
# 2015 CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

AutoCanada

# 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, 2015 and 2014 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.

**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, 2015 and 2014 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

**Chartered Professional Accountants**
March 17, 2016
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, 2015 $ | December 31, 2014 $ |
|---|---|---|
| **Revenue** (Note 7) | 2,903,803 | 2,214,778 |
| **Cost of sales** (Note 8) | (2,416,094) | (1,841,629) |
| **Gross profit** | 487,709 | 373,149 |
| **Operating expenses** (Note 9) | (395,877) | (290,904) |
| **Operating profit before other income (expense)** | 91,832 | 82,245 |
| Lease and other income, net | 5,546 | 5,524 |
| Gain (loss) on disposal of assets, net | 249 | (183) |
| (Impairment) recovery of intangible assets, net (Note 24) | (18,757) | 1,767 |
| Income from investments in associates (Note 15) | – | 3,490 |
| Income from loan to associate (Note 16) | 49 | – |
| **Operating profit** | 78,919 | 92,843 |
| Finance costs (Note 11) | (36,106) | (20,363) |
| Finance income (Note 11) | 2,292 | 2,147 |
| **Net income for the year before taxation** | 45,105 | 74,627 |
| Income taxes (Note 12) | 17,791 | 18,335 |
| **Net and comprehensive income for the year** | 27,314 | 56,292 |
| **Net and comprehensive income for the year attributable to:** | | |
| AutoCanada shareholders | 22,821 | 53,132 |
| Non-controlling interests | 4,493 | 3,160 |
| | 27,314 | 56,292 |
| **Net earnings per share attributable to AutoCanada shareholders** (Note 32) | | |
| Basic | 0.93 | 2.31 |
| Diluted | 0.92 | 2.30 |
| **Weighted average shares** (Note 32) | | |
| Basic | 24,574,022 | 23,018,588 |
| Diluted | 24,674,083 | 23,139,403 |

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

**Approved on behalf of the Company:**

Gordon R. Barefoot, Director

Barry L. James, Director

# AutoCanada Inc.

**Consolidated Statements of Financial Position**

*(in thousands of Canadian dollars)*

| | December 31, 2015 $ | December 31, 2014 $ |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents (Note 18) | 62,274 | 72,462 |
| Trade and other receivables (Note 19) | 90,821 | 92,138 |
| Inventories (Note 20) | 596,542 | 563,277 |
| Current tax recoverable | 6,920 | – |
| Current portion of finance lease receivables (Note 21) | 4,012 | 3,537 |
| Other current assets | 4,760 | 5,166 |
| Assets held for sale (Note 23) | 27,482 | – |
| | 792,811 | 736,580 |
| **Restricted cash** (Note 18) | 6,288 | – |
| **Property and equipment** (Note 22) | 278,385 | 214,938 |
| **Loan to associate** (Note 16) | 8,470 | – |
| **Long-term portion of finance lease receivables** (Note 21) | 6,546 | 10,292 |
| **Intangible assets** (Note 24) | 399,648 | 356,612 |
| **Goodwill** (Note 24) | 32,956 | 32,852 |
| **Other long-term assets** (Note 26) | 7,078 | 6,713 |
| | 1,532,182 | 1,357,987 |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Bank indebtedness (Note 18) | 898 | 2,181 |
| Trade and other payables (Note 27) | 86,284 | 82,670 |
| Revolving floorplan facilities (Note 28) | 548,322 | 527,780 |
| Current tax payable | – | 9,708 |
| Vehicle repurchase obligations (Note 29) | 1,846 | 1,539 |
| Current indebtedness (Note 28) | 11,484 | 4,651 |
| Current portion of redemption liabilities (Note 17) | 6,338 | 7,665 |
| Liabilities held for sale (Note 23) | 14,493 | – |
| | 669,665 | 636,194 |
| **Long-term indebtedness** (Note 28) | 285,759 | 223,009 |
| **Deferred income tax** (Note 12) | 25,838 | 28,195 |
| **Redemption liabilities** (Note 17) | 40,891 | 34,133 |
| | 1,022,153 | 921,531 |
| **EQUITY** | | |
| **Attributable to AutoCanada shareholders** | 451,945 | 381,428 |
| **Attributable to Non-controlling interests** | 58,084 | 55,028 |
| | 510,029 | 436,456 |
| | 1,532,182 | 1,357,987 |

Commitments and contingencies (Note 30)

*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)*

| | Attributable to AutoCanada shareholders | | | | | |
|---|---|---|---|---|---|---|
| | **Share capital $** | **Contributed surplus $** | **Accumulated deficit $** | **Total $** | **Non-controlling interests $** | **Total Equity $** |
| **Balance, January 1, 2015** | 434,572 | 4,721 | (57,865) | 381,428 | 55,028 | 436,456 |
| Net and comprehensive income | – | – | 22,821 | 22,821 | 4,493 | 27,314 |
| Dividends declared on common shares (Note 32) | – | – | (24,432) | (24,432) | – | (24,432) |
| Non-controlling interests arising on acquisitions (Note 13) | – | – | – | – | 5,847 | 5,847 |
| Recognition of redemption liability granted to non-controlling interests (Note 13) | – | – | (1,102) | (1,102) | – | (1,102) |
| Distributions by subsidiaries to non-controlling interests (Note 17) | – | – | – | – | (7,284) | (7,284) |
| Common shares issued (Note 32) | 72,702 | – | – | 72,702 | – | 72,702 |
| Treasury shares acquired (Note 32) | (89) | – | – | (89) | – | (89) |
| Shares settled from treasury (Note 32) | 1,052 | (1,052) | – | – | – | – |
| Share-based compensation | – | 617 | – | 617 | – | 617 |
| **Balance, December 31, 2015** | 508,237 | 4,286 | (60,578) | 451,945 | 58,084 | 510,029 |

| | Attributable to AutoCanada shareholders | | | | | |
|---|---|---|---|---|---|---|
| | **Share capital $** | **Contributed surplus $** | **Accumulated deficit $** | **Total capital $** | **Non-controlling interests $** | **Equity $** |
| **Balance, January 1, 2014** | 232,938 | 4,758 | (47,454) | 190,242 | – | 190,242 |
| Net and comprehensive income | – | – | 53,132 | 53,132 | 3,160 | 56,292 |
| Dividends declared on common shares (Note 32) | – | – | (21,745) | (21,745) | – | (21,745) |
| Non-controlling interests arising on business combinations and acquisitions (Notes 13 & 14) | – | – | – | – | 52,309 | 52,309 |
| Recognition of redemption liability granted to non-controlling interests (Notes 13 & 14) | – | – | (41,798) | (41,798) | – | (41,798) |
| Distributions by subsidiaries to non-controlling interests (Note 17) | – | – | – | – | (441) | (441) |
| Common shares issued (Note 32) | 203,655 | – | – | 203,655 | – | 203,655 |
| Treasury shares acquired (Note 32) | (2,776) | – | – | (2,776) | – | (2,776) |
| Shares settled from treasury (Note 32) | 755 | (760) | – | (5) | – | (5) |
| Share-based compensation | – | 723 | – | 723 | – | 723 |
| **Balance, December 31, 2014** | 434,572 | 4,721 | (57,865) | 381,428 | 55,028 | 436,456 |

*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, 2015 $ | December 31, 2014 $ |
|---|---|---|
| **Cash provided by (used in):** | | |
| **Operating activities** | | |
| Net and comprehensive income | 27,314 | 56,292 |
| Income taxes (Note 12) | 17,791 | 18,335 |
| Amortization of prepaid rent | 452 | 452 |
| Depreciation of property and equipment (Note 22) | 18,860 | 13,624 |
| (Gain) loss on disposal of assets | (249) | 183 |
| Impairment (recovery) of intangible assets (Note 24) | 18,757 | (1,767) |
| Share-based compensation – equity-settled | 617 | 723 |
| Share-based compensation – cash-settled | (490) | (487) |
| Income from investment in associates (Note 15) | – | (3,490) |
| Income taxes paid | (35,999) | (16,824) |
| Gain on embedded derivative (Note 11) | (42) | (243) |
| Revaluation of redemption liability (Note 17) | 4,329 | – |
| Revaluation of contingent consideration (Note 36) | 149 | – |
| Net change in non-cash working capital (Note 35) | 1,264 | 4,339 |
| | 52,753 | 71,137 |
| **Investing activities** | | |
| Business acquisitions, net of cash acquired (Note 13) | (76,480) | (269,983) |
| Investments in associates (Note 15) | – | (43,900) |
| Dividends received from investments in associates (Note 15) | – | 1,458 |
| Combination of entities under common control (Note 14) | – | 4,699 |
| Purchases of property and equipment (Note 22) | (74,606) | (23,441) |
| Proceeds on sale of property and equipment | 143 | 32 |
| Loan to associate (Note 16) | (8,470) | – |
| Additions to restricted cash | (6,288) | – |
| | (165,701) | (331,135) |
| **Financing activities** | | |
| Proceeds from long-term indebtedness | 338,730 | 770,449 |
| Repayment of long-term indebtedness | (274,670) | (787,945) |
| Common shares repurchased (Note 32) | (89) | (2,776) |
| Dividends paid (Note 32) | (24,432) | (21,745) |
| Dividends paid to non-controlling interests by subsidiaries (Note 17) | (7,284) | (441) |
| Proceeds from issuance of common shares (Note 32) | 71,788 | 191,262 |
| Proceeds from senior unsecured notes (Note 28) | – | 146,362 |
| | 104,043 | 295,166 |
| **Net (decrease) increase in cash and cash equivalents** | (8,905) | 35,168 |
| **Cash and cash equivalents at beginning of year (Note 18)** | 70,281 | 35,113 |
| **Cash and cash equivalents at end of year (Note 18)** | 61,376 | 70,281 |

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

## 1 General Information

AutoCanada Inc. (“AutoCanada” or the “Company”) is incorporated in 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, Saskatchewan, Manitoba, Ontario, Quebec, Nova Scotia and New Brunswick. The Company offers a diversified range of automotive products and services, including new vehicles, used vehicles, vehicle leasing, 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, 15511 123 Avenue NW, Edmonton, Alberta, Canada, T5V 0C3.

## 2 Basis of Presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by International Accounting Standards Board (“IASB”) and Canadian Generally Accepted Accounting Principles (“GAAP”) as set out in the CPA Canada Handbook – Accounting (“CPA Handbook”).

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 for issue by the Board of Directors on March 17, 2016.

## 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 derivative instruments, redemption liabilities and liabilities for cash-settled share-based payment arrangements.

### *Principles of consolidation*

The consolidated financial statements comprise the financial statements of AutoCanada and its subsidiaries. Subsidiaries are all entities over which the Company has control. For accounting purposes, control is established by an investor when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are no longer consolidated on the date control ceases.

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity.

Intercompany transactions, balances, income and expenses, and gains or losses on transactions are eliminated on consolidation. 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. Any subsequent change to the fair value of contingent consideration liabilities is recognized in the consolidated statement of comprehensive income.

### *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 associates includes goodwill identified on acquisition.

Loans to associates are accounted for using the effective interest method as outlined in the financial instruments policy note.

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.

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. It excludes sales related taxes and intercompany transactions.

Revenue is recognized when the risks and rewards of ownership have been transferred to the customer, 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.

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

***Taxation***

(a) Deferred tax

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

Deferred tax assets:

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

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

(b) Current tax

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

### *Manufacturer incentives and other rebates*

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

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

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 administrative costs as an operating expense in the consolidated Statement of Comprehensive Income.

### *Financial instruments*

Financial assets and financial liabilities are recognized on the consolidated Statement of Financial Position when the Company becomes a party to the contractual provisions of the financial instrument. All financial instruments are required to be measured at fair value on initial recognition. The Company's own credit risk and the credit risk of the counter-party are taken into consideration in determining the fair value of financial assets and financial liabilities.

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, trade and other receivables and loans to associates, 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 25 – Financial instruments – Credit risk for explanation of credit risk associated with amounts held with Scotiabank).

### *Trade and other receivables*

Trade and other receivables are amounts due from customers, financial institutions and suppliers that arise 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 carried 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.

### *Assets held for sale*

Non-current assets and associated liabilities are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction, rather than continuing use, and a sale is highly probable.

Assets designated as held for sale are held at the lower of carrying amount at designation and fair value less costs to sell.

Depreciation is not charged against property, plant and equipment classified as held for sale.

### *Property and equipment*

Property and equipment are stated at cost less accumulated depreciation 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 depreciation are reviewed, and adjusted if appropriate, at each financial year end. Land is not depreciated. Other than as noted below, depreciation 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 & lease vehicles | 30% |
| Computer hardware | 30% |

Buildings are depreciated on a straight-line basis over the estimated useful lives of the buildings. Useful lives are determined based on independent appraisals.

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 depreciated using the straight-line method over the useful life of the asset.

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

### *Intangible assets and goodwill*

(a) 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 accumulated 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.

