AutoCanada

2016 CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

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, 2016 and December 31, 2015 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, 2016 and December 31, 2015 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 16, 2017
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, 2016 $	December 31, 2015 $
Revenue (Note 7)	2,891,581	2,903,803
Cost of sales (Note 8)	(2,405,448)	(2,416,094)
Gross profit	486,133	487,709
Operating expenses (Note 9)	(400,417)	(395,877)
Operating profit before other income (expense)	85,716	91,832
Lease and other income, net	5,171	5,546
Gain on disposal of assets, net	2,956	249
Impairment of intangible assets, net (Note 24)	(54,096)	(18,757)
Income from loans to associate (Note 23)	1,165	49
Operating profit	40,912	78,919
Finance costs (Note 11)	(31,664)	(31,628)
Finance income (Note 11)	2,121	2,292
Other gains and (losses) (Note 12)	5,785	(4,478)
Net income for the year before taxes	17,154	45,105
Income taxes (Note 13)	8,575	17,791
Net and comprehensive income for the year	8,579	27,314
Net and comprehensive income for the year attributable to:		
AutoCanada shareholders	2,596	22,821
Non-controlling interests	5,983	4,493
	8,579	27,314
Net earnings per share attributable to AutoCanada shareholders (Note 32)		
Basic	0.09	0.93
Diluted	0.09	0.92
Weighted average shares (Note 32)		
Basic	27,350,555	24,574,022
Diluted	27,455,686	24,674,083

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, 2016 $	December 31, 2015 $
ASSETS		
Current assets		
Cash and cash equivalents (Note 17)	103,221	62,274
Trade and other receivables (Note 18)	85,587	90,821
Inventories (Note 19)	619,718	596,542
Current tax recoverable	2,262	6,920
Current portion of finance lease receivables (Note 20)	3,797	4,012
Other current assets	4,219	4,760
Assets held for sale (Note 21)	1,556	27,482
	820,360	792,811
Restricted cash (Note 17)	6,558	6,288
Property and equipment (Note 22)	342,768	278,385
Loans to associate (Note 23)	14,726	8,470
Long-term portion of finance lease receivables (Note 20)	5,747	6,546
Other long-term assets (Note 26)	7,110	7,078
Intangible assets (Note 24)	378,982	399,648
Goodwill (Note 24)	24,364	32,956
	1,600,615	1,532,182
LIABILITIES		
Current liabilities		
Bank indebtedness (Note 17)	226	898
Trade and other payables (Note 27)	90,131	86,284
Revolving floorplan facilities (Note 28)	582,695	548,322
Vehicle repurchase obligations (Note 29)	6,794	1,846
Current indebtedness (Note 28)	21,679	11,484
Current portion of redemption liabilities (Note 16)	22,752	6,338
Liabilities held for sale	-	14,493
	724,277	669,665
Long-term indebtedness (Note 28)	330,351	285,759
Deferred income tax (Note 13)	24,683	25,838
Redemption liabilities (Note 16)	23,712	40,891
	1,103,023	1,022,153
EQUITY		
Attributable to AutoCanada shareholders	440,081	451,945
Attributable to Non-controlling interests	57,511	58,084
	497,592	510,029
	1,600,615	1,532,182

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, 2016	508,237	4,286	(60,578)	451,945	58,084	510,029
Net and comprehensive income	-	-	2,596	2,596	5,983	8,579
Dividends declared on common shares (Note 32)	-	-	(15,046)	(15,046)	-	(15,046)
Dividends declared by subsidiaries to non-controlling interests (Note 16)	-	-	-	-	(6,556)	(6,556)
Treasury shares acquired (Note 32)	(1,301)	-	-	(1,301)	-	(1,301)
Shares settled from treasury (Note 32)	950	(950)	-	-	-	-
Share-based compensation (Note 10)	-	1,887	-	1,887	-	1,887
Balance, December 31, 2016	507,886	5,223	(73,028)	440,081	57,511	497,592

	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 14)	-	-	-	-	5,847	5,847
Recognition of redemption liability granted to non-controlling interests (Note 14)	-	-	(1,102)	(1,102)	-	(1,102)
Dividends declared by subsidiaries to non-controlling interests (Note 16)	-	-	-	-	(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 (Note 10)	-	617	-	617	-	617
Balance, December 31, 2015	508,237	4,286	(60,578)	451,945	58,084	510,029

