into in early 2013, whereby the Company may offset its cash balances against its revolving term facility in order to reduce the interest costs associated with this facility.

As previously noted, some of our manufacturers provide non-refundable credits on the finance costs for our revolving floorplan facilities to offset the dealership's cost of inventory that, on average, effectively provide the dealerships with interest-free floorplan financing for the first 45 to 60 days of ownership of each financed vehicle. During the three month period ended December 31, 2013, the floorplan credits earned were $1.6 million (2012 - $1.4 million). Accounting standards require the floorplan credits to be accounted for as a reduction in the cost of new vehicle inventory and subsequently a reduction in the cost of sales as vehicles are sold.

Management believes that a comparison of floorplan financing costs to floorplan credits can be used to evaluate the efficiency of our new vehicle sales relative to stocking levels. The following table details the carrying cost of vehicles based on floorplan interest net of floorplan assistance earned:

	For the Three Months Ended	
(in thousands of dollars)	**December 31, 2013**	**December 31, 2012**
Floorplan financing	1,887	1,859
Floorplan credits earned	(1,557)	(1,351)
Net carrying cost of vehicle inventory	330	508

Sensitivity

Based on our historical financial data, management estimates that an increase or decrease of one new retail vehicle sold (and the associated finance and insurance income on the sale) would have resulted in a corresponding increase or decrease in our estimated free cash flow of approximately $1,500 - $2,000 per vehicle. The net earnings achieved per new vehicle retailed can fluctuate between individual dealerships due to differences between the manufacturers, geographical locations of our dealerships and the demographic of which our various dealerships' marketing efforts are directed. The above sensitivity analysis represents an average of our dealerships as a group and may vary depending on increases or decreases in new vehicles retailed at our various locations.

GROWTH, ACQUISITIONS, RELOCATIONS AND REAL ESTATE

The Company operates 33 franchised automotive dealerships, 28 of which are wholly owned, and 5 in which it has an investment with significant influence.

Acquisitions

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 cash consideration of $2.0 million, which was financed by drawing on the Company's facilities with VW Credit Canada Inc. and cash from operations. The purchase of this business complements the Company's Grande Prairie platform. In addition, the Company also purchased dealership land and building for $1.8 million.

St. James Audi and Volkswagen

On April 1, 2013, the Company purchased the shares of The St. James Group of Companies ("St. James"), which own and operate two premium brand franchises, Audi and Volkswagen, located in Winnipeg, Manitoba. Total cash consideration paid for St. James was $22.8 million, which includes the land and building which the Company purchased for approximately $9.3 million. The acquisition was financed with cash from operations and the revolving term facility. Subsequent to year end, the Company refinanced approximately 65% of the land and building by way of the real estate debt facility with HSBC (see "*Credit Facilities*"). Each of the two franchises is equipped with a six car showroom and is located adjacent to each other on the property. The two franchises share a collision center and service department consisting of 27 service bays. In 2012, the franchises retailed a combined 642 new vehicles and 252 used vehicles.

Courtesy Chrysler Dodge

On July 1, 2013, the Company purchased substantially all of the operating and fixed assets (except real estate) of Courtesy Chrysler Dodge (1987) ("Courtesy Chrysler") located in Calgary, Alberta. Total cash consideration paid for Courtesy Chrysler was $17.2 million. The acquisition was financed with cash from operations and the revolving term facility. The acquisition has been accounted for using the acquisition method. The dealership operates out of three facilities with a total size of approximately 52,000 sq. ft., including a body shop, 27 service bays, and a 10 car showroom. The dealership has been in operation for over 45 years and in 2012 retailed 934 new and 561 used vehicles.

Eastern Chrysler Dodge Jeep Ram

On September 9, 2013, the Company purchased all of the net operating assets and real estate of Eastern Chrysler Plymouth Inc. ("Eastern Chrysler"), located in Winnipeg, Manitoba for total cash consideration of $21.9 million, which includes the land and building purchased for $6.5 million. Included in the total consideration was $5.7 million relating to a rental and lease vehicle portfolio. The Company expects to be able to finance this portfolio in the future. Subsequent to year end, the Company refinanced approximately 65% of the land and building by way of the real estate debt facility with HSBC (see "*Credit Facilities*"). The acquisition was financed using cash from operations and the revolving term facility. The acquisition has been accounted for using the acquisition method. The dealership operates out of a single facility with a total building size of approximately 42,500 square feet, including a service department consisting of 18 service bays, a body shop consisting of 20 service bays, and a six car showroom. The dealership has been in operation for over 66 years and in 2012 retailed 660 new vehicles and 470 used vehicles.

Dealership Investments

Investment in Green Island G Auto Holdings Ltd. (“GIA”)

On March 1, 2013, the Company invested a total of $7.1 million to acquire an 80% non voting equity interest in Green Island G Auto Holdings Ltd. (“GIA”). GIA is an entity formed between a subsidiary of AutoCanada, Mr. Priestner and other senior managers of the Company. GIA was formed to acquire Peter Baljet Chevrolet Buick GMC.

Patrick Priestner has a 15.0% equity interest in GIA and other senior managers of the Company have a 5.0% equity interest in GIA. To comply with the terms of GM Canada’s approval, Patrick Priestner is required to have 100% voting control of GIA. Senior management equity participation in GIA is contingent upon their continued employment with the Company and/or its subsidiaries. The investments in GIA were reviewed and approved by the independent members of AutoCanada’s Board of Directors.

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 the 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 the Company’s CEO. As a result, the Company has accounted for its investment in GIA under the equity method. There are no guarantees to GIA or significant relationships other than those disclosed in note 16 of the consolidated annual financial statements of the Company for the year ended December 31, 2013.

Although Mr. Priestner controls GIA, the unanimous shareholder agreement contains certain protective rights for AutoCanada’s investment in GIA including prohibiting Mr. Priestner, or related parties of Mr. Priestner, from entering into contracts with GIA without the consent of AutoCanada. In addition, the agreement contains a number of protective clauses for AutoCanada that may prevent Mr. Priestner from the ability to dilute the interests of other shareholders, without prior approval of AutoCanada. Since Mr. Priestner has control over the Board of GIA, if any of the protective clauses in the agreement are breached, AutoCanada has the ability to exit from its shareholdings and require GIA or Mr. Priestner to pay AutoCanada for its shares based on the valuation of the shares by an independent chartered business valuator.

On March 1, 2013, GIA acquired the operating assets of Peter Baljet Chevrolet Buick GMC (“Peter Baljet”), located in Duncan, British Columbia. Peter Baljet has been servicing the community of Duncan and Cowichan Valley area of Vancouver Island for over 26 years; and in 2012 sold 416 new vehicles and 372 used vehicles.

As a result of GIA’s investment in Peter Baljet, the Company has indirectly acquired an 80% interest in Peter Baljet. Through management services agreements with Peter Baljet, the Company provides the dealership with operating, accounting, sales, parts and service, marketing, and information technology support for which it is compensated.

Investment in Prairie Auto Holdings Ltd. ("PAH")

On March 7, 2014, the Company invested a total of $32.5 million and issued 205,000 shares of ACI to acquire an 82.353% non-voting equity interest in Prairie Auto Holdings Ltd. (“PAH”). PAH is an entity formed between a subsidiary of AutoCanada and Mr. Priestner which on March 7, 2014 acquired an 85% equity interest in the shares of Saskatoon Motor Products (“SMP"), a Chevrolet dealership in Saskatoon, Saskatchewan and Mann-Northway Auto Source (“MNAS”), a Chevrolet, GMC, Buick and Cadillac dealership in Prince Albert, Saskatchewan. The remaining 15% equity interest in the two dealerships is held by Mr. Robert Mann, our Dealer Partner at the two stores who currently operates the stores. To comply with GM Canada’s approval, Mr. Priestner is required to have 100% voting control of PAH. The investment in PAH was reviewed and approved by the independent members of AutoCanada’s Board of Directors.

Although the Company holds no voting rights in PAH, the Company exercises significant influence by virtue of its ability to appoint one member of the board of directors of PAH and the ability to participate in financial and operating policy decisions of PAH. However, the Company does not have the power to make key decisions or block key decisions due to a casting vote held by the Company’s CEO. As a result, the Company will account for its investment in PAH under the equity method. There are no guarantees to PAH or significant relationships other than those disclosed in Note 34 of the audited annual consolidated financial statements of the Company for the year ended December 31, 2013.

Although Mr. Priestner controls PAH, the unanimous shareholder agreement contains certain protective rights for AutoCanada’s investment in PAH including prohibiting Mr. Priestner, or related parties of Mr. Priestner, from entering into contracts with PAH without the consent of AutoCanada. In addition, the agreement contains a number of protective clauses for AutoCanada that may prevent Mr. Priestner from the ability to dilute the interests of other shareholders, without prior approval of AutoCanada. Since Mr. Priestner has control over the Board of PAH, if any of the protective clauses in the agreement are breached, AutoCanada has the ability to exit from its shareholdings and require PAH or Mr. Priestner to pay AutoCanada for its shares based on the valuation of the shares by an independent chartered business valuator.

Integration of New Dealerships and Investments

Over the past year, the Company has acquired a number of dealerships and has been dedicating resources to ensure a successful integration of its newly acquired dealerships. Management believes that it takes a minimum of two full years in order to successfully integrate a store and achieve its anticipated performance objectives.

Our Grande Prairie Volkswagen dealership has integrated very well into the organization and is exceeding our expectations in its performance. Operating under our Grande Prairie platform, our dealership management team has improved sales in all departments and profitability is very good. We are very pleased with the performance of the dealership.

The Company's newly acquired St. James Volkswagen and St. James Audi dealerships have also been performing well. This dealership was the Company's first dealership in Winnipeg, Manitoba. Operating under a new platform, we believe the dealership will take some time to achieve our planned performance objectives; however, we are very excited to purchase these dealerships and add the Audi brand to group. The dealership management team has performed very well and we believe the dealerships have significant future potential.

Courtesy Chrysler Jeep Dodge Ram was acquired on July 1, 2013 and has been performing above our expectations. Calgary, Alberta represents another new market for the Company and since acquiring this dealership, we are very excited to continue to operate and grow in this market. The dealership management team at Courtesy has improved sales in all departments and profitability has exceeded our expectations. We are very encouraged by the success we have had at this dealership and the success of the dealership management team.

Our Eastern Chrysler Jeep Dodge Ram dealership has also been performing well since it was acquired on September 9, 2013. This dealership represents our third dealership purchase in Winnipeg, Manitoba and we are excited to continue to build a platform in this region. The dealership management team has increased sales in all departments and has integrated very well in a short period of time. The dealership has a significant amount of future potential and we believe it will provide good long term returns for the Company.

The Company is also very pleased with the integration of its General Motors dealership investments. Over the past two years the Company has invested in three General Motors dealerships. The Company's investment in Dealer Holdings Ltd. ("DHL"), in which it has an indirect 31% equity ownership in both Sherwood Park Chevrolet and Sherwood Buick GMC has performed very well. Both dealerships have improved in new vehicle market share and profitability. Sherwood Park Chevrolet is now one of the country's highest performing dealerships and Sherwood Buick GMC is regularly in the top 25 General Motors dealerships in the country for new vehicle sales volumes. Management is very pleased with the success of these investments and believes that General Motors dealerships in Canada will continue to perform well in the future.

The Company is also very satisfied with its investment in Green Isle G Auto Holdings Inc. ("GIA"). Since our initial investment in GIA on March 1, 2013, the dealership has grown to be one of the top performing General Motors dealerships in British Columbia. Management believes that this dealership will continue to perform well and is likely to achieve great returns for its investors.

We will continue to dedicate significant resources to newly acquired dealerships in order to successfully integrate acquisitions in an efficient manner. As noted in our same store analysis, we expect acquisitions to take a minimum of two years in order to meet our expected performance objectives. As a result, we expect to incur additional selling and administrative costs in the future in order to successfully integrate new dealerships under our model. The dealership acquisitions that we have made in 2013 have been performing very well and management is very pleased with the progress made.

Dealership Open Points

In 2012, the Company announced that it had signed a letter of intent with Kia Canada Inc. which awarded AutoCanada an open point dealership in Edmonton, Alberta. Since this time, AutoCanada was able to purchase an appropriate facility and have begun renovations to the dealership facility in early 2014. The Company expects to open the new dealership on August 1, 2014. Management is very excited to open and operate its first Kia dealership in its home market of Edmonton. The Company expects to incur approximately $1.5 million in renovations to the building prior to its grand opening.

In February of 2014, the Company announced that it had been awarded the right to a Volkswagen open point dealership in Sherwood Park, Alberta, a community adjacent to Edmonton, Alberta. The Company intends to construct an approximately 45,000 square foot facility in Sherwood Park, designed to Volkswagen Canada image standards, with construction anticipated to be completed in the first quarter of 2016. The open point has a planning potential of 800 new vehicles annually which the Company anticipates achieving in two to three years of operation. The Company currently estimates the cost of construction to be approximately $14.6 million for land and building, of which it expects to finance approximately 70% by way of construction financing. The costs of dealership open points described above have not been included in the costs described below in the Company's Capital Plan.

Disposition of Dealerships

On December 1, 2013, the Company sold the operating assets of its Thompson Chrysler Jeep Dodge Ram dealership located in Thompson, Manitoba for total cash proceeds of $1.4 million. Due to the remote location of the dealership and relatively low sales volume of the dealership, the Company determined it was not able to efficiently dedicate sufficient resources to help the dealership achieve its potential. The dealership was relatively small and through nine months ended September 30, 2013 represented less than 1% of the Company's overall sales. The dealership operations have been removed from same store sales comparisons.

Future Acquisition Opportunities

The Company is very pleased with the continued exceptional performance of its manufacturer partners. Management and the Company have great relationships with our current manufacturer partners and believe that if we can continue to perform well, we can build upon our current brand portfolios and hopefully gain the acceptance of other new manufacturers over time.