(b) Goodwill

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets of the acquired subsidiary at the date of acquisition, and is 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.

***Impairment***

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

(a) Non-financial assets

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

(b) Intangible assets and goodwill

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

- Our dealer agreements with indefinite lives are subject to an annual impairment assessment. For purposes of impairment testing, the fair value of our dealer 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 before aggregation. Goodwill is allocated to those CGU's that are expected to benefit from the business combination in which the goodwill arose.

***Trade and other payables***

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. Trade and other 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 represent liabilities 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***

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

(a) Finance leases

Leases in which substantially all the risks and rewards of ownership are transferred are classified as finance leases.

*The Company as a lessor:*

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

The method for allocating gross earnings to accounting periods is referred to as the "actuarial method". The actuarial method allocates rentals between finance income and repayment of capital in each accounting period in such a way that finance income will emerge as a constant rate of return on the lessor's net investment in the lease.

*The Company as a lessee:*

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.

*The Company as a lessor:*

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset. Lease income on operating leases is recognised over the term of the lease on a straight-line basis.

*The Company as a lessee:*

Payments under an operating lease (net of any incentives received from the lessor) are recognized on a straight-line basis over the period of the lease.

***Redemption liabilities***

The potential cash payments related to put options issued by the Company over the equity of subsidiary companies are accounted for as financial liabilities when such options may only be settled other than by exchange of a fixed amount of cash, or another financial asset, or for a fixed number of shares in the subsidiary. The amount that may become payable under the option on exercise is initially recognised at fair value within redemption liabilities with a corresponding charge directly to equity attributable to AutoCanada shareholders. Subsequently, if the Company revises its estimates, the carrying amount of the redemption liability is adjusted and the adjustment will be recognised as income or expenses in the consolidated Statement of Comprehensive Income. Options that are not exercisable for at least one year from the balance sheet date are presented as non-current liabilities.

***Share capital***

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds. Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's shareholders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's shareholders.

### *Dividends*

Dividends on common shares are recognized in the Company's consolidated financial statements in the period the dividends are declared by the Company's Board of Directors.

### *Earnings per share*

Basic earnings per share is computed based on the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the treasury stock method, which assumes that the cash that would be received on the exercise of options is applied to purchase shares at the average price during the period and that the difference between the number of shares issued on the exercise of options and the number of shares obtainable under this computation, on a weighted average basis, is added to the number of shares outstanding. Antidilutive options are not considered in computing diluted earnings per share.

## 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, 2015. The standards issued that are applicable to the Company are as follows:

- IFRS 9, *Financial Instruments* – the new standard will ultimately replace IAS 39, *Financial Instruments: Recognition and Measurement*. The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments and the issuance of IFRS 9 is part of the first phase. This standard becomes effective on January 1, 2018, with earlier adoption permitted.
- IFRS 15, *Revenue from Contracts with Customers* – in May 2014, the IASB issued IFRS 15, which supersedes IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single model to determine how and when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of its revenue recognition criteria. IFRS 15 is to be applied prospectively and is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.
- IFRS 16, *Leases* – in January 2016, the IASB issued IFRS 16, which replaces IAS 17, *Leases*, and its associate interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15.

The Company is in the process of evaluating the impact that the new standards may have on the financial statements.

## 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 dispose and value-in-use calculations (see Note 24).

*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.

*Redemption liabilities*

Redemption liabilities arise during business combinations where non-controlling interest shareholders have the right to require the Company to redeem their equity interests in certain non-wholly owned subsidiaries (See Note 17). The redemption amounts are determined with reference to the future profitability generated by those subsidiaries and their operating businesses. The Company will initially recognise a financial liability at the present value of the estimated redemption amount, and at the end of each subsequent reporting period, the Company will revisit its estimates. If the Company revises its estimates, the Company will adjust the carrying amount of the financial liability to reflect revised estimated profitability and the adjustments will be recognised as income or expenses in the consolidated statement of comprehensive income.

*Loan to associate*

The loan to associate is carried at amortized cost using the effective interest method. This method applies the effective interest rate to the estimated future cash flows in order to calculate the carrying value of the loan each period. The effective interest rate is calculated at inception of the loan using an estimate of future cash flows. The cash flows related to the loan are tied to both the base interest rate as well as the related licensing fees, and the licensing fees are determined based on gross margins of the associate.

Key estimates and assumptions involved in determining the effective interest rate and the carrying value are the cash flow projections, specifically the gross margins of the associate.

Refer to Note 36 for further information about methods and assumptions used in determining the carrying value.

***Critical judgments in applying accounting policies:***

*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.

*(a) Loan to associate*

AutoCanada has provided a loan to PPH Holdings Ltd. ("PPH") for which the voting interests are held 100% by Mr. Patrick Priestner ("Priestner"), the Executive Chair of the Company, (as described in Note 16). When assessing whether the Company has control of PPH, management has considered the nature of the loan, the Company's relationship with Priestner and whether the Company has the ability to direct decision-making rights of Priestner pertaining to its loan to PPH. In making this assessment, the prevailing consideration is that the loan to PPH is repayable at any time without recourse, and which grants the Company no power to control PPH. AutoCanada's returns from PPH are derived from interest on the loan and license fees based on gross profit, as such, operating decisions made by Priestner impacting operating profit or net income will impact his returns but will not affect AutoCanada's returns.

Priestner is not considered to be a de facto agent of AutoCanada as it relates to PPH. The following facts were also considered to assess the relationship between AutoCanada and Priestner as it relates to PPH:

- Regardless of employment at AutoCanada, Priestner's interest in PPH would remain with full ability to control decisions as they pertain to PPH;
- The loan agreement stipulates that the loan's performance, repayment or prepayment will not in any way have any consequences in relation to the employment of Priestner at AutoCanada;
- Priestner has not relied on any financial support from AutoCanada in making his investment in PPH, and therefore the risk of loss and reward to Priestner personally is significant;
- There are no contractual rights providing AutoCanada with decision making power over Priestner, additionally AutoCanada is not involved in the operational decision making of PPH.
- Priestner's level of expertise and knowledge in operating PPH;
- Priestner has the ability to prepay or repay the loan at any time and no ability of AutoCanada to block such a transaction; and,

When combining these considerations with the fact that Priestner is the sole director of the Board of PPH, and therefore governs relevant activities of the investee, management has concluded that AutoCanada does not have power over PPH, and therefore has not consolidated this associate.

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

*(b) Investments in associates*

On July 11, 2014, Canada One Auto Group Ltd. ("COAG"), a company controlled by Priestner, completed a secondary offering of shares in AutoCanada held by COAG and its subsidiaries. As a result of the transaction, COAG reduced its ownership interest in AutoCanada to 9.6% of the outstanding common voting shares. On December 14, 2015, the Company completed a public offering of common shares further reducing the ownership interest to 8.6% (Note 34). The reduction in ownership caused the Company to re-evaluate its significant judgment dealing with the accounting for its investments in associates (the "investees"). Since the Company does not hold voting shares in the investees, the Company evaluated whether it exercised power over the investees through a de facto agency relationship with its Executive Chair in respect of these investments.

The following facts were considered to assess the relationship between AutoCanada and its Executive Chair:

- The Company has contractual rights to participate in any issuance or sale of securities that would impact its proportionate interest in the investees, as well as a right of first refusal to purchase Priestner's shares in applicable circumstances;

- The Company has the ability to control the decision making of the Executive Chair by virtue of the employment agreement with the Executive Chair. Should the Executive Chair no longer be employed by the Company, this assessment would need to be further evaluated;
- The directors and officers of the investees are related parties to the Company; and
- The Company is involved in the operational decision making of its investees.

Prior to the secondary offering, the Executive Chair was considered to have de facto control over AutoCanada, which was considered an overarching factor in concluding that he also controlled the investees. The loss of de facto control over AutoCanada changed the Company's assessment with respect to a number of factors, including those listed above. As a result of its assessment, management concluded that, as of July 11, 2014, the Company has power over its investees, and has consolidated the results of its investees on a common control basis using the predecessor values method. (See Note 14)

Effective January 1, 2015, Priestner transitioned out of the role of CEO and into the role of Executive Chair and remains an employee of the Company. The Company has assessed that this change does not change the nature of his relationship with the Company. Should the nature of the relationship and/or the relevant agreements between Priestner and the Company change in the future, this assessment would need to be further evaluated.

*Combinations with entities under common control*

There is currently no guidance in IFRS on the accounting treatment for business combinations among entities under common control. As such, the Company has elected to consolidate the assets and liabilities of the investees using the predecessor values method on a prospective basis. The application of this method applies the concept of IAS 8 *Accounting Policies, Changes in Estimates, and Errors* whereby if no applicable standard or interpretation exists, then management must develop a policy that is relevant to the decision-making needs of the users, and that is reliable.

## 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. Additionally, these dealerships have similar expected long-term growth rates and similar average gross margins. 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 Revenue

| | **2015 $** | **2014 $** |
|---|---|---|
| New vehicles | 1,668,237 | 1,342,346 |
| Used vehicles | 704,569 | 495,352 |
| Finance, insurance and other | 143,383 | 121,373 |
| Parts, service and collision repair | 387,614 | 255,707 |
| | 2,903,803 | 2,214,778 |

## 8 Cost of sales

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| New vehicles | 1,545,829 | 1,236,344 |
| Used vehicles | 663,940 | 465,851 |
| Finance, insurance and other | 12,579 | 12,293 |
| Parts, service and collision repair | 193,746 | 127,141 |
| | 2,416,094 | 1,841,629 |

## 9 Operating expenses

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Employee costs (Note 10) | 245,703 | 186,161 |
| Administrative costs(1) | 109,593 | 77,478 |
| Facility lease costs | 21,721 | 13,641 |
| Depreciation of property and equipment (Note 22) | 18,860 | 13,624 |
| | 395,877 | 290,904 |

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

## 10 Employees

Operating expenses incurred in respect of employees were:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Wages, salaries and commissions | 221,723 | 170,804 |
| Withholding taxes and insurance | 13,112 | 8,040 |
| Employee benefits | 10,854 | 6,677 |
| Other benefits | 14 | 640 |
| | 245,703 | 186,161 |

## 11 Finance costs and finance income

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| **Finance costs:** | | |
| Interest on long-term indebtedness | 14,909 | 7,850 |
| Unrealized gain on embedded derivative (Note 28) | (42) | (243) |
| Revaluation of redemption liabilities (Note 17) | 4,329 | – |
| Revaluation of contingent consideration | 149 | – |
| Floorplan financing | 13,160 | 10,452 |
| Other interest expense | 3,601 | 2,304 |
| | 36,106 | 20,363 |
| **Finance income:** | | |
| Short-term bank deposits | (2,292) | (2,147) |

Cash interest paid during the year ended December 31, 2015 was $31,463 (2014 – $20,605).

## 12 Taxation

Components of income tax expense were as follows:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Current tax | 19,290 | 21,610 |
| Deferred tax | (1,499) | (3,275) |
| **Total income tax expense** | 17,791 | 18,335 |

Factors affecting tax expense for the year:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Comprehensive income before taxes | 45,105 | 74,627 |
| Comprehensive income before tax multiplied by the standard rate of Canadian corporate tax of 28.2% (2014 – 25.8%) | 12,719 | 19,276 |
| **Effects of:** | | |
| Impact of non-deductible (non-taxable) items | 2,646 | (259) |
| Change in deferred tax rate | 1,933 | 60 |
| Difference between future and current tax rate | (657) | 16 |
| Adjustment to deferred taxes not previously recognized | 934 | – |
| Reversal of deferred tax on outside basis of equity investments | – | (754) |
| Other, net | 216 | (4) |
| **Income tax expense** | 17,791 | 18,335 |

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 $ | Lease receivables $ | Restricted partnership losses $ | Other $ | Total $ |
|---|---|---|---|---|---|---|---|
| **January 1, 2014** | (9,290) | (725) | (11,101) | – | (321) | (43) | (21,480) |
| Benefit (expense) to consolidated statement of comprehensive income | 2,702 | 2,886 | (2,473) | – | 321 | (161) | 3,275 |
| Deferred tax acquired on acquisition | – | – | (5,090) | – | – | – | (5,090) |
| Deferred tax acquired on combination of entities under common control | – | – | (5,920) | (3,532) | – | 300 | (9,152) |
| Measurement period adjustment | – | – | 2,416 | – | – | – | 2,416 |
| Deferred tax on share issuance costs | – | – | – | – | – | 1,820 | 1,820 |
| Other | – | – | – | – | – | 16 | 16 |
| **December 31, 2014** | (6,588) | 2,161 | (22,168) | (3,532) | – | 1,932 | (28,195) |
| Benefit (expense) to consolidated statement of comprehensive income | 5,383 | 48 | (4,457) | 696 | – | (171) | 1,499 |
| Deferred tax on share issuance costs | – | – | – | – | – | 914 | 914 |
| Other | – | – | – | – | – | (56) | (56) |
| **December 31, 2015** | (1,205) | 2,209 | (26,625) | (2,836) | – | 2,619 | (25,838) |

Income tax expense is recognized based on the weighted average annual income tax rate. The blended annual statutory rate used for the year ended December 31, 2015 was 28.2% (December 31, 2014, 25.8%). During the period, the Government of Alberta enacted an increase in the corporate income tax rate from 10% to 12%. As a result, the Company increased its current and deferred income tax rates with a corresponding increase to current and deferred income tax expense. The increase in the tax rate has reduced net and comprehensive income for the year ended December 31, 2015 by $983.