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, 2016 $	December 31, 2015 $
Cash provided by (used in)		
Operating activities		
Net and comprehensive income	8,579	27,314
Income taxes (Note 13)	8,575	17,791
Amortization of prepaid rent	452	452
Depreciation of property and equipment (Note 22)	19,557	18,860
Gain on disposal of assets	(2,956)	(249)
Impairment of intangible assets (Note 24)	54,096	18,757
Share-based compensation - equity-settled (Note 10)	1,887	617
Share-based compensation - cash-settled	(452)	(490)
Loss (gain) on embedded derivative (Note 11)	3	(42)
Revaluation of redemption liabilities (Note 16)	(765)	4,329
Revaluation of contingent consideration (Note 12)	(5,020)	149
Income taxes paid	(7,810)	(35,999)
Net change in non-cash working capital (Note 35)	28,583	1,264
	104,729	52,753
Investing activities		
Additions to restricted cash (Note 17)	(270)	(6,288)
Business acquisitions, net of cash acquired (Note 14)	(40,859)	(76,480)
Proceeds on divesture of dealership (Note 15)	10,077	-
Purchases of property and equipment (Note 22)	(63,702)	(74,606)
Proceeds on sale of property and equipment	121	143
Loans to associate (Note 23)	(6,256)	(8,470)
	(100,889)	(165,701)
Financing activities		
Proceeds from long-term indebtedness	251,282	338,730
Repayment of long-term indebtedness	(191,550)	(274,670)
Common shares repurchased, net of settled	(351)	(89)
Dividends paid (Note 32)	(15,046)	(24,432)
Dividends paid to non-controlling interests by subsidiaries (Note 16)	(6,556)	(7,284)
Proceeds from issuance of common shares (Note 32)	-	71,788
	37,779	104,043
Net increase (decrease) in cash and cash equivalents	**41,619**	**(8,905)**
Cash and cash equivalents at beginning of year (Note 17)	**61,376**	**70,281**
Cash and cash equivalents at end of year (Note 17)	**102,995**	**61,376**

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 16, 2017.

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. 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 recognized 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.

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

Deferred tax assets:

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

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

(b) Current tax

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

Manufacturer incentives and other rebates

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

Manufacturer rebates to our dealerships and assistance for floorplan interest are reflected as a reduction in the carrying value of each vehicle purchased by the Company. 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 instruments 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. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method.

The Company's financial liabilities include trade and other payables, revolving floorplan facilities, vehicle repurchase obligations, long-term indebtedness, contingent consideration, and redemption liabilities. Financial liabilities are measured at amortized cost, except for redemption liabilities and contingent consideration which are carried at fair value through profit or loss.

Cash and cash equivalents

Cash and cash equivalents include amounts on deposit with financial institutions and amounts with 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 for sale are recorded at the lower of carrying amount at designation and fair value less costs to sell.

Depreciation is not charged against property 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 expenditures that are 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 and lease vehicles	30%
Computer equipment	30%

Buildings are depreciated on a straight-line basis over the estimated useful lives of the buildings ranging from ten to forty-five years. 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. Goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate a potential impairment, 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 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 CGUs 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 recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized 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 recognized 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 recognized 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 recognized as income or expense 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, 2016.

The standards issued that are applicable to the Company are as follows:

- IAS 7, *Statement of Cash Flows* - in January 2016, the IASB issued amendments to IAS 7, Statement of Cash Flows to require a reconciliation of opening and closing liabilities that form part of an entity's financing activities, including both changes arising from cash flows and non-cash changes. The amendments are effective for reporting periods beginning on or after January 1, 2017 and may be applied prospectively.

- 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 or more frequently if events or changes in circumstances indicate that they may be impaired, in accordance with its accounting policies. The recoverable amounts of CGUs 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 16). The redemption amounts are determined with reference to the future profitability generated by those subsidiaries and their operating businesses. The Company will initially recognize 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 their 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 recognized as income or expenses in the Consolidated Statement of Comprehensive Income.