The Company continues to experience a greater than usual number of expressions of interest in acquisitions than in the past as a result of an increase in prospective sellers and our expanded brand portfolio. The Company continues to provide guidance on its acquisition outlook as noted in the Company's outlook, located further in this document.

Management believes that the Company has a structure in place that is scalable to allow for the increase in acquisition activity; however the Company does expect to incur some additional administrative and legal costs as the Company adds additional dealerships.

Equity Offering

During the quarter ended June 30, 2013, the Company completed a public offering of common shares. The Company issued 1,840,000 common shares from treasury at a price of $25.00 per share for net proceeds of $43.8 million after deducting $2.2 million of transaction costs from gross proceeds of the offering. The equity offering allowed the Company to reduce its revolving term facility, which provided the Company with further liquidity for dealership acquisitions completed in the third quarter.

Land Sale

On July 26, 2013, the Company sold a piece of land that was previously held for future dealership operations for proceeds of $3.2 million. The Company previously purchased the land in a bid for an open point opportunity which it was unsuccessful in obtaining. The Company is pleased to have sold the land for the same amount that it had been purchased resulting in no gain or loss on the sale.

Capital Plan

During the fourth quarter of 2013, Management updated its capital plan.

Dealership Relocations

Management estimates the total capital requirements of dealership relocations to be approximately $53.3 million with expected completion by the end of fiscal 2016. Management expects to finance the relocations with a combination of mortgage debt, revolver debt and cash from operations. Management expects the non-mortgage debt financing requirement related to these relocations to be approximately $16.5 million, the majority of which would be incurred in fiscal 2014 as typically the land purchases associated with dealership relocations are not financed, however construction costs are typically financed throughout the term of the construction project.

Current Dealership Expansion Needs

The Company has identified approximately $8.0 million in capital costs that it may incur in order to expand three of its current locations. Of these costs, Management believes it can finance approximately $4.0 million utilizing capital lease and its non-revolving term facility. The remainder of these costs will be financed through a combination of revolver debt and cash from operations.

Open Point Opportunities

Management regularly reviews potential open point opportunities. If successful in being awarded these opportunities, Management would estimate additional capital costs in order to construct suitable facilities for open points. If awarded in the future, Management will provide additional cost estimates and timing of construction. In order to be successful in some opportunities, Management may be required to secure appropriate land for the potential open points, in which case, additional land purchase costs may be incurred over the next two years.

Current relocation of dealerships

Relocation of Northland Chrysler Jeep Dodge and Northland Nissan

In the second quarter of 2013, the Company completed the purchase of land in Prince George, British Columbia for approximately $5.2 million which it will use to relocate its Northland Chrysler Jeep Dodge Ram dealership. The expected total project cost including land is $18 million of which it expects to finance $12.5 million using mortgage financing. The Northland Chrysler Jeep Dodge Ram dealership has outgrown its current facility, as the dealership has frequently been in competition as one of the highest volume Chrysler Jeep Dodge Ram dealerships in the country. As a result, the dealership requires a larger facility to service its expanding customer base over the long term by adding additional service bays and a larger lot for the display of inventory and used inventory. We began construction of the new facility in the fourth quarter of 2013 with expected completion in late 2014 or early 2015.

Once the Company has successfully relocated its Northland Chrysler Jeep Dodge Ram dealership, we intend to renovate the building and relocate our Northland Nissan dealership to operate out of the current Northland Chrysler Jeep Dodge Ram facility. We believe that this facility, which is better situated and larger than Northland Nissan's current facility, will result in increased sales and profitability. We would expect the Northland Nissan relocation to be completed in early 2015 and will cost approximately $1.0 million to reimage the building.

Relocation of dealerships provides long-term earnings sustainability and is necessary to meet Manufacturer facility requirements and further Manufacturer relationships. Historically, the relocation of our dealerships has resulted in significant improvements in revenues and overall profitability.

Real estate purchase

In November of 2013, the Company purchased eleven dealership real estate properties from CanadaOne Auto Group (see "RELATED PARTY TRANSACTIONS") for a total purchase price of $57.8 million, plus transaction costs and taxes. The purchase was financed with the Company' non-revolving term facility and revolving operating facility with HSBC (see "*Credit Facilities*"). The Company had previously been leasing the properties and decided to purchase the properties as a means to better control the properties and achieve cash flow savings. The purchase of the real estate also had no impact on general repairs and maintenance expense, insurance or property taxes associated with the buildings as the Company was responsible for these expenses under its previous lease agreements.

The transaction was reviewed and evaluated by a special committee created by the Board of Directors known as the Real Estate Committee. The Real Estate Committee, which was comprised of independent members of the Board of Directors, were directly responsible for the review and evaluation of the potential real estate purchase and directly negotiated with CanadaOne Auto Group (a related party) as to the terms of the purchase agreement.

LIQUIDITY AND CAPITAL RESOURCES

Our principal uses of funds are for capital expenditures, repayment of debt, funding the future growth of the Company and dividends to Shareholders. We have historically met these requirements by using cash generated from operating activities and through short term and long term indebtedness. Due to the significant increase in acquisition activity, the Company completed an equity offering during the second quarter in order to replenish its capital in order to capitalize on future dealership acquisition opportunities. Management believes that under a high growth scenario, cash generated from operating activities may not be sufficient to meet future capital needs. As such, the Company may be required to seek additional capital in the form of debt or equity if significant growth opportunities continue to arise.

The Company has been working with its lenders to increase its revolving term facility and refinance various owned properties. The Company also maintains working capital in excess of manufacturer requirements which may be used for capital expenditures. The Company's analysis of its available capital based on the balance sheet at December 31, 2013 is as follows:

- The Company has approximately $48.8 million in working capital. At December 31, 2013, the Company's aggregate net manufacturer working capital requirements were $42.0 million. As such, the Company has approximately $6.8 million in cash available for growth expenditures.
- The Company has drawn $40.1 million on its $50.0 million revolving term facility. The Company has also obtained a $20.0 million acquisition facility to be used to finance future dealership acquisitions. The Company has drawn $35.3 million on its $60.0 million non-revolving term facility to be used for real estate purposes. As a result, the Company has approximately $29.9 million available for future acquisitions and $24.7 million available for future real estate purchases.
- The Company also has a $5.0 million capital lease line which it may utilize for future capital expenditures whereby it may finance the equipment at its current dealerships or future dealership acquisitions.
- The Company is currently in the process of refinancing various properties in which it currently owns. As a result, we believe the Company may have access to approximately $10.6 million as a result of such initiatives.

As a result of the above initiatives, the Company currently has approximately $52.3 million in available liquidity for acquisitions and capital needs and $24.7 million for future real estate needs, not including future retained cash from operations. The Company believes that its available liquidity is sufficient to complete its current capital expenditure commitments. The Company regularly reviews it capital requirements and shall at such time as acquisition opportunities or other capital expenditures arise, review its capital structure and seek such additional sources of capital which are in the best interests of the Company at that time. .

Cash Flow from Operating Activities

Cash flow from operating activities (including changes in non-cash working capital) of the Company for the year ended December 31, 2013 was $38.0 million (cash provided by operating activities of $48.0 million less net decrease in non-cash working capital of $10.0 million) compared to $21.1 million (cash provided by operating activities of $33.5 million less net decrease in non-cash working capital of $12.4 million) in the same period of the prior year.

Cash flow from operating activities (including changes in non-cash working capital) of the Company for the three month period ended December 31, 2013 was $9.7 million (cash provided by operating activities of $12.9 million less net decrease in non-cash working capital of $3.2 million) compared to $1.8 million (cash provided by operating activities of $9.5 million less net decrease in non-cash working capital of $7.7 million) in the same period of the prior year.

Cash Flow from Investing Activities

For the year ended December 31, 2013, cash flow from investing activities of the Company was a net outflow of $124.0 million as compared to a net outflow of $30.9 million in the same period of the prior year. During 2013, the Company completed $65.4 million in business acquisitions and purchased $67.1 million of real estate, property and equipment. The Company also sold a piece of land for proceeds of $3.2 million and received proceeds of $1.4 million from the divestiture of Thompson Chrysler. In negotiation of its credit facilities, the Company was also able to remove a $10 million restriction of its cash in its revolving floorplan facilities.

For the three month period ended December 31, 2013, cash flow from investing activities of the Company was a net outflow of $57.8 million as compared to a net outflow of $13.1 million in the same period of the prior year. In the fourth quarter of 2013, the Company purchased approximately $59.7 million of real estate, property and equipment and received proceeds of $1.4 million from the divestiture of Thompson Chrysler.

Cash Flow from Financing Activities

For the year ended December 31, 2013, cash flow from financing activities was a net inflow of $86.6 million as compared to a net outflow of $9.3 million in the same period of 2012. The increase was due to the proceeds from issuance of treasury shares of $43.8 million and the increase in long-term indebtedness primarily as a result of the debt related to the real estate purchase of $35.0 million and additional amounts drawn on the revolving term facility.

For the three month period ended December 31, 2013, cash flow from financing activities was a net inflow of $45.2 million as compared to a net outflow of $8.4 million in the same period of 2012. The increase was primarily due to increased proceeds from long-term debt related to the real estate transaction of $35.0 million and additional draws on the revolving term facility.

Economic Dependence

As stated in Note 7 of the annual consolidated financial statements for the period ended December 31, 2013, 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 our major vehicle manufacturers and parts suppliers. Details of this relationship and balances of assets with Chrysler Canada are described in Note 7 of the consolidated annual financial statements.

Credit Facilities and Floor Plan Financing

Credit Facilities

On November 5, 2013, in conjunction with the signing of the real estate asset purchase agreement with COAG, the Company announced that it has entered into a syndicated Credit Agreement with HSBC Bank Canada ("HSBC") and Alberta Treasury Branches ("ATB"), with HSBC acting as administrative agent to the Credit Agreement. The Credit Agreement provides the Company with the following facilities:

- a $50.0 million revolving operating facility that may be used for ongoing working capital and general corporate purposes, including acquisitions;
- a $20.0 million revolving acquisition facility that may be used for the acquisition of auto dealerships and associated real estate; and

- a $60.0 million non-revolving term facility that may be used to purchase owner occupied real estate, refinance existing real estate and to fund construction costs of new dealerships.

Fees and interest on borrowings under the credit facility are subject to a pricing grid whereby the pricing level is determined by the funded debt to EBITDA ratio. Funded debt is defined in the agreement as all indebtedness, as determined in accordance with GAAP, including indebtedness for borrowed money, interest bearing liabilities, indebtedness secured by purchase money security interests, capital lease obligations, securities having attributes substantially similar to debt and contingent obligations including letters of credits, but excluding floor plan debt and subordinated obligations. EBITDA is defined as net income before interest, depreciation, taxes, non-cash charges and any extraordinary/unusual non-recurring items. For business acquisitions or divestitures completed in the immediately preceding 12-month period, EBITDA will be calculated as if the acquisition or divestiture had occurred for the previous full four fiscal quarters. As at December 31, 2013, the Company is in the fourth of five tiers of the pricing grid, with the fourth tier providing the second lowest rate of interest under the credit facility. The non-revolving term facility bears interest at HSBC's prime rate plus 1.00% (4.00% at December 31, 2013) or Banker's Acceptance Rate plus 2.00% (3.32% at December 31, 2013). Amounts drawn on the HSBC Revolver as at December 31, 2013 are due on June 30, 2015 and may be extended annually for an additional 365 days at the request of the Company and upon approval by HSBC. The syndicated HSBC Credit Facilities' maturity dates are the second anniversary of the initial drawdowns. The HSBC Revolver is collateralized by all of the present and future assets of the subsidiaries of AutoCanada Inc. As part of a priority agreement signed by HSBC, Scotiabank, VCCI, and the Company, the collateral for the HSBC Credit Facilities excludes all new, used and demonstrator inventory financed with the Scotiabank and VCCI revolving floorplan facilities.

Additional information relating to the Credit Agreement including a copy of the agreement can be found on SEDAR (www.sedar.com).

During 2013, the Company signed a renewal letter from HSBC with respect to its HSBC Term Loan. The HSBC Term Loan has been extended to June 30, 2014, which if not renewed at the time will become payable on June 30, 2015. The security, covenants, fees, interest rates and other terms remain consistent with the current HSBC Term Loan. The HSBC Term Loan bears interest at HSBC's Prime Rate plus 1.75% (4.75% at December 31, 2013). 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 $3.5 million registered over the Newmarket Infiniti Nissan Property. In February 2014, the HSBC Term loan was refinanced with the HSBC non-revolving term facility.

In 2012, the Company arranged a mortgage agreement with Servus Credit Union ("Servus"), whereby Servus would provide the Company a $6.25 million commercial mortgage to facilitate the purchase of land and building to be used for the operations of the Kia open point dealership. The mortgage bears an annual interest rate of 3.90%, fixed, payable and calculated monthly in arrears, originally amortized over a 20 year period with term expiring 5 years after the fund date. The Servus Mortgage requires certain reporting requirements and is collateralized by general security agreement consisting of a first fixed charge over the land and building. With respect to financial covenants, a subsidiary of the Company is required to maintain a minimum annual Debt Service Coverage ratio of 1.25:1.

The Bank of Montreal ("BMO") provided the Company with a non-revolving demand loan (the "BMO Demand Loan") which was used to purchase the Cambridge Hyundai facility located in Cambridge, Ontario in 2008. The BMO Demand Loan bears interest at BMO's Prime Rate plus 0.50% (3.50% at December 31, 2013). The BMO Demand 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 $3.5 million registered over the Cambridge Hyundai property.