Changes in the deferred income tax components are adjusted through deferred tax expense. Of the above components of deferred income taxes, $2,288 of the deferred tax liabilities are expected to be expensed within 12 months.

In the course of preparing the 2015 consolidated financial statements, it was determined that goodwill and deferred income tax liabilities pertaining to the July 11, 2014 common control business combination were understated by $3,232. This adjustment has been reflected in the comparative financial statements.

## 13 Business acquisitions

During the year ended December 31, 2015, the Company completed five business acquisitions comprising six automotive dealerships, representing six franchises. All acquisitions have been accounted for using the acquisition method. Acquisitions completed during this period are as follows:

*Airdrie Chrysler*

On May 11, 2015, the Company purchased substantially all of the operating and fixed assets of North Hill Motors (1975) Ltd. ("Airdrie Chrysler"), in Airdrie, Alberta, for total cash consideration of $21,595 and contingent consideration with a fair value of $3,608. The acquisition was financed by drawing on the Company's revolving term facility.

The contingent consideration arrangement requires the Company to pay, in cash, to the former owners of Airdrie Chrysler, an amount up to $4,000 based on the achievement of certain targets. The full amount will be paid if either the cumulative net income before tax exceeds a predefined level or if cumulative Chrysler new vehicle sales in Alberta exceeds a specified threshold. If neither target is met the amount paid is reduced by the lesser of the equivalent percentage to the percentage shortfall of each target.

The potential undiscounted amount of all future payments that the Company could be required to make under this arrangement is between $0 and $4,000. The maximum amount of future payments has been put into a trust account to be paid out upon achievement or cancellation of the contingent consideration arrangement. This amount is recorded as restricted cash (see Note 18).

The fair value of the contingent consideration arrangement of $3,608 was estimated by assessing the probability of the above targets being met and the potential percentage shortfall. This is a level 3 fair value measurement (Note 36).

*Don Folk Chevrolet*

On September 14, 2015, the Company, through an 80% owned subsidiary, DFC Holdings Inc., purchased substantially all of the operating and fixed assets of Don Folk Chevrolet Inc., a Chevrolet dealership, and 399573 B.C. Ltd., an auto body shop, (together "Don Folk Chevrolet"), located in Kelowna, British Columbia, for total cash consideration of $9,175. The acquisition was financed by drawing on the Company's revolving term facility. To comply with GM Canada's approval, Priestner, the Executive Chair of the Company, is required to have 100% voting control of Don Folk Chevrolet.

In accordance with the terms of the ownership structure for GM dealerships approved by GM Canada, the Company holds an 80% non-voting equity interest in Don Folk Chevrolet, with Priestner, being named Dealer Operator, personally holding a 15% equity interest and 100% voting control of Don Folk Chevrolet. The remaining 5% equity interest is held by minority shareholders. The transaction was reviewed and approved by the Company's independent members of its Board of Directors.

The Company also purchased the land and facilities through a wholly-owned subsidiary, DFC Properties Inc., for $13,250.

*Grove Dodge*

On October 5, 2015, the Company, through GRV C Holdings LP, purchased substantially all of the operating and fixed assets of Grove Dodge Chrysler Jeep Ltd. ("Grove Dodge"), in Spruce Grove, Alberta, for total cash consideration of $19,083 and contingent consideration with a fair value of $1,808. The acquisition was financed by drawing on the Company's revolving term facility.

As part of the transaction, the Company entered into an agreement with a former minority owner of Grove Dodge, whereby he acquired a 10% ownership interest in GRV C Holdings LP from the Company for cash consideration of $2,088.

The contingent consideration arrangement requires GRV C Holdings LP to pay, in cash, to the former owners of Grove Dodge, an amount up to $2,500, based on the achievement of certain targets. The full amount will be paid if the cumulative net income before tax exceeds a predefined level. If the target is not met, the amount paid is reduced by the equivalent percentage to the percentage of the shortfall of the target.

The potential undiscounted amount of all future payments that the Company could be required to make under this arrangement is between $0 and $2,500. The maximum amount of future payments has been put into a trust account to be paid out upon achievement or cancellation of the contingent consideration arrangement. The Company's share of this amount is $2,250 and is recorded as restricted cash (Note 18).

The fair value of the continent consideration arrangement of $1,808 was estimated by assessing the probability of the above targets being met and the potential percentage shortfall. This is a level 3 fair value measurement (Note 36).

*Hunt Club Nissan and Ottawa Open Point*

On November 1, 2015, the Company, through AutoCanada HCN Holdings Inc., purchased substantially all of the operating and fixed assets of Hunt Club Nissan Ltd. ("Hunt Club Nissan"), in Ottawa, Ontario, for total cash consideration of $13,725. In addition, the Company purchased the exclusive right to build and operate a Nissan motor vehicle franchise on a designated property in southwest Ottawa for total cash consideration of $100. The acquisitions were financed by drawing on the Company's revolving term facility.

As part of the transaction, the Company entered into an agreement with the former owner of Hunt Club Nissan, whereby he acquired a 10% ownership interest in AutoCanada HCN Holdings Inc. from the Company for cash consideration of $1,383.

*417 Nissan and 417 Infiniti*

On December 7, 2015, the Company, through a 90% owned subsidiary, AutoCanada HCN Holdings Inc., purchased substantially all of the operating and fixed assets of 417 Infiniti Nissan Limited ("417 Nissan and 417 Infiniti"), in Ottawa, Ontario, for total cash consideration of $5,408. The acquisition was financed by drawing on the Company's revolving term facility.

**Recognition of redemption liabilities**

During the year ended December 31, 2015, $1,102 of redemption liabilities were recognized in connection with the business acquisitions completed. These liabilities relate to put options held by certain non-controlling interests.

The business acquisitions completed during the year ended December 31, 2015 are summarized as follows:

| | Airdrie Chrysler $ | Don Folk Chevrolet $ | Grove Dodge $ | Hunt Club Nissan $ | 417 Nissan and 417 Infiniti $ | Total $ |
|---|---|---|---|---|---|---|
| **Current assets** | | | | | | |
| Cash and cash equivalents | 2 | 1 | 1 | 4 | 1 | 9 |
| Trade and other receivables | 313 | 201 | 398 | 113 | 1,597 | 2,622 |
| Inventories | 20,074 | 962 | 9,930 | 7,890 | 6,123 | 44,979 |
| Other current assets | 6 | 56 | 59 | 15 | 53 | 189 |
| | 20,395 | 1,220 | 10,388 | 8,022 | 7,774 | 47,799 |
| **Long term assets** | | | | | | |
| Property and equipment | 642 | 14,074 | 360 | 404 | 207 | 15,687 |
| Intangible assets | 18,196 | 7,395 | 17,298 | 9,353 | 3,464 | 55,706 |
| **Total assets** | 39,233 | 22,689 | 28,046 | 17,779 | 11,445 | 119,192 |
| **Current liabilities** | | | | | | |
| Trade and other payables | 20 | 269 | 277 | 196 | 398 | 1,160 |
| Revolving floorplan facility | 17,672 | – | 9,535 | 4,005 | 5,675 | 36,887 |
| | 17,692 | 269 | 9,812 | 4,201 | 6,073 | 38,047 |
| **Long term liabilities** | | | | | | |
| Deferred income tax | – | – | – | 137 | – | 137 |
| **Total liabilities** | 17,692 | 269 | 9,812 | 4,338 | 6,073 | 38,184 |
| **Net assets acquired** | 21,541 | 22,420 | 18,234 | 13,441 | 5,372 | 81,008 |
| Goodwill | 3,662 | 5 | 2,657 | 384 | 36 | 6,744 |
| Non-controlling interests | – | (1,835) | (2,088) | (1,383) | (541) | (5,847) |
| **Total net assets acquired** | 25,203 | 20,590 | 18,803 | 12,442 | 4,867 | 81,905 |
| Cash consideration | 21,595 | 20,590 | 16,995 | 12,442 | 4,867 | 76,489 |
| Contingent consideration | 3,608 | – | 1,808 | – | – | 5,416 |
| **Total consideration** | 25,203 | 20,590 | 18,803 | 12,442 | 4,867 | 81,905 |

Acquisitions completed during the year ended December 31, 2015 generated revenue and net earnings of $83,320 and $1,354, respectively, since the time of acquisition. The purchase prices allocated, as presented above, are estimates and subject to change due to finalization of the associated allocations. Acquisition related costs of $474 have been charged to administrative expenses in the consolidated statement of comprehensive income for the year ended December 31, 2015. The full amount of acquired receivables is expected to be collected.

Goodwill arose on these acquisitions due to the potential future revenue growth and synergies expected to occur. The Company used the fair value method to measure the non-controlling interest, resulting in goodwill including both the non-controlling interests' share and the parent's share of goodwill.

***Prior year business acquisitions***

During the year ended December 31, 2014, the Company completed eight business acquisitions comprising thirteen automotive dealerships, including fifteen franchises. All acquisitions have been accounted for using the acquisition method. Acquisitions completed during this period are as follows:

*BMW Canbec and MINI Mont Royal*

On June 1, 2014, the Company purchased 100% of the voting shares of Automobile Canbec Inc. ("BMW Canbec"), which owns and operates a BMW franchise and a MINI franchise, both located in Montreal, Quebec, for total cash consideration of $27,000. The acquisition was funded by drawing on the Company's revolving term facility.

*Dodge City*

On June 16, 2014, the Company purchased substantially all of the operating and fixed assets of Dodge City Auto 1984 Ltd. ("Dodge City"), in Saskatoon, Saskatchewan, for total cash consideration of $34,229. The acquisition was financed by drawing on the Company's revolving term facility.

*Hyatt Group of Dealerships*

Between the period of June 23, 2014 and July 1, 2014, the Company purchased all of the operating and fixed assets of 678938 Alberta Ltd. ("Calgary Hyundai"), 1446691 Alberta Ltd. ("Crowfoot Hyundai"), 998699 Alberta Ltd. ("Hyatt Mitsubishi"), 588338 Alberta Ltd. ("Northland Volkswagen"), 969642 Alberta Ltd. ("Fish Creek Nissan"), and 1791109 Alberta Ltd. ("Hyatt Infiniti"), herein referred to as (the "Hyatt Group"), located in Calgary, Alberta, for total cash consideration of $91,389. The initial purchase price of the Hyatt Group was financed by drawing on the Company's revolving term facility. In addition, the Company issued 18,753 common shares at a deemed price of $79.99 per share (for total consideration of $1,500) on July 1, 2014 as consideration for the purchase of the exclusive right to build and operate a Nissan motor vehicle franchise on a designated property in southeast Calgary.

*Tower Chrysler*

On August 18, 2014, the Company purchased substantially all of the operating and fixed assets of Tower Chrysler Plymouth Ltd. ("Tower Chrysler"), in Calgary, Alberta, for total cash consideration of $20,438. The acquisition was financed by drawing on the Company's revolving term facility.

*Lakewood Chevrolet*

On September 2, 2014, the Company purchased a 75% non-voting equity interest in the shares of Lakewood Chevrolet ("Lakewood"), a Chevrolet dealership located in Edmonton, Alberta, for total cash consideration of $19,800. The acquisition was financed with cash from operations. To comply with GM Canada's approval, Priestner is required to have 100% voting control of Lakewood.

In accordance with the terms of the ownership structure for GM dealerships approved by GM Canada, the Company purchased a 75% non-voting equity interest, with Priestner being named Dealer Operator, personally holding a 15% equity interest and 100% voting control of the dealership. The remaining 10% equity interest is held by the dealership's general manager. The transaction was reviewed and approved by the Company's independent members of its Board of Directors.

As part of the acquisition agreement, the non-controlling interest has an option to put the shares back to Lakewood at any time following the expiry of 36 months from the acquisition date. As a result, this interest has been recorded as a liability carried at fair value.

The Company also purchased the dealership land and facility through a wholly-owned subsidiary, Lakewood Properties Inc., for $19,000. Of the $1,200 goodwill purchased on the acquisition of the land and building, 17%, or $204, was purchased by Priestner.

*Toronto Chrysler*

On October 20, 2014, the Company purchased substantially all of the operating and fixed assets of Toronto Dodge Chrysler Ltd. ("Toronto Chrysler"), in Toronto, Ontario, for total cash consideration of $2,159. The acquisition was financed with cash from operations.