Loans to associate

The loans to associate are 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 loans each period. The effective interest rate is calculated at inception of the loans using an estimate of future cash flows. The cash flows related to the loans 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.

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) Investments in subsidiaries

On May 6, 2016, Mr. Patrick Priestner ("Priestner"), then Executive Chair of the Company, transitioned from his role as an employee and assumed the role of non-executive Chair of the Board of Directors ("Chair"). Priestner also signed an agreement effective May 6, 2016 (the "Agreement") giving the Company certain rights as it relates to its investments in subsidiaries (the "investees"). The Agreement is for a 14 month term, automatically renewable for successive one year terms, and cancellable by either party subject to a one year notice period. These events caused the Company to re-evaluate its significant judgment dealing with the accounting for its investees. Since the Company does not hold voting shares in the investees, the Company evaluated whether it continued to exercise power over the investees through a de facto agency relationship with Priestner, or any other substantive means.

The following facts were considered to assess the relationship between AutoCanada and Priestner:

Factors indicative of Priestner controlling the investees:

- As a function of owning 100% of the voting shares of the investees, and in the absence of other contractual arrangements, Priestner possesses the legal right to control decisions as they pertain to the investees;
- Priestner has not relied on any financial support from the Company in making his investments, and therefore the risk of loss and reward to Priestner personally is significant; and
- Priestner's level of expertise and knowledge in operating the investees.

Factors indicative of the Company controlling the investees:

- 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 retained effective control of the relevant activities that will impact its investment returns through execution of the Agreement, which provides the Company with, among other things, the ability to hire, manage and terminate the general managers of the relevant dealerships;
- The directors and officers of the investees are related parties of the Company; and
- The Company is involved in the operational decision making of its investees in a fashion consistent with its wholly-owned dealerships.

Prior to the change in employment status, the Company concluded that it had power over its investees through a de facto agency relationship with Priestner in respect of these investments. As a result of the signing of the Agreement, management has concluded that it continues to have power over the relevant activities and therefore control of the investees. As a result, the financial results of the investees continue to be consolidated in the Company's financial statements.

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

(b) Loans to associate

AutoCanada has provided loans to PPH Holdings Ltd. ("PPH") for which the voting interests are held 100% by Priestner, the Chair, as described in Note 23. When assessing whether the Company has control of PPH, management has considered the nature of the loans, 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 considerations are that the loans to PPH are repayable at any time without recourse, and grant the Company no power to control PPH. AutoCanada's returns from PPH are derived from interest on the loans 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 agreements stipulate that the loans' performance, repayment or prepayment will not in any way have any consequences in relation to the position 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 the Company 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 loans at any time and AutoCanada has no ability to block such a transaction.

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.

As a result of Priestner's change in employment from Executive Chair to non-executive Chair of the Board of Directors, the Company has assessed the relationship between Priestner and the Company as it relates to PPH. As a result of the reassessment, it was concluded that Priestner continues not to be considered a de facto agent of AutoCanada as it relates to PPH. 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.

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

	2016 $	2015 $
New vehicles	1,652,795	1,668,237
Used vehicles	725,430	704,569
Finance, insurance and other	130,423	143,383
Parts, service and collision repair	382,933	387,614
	2,891,581	2,903,803

8 Cost of sales

	2016 $	2015 $
New vehicles	1,534,498	1,545,829
Used vehicles	678,238	663,940
Finance, insurance and other	11,038	12,579
Parts, service and collision repair	181,674	193,746
	2,405,448	2,416,094

9 Operating expenses

	2016 $	2015 $
Employee costs (Note 10)	248,976	245,703
Administrative costs (1)	108,363	109,593
Facility lease costs	23,521	21,721
Depreciation of property and equipment (Note 22)	19,557	18,860
	400,417	395,877

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

10 Employees

Operating expenses incurred in respect of employees were:

	2016 $	2015 $
Wages, salaries and commissions	223,536	221,106
Withholding taxes and insurance	12,797	13,112
Employee benefits	10,696	10,854
Share-based compensation	1,887	617
Other benefits	60	14
	248,976	245,703

11 Finance costs and finance income

	2016 $	2015 $
Finance costs:		
Interest on long-term indebtedness	16,500	14,909
Unrealized loss (gain) on embedded derivative (Note 28)	3	(42)
Floorplan financing	12,408	13,160
Other interest expense	2,753	3,601
	31,664	31,628
Finance income:		
Short-term bank deposits	(2,121)	(2,292)

Cash interest paid during the year ended December 31, 2016 was $31,548 (2015 - $31,463).