Revolving Floorplan Facilities

During the quarter ended September 30, 2013, the Company completed a $350.0 million syndicated floorplan credit facility (the "Facility") with the Bank of Nova Scotia ("Scotiabank") and the Canadian Imperial Bank of Commerce ("CIBC") with Scotiabank serving as administrative agent to the Facility. The Facility can be expanded to $450.0 million in total availability upon credit approval of the syndicate of lenders. The Facility bears a rate of Bankers' Acceptance plus 1.15% (2.37% as at December 31, 2013) per annum. The financial covenants and repayment terms of the Facility remain consistent with the Company's previous floorplan facility with Scotiabank. As a result of the new agreement, the Company is no longer required to maintain a restricted cash balance of $10.0 million.

The facility has been provided to 22 of the 33 dealerships in which AutoCanada operates. The terms and conditions of the facility apply only to the collective group of 22 dealerships which are to be funded (the "Borrowers"). With respect to financial covenants, the Borrowers are required to maintain the following covenants:

i) The ratio of consolidated current assets to current liabilities of the Borrowers is to be maintained at all times at 1.1:1 or better;

ii) Consolidated Tangible Net Worth of the Borrowers is to be maintained in excess of $40 million at all times; and

iii) The ratio of Consolidated Debt to Tangible Net Worth of the Borrowers is not to exceed 7.5:1.

VW Credit Canada Inc. provides revolving floorplan facilities ("VCCI facilities") to finance new and used vehicles for the Company's Volkswagen and Audi dealerships. The VCCI facilities bear interest at the Royal Bank of Canada ("RBC") prime rate for new vehicles and RBC prime rate plus 0.25-1.00% for used vehicles (RBC prime rate = 3.00% at December 31, 2013). The maximum amount of financing provided by the VCCI facilities is $30.7 million. The VCCI facilities are collateralized by all of the dealerships' assets financed by VCCI and all cash and other collateral in the possession of VCCI and a general security agreement from the Company's Volkswagen and Audi 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.

The VCCI Facilities require maintenance of financial covenants which require all dealerships to maintain minimum cash and equity balances. At December 31, 2013 the financial covenants had been met.

Our ability to finance our new, used and demonstrator inventory is a significant factor in the Company's liquidity management. The Company is generally able to increase or decrease the number of vehicles it finances, subject to limits imposed by floorplan lenders, as part of its treasury management function. If floorplan limits are reduced, the Company may not be able to maintain its current level of inventories which may impact our future results.

Financial Covenants

The Company is required by its debt agreements to comply with several financial covenants. The following is a summary of the Company's actual performance against its financial covenants as at December 31, 2013:

Financial Covenants	Requirement	Actual Calculation
HSBC Facility:		
Funded Debt to EBITDA	Shall not exceed 2.25:1.00	1.17
Adjusted debt to EBITDAR	Shall not exceed 4.50:1.00	2.51
Debt Service Coverage Ratio	Shall not be less than 1.20	2.47
Tangible Net Worth	Shall not drop below $60 million	$117.4 million
Scotiabank:		
Current Ratio	Shall not be less than 1.10	1.14
Tangible Net Worth	Shall not be less than $40 million	$64.6 million
Debt to Tangible Net Worth	Shall not exceed 7.50	4.40

The Scotiabank covenants above are based on consolidated financial statements of the dealerships that are financed directly by Scotiabank. As a result, the actual performance to covenant does not reflect the actual performance to covenant of AutoCanada.

As at December 31, 2013, the Company is in compliance with all of its financial covenants.

Financial Instruments

Details of the Company's financial instruments, including risks and uncertainties are included in Note 22 of the annual audited consolidated financial statements for the year ended December 31, 2013.

Growth vs. Non-Growth Capital Expenditures

Non-growth capital expenditures are capital expenditures incurred during the period to maintain existing levels of service. These include capital expenditures to replace property and equipment and any costs incurred to enhance the operational life of existing property and equipment. Non-growth capital expenditures can fluctuate from period to period depending on our needs to upgrade or replace existing property and equipment. Over time, we expect to incur annual non-growth capital expenditures in an amount approximating our amortization of property and equipment reported in each period.

Additional details on the components of non-growth property and equipment purchases are as follows:

(in thousands of dollars)	**October 1, 2013 to December 31, 2013**	**January 1, 2013 to December 31, 2013**
Leasehold improvements	216	802
Machinery and equipment	339	1,003
Furniture and fixtures	13	125
Computer equipment	217	880
Company & lease vehicles	178	348
	963	3,158

Amounts relating to the expansion of sales and service capacity are considered growth expenditures. Growth expenditures are discretionary, represent cash outlays intended to provide additional future cash flows and are expected to provide benefit in future periods. During the year ended December 31, 2013, growth capital expenditures of $63.9 million were incurred. These expenditures related primarily to land that was purchased for future dealership operations during the second quarter of 2013 for $5.2 million and the real estate purchased completed in the last quarter of 2013 for $58.7 million. Dealership relocations are included as growth expenditures if they contribute to the expansion of sales and service capacity of the dealership.

The following table provides a reconciliation of the purchase of property and equipment as reported on the Statement of Cash Flows to the purchase of non-growth property and equipment as calculated in the free cash flow section below

(in thousands of dollars)	**October 1, 2013 to December 31, 2013**	**January 1, 2013 to December 31, 2013**
Purchase of property and equipment from the Statement of Cash Flows	59,646	67,105
Less: Amounts related to the expansion of sales and service capacity	(58,683)	(63,947)
Purchase of non-growth property and equipment	963	3,158

Repairs and maintenance expenditures are expensed as incurred and have been deducted from earnings for the period. Repairs and maintenance expense incurred during the three months and year ended December 31, 2013, were $0.8 million and $2.8 million (2012 - $0.5 million and $2.2 million), respectively.

Planned Capital Expenditures

Our capital expenditures consist primarily of leasehold improvements, the purchase of furniture and fixtures, machinery and equipment, service vehicles, computer hardware and computer software. Management expects that our annual capital expenditures will increase in the future, as a function of increases in the number of locations requiring maintenance capital expenditures, the cost of opening new locations and increased spending on information systems.

For further information regarding planned capital expenditures, see “GROWTH, ACQUISITIONS, RELOCATIONS AND REAL ESTATE” above.

Contractual Obligations

The Company has operating lease commitments, with varying terms through 2029, to lease premises and equipment used for business purposes.

The minimum lease payments over the upcoming fiscal years will be as follows:

(in thousands of dollars)	**$**
2014	6,442
2015	6,086
2016	5,973
2017	5,192
2018	5,285
Thereafter	51,729
Total	80,707

Information regarding our contractual obligations with respect to long-term debt, capital lease obligations and other long-term obligations is included in the *Liquidity Risk* section of *Note 22 – Financial Instruments* of the Company’s annual consolidated financial statements.

Financial Position

The following table shows selected audited balances of the Company (in thousands) for December 31, 2013 and December 31, 2012, as well as unaudited balances of the Company at September 30, 2013, June 30, 2013, March 31, 2013, September 30, 2012, June 30, 2012, and March 31, 2012:

(in thousands of dollars)	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
Cash and cash equivalents	35,113	47,940	45,058	51,975	34,472	54,255	51,198	53,403
Trade and other receivables	57,771	62,105	69,136	57,144	47,944	54,148	52,042	51,364
Inventories	278,091	237,460	232,878	217,707	199,119	194,472	201,692	156,262
Assets	619,078	530,737	504,449	454,852	410,362	420,080	414,033	361,224
Revolving floorplan facilities	264,178	228,526	246,325	225,387	203,525	212,840	221,174	178,145
Non-current debt and lease obligations	83,580	33,647	8,744	40,340	23,937	26,039	23,027	20,071

Net Working Capital

The automobile manufacturers represented by the Company require the Company to maintain net working capital for each individual dealership. At December 31, 2013, the aggregate of net working capital requirements was approximately $42.0 million. At December 31, 2013, all working capital requirements had been met by each dealership. The working capital requirements imposed by the automobile manufacturers' may limit our ability to fund capital expenditures, acquisitions, dividends, or other commitments in the future if sufficient funds are not generated by the Company. Net working capital, as defined by automobile manufacturers, may not reflect net working capital as determined using GAAP measures. As a result, it is possible that the Company may meet automobile manufacturers' net working capital requirements without having sufficient aggregate working capital using GAAP measures. The Company defines net working capital amounts as current assets less current liabilities as presented in the interim consolidated financial statements. At December 31, 2013, the Company had aggregate working capital of approximately $48.8 million.

The net working capital requirements above restrict the Company's ability to transfer funds up from its subsidiaries, as each subsidiary dealership is required to be appropriately capitalized as explained above. In addition, our VCCI Facilities required the VW and Audi dealerships to maintain minimum cash and equity, which also restricts our ability to transfer up funds.

Off Balance Sheet Arrangements

The Company has not entered into any material off balance sheet arrangements.

Related Party Transactions

Note 31 of the annual consolidated financial statements of the Company for the period ended December 31, 2013 summarize the transactions between the Company and its related parties.

Administrative support fees

The Company currently earns administrative support fees from companies controlled by the CEO of AutoCanada. The administrative support fees consist of a portion of human resource and fixed costs associated with providing technological and accounting support to these companies. The Company believes that providing support services to these companies provides value to both the companies supported and AutoCanada. By providing support, AutoCanada is able to reduce its overall fixed costs associated with accounting and information technology.

Management services agreements

The Company currently earns management services fees from companies in which AutoCanada has significant influence. The management services agreements are fixed monthly fees charged to subsidiaries of DHL from AutoCanada in return for marketing, training, technological support and accounting support provided to the dealerships. AutoCanada provides support services to all dealerships in which it owns and operates, however since the two dealerships are not wholly-owned by AutoCanada, the Company charges a management services fee in order to recover the costs of resources provided. Management believes that, as a result of the support provided, the dealerships have improved in sales volumes and profitability since being acquired by DHL. The services provided also allow both the dealerships and AutoCanada to share in savings as a result of negotiating group rates on services such as advertising and purchasing.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties and have been reviewed and approved by the independent members of our Board of Directors and where considered necessary are supported by independent appraisals.

DIVIDENDS

Dividends to Shareholders

Management reviews the Company's financial results on a monthly basis. The Board of Directors reviews the financial results periodically to determine whether a dividend shall be paid based on a number of factors.

The following table summarizes the dividends declared by the Company in 2013 (in thousands of dollars):

Record date	Payment date	Declared $	Paid $
February 28, 2013	March 15, 2013	3,579	3,579
May 31, 2013	June 17, 2013	3,777	3,777
August 30, 2013	September 16, 2013	4,344	4,344
November 29, 2013	December 16, 2013	4,561	4,561

On February 14, 2014, the Board declared a quarterly eligible dividend of $0.22 per common share on AutoCanada's outstanding Class A common shares, payable on March 17, 2014 to shareholders of record at the close of business on February 28, 2014. The quarterly eligible dividend of $0.22 represents an annual dividend rate of $0.88 per share. The next scheduled dividend review will be in May 2014.

As per the terms of the HSBC facility, we are restricted from declaring dividends and distributing cash if we are in breach of financial covenants or our available margin and facility limits or if such dividend would result in a breach of our covenants or our available margin and facility limits. At this time, the Company is well within its covenants, and as such, Management does not believe that a restriction from declaring dividends is likely in the foreseeable future.

Free Cash Flow

The Company has defined free cash flow to be cash flows provided by operating activities (including changes in non-cash operating working capital) less capital expenditures (excluding capital assets acquired by acquisitions or purchases of real estate).

(in thousands of dollars, except unit and per unit amounts)	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013
Cash provided by operating activities	3,520	6,569	9,235	1,748	6,125	14,391	7,787	9,674
Deduct:								
Purchase of property and equipment	(361)	(410)	(511)	(858)	(590)	(905)	(647)	(1,319)
Free cash flow (1)	3,159	6,159	8,724	890	5,535	13,486	7,140	8,355
Weighted average shares outstanding at end of period	19,880,930	19,876,139	19,804,014	19,802,947	19,802,048	20,346,713	21,638,882	21,638,433
Free cash flow per share	0.159	0.310	0.441	0.045	0.280	0.663	0.330	0.386
Free cash flow - 12 month trailing	26,996	28,474	27,042	18,932	21,308	28,635	27,051	34,516
Weighted average shares outstanding at end of year	-	-	-	19,840,802	-	-	-	20,868,726
Free cash flow per share - 12 month trailing	-	-	-	0.954	-	-	-	1.654

[1] These financial measures are identified and defined under the section "NON-GAAP MEASURES".

Management believes that the free cash flow (see "NON-GAAP MEASURES") can fluctuate significantly as a result of historical fluctuations in our business operations that occur on a quarterly basis as well as the resulting fluctuations in our trade receivables and inventory levels and the timing of the payments of trade payables and revolving floorplan facilities.

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 (decrease) in cash due to changes in non-cash working capital for the years ended December 31, 2013 and December 31, 2012:

(in thousands of dollars)	January 1, 2013 to December 31, 2013	January 1, 2012 to December 31, 2012
Trade and other receivables	(7,092)	(5,496)
Inventories	(43,205)	(63,105)
Prepaid expenses	88	18
Trade and other payables	11,023	3,311
Lease vehicle repurchase obligations	144	171
Revolving floorplan facilities	29,074	52,709
	(9,968)	(12,392)

Adjusted Free Cash Flow

The Company has defined adjusted free cash flow to be cash flows provided by operating activities (before changes in non-cash operating working capital) less non-growth capital expenditures.