*Bridges Chevrolet*

On November 24, 2014, the Company, through an 80% owned subsidiary, NBFG Holdings Inc. ("NBFG"), purchased the assets of Bridges Chevrolet Buick GMC Ltd. ("Bridges Chevrolet"), a Chevrolet dealership located in North Battleford, Saskatchewan, for total cash consideration of $4,577. The acquisition was financed with cash from operations. To comply with GM Canada's approval, Priestner is required to have 100% voting control of Bridges Chevrolet.

In accordance with the terms of the ownership structure for GM dealerships approved by GM Canada, the Company purchased an 80% non-voting equity interest, with Priestner, being named Dealer Operator, personally holding a 15% equity interest and 100% voting control of the dealership. The remaining 5% equity interest is held by minority shareholders. The transaction was reviewed and approved by the Company's independent members of its Board of Directors.

The Company also purchased the dealership land and facility through a wholly-owned subsidiary, NBFG Properties Inc., for $3,000.

*BMW Laval and MINI Laval*

On December 15, 2014, the Company, through an 85% owned subsidiary, AutoCanada B Holdings Inc., purchased the assets of Auto Boulevard St. Martin Inc. ("BMW Laval") which owns and operates a BMW franchise and a MINI franchise, both located in Laval, Quebec, for total cash consideration of $22,516 and contingent consideration with a present value of $2,353. The acquisition was financed with cash from operations.

As part of the transaction, the Company entered into an agreement with the former majority owner of BMW Laval, whereby he retained the remaining ownership interest in the two Laval franchises as well as acquired a 15% ownership interest in BMW Canbec from the Company for cash consideration. The non-controlling interest in BMW Canbec at the date of the transaction was equal to $2,729.

In addition to the business, the Company also purchased the land and a building used for business operations through a wholly-owned subsidiary, LMB Properties Inc., for $31,233.

**Recognition of redemption liabilities**

During the year ended December 31, 2014, $8,687 of redemption liabilities were recognized in connection with the business acquisitions completed. These liabilities relate to put options held by certain non-controlling interests.

The business acquisitions completed during the year ended December 31, 2014 are summarized as follows:

| | BMW Canbec $ | Dodge City $ | Hyatt Group $ | Tower Chrysler $ | Lakewood Chevrolet $ | Toronto Chrysler $ | Bridges Chevrolet $ | BMW Laval $ | Total $ |
|---|---|---|---|---|---|---|---|---|---|
| **Current assets** | | | | | | | | | |
| Cash and cash equivalents | – | 3 | 2 | 2 | 2,350 | – | 1 | 2 | 2,360 |
| Trade and other receivables | 6,715 | 512 | 693 | 120 | 2,187 | 64 | 71 | 3,729 | 14,091 |
| Inventories | 25,504 | 16,075 | 48,448 | 16,175 | 12,216 | 2,031 | 1,576 | 36,386 | 158,411 |
| Other current assets | 312 | 121 | 223 | 37 | 53 | 67 | 12 | 14 | 839 |
| | 32,531 | 16,711 | 49,366 | 16,334 | 16,806 | 2,162 | 1,660 | 40,131 | 175,701 |
| **Long term assets** | | | | | | | | | |
| Property and equipment | 4,096 | 6,489 | 1,439 | 2,344 | 18,115 | 148 | 3,236 | 32,890 | 68,757 |
| Intangible assets | 15,078 | 24,494 | 82,415 | 14,659 | 25,417 | 1,643 | 3,625 | 18,042 | 185,373 |
| Other long-term assets | 12 | – | – | – | – | – | – | 423 | 435 |
| **Total assets** | 51,717 | 47,694 | 133,220 | 33,337 | 60,338 | 3,953 | 8,521 | 91,486 | 430,266 |
| **Current liabilities** | | | | | | | | | |
| Bank indebtedness | 1,435 | – | – | – | – | – | – | – | 1,435 |
| Trade and other payables | 2,113 | 658 | 348 | 318 | 2,887 | – | 175 | 3,112 | 9,611 |
| Revolving floorplan facility | 22,092 | 13,313 | 44,569 | 14,095 | 11,460 | 1,867 | – | 31,191 | 138,587 |
| | 25,640 | 13,971 | 44,917 | 14,413 | 14,347 | 1,867 | 175 | 34,303 | 149,633 |
| **Long term liabilities** | | | | | | | | | |
| Long-term indebtedness | – | – | – | – | – | – | – | 415 | 415 |
| Deferred income tax | 1,776 | – | – | – | 3,314 | – | – | – | 5,090 |
| **Total liabilities** | 27,416 | 13,971 | 44,917 | 14,413 | 17,661 | 1,867 | 175 | 34,718 | 155,138 |
| **Net assets acquired** | 24,301 | 33,723 | 88,303 | 18,924 | 42,677 | 2,086 | 8,346 | 56,768 | 275,128 |
| Goodwill | 2,699 | 506 | 3,086 | 1,514 | 2,723 | 73 | 375 | 3,724 | 14,700 |
| Non-controlling interest | – | – | – | – | (6,804) | – | (1,144) | (4,390) | (12,338) |
| **Total net assets acquired** | 27,000 | 34,229 | 91,389 | 20,438 | 38,596 | 2,159 | 7,577 | 56,102 | 277,490 |
| Cash consideration | 27,000 | 34,229 | 89,889 | 20,438 | 38,596 | 2,159 | 7,577 | 53,749 | 273,637 |
| Equity instruments | – | – | 1,500 | – | – | – | – | – | 1,500 |
| Contingent consideration | – | – | – | – | – | – | – | 2,353 | 2,353 |
| **Total consideration** | 27,000 | 34,229 | 91,389 | 20,438 | 38,596 | 2,159 | 7,577 | 56,102 | 277,490 |

Acquisitions completed during the year ended December 31, 2014 generated revenue and net earnings of $329,775 and $11,270, respectively, during the year of acquisition. The purchase prices allocated, as presented above, are the original estimates and subject to change due to finalization of the associated allocations. Acquisition related costs of $1,629 were charged to administrative expenses in the consolidated statement of comprehensive income for the year ended December 31, 2014.

Goodwill arose on these acquisitions due to the potential future revenue growth and synergies expected to occur. Goodwill generated on the acquisitions of BMW Canbec and Lakewood Chevrolet is not deductible for tax purposes. The Company used the fair value method to measure the non-controlling interest, resulting in goodwill including both the non-controlling interests' share and the parent's share of goodwill.

## 14 Business combination under common control

Subsequent to the secondary offering completed on July 11, 2014 (see Note 32), the Company has consolidated its investments in associates, comprising six automotive dealerships (see Note 15), as a common control business combination using the predecessor values method (see Note 5).

The combining entities are ultimately controlled by the same parties prior and subsequent to the business combination, which is considered a transaction under common control. The Company elected to apply predecessor accounting to the transaction and, as such, all assets and liabilities are incorporated by the Company at their predecessor carrying values and no fair value adjustments are recorded. No goodwill arose as a result of the transaction. The combination was applied on a prospective basis. The Company used the fair value method to measure the non-controlling interests, as a result goodwill recorded includes both the non-controlling interests' share and the parent's share of the goodwill which was created on the date of the initial investment.

The business combination under common control as at July 11, 2014 is summarized as follows:

| | Total $ |
|---|---|
| **Current assets** | |
| Cash and cash equivalents | 4,699 |
| Trade and other receivables | 17,541 |
| Inventories | 82,454 |
| Other current assets | 700 |
| | 105,394 |
| **Long term assets** | |
| Property and equipment | 12,920 |
| Intangible assets | 72,487 |
| Finance lease receivables | 9,242 |
| Goodwill | 13,896 |
| Other long-term assets | 640 |
| **Total assets** | 214,579 |
| **Current liabilities** | |
| Trade and other payables | 11,966 |
| Revolving floorplan facility | 75,277 |
| Due to related parties | 2,968 |
| | 90,211 |
| **Long term liabilities** | |
| Long-term indebtedness | 9,823 |
| Provisions and other non-current liabilities | 15 |
| Deferred income tax | 9,152 |
| **Total liabilities** | 109,201 |
| **Net assets acquired** | 105,378 |
| Non-controlling interest | (37,242) |
| **Total net assets acquired** | 68,136 |

Business combinations under common control during the year ended December 31, 2014 generated revenue and net earnings of $250,866 and $10,273, respectively, during the year then ended.

### *Recognition of redemption liabilities*

During the year ended December 31, 2014, $33,111 of redemption liabilities were recognized in connection with the business combination under common control. These liabilities relate to put options held by certain non-controlling interests.

## 15 Investments in associates

Prior to the business combination under common control that occurred on July 11, 2014, the Company's investments in associates were as follows:

### *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 Priestner. DHL was formed to acquire 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. The investment in DHL was reviewed and approved by the independent members of AutoCanada's Board of Directors. 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), both dealerships are located in Sherwood Park, Alberta. As part of the acquisition agreement, the non-controlling interest has an option to put the shares back to Sherwood Park Chevrolet, Sherwood Park GMC commencing January 1, 2017. As a result of DHL's investments, the Company indirectly acquired a 31% interest in Sherwood Park Chevrolet and a 31% interest in Sherwood Park 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 Priestner. Green Isle was formed to acquire 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. The investment in Green Isle was reviewed and approved by the independent members of AutoCanada's Board of Directors. Green Isle's principal place of business is British Columbia, Canada.

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

### *Prairie Auto Holdings Ltd.*

On March 10, 2014, the Company invested a total of $41,651, consisting of $32,578 in cash and 205,000 common shares of AutoCanada issued (at a value of $9,073) to acquire an 82.353% equity interest in Prairie Auto Holdings Ltd. ("PAH"). PAH is an entity formed between a subsidiary of AutoCanada and Priestner. PAH was formed to acquire 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 PAH and its interests, based on the percentage of ownership. The investment in PAH was reviewed and approved by the independent members of AutoCanada's Board of Directors. PAH's principal place of business is Saskatchewan, Canada.

On March 10, 2014, PAH 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 Buick GMC Cadillac dealership in Prince Albert, Saskatchewan. As part of the acquisition agreement, the non-controlling interest has an option to put the shares back to SMP and MNAS at any time following the expiry of 36 months from the acquisition date. To comply with GM Canada's approval, Priestner is required to have 100% voting control of PAH.

***Waverley BG Holdings Ltd.***

On April 1, 2014, the Company invested a total of $11,322 to acquire an 80.0% participating, non-voting common share interest in Waverley BG Holdings Inc. ("WBG"). WBG is an entity formed between a subsidiary of AutoCanada and Priestner. WBG was formed to acquire 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 WBG and its interests, based on the percentage of ownership. The investment in WBG was reviewed and approved by the independent members of AutoCanada's Board of Directors. WBG's principal place of business is Manitoba, Canada.

On April 1, 2014, WBG acquired 100% of the operating assets of McNaught Buick Cadillac GMC ("McNaught") in Winnipeg, Manitoba.

***Carrying value of Investments in Associates***

The following table summarizes the Company's consolidated carrying value of its investments in associates:

| | DHL<br>$ | Green Isle<br>$ | PAH<br>$ | WBG<br>$ | Total<br>$ |
|---|---|---|---|---|---|
| Balance, January 1, 2014 | 5,361 | 7,770 | – | – | 13,131 |
| Investments during the year | – | – | 41,651 | 11,322 | 52,973 |
| Income from investments in associates | 835 | 892 | 1,317 | 446 | 3,490 |
| Dividends received | (458) | (1,000) | – | – | (1,458) |
| Combination of entities under common control (Note 14) | (5,738) | (7,662) | (42,968) | (11,768) | (68,136) |
| **Balance, December 31, 2014** | – | – | – | – | – |
| **Balance, December 31, 2015** | – | – | – | – | – |

## 16 Loan to associate

***PPH Holdings Ltd.***

On November 30, 2015, the Company loaned $8,421 to PPH. The Company holds no ownership interest in PPH, which is a company controlled, and formed, by Priestner. The loan was used by PPH to acquire Whitby Oshawa Honda ('Whitby"). The Company has no participation in the equity of PPH or Whitby. PPH's principal place of business is Alberta, Canada.

Although the Company holds no voting rights in PPH the Company exercises significant influence by virtue of the existence of its loan and the provision of essential technical information required for operations, as well as through the relationship with Priestner, as AutoCanada's Executive Chair. However, the Company does not have the power to make or block key decisions under the terms of the underlying agreements. As a result, the Company has accounted for its loan to PPH under the effective interest method and it is carried at amortized cost. Refer to Note 34 for disclosure over related parties.