12 Other gains and (losses)

	2016 $	2015 $
Revaluation of redemption liabilities (Note 16)	765	(4,329)
Revaluation of contingent consideration	5,020	(149)
	5,785	(4,478)

13 Taxation

Components of income tax expense were as follows:

	2016 $	2015 $
Current tax	12,316	19,290
Deferred tax	(3,741)	(1,499)
Total income tax expense	8,575	17,791

Factors affecting tax expense for the year:

	2016 $	2015 $
Comprehensive income before taxes	17,154	45,105
Comprehensive income before tax multiplied by the standard rate of Canadian corporate tax of 27.2% (2015 - 28.2%)	4,667	12,719
Effects of:		
Impact of non-deductible items	4,553	2,646
Difference between future and current rate	(39)	1,276
Adjustment in respect of prior years	(556)	934
Other, net	(50)	216
Total income tax expense	8,575	17,791

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 $	Other $	Total $
January 1, 2015	(6,588)	2,161	(22,168)	(3,532)	1,932	(28,195)
(Expense) benefit 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)
(Expense) benefit to Consolidated Statement of Comprehensive Income	(473)	(320)	4,837	317	(649)	3,712
Acquisition of subsidiary (Note 14)	-	-	(2,738)	-	-	(2,738)
Other	-	-	-	-	181	181
December 31, 2016	(1,678)	1,889	(24,526)	(2,519)	2,151	(24,683)

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The impairment charge recorded during the year resulted in $9,479 in deferred tax recoveries for the year ended December 31, 2016. The estimated average annual statutory rates used for the year ended December 31, 2016 was 27.2% (2015 - 28.2%).

Changes in the deferred income tax components are adjusted through deferred tax expense. Of the above components of deferred income taxes, $2,703 (2015 - $6,588) of the deferred tax liabilities are expected to be recovered within 12 months.

14 Business acquisitions

During the year ended December 31, 2016, the Company completed two business acquisitions comprising two automotive dealerships, representing two franchises. All acquisitions have been accounted for using the acquisition method. Acquisitions completed during the year are as follows:

Wellington Motors

Effective October 1, 2016, the Company purchased 100% of the voting shares of Wellington Motors Limited ("Wellington Motors"), which owns and operates a Chrysler Dodge Jeep RAM FIAT dealership in Guelph, Ontario, for total cash consideration of $23,880. On October 14, 2016, the Company also purchased the dealership land and facilities through a wholly-owned subsidiary, WMG Properties Inc., for $6,799. The acquisition was funded by drawing on the Company's revolving term facility.

Guelph Hyundai

On December 19, 2016, the Company purchased substantially all of the operating and fixed assets of Guelph Imported Cars Ltd. ("Guelph Hyundai"), in Guelph, Ontario, for total cash consideration of $4,521. The Company also purchased the dealership land and facilities through a wholly-owned subsidiary, GHM Properties Inc., for $9,548. The acquisition was funded by drawing on the Company's revolving term facility.

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The business acquisitions completed during the year ended December 31, 2016 are summarized as follows:

	Wellington Motors $	Guelph Hyundai $	Total $
Current assets			
Cash and cash equivalents	3,889	-	3,889
Trade and other receivables	2,700	80	2,780
Inventories	11,112	3,193	14,305
Other current assets	59	20	79
	17,760	3,293	21,053
Long-term assets			
Property and equipment	7,082	10,107	17,189
Other long-term assets	-	14	14
Intangible assets	20,780	3,550	24,330
Total assets	45,622	16,964	62,586
Current liabilities			
Trade and other payables	1,633	65	1,698
Revolving floorplan facilities	10,958	2,880	13,838
	12,591	2,945	15,536
Long-term liabilities			
Long-term indebtedness	72	-	72
Deferred income tax	2,738	-	2,738
Total liabilities	15,401	2,945	18,346
Net assets acquired	30,221	14,019	44,240
Goodwill	458	50	508
Total net assets acquired	30,679	14,069	44,748
Cash consideration	30,679	14,069	44,748