(in thousands of dollars, except unit and per unit amounts)	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013
Cash provided by operating activities before changes in non-cash working capital	4,391	9,609	10,029	9,435	5,564	14,258	15,234	12,894
Deduct:								
Purchase of non-growth property and equipment	(361)	(366)	(511)	(457)	(573)	(892)	(608)	(963)
Adjusted free cash flow (1)	4,030	9,243	9,518	8,978	4,991	13,366	14,626	11,931
Weighted average shares outstanding at end of period	19,880,930	19,876,139	19,804,014	19,802,947	19,802,048	20,346,713	21,638,882	21,638,433
Adjusted free cash flow per share	0.203	0.465	0.481	0.453	0.252	0.657	0.676	0.551
Adjusted free cash flow - 12 month trailing	28,096	28,453	30,183	31,769	32,730	36,853	41,961	44,914
Weighted average shares outstanding at end of year	-	-	-	19,840,802	-	-	-	20,868,726
Adjusted free cash flow per share - 12 month trailing	-	-	-	1.601	-	-	-	2.152

[1] These financial measures are identified and defined under the section "NON-GAAP MEASURES".

Management believes that non-growth property and equipment is necessary to maintain and sustain the current productive capacity of the Company's operations and cash available for growth. Management believes that maintenance capital expenditures should be funded by cash flow provided by operating activities. Capital spending for the expansion of sales and service capacity is expected to improve future free cash and as such is not deducted from cash flow provided by operating activities before changes in non-cash working capital in arriving at adjusted free cash flow. Adjusted free cash flow is a measure used by management in forecasting and determining the Company's available resources for future capital expenditure, repayment of debt, funding the future growth of the Company and dividends to Shareholders.

In the year ending December 31, 2013, the Company paid approximately $10.6 million in corporate income taxes and tax installments. Accordingly, this reduced our adjusted free cash flow by this amount. The Company expects the payment of corporate income taxes to have a more significant negative affect on free cash flow and adjusted free cash flow. See "RESULTS FROM OPERATIONS – Annual Operating Results – Income Taxes" for further detail regarding the impact of corporate income taxes on cash flow.

Adjusted Return on Capital Employed

The Company has defined Adjusted Return on Capital Employed to be EBIT (EBITDA, as defined in "NON-GAAP MEASURES", less depreciation and amortization) divided by Average Capital Employed in the Company (average of shareholders' equity and interest bearing debt, excluding floorplan financing, for the period, less the comparative adjustment defined below). Calculations below represent the results on a quarterly basis, except for the adjusted return on capital employed – 12 month trailing which incorporates the results based on the trailing 12 months for the periods presented.

(in thousands of dollars, except unit and per unit amounts)	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013
EBITDA (1)	6,792	10,195	10,575	10,299	10,557	16,532	16,626	14,754
Deduct:								
Amortization of property and equipment	(1,025)	(1,028)	(1,140)	(1,118)	(1,189)	(1,489)	(1,599)	(2,069)
EBIT (1)	5,767	9,167	9,435	9,181	9,368	15,043	15,027	12,685
Average long-term debt	23,873	25,276	30,390	31,007	36,293	28,871	25,725	62,959
Average shareholder's equity	113,794	116,050	119,380	122,877	126,188	152,983	181,576	187,652
Average capital employed (1)	137,667	141,326	149,770	153,884	162,481	181,854	207,301	250,611
Return on capital employed (1)	4.2 %	6.5 %	6.3 %	6.0 %	5.8 %	8.3 %	7.2 %	5.1 %
Comparative adjustment (1)	(15,376)	(15,376)	(15,376)	(15,542)	(15,542)	(15,542)	(15,542)	(15,951)
Adjusted average capital employed (2)	122,290	125,950	134,394	138,425	146,939	166,312	191,759	234,864
Adjusted return on capital employed (2)	4.7 %	7.3 %	7.0 %	6.6 %	6.4 %	9.0 %	7.8 %	5.4 %
Adjusted return on capital employed - 12 month trailing				25.9 %				26.1 %

[1] These financial measures are identified and defined under the section "NON-GAAP MEASURES".
[2] A comparative adjustment has been made in order to adjust for impairments and reversals of impairments of intangible assets. Due to the increased frequency of impairments and reversals of impairments, management has provided an adjustment in order to freeze intangible assets at the pre-IFRS amount of $43,700. As a result, all differences from January 1, 2010 forward under IFRS have been adjusted at the post-tax rate at the time the adjustment to the intangible asset carrying amount was made. Management believes that the adjusted return on capital employed provides more useful information about the return on capital employed

Management believes that Adjusted Return on Capital Employed (see "NON-GAAP MEASURES") is a good measure to evaluate the profitability of our invested capital. As a corporation, management of AutoCanada may use this measure to compare potential acquisitions and other capital investments against our internally computed cost of capital to determine whether the investment shall create value for our shareholders. Management may also use this measure to look at past acquisitions, capital investments and the Company as a whole in order to ensure shareholder value is being achieved by these capital investments.

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICY DEVELOPMENTS

A complete listing of critical accounting policies, estimates, judgments and measurement uncertainty can be found in Note 3 of the annual consolidated financial statements for the year ended December 31, 2013.

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 period ended December 31, 2013. The standards impacted that are applicable to the Company are as follows:

- IFRS 9, *Financial Instruments* - The new standard will ultimately replace IAS 39, *Financial Instruments: Recognition and Measurement*. The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments and the issuance of IFRS 9 is part of the first phase. In November 2013, this standard was indefinitely deferred by the IASB and the effective date is not yet known.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls & Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in reports filed with securities regulatory authorities is recorded, processed, summarized, and reported on a timely basis, and is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

As of December 31, 2013, the Company's management, with participation of the CEO and CFO, evaluated the effectiveness of the design and operation of its disclosure controls and procedures, as defined in National Instrument 52-109 of the Canadian Securities Administrators, and have concluded that the Company's disclosure controls and procedures are effective.

Internal Controls over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal controls over financial reporting. These controls include policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

All control systems contain inherent limitations, no matter how well designed. As a result, the Company's management acknowledges that its internal controls over financial reporting will not prevent or detect all misstatements due to error or fraud. In addition, management's evaluation of controls can provide only reasonable, not absolute, assurance that all control issues that may result in material misstatements, if any, have been detected.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2013, based on the framework established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2013.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting during the year ended December 31, 2013.

OUTLOOK

The outlook regarding vehicle sales in Canada is difficult to predict. New light vehicle unit sales in Canada are expected to increase by 0.9 percent in 2014 as compared to the prior year.

New Vehicle Sales Outlook by Province *

	1994 - 2005 (Average)	2006 - 2011 (Average)	2010	2011	2012	2013	2014F
Canada	**1,446**	**1,587**	**1,557**	**1,589**	**1,677**	**1,745**	**1,760**
Atlantic	**102**	**119**	**122**	**119**	**126**	**135**	**136**
Central	**936**	**987**	**990**	**997**	**1,034**	**1,061**	**1,066**
Quebec	366	408	414	408	416	415	416
Ontario	570	579	576	589	618	646	650
West	**408**	**481**	**445**	**473**	**517**	**549**	**558**
Manitoba	42	45	44	47	50	54	55
Saskatchewan	36	45	46	50	55	58	59
Alberta	166	220	200	218	239	257	262
British Columbia	164	171	155	158	173	180	182

* Includes cars and light trucks

Source: Scotia Economics - Global Auto Report, March 7, 2014

The Canadian new vehicle market continues to perform well. New vehicle sales in Canada performed at record levels in 2013 and are continuing at a strong pace in 2014. Management believes that at the expected Canadian auto sales levels above 1.7 million units, the Company is well positioned for strong performance as new vehicle sales typically drive sales of other higher margin opportunities such as parts and service, as well as, finance and insurance revenues.

Over the past 15 months, it has become apparent to Management that the Canadian dealer succession issue which industry analysts have been forecasting over the past number of years is beginning to materialize. As such, the Company has experienced a significant increase in the number of interested sellers of auto dealerships in Canada and has noticed that many of these opportunities are large, more profitable premium dealerships. In recognition of this increased activity, Management is raising its guidance to ten to twelve dealership acquisitions over the coming 24 months. Should the Company be able to acquire a larger group, this would increase the guidance.

Regarding dividends, the Board of Directors remain committed to providing investors with an attractive dividend which it continues to review on a regular basis in the context of a number of factors, including acquisition opportunities. The Company has raised its dividend for twelve consecutive quarters.

RISK FACTORS

We face a number of business risks that could cause our actual results to differ materially from those disclosed in this MD&A (See "FORWARD LOOKING STATEMENTS") Investors and the public should carefully consider our business risks, other uncertainties and potential events as well as the inherent uncertainty of forward looking statements when making investment decisions with respect to AutoCanada. If any of the business risks identified by AutoCanada were to occur, our business, financial condition, results of operations, cash flows or prospects could be materially adversely affected. In such case, the trading price of our shares could decline. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also adversely affect our business and operations. A comprehensive discussion of the known risk factors of AutoCanada and additional business risks is available in our 2013 Annual Information Form dated March 20, 2014 available on the SEDAR website at www.sedar.com.

Additional Information

Additional information relating to the Company, including all public filings, is available on SEDAR (www.sedar.com). The Company's shares trade on the Toronto Stock Exchange under the symbol ACQ.

FORWARD LOOKING STATEMENTS

Certain statements contained in management's discussion and analysis are forward-looking statements and information (collectively "forward-looking statements"), within the meaning of the applicable Canadian securities legislation. We hereby provide cautionary statements identifying important factors that could cause our actual results to differ materially from those projected in these forward-looking statements. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "will likely result", "are expected to", "will continue", "is anticipated", "projection", "vision", "goals", "objective", "target", "schedules", "outlook", "anticipate", "expect", "estimate", "could", "should", "expect", "plan", "seek", "may", "intend", "likely", "will", "believe" and similar expressions are not historical facts and are forward-looking and may involve estimates and assumptions and are subject to risks, uncertainties and other factors some of which are beyond our control and difficult to predict. Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. Therefore, any such forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this document.

In particular, material forward-looking statements in management's discussion and analysis include:

- the belief that, as the Company continues to grow, operating expenses as a percentage of gross profit should continue to improve as the Company achieves greater economies of scale;
- the impact of income taxes on future cash flow;
- the impact of an increase or decrease of one new retail vehicle sold on estimated free cash flow;
- expectations to finance the rental and lease vehicle portfolio related to the Eastern Chrysler acquisition;
- expectations and future plans regarding our current and other potential GM acquisitions;
- expectations of acquisitions to take between one to two years to meet our expected return on investment;
- expectations to incur additional selling and administrative costs in the future to successfully integrate new dealerships;
- the belief that, if the Company can continue to perform well, it will be able to build upon its current brand portfolios and hopefully gain the acceptance of other new manufacturers over time;
- commitments regarding future investments in additional GM dealerships;
- commitments by the Company's CEO to continue to personally invest in GM dealerships to facilitate the Company's intention

to grow its portfolio of GM dealerships;

- expectations to incur additional selling, general, and administrative costs in the future to facilitate the growth anticipated by the Company due to increased acquisition activity;
- estimates, intentions, and expectations regarding the capital plan, potential relocation of certain dealerships, dealership expansion needs, and open point opportunities;
- our belief that relocation of certain dealerships may provide incremental long-term earnings growth and better align some of our dealerships with the growth expectations of our manufacturer partners;
- the impact of dealership real estate relocations and purchases and its impact on liquidity, financial performance and the Company's capital requirements;
- our belief that under a high growth scenario, cash from operating activities may not be sufficient to meet future capital needs and the potential need to seek additional capital in the form of debt or equity;
- our belief that our available liquidity is sufficient to complete our current capital expenditure commitments and to execute on additional dealership acquisitions;
- the impact of a significant decline in sales as a result of the inability to procure adequate supply of vehicles and/or lower consumer demand on cash flows from operations and our ability to fund capital expenditures;
- our expectation to incur annual non-growth capital expenditures in an amount approximating our amortization of property and equipment reported in each period;
- our expectation that growth expenditures will provide additional future cash flows and future benefit;
- our expectation to increase annual capital expenditures and the reasons for this expected increase;
- the impact of working capital requirements and its impact on future liquidity;
- the belief that a restriction from declaring dividends is not likely in the foreseeable future;
- our belief that free cash flow can fluctuate significantly and the impact of these fluctuations on our operations and performance;
- our belief that maintenance capital expenditures should be funded by cash flow provided by operating activities;
- our potential use of Adjusted Return on Capital Employed as a measure for comparison and analysis;
- guidance with respect to future acquisition and open point opportunities;
- our assumption on the amount of time it may take for an acquisition or open point to achieve normal operating results;
- expectations and estimates regarding income taxes and their effect on cash flow and dividends;
- assumptions over non-GAAP measures and their impact on the Company; and
- management's assumptions and expectations over the future economic and general outlook.

Although we believe that the expectations reflected by the forward-looking statements presented in this release are reasonable, our forward-looking statements have been based on assumptions and factors concerning future events that may prove to be inaccurate. Those assumptions and factors are based on information currently available to us about ourselves and the businesses in which we operate. Information used in developing forward-looking statements has been acquired from various sources including third-party consultants, suppliers, regulators, and other sources. In some instances, material assumptions are disclosed elsewhere in this release in respect of forward-looking statements. We caution the reader that the following list of assumptions is not exhaustive. The material factors and assumptions used to develop the forward-looking statements include but are not limited to:

- no significant adverse changes to the automotive market, competitive conditions, the supply and demand of vehicles, parts and service, and finance and insurance products or the political, economic and social stability of the jurisdictions in which we operate;
- no significant construction delays that may adversely affect the timing of dealership relocations and open points;
- no significant disruption of our operations such as may result from harsh weather, natural disaster, accident, civil unrest, or other calamitous event;
- no significant unexpected technological event or commercial difficulties that adversely affect our operations;
- continuing availability of economical capital resources; demand for our products and our cost of operations;
- no significant adverse legislative and regulatory changes; and
- stability of general domestic economic, market, and business conditions.