***Summarized financial information – PPH Holdings Ltd.***

The following table summarizes the consolidated financial information of PPH as at December 31, 2015:

| | **Carrying amount $** |
|---|---|
| Current assets | 10,199 |
| Non-current assets | 9,667 |
| Current liabilities | 7,336 |
| Non-current liabilities | 9,409 |

For the year ended December 31, 2015, on a consolidated basis, PPH generated revenue of $5,601 and total net comprehensive income of $61. For the year ended December 2015, on a consolidated basis, income relating to the company's loan to PPH are as follows:

| | **$** |
|---|---|
| Interest Income | 35 |
| Licensing Fees | 14 |
| **Income from loan to associate** | 49 |

## 17 Interests in subsidiaries

The Company owns 100% of most subsidiaries, but also has a controlling interest in certain subsidiaries that also have non-controlling interests held by other parties. The interests in these subsidiaries are summarized as follows:

| **Subsidiary** | **Principal place of business** | **Proportion of ownership interests held by non-controlling interests** | **Proportion of voting rights held by non-controlling interests** | **Distributions paid to non-controlling interests 2015 $** | **Distributions paid to non-controlling interests 2014 $** |
|---|---|---|---|---|---|
| Dealer Holdings Ltd. | Alberta | 69% | 100% | 3,485 | 385 |
| Green Isle G Auto Holdings Inc. | British Columbia | 20% | 100% | 300 | 56 |
| Prairie Auto Holdings Ltd. | Saskatchewan | 30% | 100% | 1,950 | – |
| Waverley BG Holdings Inc. | Manitoba | 20% | 100% | 359 | – |
| LWD Holdings Ltd. | Alberta | 25% | 100% | 275 | – |
| NBFG Holdings Inc. | Saskatchewan | 20% | 100% | 165 | – |
| AutoCanada B Holdings Inc. | Quebec | 15% | 15% | 750 | – |
| AutoCanada HCN Holdings Inc. | Ontario | 10% | 10% | – | – |
| | | | | 7,284 | 441 |

DHL, Green Isle, WBG, NBFG and AutoCanada B Holdings Inc. also have put options whereby the non-controlling shareholders are able to sell their shares back to the Company. These put options are recognized as redemption liabilities and measured at their fair value on the statement of financial position as $47,229 (2014 – $41,798). The change in fair value of $4,329 is recorded in finance costs on the statement of comprehensive income (Note 11). The fair value is determined based on the dealership equity value of the related subsidiary (Note 36). Those options eligible to be executed during fiscal 2016 are presented as current liabilities.

The underlying nature of the subsidiaries are holding companies which hold automotive dealerships. For purposes of disclosures, the non-controlling interest profit and loss, and accumulated non-controlling interest of the subsidiaries at the end of the reporting period are reported in aggregate as the subsidiaires are similar in nature and risk based on assessment of the interest and industry classification.

## 18 Cash and cash equivalents

| | December 31, 2015 $ | December 31, 2014 $ |
|---|---|---|
| Cash at bank and on hand | 52,936 | 65,244 |
| Short-term deposits | 9,338 | 7,218 |
| **Cash and cash equivalents (excluding bank indebtedness)** | 62,274 | 72,462 |
| Bank indebtedness | (898) | (2,181) |
| **Cash and cash equivalents** | 61,376 | 70,281 |
| Restricted cash (Note 13) | 6,288 | – |
| **Cash and cash equivalents and restricted cash** | 67,664 | 70,281 |

Short-term deposits includes 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 revolving floorplan facilities. The Company has immediate access to this cash unless we are in default of our facilities, in which case the cash may be used by Scotiabank in repayment of our facilities. See Note 25 for further detail regarding cash balances held with Scotiabank. The remaining short-term deposits are term deposits that bear interest at 0.55%. Restricted cash is held in a trust account and earns interest at 0.95-2.06%. Interest included in restricted cash is $38.

## 19 Trade and other receivables

| | December 31, 2015 $ | December 31, 2014 $ |
|---|---|---|
| Trade receivables | 83,166 | 87,336 |
| Less: Allowance for doubtful accounts | (1,885) | (968) |
| **Net trade receivables** | 81,281 | 86,368 |
| Other receivables | 9,540 | 5,770 |
| **Trade and other receivables** | 90,821 | 92,138 |

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

| | December 31, 2015 $ | December 31, 2014 $ |
|---|---|---|
| Current | 78,889 | 78,266 |
| Past due 31 – 60 days | 7,117 | 8,421 |
| Past due 61 – 90 days | 2,919 | 3,679 |
| Past due 91 – 120 days | 962 | 623 |
| Past due > 120 days | 934 | 1,149 |
| | 90,821 | 92,138 |

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

## 20 Inventories

| | December 31, 2015 $ | December 31, 2014 $ |
|---|---|---|
| New vehicles | 441,764 | 427,341 |
| Demonstrator vehicles | 35,830 | 26,452 |
| Used vehicles | 91,144 | 84,349 |
| Parts and accessories | 27,804 | 25,135 |
| | 596,542 | 563,277 |

During the year ended December 31, 2015, $2,403,515 of inventory (2014 – $1,829,337) was expensed as cost of sales which included write-downs on used vehicles of $2,250 (2014 – $901). As at December 31, 2015, the Company had recorded reserves for inventory write downs of $6,786 (2014 – $4,896). During the year ended December 31, 2015, $5,795 of demonstrator expense (2014 – $3,176) was included in administrative costs. During the year ended December 31, 2015, demonstrator reserves decreased by $428 (2014 – increased by $1,984).

## 21 Finance lease receivables

| | December 31, 2015 $ | December 31, 2014 $ |
|---|---|---|
| **Current portion of finance lease receivables** | | |
| Finance lease receivables | 4,556 | 4,308 |
| Unearned finance income – current | (544) | (771) |
| | 4,012 | 3,537 |
| **Long-term portion of finance lease receivables** | | |
| Finance lease receivables | 7,081 | 11,153 |
| Unearned finance income – long-term | (535) | (861) |
| | 6,546 | 10,292 |
| Gross receivables from finance leases: | | |
| No later than 1 year | 4,556 | 4,308 |
| Later than 1 year and no later than 5 years | 7,081 | 11,153 |
| Later than 5 years | – | – |
| | 11,637 | 15,461 |
| Unearned future finance income on finance leases | (1,079) | (1,632) |
| **Net investment in finance leases** | 10,558 | 13,829 |
| Net investment in finance lease: | | |
| No later than 1 year | 4,012 | 3,537 |
| Later than 1 year and no later than 5 years | 6,546 | 10,292 |
| Later than 5 years | – | – |
| | 10,558 | 13,829 |

## 22 Property and equipment

| | Company & lease vehicles $ | Leasehold Improvements $ | Machinery & Equipment $ | Land & buildings $ | Furniture, fixtures & other $ | Computer hardware $ | Total $ |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| January 1, 2014 | 10,819 | 7,240 | 14,395 | 103,785 | 6,024 | 4,827 | 147,090 |
| Capital expenditures | 280 | 2,084 | 1,709 | – | 953 | 1,591 | 6,617 |
| Acquisitions of dealership assets | 18,926 | 13,317 | 10,069 | 53,533 | 4,030 | 3,768 | 103,643 |
| Acquisitions of real estate | – | – | – | 16,824 | – | – | 16,824 |
| Disposals | – | (35) | (209) | – | (294) | (245) | (783) |
| Transfers to inventory, net | (4,825) | – | – | – | – | – | (4,825) |
| **December 31, 2014** | 25,200 | 22,606 | 25,964 | 174,142 | 10,713 | 9,941 | 268,566 |
| Capital expenditures | 34 | 7,238 | 2,435 | – | 2,165 | 2,234 | 14,106 |
| Acquisitions of dealership assets | 509 | 202 | 965 | 13,250 | 479 | 282 | 15,687 |
| Acquisitions of real estate | – | – | – | 60,500 | – | – | 60,500 |
| Disposals | – | (646) | (555) | – | (228) | (577) | (2,006) |
| Transfers to assets held for sale | (26) | – | (116) | (11,130) | (70) | (172) | (11,514) |
| Transfers to inventory, net | (3,083) | – | – | – | – | – | (3,083) |
| **December 31, 2015** | 22,634 | 29,400 | 28,693 | 236,762 | 13,059 | 11,708 | 342,256 |
| **Accumulated depreciation:** | | | | | | | |
| January 1, 2014 | (1,900) | (2,651) | (8,363) | (4,404) | (3,606) | (3,251) | (24,175) |
| Acquisitions of dealership assets | (6,285) | (5,550) | (5,635) | – | (2,005) | (2,491) | (21,966) |
| Depreciation | (4,168) | (1,310) | (1,735) | (4,852) | (733) | (826) | (13,624) |
| Disposals | – | 34 | 189 | – | 259 | 265 | 747 |
| Transfers to inventory, net | 5,390 | – | – | – | – | – | 5,390 |
| **December 31, 2014** | (6,963) | (9,477) | (15,544) | (9,256) | (6,085) | (6,303) | (53,628) |
| Depreciation | (4,405) | (2,204) | (2,449) | (7,076) | (1,179) | (1,547) | (18,860) |
| Disposals | – | 637 | 421 | – | 170 | 548 | 1,776 |
| Transfers to assets held for sale | 5 | – | 79 | 1,435 | 40 | 135 | 1,694 |
| Transfers to inventory, net | 5,147 | – | – | – | – | – | 5,147 |
| **December 31, 2015** | (6,216) | (11,044) | (17,493) | (14,897) | (7,054) | (7,167) | (63,871) |
| **Carrying amount:** | | | | | | | |
| December 31, 2014 | 18,237 | 13,129 | 10,420 | 164,886 | 4,628 | 3,638 | 214,938 |
| December 31, 2015 | 16,418 | 18,356 | 11,200 | 221,865 | 6,005 | 4,541 | 278,385 |

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

Land and buildings with a carrying value of $51,495 (2014 – $42,575) are pledged as collateral against bank borrowings.

## 23 Assets held for sale

*Land*

During the year, the Company committed to a plan to sell a parcel of land held in Winnipeg, Manitoba. The carrying cost of the land is $1,556 at December 31, 2015. No decommissioning liability exists on the land. Efforts to sell the land have commenced and the sale is expected to be completed during fiscal 2016.

The Company has also committed to a plan to sell a parcel of land in Newmarket, Ontario with a carrying amount of $3,485. No decommissioning liability exists on the land. Efforts to sell the land have commenced and the sale is expected to be completed during fiscal 2016.

*Newmarket Transaction*

On December 19, 2015, the Company entered into an agreement to sell substantially all of the operating and fixed assets of Newmarket Infiniti Nissan located in Newmarket, Ontario for net proceeds of $11,262, resulting in a pre-tax gain on sale of $4,359. The sale transaction closed on February 25, 2016 (Note 37).

| | **December 31, 2015 $** |
|---|---|
| Property, plant and equipment | 4,779 |
| Trade and other receivables | 2,001 |
| Inventory | 13,569 |
| Intangible assets | 2,053 |
| Other current assets | 39 |
| **Total Assets** | 22,441 |
| Trade and other payables | 1,015 |
| Revolving floorplan facilities | 13,478 |
| **Total Liabilities** | 14,493 |
| **Net Assets** | 7,948 |

## 24 Intangible assets and goodwill

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

| | **Intangible assets $** | **Goodwill $** | **Total $** |
|---|---|---|---|
| **Cost:** | | | |
| January 1, 2014 | 102,197 | 6,672 | 108,869 |
| Acquisitions (Note 13) | 185,373 | 14,700 | 200,073 |
| Business combination under common control | 72,487 | 13,896 | 86,383 |
| Measurement period adjustment | – | (2,416) | (2,416) |
| **December 31, 2014** | 360,057 | 32,852 | 392,909 |
| Acquisitions (Note 13) | 55,706 | 6,744 | 62,450 |
| Measurement period adjustment | – | 1,500 | 1,500 |
| Transfer to assets held for sale | (2,053) | – | (2,053) |
| **December 31, 2015** | 413,710 | 41,096 | 454,806 |
| **Accumulated impairment:** | | | |
| January 1, 2014 | 5,212 | – | 5,212 |
| Recovery of impairment | (1,767) | – | (1,767) |
| **December 31, 2014** | 3,445 | – | 3,445 |
| Impairment, net of recovery of impairment | 10,617 | 8,140 | 18,757 |
| **December 31, 2015** | 14,062 | 8,140 | 22,202 |
| **Carrying amount:** | | | |
| December 31, 2014 | 356,612 | 32,852 | 389,464 |
| December 31, 2015 | 399,648 | 32,956 | 432,604 |