Acquisitions completed during the year ended December 31, 2016 generated revenue and net earnings of $14,251 and $355, 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 $142 have been charged to administrative expenses in the consolidated statement of comprehensive income for the year ended December 31, 2016. 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. For asset purchases, the tax basis equals the price paid for the acquired assets and liabilities. Where the acquisition price exceeds the aggregate fair value of identifiable assets acquired and liabilities assumed, the excess is treated as goodwill for tax purposes. For share purchases, the tax base of the identifiable assets and liabilities of the acquired entity passes over to the Company at pre-acquisition amounts, and no new tax goodwill is created (Note 3).

Prior year 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 lessor 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 17).

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 Chairman 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 Inc., 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 17).

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 acquisition was 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 facilities	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 interest	-	(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

15 Dealership divesture

On February 25, 2016, the Company sold substantially all of the operating and fixed assets, including the land and facilities, of Newmarket Infiniti Nissan, located in Newmarket, Ontario for cash consideration. Net proceeds of $10,077 resulted in a pre-tax gain on divesture of $3,206 included in gain on disposal of assets in the Statement of Comprehensive Income. The break-down of the transaction was as follows:

	$
Trade and other receivables	76
Inventories	9,858
Property and equipment	4,800
Intangible assets	2,053
Total Assets	16,787
Trade and other payables	165
Revolving floorplan facilities	9,751
Total Liabilities	9,916
Net assets disposed of	6,871
Net proceeds on divesture	10,077
Net gain on divesture	3,206

16 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	Dividends paid to non-controlling interests 2016 $	Dividends paid to non-controlling interests 2015 $
Dealer Holdings Ltd.	Alberta	69%	100%	3,854	3,485
Green Isle G Auto Holdings Inc.	British Columbia	20%	100%	40	300
Prairie Auto Holdings Ltd.	Saskatchewan	30%	100%	1,137	1,950
Waverley BG Holdings Inc.	Manitoba	20%	100%	286	359
LWD Holdings Ltd.	Alberta	25%	100%	922	275
NBFG Holdings Inc.	Saskatchewan	20%	100%	132	165
DFC Holdings Inc.	British Columbia	20%	100%	185	-
AutoCanada B Holdings Inc.	Quebec	15%	15%	-	750
AutoCanada HCN Holdings Inc.	Ontario	10%	10%	-	-
GRV C Holdings LP	Alberta	10%	10%	-	-
				6,556	7,284

Dealer Holdings Ltd., Green Isle G Auto Holdings Inc., Prairie Auto Holdings Ltd., Waverly BG Holdings Inc., LWD Holdings Ltd., NBFG Holdings Inc., AutoCanada B Holdings Inc., and AutoCanada HCN 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 Consolidated Statement of Financial Position as $46,464 (2015 - $47,229). The decrease in fair value of $765 (2015 - increase of $4,329) is recorded in other gains and losses on the Consolidated Statement of Comprehensive Income (Note 12). The fair value is determined based on the dealership equity value of the related subsidiary (Note 36). Those options eligible to be executed in the next fiscal year are presented as current liabilities.

The subsidiaries are holding companies which own 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 subsidiaries are similar in nature and risk based on assessment of the interest and industry classification.

17 Cash and cash equivalents

	December 31, 2016 $	December 31, 2015 $
Cash at bank and on hand	79,168	52,936
Short-term deposits	24,053	9,338
Cash and cash equivalents (excluding bank indebtedness)	103,221	62,274
Bank indebtedness	(226)	(898)
Cash and cash equivalents	102,995	61,376
Restricted cash	6,558	6,288
Cash and cash equivalents and restricted cash	109,553	67,664

Short-term deposits include 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 0.10% (2015 - 0.55%). Restricted cash is held in a trust account and earns interest at 0.95%-2.06% (2015 - 0.95%-2.06%). Interest earned on restricted cash during the year ended December 31, 2016 was $89 (2015 - $38).