Because actual results or outcomes could differ materially from those expressed in any forward-looking statements, investors should not place undue reliance on any such forward-looking statements. By their nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, which contribute to the possibility that the predicted outcomes will not occur. The risks, uncertainties and other factors, many of which are beyond our control, that could influence actual results include, but are not limited to:

- rapid appreciation or depreciation of the Canadian dollar relative to the U.S. dollar;
- a sustained downturn in consumer demand and economic conditions in key geographic markets;
- adverse conditions affecting one or more of our automobile manufacturers;
- the ability of consumers to access automotive loans and leases;
- competitive actions of other companies and generally within the automotive industry;
- our dependence on sales of new vehicles to achieve sustained profitability;
- our suppliers ability to provide a desirable mix of popular new vehicles;
- the ability to continue financing inventory under similar interest rates;
- our suppliers ability to continue to provide manufacturer incentive programs;
- the loss of key personnel and limited management and personnel resources;
- the ability to refinance credit agreements in the future;
- changes in applicable environmental, taxation and other laws and regulations as well as how such laws and regulations are interpreted and enforced
- risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations
- the ability to obtain automotive manufacturers' approval for acquisitions;

The Company's Annual Information Form and other documents filed with securities regulatory authorities (accessible through the SEDAR website www.sedar.com) describe the risks, material assumptions and other factors that could influence actual results and which are incorporated herein by reference.

Further, any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by applicable law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all of such factors and to assess in advance the impact of each such factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

NON-GAAP MEASURES

Our MD&A contains certain financial measures that do not have any standardized meaning prescribed by Canadian GAAP. Therefore, these financial measures may not be comparable to similar measures presented by other issuers. Investors are cautioned these measures should not be construed as an alternative to net earnings (loss) or to cash provided by (used in) operating, investing, and financing activities determined in accordance with Canadian GAAP, as indicators of our performance. We provide these measures to assist investors in determining our ability to generate earnings and cash provided by (used in) operating activities and to provide additional information on how these cash resources are used. We list and define these "NON-GAAP MEASURES" below:

EBITDA

EBITDA is a measure commonly reported and widely used by investors as an indicator of a company's operating performance and ability to incur and service debt, and as a valuation metric. The Company believes EBITDA assists investors in comparing a company's performance on a consistent basis without regard to depreciation and amortization and asset impairment charges which are non-cash in nature and can vary significantly depending upon accounting methods or non-operating factors such as historical cost. References to "EBITDA" are to earnings before interest expense (other than interest expense on floorplan financing and other interest), income taxes, depreciation, amortization and asset impairment charges.

EBIT

EBIT is a measure used by management in the calculation of Return on capital employed (defined below). Management's calculation of EBIT is EBITDA (calculated above) less depreciation and amortization.

Adjusted pre-tax earnings

Adjusted pre-tax earnings are calculated by adding back the impairment or reversals of impairment of intangible assets and impairments of goodwill. Adding back these non-cash charges to pre-tax net earnings allows management to assess the pre-tax net earnings of the Company from ongoing operations.

Adjusted net earnings

Adjusted earnings are calculated by adding back the after-tax effect of impairment or reversals of impairment of intangible assets and impairments of goodwill. Adding back these non-cash charges to net earnings allows management to assess the net earnings of the Company from ongoing operations.

Free Cash Flow

Free cash flow is a measure used by management to evaluate its performance. While the closest Canadian GAAP measure is cash provided by operating activities, free cash flow is considered relevant because it provides an indication of how much cash generated by operations is available after capital expenditures. It shall be noted that although we consider this measure to be free cash flow, financial and non-financial covenants in our credit facilities and dealer agreements may restrict cash from being available for distributions, re-investment in the Company, potential acquisitions, or other purposes. Investors should be cautioned that free cash flow may not actually be available for growth or distribution of the Company. References to "Free cash flow" are to cash provided by (used in) operating activities (including the net change in non-cash working capital balances) less capital expenditure (not including acquisitions of dealerships and dealership facilities).

Adjusted Free Cash Flow

Adjusted free cash flow is a measure used by management to evaluate its performance. Free cash flow is considered relevant because it provides an indication of how much cash generated by operations before changes in non-cash working capital is available after deducting expenditures for non-growth capital assets. It shall be noted that although we consider this measure to be adjusted free cash flow, financial and non-financial covenants in our credit facilities and dealer agreements may restrict cash from being available for distributions, re-investment in the Company, potential acquisitions, or other purposes. Investors should be cautioned that adjusted free cash flow may not actually be available for growth or distribution of the Company. References to "Adjusted free cash flow" are to cash provided by (used in) operating activities (before changes in non-cash working capital balances) less non-growth capital expenditures.

Absorption Rate

Absorption rate is an operating measure commonly used in the retail automotive industry as an indicator of the performance of the parts, service and collision repair operations of a franchised automobile dealership. Absorption rate is not a measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, absorption rate may not be comparable to similar measures presented by other issuers that operate in the retail automotive industry. References to ''absorption rate'' are to the extent to which the gross profits of a franchised automobile dealership from parts, service and collision repair cover the costs of these departments plus the fixed costs of operating the dealership, but does not include expenses pertaining to our head office. For this purpose, fixed operating costs include fixed salaries and benefits, administration costs, occupancy costs, insurance expense, utilities expense and interest expense (other than interest expense relating to floor plan financing) of the dealerships only.

Average Capital Employed

Average capital employed is a measure used by management to determine the amount of capital invested in AutoCanada and is used in the measure of Return on Capital Employed (described below). Average capital employed is calculated as the average balance of interest bearing debt for the period (including current portion of long term debt, excluding revolving floorplan facilities) and the average balance of shareholders equity for the period. Management does not include future income tax, non-interest bearing debt, or revolving floorplan facilities in the calculation of average capital employed as it does not consider these items to be capital, but rather debt incurred to finance the operating activities of the Company.

Adjusted Average Capital Employed

Adjusted average capital employed is a measure used by management to determine the amount of capital invested in AutoCanada and is used in the measure of Adjusted Return on Capital Employed (described below). Adjusted average capital employed is calculated as the average balance of interest bearing debt for the period (including current portion of long term debt, excluding revolving floorplan facilities) and the average balance of shareholders equity for the period, adjusted for impairments of intangible assets, net of deferred tax. Management does not include future income tax, non-interest bearing debt, or revolving floorplan facilities in the calculation of adjusted average capital employed as it does not consider these items to be capital, but rather debt incurred to finance the operating activities of the Company.

Return on Capital Employed

Return on capital employed is a measure used by management to evaluate the profitability of our invested capital. As a corporation, management of AutoCanada may use this measure to compare potential acquisitions and other capital investments against our internally computed cost of capital to determine whether the investment shall create value for our shareholders. Management may also use this measure to look at past acquisitions, capital investments and the Company as a whole in order to ensure shareholder value is being achieved by these capital investments. Return on capital employed is calculated as EBIT (defined above) divided by Average Capital Employed (defined above).

Adjusted Return on Capital Employed

Adjusted return on capital employed is a measure used by management to evaluate the profitability of our invested capital. As a corporation, management of AutoCanada may use this measure to compare potential acquisitions and other capital investments against our internally computed cost of capital to determine whether the investment shall create value for our shareholders. Management may also use this measure to look at past acquisitions, capital investments and the Company as a whole in order to ensure shareholder value is being achieved by these capital investments. Adjusted return on capital employed is calculated as EBIT (defined above) divided by Adjusted Average Capital Employed (defined above).

Cautionary Note Regarding Non-GAAP Measures

EBITDA, EBIT, Free Cash Flow, Absorption Rate, Average Capital Employed, Return on Capital Employed, Adjusted Average Capital Employed and Adjusted Return on Capital Employed are not earnings measures recognized by GAAP and do not have standardized meanings prescribed by GAAP¬. Investors are cautioned that these non-GAAP measures should not replace net earnings or loss (as determined in accordance with GAAP) as an indicator of the Company's performance, of its cash flows from operating, investing and financing activities or as a measure of its liquidity and cash flows.¬ The Company's methods of calculating EBITDA, EBIT, Free Cash Flow, Absorption Rate, Average Capital Employed, Return on Capital Employed. Adjusted Average Capital Employed and Adjusted Return on Capital Employed may differ from the methods used by other issuers.¬ Therefore, the Company's EBITDA, EBIT, Free Cash Flow, Absorption Rate, Average Capital Employed, Return on Capital Employed, Adjusted Average Capital Employed and Adjusted Return on Capital Employed may not be comparable to similar measures presented by other issuers.

CONSOLIDATED FINANCIAL STATEMENTS

AutoCanada Inc.

Consolidated Financial Statements

December 31, 2013

March 20, 2014

Independent Auditor's Report

To the Shareholders of
AutoCanada Inc.

We have audited the accompanying consolidated financial statements of AutoCanada Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012 and the consolidated statements of comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AutoCanada Inc. and its subsidiaries as at December 31, 2013 and December 31, 2012 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

Edmonton, Canada

AutoCanada Inc.

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

	December 31, 2013 $	December 31, 2012 $
Revenue (Note 8)	1,409,040	1,101,902
Cost of sales (Note 9)	(1,163,005)	(911,473)
Gross profit	246,035	190,429
Operating expenses (Note 10)	(188,519)	(149,140)
Operating profit before other income	57,516	41,289
Loss on disposal of assets, net	(210)	(95)
Recovery of impairment of intangible assets (Note 21)	746	222
Income from investments in associates (Note 16)	2,241	468
Operating profit	60,293	41,884
Finance costs (Note 12)	(9,618)	(11,045)
Finance income (Note 12)	1,187	1,973
Net comprehensive income for the year before taxation	51,862	32,812
Income tax (Note 13)	13,696	8,576
Net comprehensive income for the year	38,166	24,236
Earnings per share		
Basic	1.829	1.222
Diluted	1.829	1.222
Weighted average shares		
Basic	20,868,726	19,840,802
Diluted	20,868,726	19,840,802

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

Approved on behalf of the Company:

(Signed) "Gordon R. Barefoot", Director

(Signed) "Michael Ross", Director

AutoCanada Inc.

Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

	December 31, 2013 $	December 31, 2012 $
ASSETS		
Current assets		
Cash and cash equivalents (Note 17)	35,113	34,472
Restricted cash (Note 17)	-	10,000
Trade and other receivables (Note 18)	57,771	47,944
Inventories (Note 19)	278,091	199,119
Other current assets	1,603	1,102
	372,578	292,637
Property and equipment (Note 20)	122,915	38,513
Intangible assets (Note 21)	96,985	66,403
Goodwill (Note 21)	6,672	380
Other long-term assets (Note 23)	6,797	7,699
Investments in associates (Note 16)	13,131	4,730
	619,078	410,362
LIABILITIES		
Current liabilities		
Trade and other payables (Note 24)	50,428	35,590
Revolving floorplan facilities (Note 25)	264,178	203,525
Current tax payable	4,906	3,719
Current lease obligations (Note 26)	1,398	1,282
Current indebtedness (Note 25)	2,866	3,000
	323,776	247,116
Long-term indebtedness (Note 25)	83,580	23,937
Deferred tax (Note 13)	21,480	14,809
	428,836	285,862
EQUITY	190,242	124,500
	619,078	410,362

Commitments and contingencies (Note 27)

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, 2013	190,435	(935)	4,423	193,923	(69,423)	124,500
Net comprehensive income	-	-	-	-	38,166	38,166
Dividends declared on common shares (Note 29)	-	-	-	-	(16,197)	(16,197)
Common shares issued (Note 29)	43,811	-	-	43,811	-	43,811
Common shares repurchased (Note 29)	-	(579)	-	(579)	-	(579)
Restricted share units settled (Note 29)	-	206	(240)	(34)	-	(34)
Share-based compensation	-	-	575	575	-	575
Balance, December 31, 2013	234,246	(1,308)	4,758	237,696	(47,454)	190,242

	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 29)	-	-	-	-	(12,301)	(12,301)
Common shares repurchased (Note 29)	-	(935)	-	(935)	-	(935)
Share-based compensation	-	-	505	505	-	505
Balance, December 31, 2012	190,435	(935)	4,423	193,923	(69,423)	124,500

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, 2013 $	December 31, 2012 $
Cash provided by (used in)		
Operating activities		
Net income	38,166	24,236
Income taxes (Note 13)	13,696	8,576
Amortization of prepaid rent	452	452
Amortization of property and equipment (Note 10)	6,346	4,311
Loss on disposal of assets	210	95
Recovery of impairment of intangible assets (Note 21)	(746)	(222)
Share-based compensation - equity-settled	575	505
Share-based compensation - cash-settled	2,054	235
Income from investment in associate (Note 16)	(2,241)	(468)
Income taxes paid	(10,559)	(4,255)
Net change in non-cash working capital (Note 32)	(9,968)	(12,392)
	37,985	21,073
Investing activities		
Reduction in (addition to) restricted cash (Note 17)	10,000	(10,000)
Investments in associates (Note 16)	(7,057)	(4,262)
Purchases of property and equipment (Note 20)	(67,105)	(16,069)
Disposal (purchase) of other assets	-	(58)
Proceeds on sale of property and equipment	3,304	32
Proceeds on divestiture of dealership (Note 15)	1,354	-
Prepayments of rent	-	(540)
Business acquisitions (Note 14)	(65,368)	-
Dividends received from investments in associates (Note 16)	897	-
	(123,975)	(30,897)
Financing activities		
Proceeds from long-term indebtedness	241,287	79,465
Repayment of long-term indebtedness	(181,757)	(75,596)
Common shares repurchased	(513)	(912)
Dividends paid (Note 29)	(16,197)	(12,301)
Proceeds from issuance of shares (Note 29)	43,811	-
	86,631	(9,344)
Increase (decrease) in cash	641	(19,168)
Cash and cash equivalents at beginning of year	34,472	53,641
Cash and cash equivalents at end of year	35,113	34,472

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 ("IASB") 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 20, 2014.