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

| | December 31, 2015 $ | | | December 31, 2014 $ | | |
|---|---|---|---|---|---|---|
| **Cash Generating Unit** | **Intangibles** | **Goodwill** | **Total** | **Intangibles** | **Goodwill** | **Total** |
| AJ | 27,807 | 6,135 | 33,942 | 27,807 | 6,135 | 33,942 |
| AE | 22,802 | – | 22,802 | 25,733 | 967 | 26,700 |
| AN | 25,417 | 381 | 25,798 | 25,417 | 2,722 | 28,139 |
| Y | 24,494 | 506 | 25,000 | 24,494 | 506 | 25,000 |
| AI | 21,809 | 428 | 22,237 | 21,809 | 1,580 | 23,389 |
| AS | 18,196 | 1,669 | 19,865 | – | – | – |
| AQ | 18,044 | 3,724 | 21,768 | 18,044 | 3,724 | 21,768 |
| A | 21,687 | – | 21,687 | 21,687 | – | 21,687 |
| AF | 20,384 | 992 | 21,376 | 20,384 | 617 | 21,001 |
| AV | 17,298 | 2,657 | 19,955 | – | – | – |
| Z | 15,078 | 2,699 | 17,777 | 15,078 | 2,699 | 17,777 |
| AM | 14,659 | 1,514 | 16,173 | 14,659 | 1,514 | 16,173 |
| V | 15,520 | 236 | 15,756 | 15,520 | 236 | 15,756 |
| AC | 12,496 | 941 | 13,437 | 12,496 | 705 | 13,201 |
| U | 8,602 | 3,441 | 12,043 | 8,602 | 3,441 | 12,043 |
| AG | 9,263 | 950 | 10,213 | 9,263 | 950 | 10,213 |
| AT | 9,253 | 384 | 9,637 | – | – | – |
| D | 9,626 | – | 9,626 | 9,626 | – | 9,626 |
| B | 9,431 | – | 9,431 | 9,431 | – | 9,431 |
| E | 8,497 | – | 8,497 | 8,497 | – | 8,497 |
| AL | 5,273 | 2,176 | 7,449 | 5,273 | 2,176 | 7,449 |
| AU | 7,395 | 5 | 7,400 | – | – | – |
| AH | 6,591 | 409 | 7,000 | 6,591 | 409 | 7,000 |
| AA | 5,369 | – | 5,369 | 11,431 | 570 | 12,001 |
| W | 5,799 | 201 | 6,000 | 5,799 | 201 | 6,000 |
| C | 5,828 | – | 5,828 | 4,635 | – | 4,635 |
| AB | 4,619 | – | 4,619 | 8,824 | 177 | 9,001 |
| Other CGUs less than $5,000 | 28,411 | 3,508 | 31,919 | 25,512 | 3,253 | 29,035 |
| | 399,648 | 32,956 | 432,604 | 356,612 | 32,852 | 389,464 |

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

| | December 31, 2015 $ | | | December 31, 2014 $ | | |
|---|---|---|---|---|---|---|
| **Cash Generating Unit** | **Intangibles** | **Goodwill** | **Total** | **Intangibles** | **Goodwill** | **Total** |
| C | (1,193) | – | (1,193) | (1,215) | – | (1,215) |
| J | (2,053) | – | (2,053) | – | – | – |
| R | – | – | – | (531) | – | (531) |
| X | – | – | – | (21) | – | (21) |
| AA | 6,061 | 784 | 6,845 | – | – | – |
| AB | 4,205 | 337 | 4,542 | – | – | – |
| AD | 666 | 89 | 755 | – | – | – |
| AE | 2,931 | 1,444 | 4,375 | – | – | – |
| AI | – | 1,152 | 1,152 | – | – | – |
| AN | – | 2,341 | 2,341 | – | – | – |
| AS | – | 1,993 | 1,993 | – | – | – |
| **Net impairment (recovery)** | 10,617 | 8,140 | 18,757 | (1,767) | – | (1,767) |

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 impairments or recoveries of impairments recorded in either the current year or prior year:

| Cash Generating Unit | December 31, 2015 $ | December 31, 2014 $ |
|---|---|---|
| C | 6,736 | 5,302 |
| J | 2,053 | – |
| R | 2,339 | 1,678 |
| X | 2,361 | 3,769 |
| AA | 6,682 | 9,512 |
| AB | 5,550 | 8,586 |
| AD | 2,104 | 1,800 |
| AE | 25,778 | 23,874 |
| AI | 25,200 | 25,807 |
| AN | 32,421 | 34,285 |
| AS | 20,036 | – |

***Impairment test of indefinite life intangible assets***

The Company performed its annual test for impairment at December 31, 2015. As a result of the test performed, the Company recorded an impairment in the amount of $18,757 for the year ended December 31, 2015 (2014 – recovery of impairment of $1,767).

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 dispose*

Fair value less costs to dispose ("FVLCD") 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 5.5 to 11.0 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 Company and industry forecasts. Management applied a 2% terminal growth rate in its projections. In arriving at its forecasts, the Company considered past experience, economic trends and inflation as well as industry and market trends.

*Discount Rate*

The Company applied a discount rate 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 Dispose***

*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 gross profit of the Company. As noted above, data for EBITDA multiples was based on recent comparable transactions and management estimates.

*Costs to dispose*

Management applied a percentage of 1.0% of the estimated purchase price in developing an estimate of costs to dispose, based on historical transactions.

***Additional Assumptions***

Key assumptions used in performing the impairment test include discount rates, dealership growth rate, perpetual growth rate, expected gross margin percentage and operating expense levels.

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

| | Basis of Recoverable Amount | Discount Rate | Perpetual Growth Rate |
|---|---|---|---|
| A | FVLCD | 11.99% | 2.00 |
| B | FVLCD | 12.29% | 2.00 |
| C | VIU | 11.69% | 2.00 |
| D | FVLCD | 12.59% | 2.00 |
| E | FVLCD | 12.59% | 2.00 |
| J | FVLCD | 11.54% | 2.00 |
| L | FVLCD | 12.44% | 2.00 |
| R | VIU | 12.14% | 2.00 |
| U | FVLCD | 11.39% | 2.00 |
| V | FVLCD | 11.99% | 2.00 |
| W | FVLCD | 11.69% | 2.00 |
| X | FVLCD | 11.24% | 2.00 |
| Y | VIU | 12.29% | 2.00 |
| Z | FVLCD | 11.39% | 2.00 |
| AA | VIU | 11.69% | 2.00 |
| AB | VIU | 11.69% | 2.00 |
| AC | FVLCD | 11.99% | 2.00 |
| AD | FVLCD | 11.99% | 2.00 |
| AE | FVLCD | 11.39% | 2.00 |
| AF | VIU | 11.39% | 2.00 |
| AG | FVLCD | 11.99% | 2.00 |
| AH | FVLCD | 11.99% | 2.00 |
| AI | FVLCD | 11.99% | 2.00 |
| AJ | FVLCD | 11.99% | 2.00 |
| AL | FVLCD | 12.29% | 2.00 |
| AM | FVLCD | 12.29% | 2.00 |
| AN | VIU | 12.29% | 2.00 |
| AQ | FVLCD | 11.39% | 2.00 |
| AS | FVLCD | 12.29% | 2.00 |
| AT | FVLCD | 12.14% | 2.00 |
| AU | FVLCD | 12.29% | 2.00 |
| AV | FVLCD | 12.29% | 2.00 |
| CGUs less than 5,000, combined | FVLCD/VIU | 11.24-14.44% | 2.00 |

*Sensitivity*

The recoverable amount for the CGUs that were in excess of their carrying values was 272% of the carrying values 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.

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. Based on sensitivity analysis, no reasonably possible change in key assumptions would cause the recoverable amount of any CGU to have a significant change from its current valuation except for the CGUs identified below.

CGUs, which use VIU as the basis of recoverable amount, for which a reasonably possible change in key assumptions would cause an impairment, along with the change required for an impairment to occur:

| Cash Generating Unit | Increase in Discount Rate | Decrease in Growth Rate | Recoverable amount | Carrying amount | Recoverable amount exceeds carrying amount |
|---|---|---|---|---|---|
| Y | 1.90% | 1.50% | 40,506 | 33,255 | 7,251 |
| AF | 2.20% | 4.20% | 29,306 | 21,729 | 7,577 |

CGUs, which use FVLCTD as the basis of recoverable amount, for which a reasonably possible change in key assumptions would cause an impairment, along with the change required for an impairment to occur:

| Cash Generating Unit | Decrease in Multiple | Recoverable amount | Carrying amount | Recoverable amount exceeds carrying amount |
|---|---|---|---|---|
| Z | 2.7 | 29,542 | 24,713 | 4,829 |
| E | 1.7 | 29,306 | 10,932 | 18,374 |

## 25 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. The carrying values of financial instruments approximate their fair values, excluding the senior unsecured notes. The fair value of the senior unsecured notes is $139,125. Details of the carrying value of the Company's financial assets and financial liabilities are disclosed below:

| | December 31, 2015 $ | December 31, 2014 $ |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | 62,274 | 72,462 |
| Trade and other receivables | 90,821 | 92,138 |
| Current portion of finance lease receivables | 4,012 | 3,537 |
| Loan to associate | 8,470 | – |
| Long-term portion of finance lease receivables | 6,546 | 10,292 |
| Restricted cash | 6,288 | – |
| **Financial liabilities** | | |
| Bank indebtedness | 898 | 2,181 |
| Current indebtedness | 11,484 | 4,651 |
| Long-term indebtedness | 285,759 | 223,009 |
| Revolving floorplan facilities | 548,322 | 527,780 |
| Trade and other payables | 86,284 | 82,670 |
| Current portion of redemption liabilities | 6,338 | 7,665 |
| Redemption liabilities | 40,891 | 34,133 |

***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 significantly exposed to foreign currency risk with respect to its financial instruments as it engages in minimal transactions denominated in currencies other than the Canadian dollar.

*Interest Rate Risk*

The Company's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note as well as the indebtedness note (see Note 28). The sensitivity analysis below has been determined based on the exposure to interest rates at the reporting date and stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. The amounts below represent the absolute change to the reported account, an increase in the basis point would result in a positive amount and a decrease in the basis point would result in a negative amount. 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 | | +/- 100 Basis Point | |
|---|---|---|---|---|
| | 2015 $ | 2014 $ | 2015 $ | 2014 $ |
| Finance costs | 13,295 | 11,544 | 6,647 | 5,772 |
| Finance income | 146 | 143 | 73 | 72 |

***Credit Risk***

The Company's exposure to credit risk associated with its accounts receivable is the risk that a customer will be unable to pay amounts due to the Company or its subsidiaries. Concentration of credit risk with respect to contracts-in-transit and accounts receivable is limited primarily to automobile manufacturers and financial institutions. Credit risk arising from receivables with commercial customers is not significant due to the large number of customers dispersed across various geographic locations comprising our customer base. Details of the aging of the Company's trade and other receivables is disclosed in Note 19.

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 doubtful accounts, details of which are disclosed in Note 19.

Concentration of cash and cash equivalents exists due to the significant amount of cash held with Scotiabank (see Note 18 for further discussion of the Company's concentration of cash held on deposit with Scotiabank). The syndicated revolving floorplan facility (see Note 28) allows 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 at 2.43% at December 31, 2015 (2014- 2.43%). 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 facility. As a result, there is a concentration of cash balances risk to the Company in the event of a default under the facility.

***Liquidity Risk***

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

The following tables detail 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.

| | **2016 $** | **2017 $** | **2018 $** | **2019 $** | **Thereafter $** | **Total $** |
|---|---|---|---|---|---|---|
| **December 31, 2015** | | | | | | |
| Bank indebtedness | 898 | – | – | – | – | 898 |
| Trade and other payables | 86,284 | – | – | – | – | 86,284 |
| Revolving floorplan facilities | 548,322 | – | – | – | – | 548,322 |
| Redemption liabilities | 6,337 | 39,790 | 1,102 | – | – | 47,229 |
| Senior unsecured notes | – | – | – | – | 149,739 | 149,739 |
| HSBC revolving term facility | – | – | 103,591 | – | – | 103,591 |
| Vehicle repurchase obligations | 1,846 | – | – | – | – | 1,846 |
| RBC lease financing | 7,797 | – | – | – | – | 7,797 |
| Scotiabank lease financing | 435 | 456 | 24 | – | – | 915 |
| BMO lease financing | 346 | – | – | – | – | 346 |
| Servus mortgage | 239 | 248 | 258 | 269 | 4,543 | 5,557 |
| VCCI mortgage | 213 | 213 | 213 | 213 | 3,180 | 4,032 |
| BMW mortgage | 737 | 768 | 797 | 757 | 17,122 | 20,181 |
| Other long-term debt | 1,717 | 1,537 | 3,642 | 1,808 | – | 8,704 |
| Contractual interest payable | 14,593 | 14,370 | 11,466 | 9,390 | 25,358 | 75,177 |
| | 669,764 | 57,382 | 121,093 | 12,437 | 199,942 | 1,060,618 |

| | **2015 $** | **2016 $** | **2017 $** | **2018 $** | **Thereafter $** | **Total $** |
|---|---|---|---|---|---|---|
| **December 31, 2014** | | | | | | |
| Bank indebtedness | 2,181 | – | – | – | – | 2,181 |
| Trade and other payables | 82,670 | – | – | – | – | 82,670 |
| Revolving floorplan facilities | 527,780 | – | – | – | – | 527,780 |
| Redemption liabilities | 7,665 | – | 34,133 | – | – | 41,798 |
| Senior unsecured notes | – | – | – | – | 149,739 | 149,739 |
| HSBC revolving term facility | – | – | – | 38,925 | – | 38,925 |
| Vehicle repurchase obligations | 1,539 | – | – | – | – | 1,539 |
| RBC lease financing | 2,690 | 2,690 | 2,690 | 2,454 | – | 10,524 |
| Scotiabank lease financing | 422 | 364 | 197 | 63 | – | 1,046 |
| BMO lease financing | 352 | 352 | 352 | 45 | – | 1,101 |
| Servus mortgage | 230 | 239 | 248 | 258 | 4,811 | 5,786 |
| VCCI mortgage | 56 | 56 | 56 | 56 | 869 | 1,093 |
| BMW mortgage | 742 | 737 | 768 | 797 | 17,879 | 20,923 |
| Other long-term debt | 159 | 1,556 | 1,439 | 16 | – | 3,170 |
| Contractual interest payable | 11,739 | 11,614 | 11,491 | 10,240 | 34,306 | 79,390 |
| | 638,225 | 17,608 | 51,374 | 52,854 | 207,604 | 967,665 |