18 Trade and other receivables

	December 31, 2016 $	December 31, 2015 $
Trade receivables	81,511	83,166
Less: Allowance for doubtful accounts	(2,810)	(1,885)
Net trade receivables	78,701	81,281
Other receivables	6,886	9,540
Trade and other receivables	85,587	90,821

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

	December 31, 2016 $	December 31, 2015 $
Current	71,711	78,908
Past due 31 - 60 days	9,483	7,121
Past due 61 - 90 days	3,079	2,908
Past due 91 - 120 days	1,218	1,039
Past due > 120 days	2,906	2,730
	88,397	92,706
Less: Allowance for doubtful accounts	(2,810)	(1,885)
Trade and other receivables	85,587	90,821

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.

19 Inventories

	December 31, 2016 $	December 31, 2015 $
New vehicles	471,610	441,764
Demonstrator vehicles	50,757	35,830
Used vehicles	69,009	91,144
Parts and accessories	28,342	27,804
	619,718	596,542

During the year ended December 31, 2016, $2,370,492 of inventory (2015 - $2,403,515) was expensed as cost of sales which included net write-downs on used vehicles of $232 (2015 - $2,250). As at December 31, 2016, the Company had recorded reserves for inventory write downs of $5,136 (2015 - $6,786). During the year ended December 31, 2016, $5,842 of demo expense (2015 - $5,795) was included in administrative costs and demo reserves decreased by $1,350 (2015 - $428).

20 Finance lease receivables

	December 31, 2016 $	December 31, 2015 $
Current portion of finance lease receivables		
Finance lease receivables	4,256	4,556
Unearned finance income - current	(459)	(544)
	3,797	4,012
Long-term portion of finance lease receivables		
Finance lease receivables	6,217	7,081
Unearned finance income - long-term	(470)	(535)
	5,747	6,546
Gross receivables from finance leases:		
No later than 1 year	4,256	4,556
Later than 1 year and no later than 5 years	6,217	7,081
	10,473	11,637
Unearned future finance income on finance leases	(929)	(1,079)
Net investment in finance leases	9,544	10,558
Net investment in finance leases:		
No later than 1 year	3,797	4,012
Later than 1 year and no later than 5 years	5,747	6,546
	9,544	10,558

21 Assets held for sale

The Company has 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, 2016 (2015 - $1,556). No decommissioning liability has been recognized on the land. Efforts to sell the land have commenced and the sale is expected to be completed within the next year.

A parcel of land in Newmarket, Ontario, with a carrying amount of $3,485 at December 31, 2016 (2015 - $3,485) was classified as held for sale at December 31, 2015. The Company had a change in plan with regards to this land and it has been reclassed to property and equipment in 2016, as it is held for future development.

22 Property and equipment

	Company & lease vehicles $	Leasehold improvements $	Machinery & equipment $	Land & buildings $	Furniture, fixtures & other $	Computer hardware $	Total $
Cost:							
January 1, 2015	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 (Note 14)	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 asset 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
Capital expenditures	24	7,687	1,711	-	1,429	1,314	12,165
Acquisitions of dealership assets (Note 14)	42	199	1,723	16,347	566	355	19,232
Acquisitions of real estate	-	-	-	51,537	-	-	51,537
Disposals	-	(2,274)	(795)	(145)	(187)	(553)	(3,954)
Transfer from asset held for sale (Note 21)	-	-	-	3,485	-	-	3,485
Transfers to inventory, net	(3,669)	-	-	-	-	-	(3,669)
December 31, 2016	19,031	35,012	31,332	307,986	14,867	12,824	421,052
Accumulated depreciation:							
January 1, 2015	(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 asset 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)
Depreciation	(3,760)	(2,842)	(2,425)	(7,556)	(1,470)	(1,504)	(19,557)
Acquisition of dealership assets (Note 14)	(3)	(154)	(1,277)	-	(352)	(257)	(2,043)
Disposals	-	2,274	717	31	171	390	3,583
Transfers to inventory, net	3,604	-	-	-	-	-	3,604
December 31, 2016	(6,375)	(11,766)	(20,478)	(22,422)	(8,705)	(8,538)	(78,284)
Carrying amount:							
December 31, 2015	16,418	18,356	11,200	221,865	6,005	4,541	278,385
December 31, 2016	12,656	23,246	10,854	285,564	6,162	4,286	342,768

Fully depreciated assets are retained in cost and accumulated depreciation accounts until such assets are removed from service. Proceeds from disposals are netted against the related assets and the accumulated depreciation and included in the Consolidated Statement of Comprehensive Income.