3 Significant Accounting Policies

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

Basis of measurement

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

Principles of consolidation

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

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

Investments in associates

An associate is an entity over which the Company has significant influence, but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights, but with considerations over the relationships between the investors and the investees. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Company's investment in 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 income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

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

Significant Accounting Policies continued

Investments in associates 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 consolidated statement of comprehensive income.

Revenue recognition

(a) Vehicles, parts, service and collision repair

Revenue from the sale of goods and services is measured at the fair value of the consideration receivable, net of rebates 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 consolidated 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.

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 releated vehicles are sold.

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.

Financial instruments

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

Cash and cash equivalents

Cash and cash equivalents include amounts on deposit with financial institutions and amounts with the Bank of Nova Scotia ("Scotiabank") that are readily available to the Company (See Note 22 - *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 from Scotiabank. The restricted cash earns interest income to partially offset the interest expense incurred on the borrowings. (See Note 22 - *Financial instruments - Credit risk* for explanation of credit risk associated with restricted cash balances).

Significant Accounting Policies continued

Trade and other receivables

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

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

Inventories

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

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

Property and equipment

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

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

Significant Accounting Policies continued

Property and equipment continued

Buildings are amortized on a straight-line basis over the estimated useful lives of the buildings. Useful lives are determined based on independent appraisals or estimated useful lives for dealerships by independent appraisers.

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

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

Goodwill and intangible assets

(a) Goodwill

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

(b) Intangible assets

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

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

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

Impairment

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

Significant Accounting Policies continued

Impairment continued

(a) Non-financial assets

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

(b) Intangible assets and goodwill

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

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

Trade Payables

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

Provisions

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

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.

Significant Accounting Policies continued

Leases continued

(a) Finance leases

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 leases

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 consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

New accounting policies

During the year ended December 31, 2013 the Company adopted the following standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions:

- IAS 1, Amendment, *Presentation of Items of Other Comprehensive Income*, requires the Company to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. The Company has reclassified comprehensive income items of the comparative period. These changes did not result in any adjustments to other comprehensive income or comprehensive income.
- IFRS 13, *Fair Value Measurement,* provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.
- IAS 36, Amendment, *Impairment of Assets*, removes the requirement to disclose the recoverable amount of CGUs with significant carrying amounts of goodwill where there is not a recovery or impairment. The Company has early adopted this amendment on January 1, 2013.

4 Accounting standards and amendments issued but not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are not yet effective for the financial year ended December 31, 2013. 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. In November 2013, this standard was indefinitely deferred by the IASB and the effective date is not yet known.

5 Critical accounting estimates, judgments & measurement uncertainty

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

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

Intangible assets and goodwill

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

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

The Company tests at least annually whether intangible assets and goodwill have suffered impairment, in accordance with its accounting policies. The recoverable amounts of CGU's have been estimated based on the greater of fair value less costs to sell and value-in-use calculations (Note 21).

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.

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:

Investments in associates

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

AutoCanada has non-voting equity interests in Dealer Holdings Ltd. ("DHL") and Green Isle G Auto Holdings Inc. ("Green Isle") for which the voting interests are held 100% by the Company's Chief Executive Officer ("CEO") (as described in Note 16). When assessing whether the Company has control of DHL or Green Isle, 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 investments in DHL and Green Isle. In making this assessment, the Company considered that the CEO has de facto control over AutoCanada at the dates of the Company's investments; therefore, the CEO should not be perceived to be a de facto agent of AutoCanada. The following facts were also considered to assess the relationship between AutoCanada and its CEO:

- Regardless of employment at AutoCanada, the CEO's interests in DHL and Green Isle would remain with full ability to control decisions as they pertain to DHL and Green Isle.
- 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 and Green Isle.

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

Critical accounting estimates, judgments & measurement uncertainty continued

When combining these considerations with the fact that the CEO has the casting vote on decisions of the Boards of DHL and Green Isle, and therefore governs relevant activities of the investees, management has concluded that the Company does not have power over DHL or Green Isle, and therefore does not consolidate these investments.

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

6 Segment information

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

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

7 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 nine global automobile manufacturers. The Company's Chrysler, Jeep, Dodge, Ram ("CJDR") dealerships, which generated 71% of the Company's revenue in the year ended December 31, 2013 (2012 – 73%), purchase all new vehicles, a significant portion of parts and accessories and certain used vehicles from Chrysler Canada. In addition to these inventory purchases, the Company is eligible to receive monetary incentives from Chrysler Canada if certain sales volume targets are met and is also eligible to receive payment for warranty service work that is performed for eligible vehicles.

At December 31, 2013 and December 31, 2012, the Company had recorded the following assets that relate to transactions it has entered into with Chrysler Canada:

	December 31, 2013 $	December 31, 2012 $
Accounts receivable	7,945	6,655
New vehicle inventory	177,861	122,595
Demonstrator vehicle inventory	5,334	4,784
Parts and accessories inventory	7,874	6,043

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

7 Economic dependence continued

Chrysler Canada is a subsidiary of Chrysler Group LLC ("Chrysler Group") in the United States. The Chrysler Group is wholly owned by Fiat Chrysler Automobiles NV ("Fiat Chrysler"). The viability of Chrysler Canada is directly dependent on the viability of Chrysler Group and Fiat Chrysler.

8 Revenue

	2013 $	2012 $
New vehicles	882,858	683,034
Used vehicles	300,881	243,351
Finance, insurance and other	82,958	61,241
Parts, service and collision repair	142,343	114,276
	1,409,040	1,101,902

9 Cost of sales

	2013 $	2012 $
New vehicles	807,023	625,201
Used vehicles	280,608	227,052
Finance, insurance and other	6,786	4,842
Parts, service and collision repair	68,588	54,378
	1,163,005	911,473

10 Operating expenses

	2013 $	2012 $
Employee costs (Note 11)	121,854	93,012
Administrative costs (1)	48,571	39,949
Facility lease costs	11,748	11,868
Amortization of property and equipment (Note 20)	6,346	4,311
	188,519	149,140

(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)

11 Employees

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

	2013	2012
Sales	592	477
Service	834	612
Administration	173	138
	1,599	1,227

Operating expenses incurred in respect of employees were:

	2013 $	2012 $
Wages, salaries and commissions	113,417	86,555
Withholding taxes and insurance	5,196	3,903
Employee benefits	3,241	2,554
	121,854	93,012

12 Finance costs and finance income

	2013 $	2012 $
Finance costs:		
Interest on long-term indebtedness	1,007	960
Floorplan financing	7,353	9,279
Other interest expense	1,258	806
	9,618	11,045
Finance income:		
Short term bank deposits	(1,187)	(1,973)

Cash interest paid during the year ended December 31, 2013 was $9,556 (2012 - $10,620).

13 Taxation

Components of income tax expense are as follows:

	2013 $	2012 $
Current	11,478	5,823
Deferred tax	2,218	2,753
Total income tax expense	13,696	8,576

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

13 Taxation continued

Factors affecting tax expense for the year:

	2013 $	2012 $
Income before taxes	51,862	32,812
Income before tax multiplied by the standard rate of Canadian corporate tax of 25.7% (2012 - 25.5%)	13,329	8,367
Effects of:		
Change in deferred tax rate	(91)	11
Difference between future and current rate	(52)	(14)
Non-deductible expenses	209	259
Other, net	301	(47)
Total income tax expense	13,696	8,576

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 $	Investments in associates $	Other $	Total $
January 1, 2012	(6,679)	445	(5,819)	-	(3)	(12,056)
(Expense) benefit to consolidated statement of comprehensive income	(1,630)	(242)	(818)	-	(63)	(2,753)
December 31, 2012	(8,309)	203	(6,637)	-	(66)	(14,809)
(Expense) benefit to consolidated statement of comprehensive income	(981)	(928)	(11)	(321)	23	(2,218)
Deferred tax acquired on acquisition	-	-	(4,453)	-	-	(4,453)
December 31, 2013	(9,290)	(725)	(11,101)	(321)	(43)	(21,480)

Changes in the deferred income tax components are adjusted through deferred tax expense. Of the above components of deferred income taxes, $9,290 of the deferred tax liabilities are expected to be recovered within 12 months. The increase in standard rate of Canadian corporate tax is due to a small increases in the corporate tax rate in a couple of the jurisdictions in which the Company operates. The Company applies a blended rate in determining its overall income tax expense.

14 Business acquisitions

During the year ended December 31, 2013, the Company completed four business acquisitions (2012 - nil). All acquisitions have been accounted for using the acquisition method. Acquisitions completed during this period are as follows:

Grande Prairie Volkswagen

On January 4, 2013, the Company purchased substantially all of the operating and fixed assets of People's Automotive Ltd. (“Grande Prairie Volkswagen”) for total cash consideration of $1,981. The acquisition was funded by drawing on the Company’s VCCI facilities (Note 24) in the amount of $1,413 and the remaining $568 was financed with cash from operations. The purchase of this business complements the Company’s other dealerships in Grande Prairie. In addition to the business, the Company also purchased land and a building used for business operations for $1,800.

St. James Audi and Volkswagen

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

Courtesy Chrysler

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

Eastern Chrysler

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

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

14 Business acquisitions continued

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

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

Acquisitions completed during the year ended December 31, 2013 generated revenue and net earnings of $113,879 and $4,496, respectively, during the year of acquisition. The purchase prices allocated, as presented above, are estimates and subject to change due to the finalization of the associated allocations.

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

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

15 Business divestiture

On December 1, 2013, the Company sold the operating assets of its Thompson Chrysler Jeep Dodge ("Thompson") dealership located in Thompson, Manitoba. Total cash proceeds of $1,354 resulted in a loss on divestiture of $95, which is included in loss on disposal of assets, net in the consolidated statement of comprehensive income. The break-down of the transaction was as follows:

	$
Current assets	3,821
Property and equipment	577
Intangible assets	185
Current liabilities	(3,134)
Net assets disposed of	1,449
Net loss on divestiture	(95)
Net cash inflow on divestiture	1,354

16 Investments in associates

Dealer Holdings Ltd.

During 2012, the Company acquired a 60.8% participating, non-voting common share interest in Dealer Holdings Ltd. ("DHL"). DHL is an entity formed between a subsidiary of AutoCanada and 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.

During 2012, DHL acquired a 51% voting equity interest in Nicholson Chevrolet (now operating as Sherwood Park Chevrolet and a 51% voting equity interest in Petersen Buick GMC (now operating as Sherwood Buick GMC). As a result of DHL's investments, the Company indirectly acquired a 31% interest in Sherwood Park Chevrolet and a 31% interest in Sherwood Buick GMC.

Green Isle G Auto Holdings Inc.

On March 1, 2013, the Company invested a total of $7,057 to acquire an 80.0% participating, non-voting common share interest in Green Isle G Auto Holdings Inc. ("Green Isle"). Green Isle is an entity formed between a subsidiary of AutoCanada and Mr. Patrick Priestner ("Priestner"), the Company's CEO. Green Isle 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 Green Isle and its interests, based on the percentage of ownership acquired. Green Isle's principal place of business is Alberta, Canada.

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

16 Investments in associates continued

Although the Company holds no voting rights in Green Isle, the Company exercises significant influence by virtue of its involvement in the board of directors of Green Isle and the ability to participate in financial and operating policy decisions of Green Isle. 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 Green Isle under the equity method. There are no guarantees to Green Isle or significant relationships.

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

The dealership is subject to financial covenants as part of its borrowing arrangements that may restrict its ability to transfer funds to Green Isle 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 Green Isle if minimum working capital requirements are not met.

As a result of Green Isle's investment, the Company has indirectly acquired an 80.0% interest in Peter Baljet. Summarized information in respect of the investment in Green Isle, at acquisition, 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

Carrying value of Investments in Associates

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

	Dealer Holdings Ltd. $	Green Isle G Auto Holdings Inc. $	Total $
Balance, January 1, 2013	4,730	-	4,730
Investment in Green Isle	-	7,057	7,057
Income from investment in associate	1,224	1,017	2,241
Dividends received	(593)	(304)	(897)
Balance, December 31, 2013	5,361	7,770	13,131

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

16 Investments in associates continued

The following table summarizes the Company's consolidated carrying value of its investments in associates as at December 31, 2012:

	Dealer Holdings Ltd. $	Green Isle G Auto Holdings Inc. $	Total $
Balance, January 1, 2012	-	-	-
Investment in DHL	4,262	-	4,262
Income from investment in associate	468	-	468
Balance, December 31, 2012	4,730	-	4,730

Summarized financial information - DHL

The following table summarizes the consolidated financial information of DHL as at December 31, 2013:

	Carrying amount. $
Current assets	54,518
Non-current assets	7,400
Current liabilities	43,283
Non-current liabilities	8,320

For the year ended December 31, 2013, on a consolidated basis, DHL generated revenue of $173,708 and total net comprehensive income of $3,948. For the year ended December 31, 2013, $593 dividends have been received from DHL.

Summarized financial information - Green Isle

The following table summarizes the consolidated financial information of Green Isle as at December 31, 2013:

	Carrying amount. $
Current assets	9,555
Non-current assets	16,975
Current liabilities	6,825
Non-current liabilities	-

From the date of acquisition to December 31, 2013, on a consolidated basis, Green Isle generated revenue of $33,868 and total net comprehensive income of $1,271. For the year ended December 31, 2013, $304 dividends have been received from Green Isle.

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

17 Cash, cash equivalents and restricted cash

	December 31, 2013 $	December 31, 2012 $
Cash at bank and on hand	27,975	13,942
Short-term deposits	7,138	20,530
Cash and cash equivalents	35,113	34,472
Restricted cash	-	10,000
Cash and cash equivalents and restricted cash	35,113	44,472

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 22 for further detail regarding cash balances held with Scotiabank.