## 26 Other long-term assets

| | December 31, 2015 $ | December 31, 2014 $ |
|---|---|---|
| Prepaid rent | 5,838 | 6,205 |
| Other assets | 1,240 | 508 |
| | 7,078 | 6,713 |

## 27 Trade and other payables

| | December 31, 2015 $ | December 31, 2014 $ |
|---|---|---|
| Trade payables | 46,443 | 42,378 |
| Accruals and provisions | 11,974 | 9,983 |
| Sales tax payable | 4,710 | 4,413 |
| Wages and withholding taxes payable | 23,157 | 25,896 |
| | 86,284 | 82,670 |

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

| | Finance and insurance (a) $ | Other $ | Total $ |
|---|---|---|---|
| **January 1, 2014** | 1,548 | 967 | 2,515 |
| Provisions arising during the year | 1,374 | 228 | 1,602 |
| Amounts expired or disbursed | (921) | (784) | (1,705) |
| **December 31, 2014** | 2,001 | 411 | 2,412 |
| Provisions arising during the year | 1,245 | 257 | 1,502 |
| Amounts expired or disbursed | (1,334) | (129) | (1,463) |
| **December 31, 2015** | 1,912 | 539 | 2,451 |

*(a) Represents an estimated chargeback reserve provided by the Company's third party underwriter of finance and insurance products.*

## 28 Indebtedness

This note provides information about the contractual terms of the Company's interest-bearing debt, which is measured at amortized cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see Note 25.

| | December 31, 2015 $ | December 31, 2014 $ |
|---|---|---|
| **Revolving floorplan facilities** | | |
| Revolving floorplan facilities – Syndicate (i) | 348,840 | 340,829 |
| Revolving floorplan facilities – VCCI (ii) | 33,086 | 27,625 |
| Revolving floorplan facilities – BMW Financial (iii) | 72,111 | 66,017 |
| Revolving floorplan facilities – RBC (iv) | 70,790 | 78,431 |
| Revolving floorplan facilities – Scotiabank (v) | 23,495 | 14,878 |
| | **548,322** | **527,780** |
| **Indebtedness** | | |
| *Senior unsecured notes (vi)* | | |
| Senior unsecured notes | 149,739 | 149,739 |
| Embedded derivative | (24) | 18 |
| Unamortized deferred financing costs | (2,907) | (3,444) |
| | 146,808 | 146,313 |
| *HSBC revolving term facility (vii)* | | |
| HSBC revolving term facility | 103,591 | 38,925 |
| Unamortized deferred financing costs | (688) | (1,221) |
| | 102,903 | 37,704 |
| *Other long-term debt:* | | |
| Lease financing – RBC (viii) | 7,797 | 10,524 |
| Lease financing – Scotiabank (ix) | 915 | 1,046 |
| Lease financing – BMO (x) | 346 | 1,101 |
| Servus mortgage (xi) | 5,557 | 5,786 |
| VCCI mortgages (xii) | 4,032 | 1,093 |
| BMW mortgage (xiii) | 20,181 | 20,923 |
| Other long-term debt | 8,704 | 3,170 |
| **Total indebtedness** | **297,243** | **227,660** |
| **Current indebtedness** | **11,484** | **4,651** |
| **Long-term indebtedness** | **285,759** | **223,009** |

Terms and conditions of outstanding loans are as follows:

i The Company's syndicated floorplan credit facility (the "Facility") is provided by Scotiabank and the Canadian Imperial Bank of Commerce ("CIBC") with Scotiabank serving as administrative agent to the Facility. The availability of the Facility is $550,000 and bears a rate of Bankers' Acceptance plus 1.15% (2.17% as at December 31, 2015) 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.

ii The revolving floorplan facilities ("VCCI facilities") are available from VW Credit Canada, Inc. ("VCCI") to finance new, used and demo vehicles for all of the Volkswagen and Audi dealerships. The VCCI facilities bear interest at Royal Bank of Canada ("RBC") prime rate plus 0% – 0.75% for new and demo vehicles and RBC prime rate plus 0.25-1.25% for used vehicles

(RBC prime rate was 2.70% at December 31, 2015). The maximum amount of financing provided by the VCCI facilities is $46,930. 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 over the Volkswagen and Audi dealerships. The individual notes payable of the VCCI facilities are due when the related vehicle is sold.

iii The revolving floorplan facilities (the "BMW Facilities") are available from BMW Financial Services Canada ("BMW Financial"), a division of BMW Canada Inc., to finance new, used, demo and mobility vehicles for the BMW and MINI dealerships. The BMW Facilities have a current advance limit of $103,150. The BMW Facilities bear a variable interest rate of prime minus 0.40% per 360-day annum (2.30% at December 31, 2015). The BMW Facilities are collateralized by the dealerships' movable and immovable property.

iv The Royal Bank of Canada ("RBC") provides floorplan financing for new, used and demo vehicles for eight of the Company's dealerships (the "RBC Facilities"). The RBC Facilities bear interest rates of RBC's Cost of Funds Rate (1.63% as at December 31, 2015) plus 0.40%-1.35% and provide a maximum amount of financing of $136,500. The RBC Facilities are collateralized by the new, used, and demo inventory financed by RBC and a general security agreement from the General Motors dealerships financed by RBC.

v Scotiabank provides floorplan financing for new, used and demo vehicles for three of the Company's dealerships (the "Scotiabank Facilities"). The Scotiabank Facilities bear interest rates of Scotia Fixed Flooring Rate (0.93% at December 31, 2015) plus 0.93%-1.70% and provide a maximum amount of financing of $50,400. The Scotiabank Facilities are collateralized by the new, used, and demo inventory financed by Scotiabank and a general security agreement from the Company's General Motors dealerships financed by Scotiabank.

vi On May 22, 2014 the Company completed a private offering of $150,000 5.625% Senior Unsecured Notes due May 25, 2021 (the "Notes"). The Notes were issued at par. Interest is payable semi-annually on May 15 and November 15 of each year the Notes are outstanding. In connection with the issuance of the Notes, the Company incurred issue costs of $3,638 which were recorded as a deduction from the carrying amount of the long-term debt. The proceeds from the Notes were used to repay the Company's revolving term facility. The Notes agreement contains certain redemption options whereby the Company can redeem all or part of the Notes at prices set forth in the agreement from proceeds of equity offering or following certain dates specified in the agreement. In addition, the Note holders have the right to require the Company to redeem the Notes or a portion thereof, at the redemption prices set forth in the agreement in the event of change in control or in the event certain asset sale proceeds are not re-invested in the time and manner specified in the agreement. These redemption features constitute embedded derivatives that are required to be separated from the Notes and measured at fair value. The embedded derivative components of these compound financial instruments are measured at fair value at each reporting date with gains or losses in fair value recognized through profit or loss.

vii On November 18, 2015, the Company amended the existing Credit Agreement with HSBC Bank Canada ("HSBC") Alberta Treasury Branches ("ATB"), and RBC, with HSBC acting as administrative agent to the Credit Agreement.

The revised Credit Agreement provides the Company with a $250,000 revolving operating facility that may be used for general corporate purposes, including repayment of existing indebtedness, funding working capital requirements, capital expenditures and financing acquisitions.

Fees and interest on borrowings under the Credit Agreement are subject to a pricing grid whereby the pricing level is determined by the leverage ratio. Based on the Company's Leverage Ratio, as defined by the Lender, the interest rate on the loan ranges from HSBC's prime rate plus 0.75% to HSBC's prime rate plus 2.00%. As at December 31, 2015, the Company is in the first of five tiers of the pricing grid, with the first tier providing interest rates of HSBC's prime rate plus 2.00% (4.70% at December 31, 2015). Amounts drawn under the Credit Agreement as at December 31, 2015 are due May 22, 2018 and may be extended annually for an additional 364 days at the request of the Company and upon approval by the lenders. The Credit Agreement is collateralized by all of the present and future assets of AutoCanada Holdings Inc., a subsidiary of AutoCanada Inc., and all of its subsidiaries. As part of a priority agreement signed by HSBC, Scotiabank, VCCI, BMW Financial, and the Company, the collateral for the Credit Agreement excludes all new, used and demo inventory financed with Scotiabank, VCCI, RBC and BMW Financial revolving floorplan facilities.

viii RBC provides financing for the lease vehicles of two of the Company's GM dealerships (the "RBC lease financing"). The RBC lease financing bear interest rates of RBC's Costs of Funds Rate (1.63% at December 31, 2015) plus 0.90% - 1.50% and provide a maximum amount of financing of $15,000 repayable over the terms of the contract in varying amounts of principal. The RBC lease financing are collateralized by the lease vehicles under the related lease agreements. The RBC lease financing is due on demand.

ix Scotiabank provides financing for the lease vehicles of two of the Company's dealerships (the "Scotiabank lease financing"). The Scotiabank lease financing bear interest rates of Scotiabank's Cost of Funds Rate plus 1.25% (3.78% at December 31, 2015) and provide a maximum amount of financing of $2,500 repayable over the terms of the contract in varying amounts of principal. The Scotiabank lease financing is collateralized by the lease vehicles under the related lease agreement.

x The Bank of Montreal ("BMO") provides financing for the lease vehicles of one of the Company's GM dealerships (the "BMO lease financing"). The BMO lease financing bear interest rates of BMO's Dealership Finance Base Rate plus 1.65% (2.93%-3.59%, depending on term, at December 31, 2015) and provides financing of $346 repayable over the terms of the contract in varying amounts of principal. The BMO lease financing is collateralized by a general security agreement, a standard fixed rate prepayment agreement, and a priority agreement with General Motors Acceptance Corporation and other secured lenders. The BMO lease financing is due on demand.

xi 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 installments 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, 2015, the carrying amount of the property was $9,204.

xii VCCI provides the Company with mortgages (the "VCCI Mortgages"), which bear interest at a floating rate of interest per annum equal to the Royal Bank of Canada's prime rate plus 0.15%-0.50% (2.85%-3.20% at December 31, 2015). The VCCI Mortgages are repayable with fifty-nine equal blended monthly payments of $27 amortized over a twenty year period with term expiring in between April 2019 and February 2020. The VCCI Mortgages have certain reporting requirements and financial covenants and are collateralized by a general security agreement consisting of a first fixed charge over the properties. At December 31, 2015, the carrying amount of the properties was $11,268.

xiii BMW Financial provides the Company with a mortgage (the "BMW Mortgage"), which bears a fixed rate of interest per annum of

3.80%. The BMW Mortgage is repayable with sixty equal blended monthly payments of $124, amortized over a twenty year period with term expiring on December 31, 2019. The BMW Mortgage has certain reporting requirements and is collateralized by the property and any other present and future property, rights and assets, movable or immovable, and a general security agreement consisting of a first fixed charge over the property. At December 31, 2015, the carrying amount of the property was $31,023.

## 29 Vehicle repurchase obligations

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.

## 30 Commitments and contingencies

### *Commitments*

The Company has operating lease commitments, with varying terms through 2037, to lease premises used for business purposes. The Company leases certain lands and buildings used in its franchised automobile dealership operations from related parties (Note 34) and other third parties. The future aggregate minimum lease payments under non-cancelable operating leases are as follows:

| | December 31, 2015 $ |
|---|---|
| 2016 | 20,012 |
| 2017 | 18,723 |
| 2018 | 16,232 |
| 2019 | 14,233 |
| 2020 | 12,279 |
| Thereafter | 134,015 |
| | 215,494 |

### *Lawsuits and legal claims*

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

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

### *Letters of guarantee*

The Company has outstanding letters of guarantee totaling $1,015 as at December 31, 2015 (2014 - $470) 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.

### *Capital Commitments*

At December 31, 2015, the Company is committed to capital expenditure obligations in the amount of $35,484 (2014 - 39,691).