18 Trade and other receivables

	December 31, 2013 $	December 31, 2012 $
Trade receivables	55,707	45,998
Less: Allowance for doubtful accounts	(518)	(447)
Net trade receivables	55,189	45,551
Other receivables	2,582	2,393
Trade and other receivables	57,771	47,944

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

	December 31, 2013 $	December 31, 2012 $
Current	48,819	41,986
Past due 31 - 60 days	5,458	3,473
Past due 61 - 90 days	1,917	957
Past due 91 - 120 days	678	1,201
Past due > 120 days	899	327
	57,771	47,944

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

18 Trade and other receivables continued

Included in amounts greater than 120 days are $567 (2012 - $328) 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.

19 Inventories

	December 31, 2013 $	December 31, 2012 $
New vehicles	224,373	158,211
Demonstrator vehicles	9,375	7,333
Used vehicles	33,454	25,553
Parts and accessories	10,889	8,022
	278,091	199,119

During the year ended December 31, 2013, $1,156,219 of inventory (2012 - $906,631) was expensed as cost of goods sold which included net write-downs on used vehicle inventory allowances of $630 (2012 - $899). During the year ended December 31, 2013, $1,314 of demonstrator expense (2012 - $1,150) was included in selling, general, and administration expense. During the year ended December 31, 2013, demonstrator reserves increased by $740 (2012 - $207). As at December 31, 2013, the Company had recorded reserves for inventory write downs of $2,011 (2012 - $2,121).

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

20 Property and equipment

	Company & lease vehicles $	Leasehold Improvements $	Machinery & Equipment $	Land & buildings $	Furniture, fixtures & other $	Computer hardware $	Total $
Cost:							
January 1, 2012	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 inventory, net	112	-	-	-	-	-	112
December 31, 2012	5,177	6,640	11,570	24,154	5,262	4,007	56,810
Capital expenditures	348	802	1,003	-	125	880	3,158
Acquisitions of dealership assets	6,458	384	1,684	17,637	653	7	26,823
Acquisitions of real estate	-	-	-	63,947	-	-	63,947
Disposals	-	(586)	(459)	(3,248)	(158)	(178)	(4,629)
Transfer in (out) of inventory, net	(1,164)	-	-	-	-	-	(1,164)
December 31, 2013	10,819	7,240	13,798	102,490	5,882	4,716	144,945
Accumulated depreciation:							
January 1, 2012	(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 inventory, net	814	-	-	-	-	-	814
December 31, 2012	(1,521)	(2,532)	(6,845)	(1,699)	(3,046)	(2,654)	(18,297)
Current year depreciation	(1,729)	(695)	(1,376)	(1,410)	(559)	(577)	(6,346)
Disposals	-	576	455	-	141	91	1,263
Transfers out of inventory	1,350	-	-	-	-	-	1,350
December 31, 2013	(1,900)	(2,651)	(7,766)	(3,109)	(3,464)	(3,140)	(22,030)
Carrying amount:							
December 31, 2012	3,656	4,108	4,725	22,455	2,216	1,353	38,513
December 31, 2013	8,919	4,589	6,032	99,381	2,418	1,576	122,915

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 consolidated statement of comprehensive income.

Bank borrowings are secured on land and buildings for the value of $6,960 (2012 - $6,960).

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

21 Intangible assets and goodwill

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

	Intangible assets $	Goodwill $	Total $
Cost:			
December 31, 2011	74,004	380	74,384
December 31, 2012	74,004	380	74,384
Acquisitions (Note 14)	30,021	6,292	36,313
Divestiture of Thompson (Note 15)	(1,828)	-	(1,828)
December 31, 2013	102,197	6,672	108,869
Accumulated impairment:			
December 31, 2011	7,822	-	7,822
Recovery of impairment of intangible assets	(222)	-	(222)
December 31, 2012	7,600	-	7,600
Recovery of impairment of intangible assets	(746)	-	(746)
Divestiture of Thompson (Note 15)	(1,642)	-	(1,642)
December 31, 2013	5,212	-	5,212
Carrying amount	96,985	6,672	103,657

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, 2013 $	December 31, 2012 $
A	21,687	21,687
B	9,431	9,431
C	3,420	3,670
D	9,626	9,626
E	8,497	8,497
F	3,258	3,258
G	1,234	1,234
H	1,413	1,413
I	1,359	1,359
J	-	955

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

21 Intangible assets and goodwill continued

Cash Generating Unit	December 31, 2013 $	December 31, 2012 $
K	1,726	1,726
L	2,345	394
M	-	185
Other N - W combined	32,989	2,968
	96,985	66,403

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

Cash Generating Unit	December 31, 2013 $	December 31, 2012 $
C	250	(368)
H	-	(311)
J	955	1,098
L	(1,951)	(337)
M	-	508
Other N- W combined	-	(812)
	(746)	(222)

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

Cash Generating Unit	December 31, 2013 $	December 31, 2012 $
C	4,145	4,309
H	-	4,399
J	133	2,702
L	4,391	1,361
M	-	1,205

21 Intangible assets and goodwill continued

Impairment test of indefinite life intangible assets

The Company performed its annual test for impairment at December 31, 2013. As a result of the test performed, the Company recorded a net reversal of impairment in the amount of $746 for the year ended December 31, 2013 (2012 - $222).

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

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

Valuation Techniques

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

Value in Use

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

Fair value less costs to sell

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

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

21 Intangible assets and goodwill continued

Discount Rate

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

Significant Assumptions for Fair Value Less Costs to Sell

EBITDA

The Company's assumptions for EBITDA were based on the Company's internal budget which is approved by the Board of Directors. The Company projected EBITDA for a period of one year and reduced the amount for allocation of corporate overhead based on a percentage of gross profit for each CGU as compared to 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	FVLCS	12.33 %	2.00 %
B	FVLCS	12.63 %	2.00 %
C	VIU	12.18 %	2.00 %
D	FVLCS	12.93 %	2.00 %
E	FVLCS	13.23 %	2.00 %
F	FVLCS	12.33 %	2.00 %
G	FVLCS	12.63 %	2.00 %
H	FVLCS	13.38 %	2.00 %
I	VIU	12.03 %	2.00 %
J	VIU	12.18 %	2.00 %
K	FVLCS	12.63 %	2.00 %
L	VIU	12.78 %	2.00 %
Other M - W combined	FVLCS/VIU	11.73 - 12.93%	2.00 %

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

21 Intangible assets and goodwill continued

Sensitivity

The recoverable amount for the CGUs that were in excess of their carrying values was 363% of the carrying value of the applicable CGUs based on a weighted average. As there are CGUs that have intangible assets with original costs that exceed their current year carrying values, the Company expects future impairments and recoveries of impairments to occur as market conditions change and risk premiums used in developing the discount rate change.

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.

22 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, 2013 $	**December 31, 2012 $**
Financial assets		
Cash and cash equivalents	35,113	34,472
Restricted cash	-	10,000
Trade and other receivables	57,771	47,944
Financial liabilities		
Current indebtedness	2,866	3,000
Long-term indebtedness	83,580	23,937
Revolving floorplan facilities	264,178	203,525
Trade and other payables	50,429	35,590

22 Financial instruments continued

Financial Risk Management Objectives

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

Market Risk

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

Foreign Currency Risk

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 1.15% (Bankers' Acceptance Rate as at December 31, 2013 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 for new vehicles and Prime Rate plus 0.25-1.00% for used vehicles. These facilities define Prime Rate as the Royal Bank of Canada Prime Rate (3.00% as at December 31, 2013).

The HSBC Credit Facilities and the HSBC Term Loan 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% or Bankers' Acceptance Rate plus 2.25%. The Acquisition Facility bears interest at HSBC Prime Rate plus 2.00% or Bankers' Acceptance Rate plus 3.25%. The HSBC Term Loan bears interest at the HSBC Prime Rate plus 1.75% (HSBC Prime Rate as at December 31, 2013 is 3.00%).

The BMO Demand Loan bears interest at BMO's Prime Rate plus 0.50% (BMO Prime Rate as at December 31, 2013 is 3.00%).

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

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

22 Financial instruments continued

Interest Rate Risk continued
represent an increase to the reported amount if positive and a decrease to the reported amount if negative. A 100 basis point change and 200 basis point change is used when reporting interest risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

	+ 200 Basis Point		- 200 Basis Point		+ 100 Basis Point		- 100 Basis Point	
	2013	2012	2013	2012	2013	2012	2013	2012
	$	$	$	$	$	$	$	$
Finance costs	6,899	4,433	(6,899)	(4,433)	3,450	2,216	(3,450)	(2,216)
Finance income	135	360	(135)	(360)	68	180	(68)	(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 (see Note 7 for further discussion of the Company's economic dependence on Chrysler Canada and associated credit risk). Credit risk arising from receivables with commercial customers is not significant due to the large number of customers dispersed across various geographic locations comprising our customer base. Details of the aging of the Company's trade and other receivables is located in Note 18.

The Company evaluates receivables for collectability based on the age of the receivable, the credit history of the customer and past collection experience. Allowances are provided for potential losses that have been incurred at the balance sheet date. The amounts disclosed on the balance sheet for accounts receivable are net of the allowance for bad debts. Details of the allowances for doubtful accounts are located in Note 18.

Concentration of cash and cash equivalents exist due to the significant amount of cash held with Scotiabank (see Note 7 for further discussion of the Company's concentration of cash held on deposit 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 (2.37% at December 31, 2013). These cash balances are fully accessible by our dealerships at any time, however in the event of a default by a dealership in its floorplan obligation; the cash may be used to offset unpaid balances under the Scotiabank facilities. 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.

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

22 Financial instruments continued

Liquidity Risk continued

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

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

	2014 $	2015 $	2016 $	2017 $	Thereafter $	Total $
December 31, 2013						
Trade and other payables	50,428	-	-	-	-	50,428
Revolving floorplan facilities	264,178	-	-	-	-	264,178
HSBC revolving term facility	-	40,124	-	-	-	40,124
HSBC ATB syndicated facility	-	35,251	-	-	-	-
HSBC fixed term loan	176	2,764	-	-	-	2,940
BMO fixed rate term loan	2,469	-	-	-	-	2,469
Lease obligations	1,398	-	-	-	-	1,398
Servus mortgage	221	230	239	248	5,068	6,006
Contractual interest payable	2,649	1,696	830	785	6,133	12,093
	321,519	80,065	1,069	1,033	11,201	379,636

	2013 $	2014 $	2015 $	2016 $	Thereafter $	Total $
December 31, 2012						
Trade and other payables	35,590	-	-	-	-	35,590
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	213	221	230	239	5,315	6,218
Contractual interest payable	1,083	511	221	212	1,745	3,772
	244,472	18,672	451	451	7,060	271,106

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

23 Other long-term assets

	December 31, 2013 $	December 31, 2012 $
Prepaid rent (Note 31)	6,742	7,646
Other assets	55	53
	6,797	7,699

24 Payables, accruals and provisions

	December 31, 2013 $	December 31, 2012 $
Trade payables	26,479	19,779
Accruals and provisions	7,008	4,480
Sales tax payable	1,354	276
Wages and withholding taxes payable	15,587	11,055
	50,428	35,590

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

	Finance and insurance (a) $	Other $	Total $
December 31, 2012	1,053	551	1,604
Provisions arising during the year	1,131	689	1,820
Amounts expired or disbursed	(636)	(273)	(909)
December 31, 2013	1,548	967	2,515

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

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

25 Indebtedness

This note provides information about the contractual terms of the Company's interest-bearing debt, which are measured at amortized cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see Note 22.

	December 31, 2013 $	December 31, 2012 $
Current indebtedness		
Current portion of indebtedness (iv, v, vi)	2,866	3,000
Revolving floorplan facilities - Scotiabank (i)	248,329	194,791
Revolving floorplan facilities - VCCI (ii)	15,849	8,734
	267,044	206,525
Non-current indebtedness		
HSBC revolving term loan (iii)	40,124	15,000
HSBC non-revolving fixed term loan (iv)	2,764	2,940
Servus Mortgage (vi)	5,785	5,997
HSBC non-revolving term facility (iii)	35,251	-
Unamortized deferred financing costs	(344)	-
Total indebtedness	350,624	230,462

Terms and conditions of outstanding loans were as follows:

i On September 30, 2013, the Company completed a $350,000 syndicated floorplan credit facility (the "Facility") with The Bank of Nova Scotia ("Scotiabank") and the Canadian Imperial Bank of Commerce ("CIBC") with Scotiabank serving as administrative agent to the Facility. The Facility can be expanded to $450,000 in total availability upon credit approval of the syndicate of lenders. The Facility bears a rate of Bankers' Acceptance plus 1.15% (2.37% as at December 31, 2013) per annum. The Facility is collateralized by each individual dealership's inventories that are directly financed by Scotiabank, a general security agreement with each dealership financed, and a guarantee from AutoCanada Holdings Inc., a subsidiary of the Company. The financial covenants and repayment terms of the Facility remain consistent with the Company's previous floorplan facility with Scotiabank. As a result of the new agreement, the Company no longer has a restricted cash requirement of $10,000.

ii 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 and Audi dealerships. The VCCI facilities bear interest at the greater of Royal Bank of Canada ("RBC") prime rate for new vehicles and RBC prime rate plus 0.25-1.00% for used vehicles (RBC prime rate = 3.00% at December 31, 2013). The maximum amount of financing provided by the VCCI facilities is $30,680. The VCCI facilities are collateralized by all of the dealerships’ assets financed by VCCI and all cash and other collateral in the possession of VCCI and a general security agreement from the Company's Volkswagen and Audi 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.

25 Indebtedness continued

iii On November 5, 2013, in conjunction with the signing of the real estate asset purchase agreement with COAG, the Company announced it entered into a Credit Agreement with HSBC Bank Canada ("HSBC") and Alberta Treasury Branches ("ATB"), with HSBC acting as adminstrative agent to the Credit Agreement. The Credit Agreement provides the Company with the following facilities:

- a $50,000 revolving operating facility that may be used for ongoing working capital and general corporate purposes, including acquisitions;
- a $20,000 revolving acquisition facility that may be used for the acquisition of auto dealerships and associated real estate; and
- a $60,000 non-revolving term facility that may be used to purchase owner occupied real estate, refinance existing real estate and to fund construction costs of new dealerships.

Fees and interest on borrowings under the credit facility are subject to a pricing grid whereby the pricing level is determined by the funded debt to EBITDA ratio. Funded debt is defined in the agreement as all indebtedness, as determined in accordance with GAAP, including indebtedness for borrowed money, interest bearing liabilities, indebtedness secured by purchase money security interests, capital lease obligations, securities having attributes substantially similar to debt and contingent obligations including letters of credits, but excluding floor plan debt and subordinated obligations. EBITDA is defined as net income before interest, depreciation, taxes, non-cash charges and any extraordinary/unusual non-recurring items. For business acquisitions or divestitures completed in the immediately preceding 12-month period, EBITDA will be calculated as if the acquisition or divestiture had occurred for the previous full four fiscal quarters. As at December 31, 2013, the Company is in the fourth of five tiers of the pricing grid, with the fourth tier providing the second lowest rate of interest under the credit facility. The non-revolving term facility bears interest at HSBC's prime rate plus 1.00% (4.00% at December 31, 2013) or Bankers' Acceptance Rate plus 2.00% (3.32% at December 31, 2013). Amounts drawn on the HSBC Revolver as at December 31, 2013 are due on June 30, 2015 and may be extended annually for an additional 365 days at the request of the Company and upon approval by HSBC. The syndicated HSBC Credit Facilities' maturity dates are the second anniversary of the initial drawdowns. The HSBC Revolver is collateralized by all of the present and future assets of the subsidiaries of AutoCanada Inc. As part of a priority agreement signed by HSBC, Scotiabank, VCCI, and the Company, the collateral for the HSBC Credit Facilities excludes all new, used and demonstrator inventory financed with the Scotiabank and VCCI revolving floorplan facilities.

The Company is also provided with an evergreen lease line (the "Capital Lease Line") in the amount of $5,000 which may be used to finance capital asset purchases for its dealerships. The Capital Lease Line bears interest at rates determined by HSBC when amounts are drawn.

iv HSBC provides the Company with a committed, extendible, non-revolving term loan (the "HSBC Term Loan"). The HSBC Term Loan has a maturity date of June 30, 2014; however the facility may be extended at the request of the Company and upon approval by HSBC. If the HSBC Term Loan is not extended by HSBC, repayment of the outstanding amount is not due until June 30, 2015. The HSBC Term Loan bears interest at HSBC's Prime Rate plus 1.75% (4.75% at December 31, 2013). 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

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

25 Indebtedness continued

property. At December 31, 2013, the carrying amount of the Newmarket Infiniti Nissan property was $5,131.

v Bank of Montreal ("BMO") provides the Company a non-revolving Demand Loan (the “BMO Demand Loan”). The BMO Demand Loan bears interest at BMO's Prime Rate plus 0.50% (3.50% at December 31, 2013). Repayments consist of fixed monthly payments totaling $15 plus interest per month. The BMO Demand 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, 2013, the carrying amount of the Cambridge Hyundai property was $3,081.

vi Servus Credit Union provides the Company with a mortgage (the "Servus Mortgage"). The Servus Mortgage bears a fixed annual rate of 3.90% and is repayable with monthly blended instalments of $38, originally amortized over a 20 year period with term expiring September 27, 2017. The Servus Mortgage requires certain reporting requirements and financial covenants and is collateralized by a general security agreement consisting of a first fixed charge over the property. At December 31, 2013, the carrying amount of the property was $8,244.

26 Leases

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

	December 31, 2013 $	December 31, 2012 $
Vehicle repurchase obligations (i)	1,397	1,254
Current finance lease obligations (ii)	1	28
Total lease obligations	1,398	1,282

Terms and conditions of lease obligations were as follows:

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

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

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

27 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 certain of the lands and buildings used in its franchised automobile dealership operations from related parties (Note 31) and other third parties. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	December 31, 2013 $	**December 31, 2012 $**
2013	-	10,605
2014	6,442	10,289
2015	6,086	9,967
2016	5,973	8,205
2017	5,192	6,460
2018	5,285	5,705
Thereafter	51,729	44,673
	80,707	95,904

Lawsuits and legal claims

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

In addition to the matters described above, the Company is engaged in various legal proceedings and claims that have arisen in the ordinary course of business. The outcome of all of the proceedings and claims against the Company, including those described above, is subject to future resolution, including the uncertainties of litigation. Based on information currently known to the Company and after consultation with outside legal counsel, management believes that 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.

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

27 Commitments and contingencies continued

Letters of guarantee

The Company has outstanding letters of guarantee totaling $510 as at December 31, 2013 (2012 - $225) with various due dates. The Company will settle obligations as they arise for which these letters have been issued as security and it is not the Company's intent that draws will be made on these letters.

28 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:

	2013 Number of RSUs	**2012 Number of RSUs**
Outstanding, beginning of the year	92,710	12,245
Settled	(35,475)	-
Granted	47,608	76,916
Dividends reinvested	2,837	3,549
Outstanding, end of the year	107,680	92,710

Deferred Share Units (DSUs)

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

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

28 Share-based payments continued

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

	2013 Number of DSUs	**2012 Number of DSUs**
Outstanding, beginning of the period	3,435	-
Granted	8,515	3,397
Dividends reinvested	234	38
Outstanding, end of the period	12,184	3,435

29 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.

The Company issued 1,840,000 shares on June 3, 2013 (8.5% of the total share capital issued). The common shares issued have the same rights as the other common shares in issue. The fair value of the shares issued amounted to $46,000 ($25 per share). The related transaction costs amounting to $2,189 have been recognized against the gross proceeds.

Restricted Share Unit Trust

In June 2012, the Company established a trust ("Trust") to hedge the risk of future share price increases from the time Restricted Share Units ("RSU" - see Note 28) 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 third party trustee will administer the distribution of cash and shares to the beneficiaries upon vesting, as directed by the Company. During the year ended December 31, 2013, the Company contributed cash to the trustee to purchase a total of 17,925 shares of the Company at a total cost of $513 on the open market to fund the future payment of awards to eligible individuals under the Plan and directed the trustee to transfer a total of 16,131 shares to members of the Executive Management Team for fully vested RSUs. Dividends earned on the shares held in trust of $66 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, 2013. As the Company controls the Trust, it has included the Trust in its consolidated financial statements for the year ended December 31, 2013.

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

29 Share capital continued

The following table shows the change in shareholders' capital from January 1, 2013 to December 31, 2013:

	2013 Number	**2013 Amount $**
Outstanding, beginning of the year	19,802,149	189,500
Common shares issued	1,840,000	43,811
Common shares repurchased	(17,925)	(513)
Dividends reinvested	(2,266)	(66)
Treasury shares settled	16,131	206
Outstanding, end of the year	21,638,089	232,938

As at December 31, 2013, 82,841 common shares were held in trust for the Restricted Share Unit Plan, resulting in a total of 21,720,930 common shares issued.

Dividends

Dividends are discretionary and are determined based on a number of factors. Dividends are subject to approval of the Board of Directors. During the year ended December 31, 2013, eligible dividends totaling $0.78 per common share were declared and paid, resulting in a total payment of $16,197 (2012 - $12,301). On February 14, 2014, the Board of Directors of the Company declared a quarterly eligible dividend of $0.22 per common share on the Company's outstanding Class A common shares, payable on March 17, 2014 to shareholders of record at the close of business on February 28, 2014.

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:

	2013 $	**2012 $**
Earnings attributable to common shares	38,166	24,236

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

	2013	**2012**
Weighted-average number of shares outstanding	20,868,726	19,840,802

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

30 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, 2013	**December 31, 2012**
	$	**$**
Long-term indebtedness (Note 25)	83,580	23,937
Equity	190,242	124,500
	273,822	148,437

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.

31 Related party transactions

Transactions with Companies Controlled by the CEO of AutoCanada

During the year period ended December 31, 2013, 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 22.9% 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 significant 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, 2013, 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, 2013 was $nil (2012 - $2,160). The total unamortized prepayment of rent to the Company as at December 31, 2013 is $7,194 (2012 - $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 (2012 - $452) has been amortized to current period facility lease costs.

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

31 Related party transactions continued

b Rent paid to companies with common directors

During the year ended December 31, 2013, total rent paid to companies controlled by Mr. Priestner amounted to $7,061 (2012 - $7,875). The Company currently leases two of its leased facilities from affiliates from COAG. The Company's independent Board of Directors has received advice from a national real estate appraisal company that the market rents at each of the COAG properties were at fair market value rates when the leases were entered into.

c Administrative support fees

During the year ended December 31, 2013, total administrative support fees received from companies controlled by Mr. Priestner amount to $766 (2012 - $432).

d Purchase of real estate

On November 2013, the Company purchased eleven dealership real estate properties from COAG for a total purchase price of $57,800, plus transaction costs and taxes. The purchase was financed with advances from the Company's non-revolving term facility and revolving operating facility with HSBC. The properties purchased were previously leased from COAG. The Company's Real Estate Committee, comprised of independent members of the Board of Directors, obtained independent appraisals for each of the properties to determine their fair market values.

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, 2013 $	**December 31, 2012 $**
2013	-	7,937
2014	2,589	7,916
2015	2,460	7,821
2016	2,457	6,169
2017	2,458	5,206
2018	2,458	4,459
Thereafter	25,178	35,628
	37,600	75,136

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

31 Related party transactions continued

Key management personnel compensation

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

	2013 $	2012 $
Employee costs (including directors)	4,484	3,239
Short-term employee benefits	165	96
Share-based payments	374	271
	5,023	3,606

32 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, which excludes the effects of acquisitions, for the years ended December 31, 2013 and December 31, 2012:

	December 31, 2013 $	December 31, 2012 $
Accounts receivable	(7,092)	(5,496)
Inventories	(43,205)	(63,105)
Prepaid expenses	88	18
Accounts payable and accrued liabilities	11,023	3,311
Leased vehicle repurchase obligations	144	171
Revolving floorplan facility	29,074	52,709
	(9,968)	(12,392)

33 Fair value of financial instruments

The Company's financial instruments at December 31, 2013 are represented by cash and cash equivalents, trade and other receivables, accounts payable and accrued liabilities, revolving floorplan facilities, lease obligations and long-term debt. The fair values of cash equivalents, trade and other receivables, accounts payable and accrued liabilities, and revolving floorplan facilities approximate their carrying values due to their short-term nature. Although most of the long-term indebtedness has a carrying value that approximates the fair value due to the floating rate nature of the debt, there is a portion that has a fixed rate. The long-term indebtedness has a carrying value that is not materially different from its fair value.

33 Fair value of financial instruments continued

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

Although there are not any financial instruments that are remeasured to fair value, the fair value concepts and methods are used to calculate the recoverable amount of CGUs. The different levels have been defined and applied as follows:

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

34 Subsequent Events

Volkswagen Open Point

On February 14, 2014, the Company announced that it had been awarded the right to a Volkswagen open point dealership in Sherwood Park, Alberta, a community adjacent to Edmonton, Alberta. The Company intends to operate the dealership out of a new facility with construction anticipated to be completed in the first quarter of 2016. At this time, detailed construction plans and estimates have not been completed; however, management estimates the cost of construction to be approximately $14,600 for land and building, of which it expects to finance approximately 70% by way of construction financing.

Investment in Prairie Auto Holdings Inc.

On March 7, 2014, the Company invested a total of $32,259 and issued 205,000 shares of ACI to acquire a 82.353% non-voting equity interest in Prairie Auto Holdings Ltd. (“PAH”). PAH is an entity formed between a subsidiary of AutoCanada and Mr. Priestner which on March 7, 2014 acquired an 85% equity interest in the shares of Saskatoon Motor Products Ltd. (“SMP"), a Chevrolet dealership in Saskatoon, Saskatchewan and Mann-Northway Auto Source (“MNAS”), a Chevrolet, GMC, Buick and Cadillac dealership in Prince Albert, Saskatchewan. The remaining 15% equity interest in the two dealerships is held by Mr. Robert Mann, our Dealer Partner at the two stores who currently operates the stores. To comply with GM Canada’s approval, Mr. Priestner is required to have 100% voting control of PAH. The investment in PAH was reviewed and approved by the independent members of AutoCanada’s Board of Directors.

CORPORATE INFORMATION

Shareholder Information

AutoCanada Inc.

Senior Management

Patrick Priestner,
Chairman and Chief Executive Officer

Thomas Orysiuk,
President and Chief Financial Officer

Stephen Rose,
Senior Vice-President, Sales, Marketing and Corporate Operations

Jeffery Christie,
Vice-President, Finance

Board of Directors

Gordon Barefoot – Lead Director

Michael Ross

Dennis DesRosiers

Christopher Cumming

Patrick Priestner

Thomas Orysiuk

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Auditors

PricewaterhouseCoopers, LLP
Edmonton, Alberta

Shares Listed

Toronto Stock Exchange
Trading Symbol: ACQ

Transfer Agent

Valiant Trust Company

Annual General Meeting

Friday, May 9, 2014
10:00 a.m. Mountain Time
AutoCanada Inc. Corporate Head Office
200 – 15505 Yellowhead Trail
Edmonton, Alberta

AUTOCANADA

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