## 31 Share-based payments

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

*Restricted Share Units (RSUs)*

The Company 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 years ended:

| | 2015 Number of RSUs | 2015 Amount $ | 2014 Number of RSUs | 2014 Amount $ |
|---|---|---|---|---|
| Outstanding, beginning of the year | 84,772 | 3,772 | 107,680 | 4,941 |
| Settled – equity | (31,558) | (1,211) | (26,222) | (1,345) |
| Settled – cash | (21,039) | (808) | (22,026) | (1,106) |
| Granted | 30,452 | 1,302 | 23,823 | 1,207 |
| Dividends reinvested | 2,208 | 69 | 1,517 | 84 |
| Impact of movements in share price | – | (1,558) | – | (9) |
| **Outstanding, end of the year** | 64,835 | 1,566 | 84,772 | 3,772 |

*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.

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

| | 2015 Number of DSUs | 2015 Amount $ | 2014 Number of DSUs | 2014 Amount $ |
|---|---|---|---|---|
| Outstanding, beginning of the year | 16,612 | 739 | 12,184 | 559 |
| Settled | – | – | (838) | (37) |
| Granted | 8,481 | 304 | 5,017 | 223 |
| Dividends reinvested | 566 | 19 | 249 | 11 |
| Impact of movements in share price | – | (442) | – | (17) |
| Outstanding, end of the year | 25,659 | 620 | 16,612 | 739 |

## 32 Share capital

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

The following table shows the common shares issued from January 1, 2015 to December 31, 2015:

| | | Number | $/share | Amount |
|---|---|---|---|---|
| Public offering[(a)] | December 14, 2015 | 2,950,000 | 25.50 | 72,702 |

(a) *Share issuance amount is net of issuance costs of $3,437 and future income tax on the issuance costs of $914.*

The following table shows the common shares issued from January 1, 2014 to December 31, 2014:

| | | Number | Deemed price per share | Amount |
|---|---|---|---|---|
| Acquisition of Prairie Auto Holdings Ltd. (Note 15) | March 10, 2014 | 205,000 | 44.26 | 9,073 |
| Acquisition of Hyatt Group (Note 13) | July 1, 2014 | 18,753 | 79.99 | 1,500 |
| Public offering[(b)] | July 11, 2014 | 2,565,000 | 78.00 | 193,082 |
| | | 2,788,753 | – | 203,655 |

(b) *Share issuance amount is net of issuance costs of $8,808 and future income tax on the issuance costs of $1,820.*

***Restricted Share Unit Trust***

A trust ("Trust") was formed to hedge the risk of future share price increases from the time the RSUs and DSUs (see Note 31) are granted to when they are fully vested and can be exercised. The beneficiaries of the Trust are members of the Executive and Senior Management Team who participate in the long-term incentive compensation plan called the RSU Plan and independent members of the Board of Directors who participate in the DSU 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. Dividends earned during the twelve month period ended December 31, 2015 on the shares held in trust of $89 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, 2015. As the Company controls the Trust, it has included the Trust in its consolidated financial statements for the year ended December 31, 2015.

The following table shows the change in shareholders' capital:

| | 2015 Number | 2015 Amount $ | 2014 Number | 2014 Amount $ |
|---|---|---|---|---|
| Outstanding, beginning of the year | 24,409,656 | 434,572 | 21,638,089 | 232,938 |
| Common shares issued | 2,950,000 | 72,702 | 2,788,753 | 203,655 |
| Treasury shares acquired | – | – | (41,833) | (2,687) |
| Dividends reinvested | (2,463) | (89) | (1,574) | (89) |
| Treasury shares settled | 31,557 | 1,052 | 26,221 | 755 |
| Outstanding, end of the year | 27,388,750 | 508,237 | 24,409,656 | 434,572 |

As at December 31, 2015, 70,933 (2014 – 100,027) common shares were held in trust for the Restricted Share Unit Plan, resulting in a total of 27,459,683 (2014 – 24,509,683) 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, 2015, eligible dividends totaling $1.00 per common share were declared and paid, resulting in total payments of $24,432 (2014 – $21,745).

### *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. Basic earnings per share are adjusted by the dilutive impact of the RSUs to calculate the diluted earnings per share.

Earnings used in determining earnings per share from continuing operations are presented below:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Earnings attributable to common shares | 22,821 | 53,132 |

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

| | 2015 | 2014 |
|---|---|---|
| Basic | 24,574,022 | 23,018,588 |
| Adjustment for RSUs | 100,061 | 120,815 |
| Diluted | 24,674,083 | 23,139,403 |

## 33 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. No specific targets or ratios are set by the Company. 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, 2015<br>$ | December 31, 2014<br>$ |
|---|---|---|
| Long-term indebtedness (Note 28) | 285,759 | 223,009 |
| Equity | 510,029 | 436,456 |
| | 795,788 | 659,465 |

The Company manages its capital structure in accordance with changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may assume additional debt, refinance existing debt with different characteristics, sell assets to reduce debt, issue new shares or adjust the amount of dividends paid to its shareholders. The Company was in compliance with its debt covenants at December 31, 2015.

## 34 Related party transactions

### *Transactions with Companies Controlled by the Executive Chair of AutoCanada*

During the year ended December 31, 2015, the Company had financial transactions with entities controlled by the Company's Executive Chair. Priestner is the controlling shareholder of Canada One Auto Company ("COAG") and its subsidiaries, which beneficially own approximately 8.6% of the Company's shares. In addition to COAG, Priestner is the controlling shareholder of other companies from 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 Priestner are approved by the Company's independent members of the Board of Directors.

a Rent paid to companies with common directors

During the year ended December 31, 2015, total rent paid to companies controlled by Priestner amounted to $2,846 (2014 – $2,853). The Company currently leases two of its facilities from affiliates of COAG. The Company's independent Board of Directors has received advice from a national real estate appraisal Company that the market rents at each of the COAG properties were at fair market value rates at inception.

b Administrative support fees

During the year ended December 31, 2015, total administrative support fees received from companies controlled by Priestner amount to $977 (2014 – $848).

c Loans to related parties

During the year ended December 31, 2015, an interest only, unsecured loan of $8,421 was made to a company controlled by Priestner. The loan is due on November 30, 2035, can be prepaid at any time, and carries interest at a variable rate (2015 – 5%). The interest rate on the loan is adjusted annually by way of mutual agreement and is intended to approximate a market rate of interest available under an arms-length agreement. The loan agreement also provides licensing fees to the Company benchmarked to approximate a total return to the Company equal to 80% of PPH's net income. Total interest charged relating to the loan was $35 and the total licensing fee was $14. As at December 31, 2015 there was $35 interest receivable and $14 of licensing fees receivable related to the loan. (See Note 16)

***Commitments with Companies controlled by the Executive Chair 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 Priestner. The future aggregate minimum lease payments under non-cancelable operating leases with COAG are as follows:

| | **December 31, 2015 $** |
|---|---|
| 2016 | 2,458 |
| 2017 | 2,458 |
| 2018 | 2,458 |
| 2019 | 2,458 |
| 2020 | 2,458 |
| Thereafter | 20,261 |
| | 32,551 |

***Key management personnel compensation***

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

| | **2015 $** | **2014 $** |
|---|---|---|
| Employee costs (including Directors) | 3,106 | 4,451 |
| Short-term employee benefits | 222 | 209 |
| Share-based payments | 1,997 | 1,181 |
| | 5,325 | 5,841 |

***Payable to related parties***

Included in trade and other payables at December 31, 2015 is $465 (December 31, 2014 – $2,327) payable to non-controlling interests. Theses amounts are unsecured and non interest bearing.

## 35 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, vehicle repurchase obligations and revolving floorplan facilities. Factors that can affect these items include seasonal sales trends, strategic decisions regarding inventory levels, the addition of new dealerships, and the day of the week on which period end cutoffs occur.

The following table summarizes the net increase in cash due to changes in non-cash working capital for the years ended:

| | December 31, 2015 $ | December 31, 2014 $ |
|---|---|---|
| Trade and other receivables | 1,939 | (2,735) |
| Inventories | (3,584) | (45,065) |
| Finance lease receivables | 3,271 | (4,587) |
| Other current assets | (1,761) | (1,317) |
| Trade and other payables | 3,959 | 8,179 |
| Vehicle repurchase obligations | 307 | 126 |
| Revolving floorplan facilities | (2,867) | 49,738 |
| | 1,264 | 4,339 |

## 36 Fair value of financial instruments

The Company's financial instruments at December 31, 2015 are represented by cash and cash equivalents, trade and other receivables, loan to associate, finance lease receivables, trade and other payables, revolving floorplan facilities, vehicle repurchase obligations, long-term indebtedness and redemption liabilities.

The fair values of cash equivalents, trade and other receivables, finance lease receivables, trade and other payables, and revolving floorplan facilities approximate their carrying values due to their short-term nature.

The long-term indebtedness has a carrying value that approximates the fair value due to the floating rate nature of the debt, While 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. Senior unsecured notes have a fair value that is different than the carry value, refer to Note 25.

Embedded derivatives (Level 2) and redemption liabilities (Level 3) are remeasured at fair value each reporting period with the gain or loss being recognized through profit or loss.

The fair value of the loan to associate is estimated by discounting the future cash flows associated with the debt at market interest rates. (Level 3)

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

The fair value hierarchy categorizes fair value measurement into three levels based upon the inputs to valuation technique, which are defined 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).

There were no transfers between the levels of the fair value hierarchy during the year.

| | Redemption Liabilities $ | Contingent Consideration $ | Loan to Associate $ | Total $ |
|---|---|---|---|---|
| Opening balance January 1, 2014 | – | – | – | – |
| Acquisitions (Note 13) | (8,687) | (2,353) | – | (11,040) |
| Business combination under common control (Note 14) | (33,111) | – | – | (33,111) |
| **Closing balance December 31, 2014** | (41,798) | (2,353) | – | (44,151) |
| Acquisitions (Note 13) | (1,102) | (5,416) | – | (6,518) |
| Loan to associate (Note 16) | – | – | 8,421 | 8,421 |
| Gain (loss) recognised in net income | (4,329) | (149) | 49 | (4,429) |
| **Closing balance December 31, 2015** | (47,229) | (7,918) | 8,470 | (46,677) |

***Loan to associate***

Loan to associate are carried at amortized cost using the effective interest method and is categorized as Level 3 in the fair value hierarchy. At inception of the instrument the effective interest rate is calculated using an estimate of future cash flows. In each subsequent period the carrying value is recalculated by taking the revised expected future cash flows discounted using the effective interest rate. The resulting adjustment to the carrying amount is recorded within income from loan to associate in operating profit. The fair value of the loan is calculated by taking the expected future cash flows discounted using the market rate for the instrument.

The carrying value of the loan to associate at December 31, 2015, is $8,470 and the fair value of the loan to associate at December 31, 2015 is $8,470.

The significant unobservable input in the Level 3 valuation under the discounted cash flow method are the cash flows which are tied to both the base interest rate as well as the related licensing fees. The licensing fees are determined based on gross margins of the associate. The expected gross margins of the associate are supported by historical margins, existing contracts, brand market performance and other factors affecting the operations of the associate.

## 37 Subsequent events

***Dividends***

On February 19, 2016, the Board of Directors of the Company declared a quarterly eligible dividend of $0.25 per common share on the Company's outstanding Class A common shares, payable on March 15, 2016 to shareholders of record at the close of business on February 29, 2016.

***Dealership divestiture***

On February 25, 2016, the Company sold the operating assets of its Newmarket Infiniti Nissan dealership located in Newmarket, Ontario. Net cash proceeds of $11,262 resulted in a pre-tax gain on divestiture of $4,359. The break-down of the transaction was as follows:

| | |
|---|---|
| Property, plant and equipment | 4,832 |
| Trade and other receivables | 76 |
| Inventory | 9,858 |
| Intangible assets | 2,053 |
| **Total Assets** | 16,819 |
| Trade and other payables | 165 |
| Revolving floorplan facilities | 9,751 |
| **Total Liabilities** | 9,916 |
| Net assets disposed of | 6,903 |
| Net proceeds on divestiture | 11,262 |
| Net gain on divestiture | 4,359 |

## CORPORATE INFORMATION

### Shareholder Information

AutoCanada Inc.

### Senior Management

Patrick Priestner,
Executive Chair

Thomas Orysiuk,
President and Chief Executive Officer

Stephen Rose,
Chief Operating Officer

Christopher Burrows,
Chief Financial Officer

Erin Oor,
Vice-President Corporate Development and Administration

### Board of Directors

Gordon Barefoot – Lead Director

Michael Ross

Dennis DesRosiers

Barry James

Maryann Keller

Patrick Priestner

Thomas Orysiuk

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### Investor Relations

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### Auditors

PricewaterhouseCoopers LLP
Edmonton, Alberta

### Legal Counsel

Borden Ladner Gervais LLP
Calgary, Alberta

### Shares Listed

Toronto Stock Exchange
Trading Symbol: ACQ

### Transfer Agent

Computershare

### Annual General Meeting

Friday May 6, 2016
10:00 a.m. Mountain Time
Hilton Doubletree West Edmonton Hotel
Room SBCC5
16615-109 Avenue
Edmonton, Alberta

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