Land and building additions are used for open point dealerships as well as dealership relocations, dealership re-imagings, and also includes the purchase of a previously leased dealership property.

Land and buildings with a carrying value of $73,552 (2015 - $51,495) are pledged as collateral against bank borrowings.

23 Loans to associate

PPH Holdings Ltd.

On November 30, 2015, the Company loaned $8,421 to PPH, which is a company controlled, and formed, by Priestner. The loan was used by PPH to acquire Whitby Oshawa Honda ("Whitby"). On May 1, 2016, the Company loaned $3,120 to PPH to acquire Southview Acura ("Southview"). The Company has no participation in the equity of PPH, Whitby, or Southview.

The loans are due on November 30, 2035 and May 1, 2036 and carry interest at a variable rate (2016 – 5%, 2015 - 5%). The interest rates on the loans are adjusted annually by way of mutual agreement and are intended to approximate market rates of interest available under arms-length agreements. The loan agreements also provide licensing fees to the Company benchmarked to approximate a total return to the Company equal to 80% of PPH's net income.

During the year ended December 31, 2016, additional advances of $1,971 were loaned to PPH due to adjustments in the initial purchase price of the dealerships and funding for working capital requirements.

The carrying value approximates the fair value of the loans to associate at December 31, 2016 at $14,726 (2015 - $8,470).

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 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. PPH's principal place of business is Alberta, Canada. 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 for the years ended:

	December 31, 2016 $	December 31, 2015 $
Current assets	26,979	10,199
Non-current assets	748	9,667
Current liabilities	20,938	7,336
Non-current liabilities	17,484	9,409

For the year ended December 31, 2016, on a consolidated basis, PPH generated revenue of $104,188 (2015 - $5,601) and total net comprehensive income of $1,561 (2015 - $61).

For the year ended December 31, 2016, transactions relating to the Company's loans to PPH are as follows:

	December 31, 2016 $	December 31, 2015 $
Outstanding, beginning of year	8,470	-
Issuance of loan	3,120	8,421
Accrued interest income	603	35
Accrued licensing fees	562	14
Additional advances	1,971	-
Outstanding, end of year	14,726	8,470

24 Intangible assets and goodwill

Intangible assets consist of rights under franchise agreements with automobile manufacturers ("dealer agreements"). Intangible assets and goodwill are tested for impairment annually as at December 31 or more frequently if events or changes in circumstances indicate that they may be impaired. During the quarter ended September 30, 2016, the Company concluded that an interim test for impairment of certain cash generating units ("CGUs") was required. As a result of the test performed, the Company recorded an impairment in the amount of $54,096 in the quarter ended September 30, 2016, as certain CGUs had actual results that fell short of previous estimates and the outlook for these markets is less robust. The Company also performed its annual test for impairment at December 31, 2016. As a result of the test performed, the Company did not identify any further indication of impairment or recovery of impairment for the year ended December 31, 2016.

The changes in the book value of intangible assets and goodwill for the year ended December 31, 2016 were as follows:

	Intangible assets $	Goodwill $	Total $
Cost:			
January 1, 2015	360,057	32,852	392,909
Acquisitions (Note 14)	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
Acquisitions (Note 14)	24,330	508	24,838
December 31, 2016	438,040	41,604	479,644
Accumulated impairment:			
January 1, 2015	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
Impairment	44,996	9,100	54,096
December 31, 2016	59,058	17,240	76,298
Carrying amount:			
December 31, 2015	399,648	32,956	432,604
December 31, 2016	378,982	24,364	403,346

CGUs 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:

Cash Generating Unit	December 31, 2016 $			December 31, 2015 $		
	Intangible	Goodwill	Total	Intangible	Goodwill	Total
AJ	27,807	6,135	33,942	27,807	6,135	33,942
AN	25,417	381	25,798	25,417	381	25,798
Y	24,494	506	25,000	24,494	506	25,000
AX	20,780	458	21,238	-	-	-
AQ	18,044	3,724	21,768	18,044	3,724	21,768
A	21,687	-	21,687	21,687	-	21,687
AI	20,617	-	20,617	21,809	428	22,237
AF	20,181	-	20,181	20,384	992	21,376
AM	14,659	1,514	16,173	14,659	1,514	16,173
AV	14,791	-	14,791	17,298	2,657	19,955
AS	13,508	-	13,508	18,196	1,669	19,865
AC	12,496	941	13,437	12,496	941	13,437
AE	12,208	-	12,208	22,802	-	22,802
U	8,602	3,441	12,043	8,602	3,441	12,043
V	10,630	-	10,630	15,520	236	15,756
AG	9,263	950	10,213	9,263	950	10,213
D	9,626	-	9,626	9,626	-	9,626
B	9,431	-	9,431	9,431	-	9,431
Z	8,507	-	8,507	15,078	2,699	17,777
AL	5,273	2,176	7,449	5,273	2,176	7,449
AU	7,395	5	7,400	7,395	5	7,400
AH	6,591	409	7,000	6,591	409	7,000
E	6,498	-	6,498	8,497	-	8,497
W	5,799	201	6,000	5,799	201	6,000
AA	5,369	-	5,369	5,369	-	5,369
AT	4,099	-	4,099	9,253	384	9,637
C	1,440	-	1,440	5,828	-	5,828
Other CGUs less than $5,000	33,770	3,523	37,293	33,030	3,508	36,538
	378,982	24,364	403,346	399,648	32,956	432,604

The following table shows the impairments (recoveries of impairment) of indefinite-lived identifiable intangible assets and goodwill by CGU:

Cash Generating Unit	December 31, 2016 $			December 31, 2015 $		
	Intangible	Goodwill	Total	Intangible	Goodwill	Total
C	4,388	-	4,388	(1,193)	-	(1,193)
E	1,999	-	1,999	-	-	-
J	-	-	-	(2,053)	-	(2,053)
V	4,890	236	5,126	-	-	-
Z	6,571	2,699	9,270	-	-	-
AA	-	-	-	6,061	784	6,845
AB	-	-	-	4,205	337	4,542
AD	-	-	-	666	89	755
AE	10,594	-	10,594	2,931	1,444	4,375
AF	204	991	1,195	-	-	-
AI	1,192	428	1,620	-	1,152	1,152
AN	-	-	-	-	2,341	2,341
AS	4,688	1,669	6,357	-	1,993	1,993
AT	5,154	384	5,538	-	-	-
AV	2,507	2,657	5,164	-	-	-
AW	2,809	36	2,845	-	-	-
Net impairment	44,996	9,100	54,096	10,617	8,140	18,757

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, 2016 $	December 31, 2015 $
C	1,774	6,736
E	9,973	15,638
J	-	2,053
R	2,245	2,339
V	14,838	32,644
X	2,359	2,361
Z	16,546	29,542
AA	8,340	6,682
AB	8,650	5,550
AD	4,271	2,104
AE	13,497	25,778
AF	22,455	28,305
AI	23,523	25,200
AN	30,709	32,421
AS	16,557	20,036
AT	8,417	13,825
AV	17,816	20,891
AW	3,451	5,669

Impairment test of indefinite life intangible assets

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 in the current year. The recoverable amount of each CGU was based on the greater of fair value less cost to dispose 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 Earnings before interest, taxes, depreciation and amortization ("EBITDA") 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 5.3 to 10.9 times forecasted EBITDA.

Significant Assumptions for Value in Use

Growth

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

Discount Rate

The Company applied a discount rate 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. Management applied a discount rate between 11.02% and 12.97% in its projections.

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. 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.

Sensitivity

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	Change in Discount Rate	Change in Growth Rate	Recoverable amount	Carrying amount	Recoverable amount exceeds carrying amount
AA	0.12%	0.48%	7,228	6,314	914
AB	0.41%	1.47%	9,785	6,165	3,620
AD	0.32%	1.37%	3,330	2,837	493
AO	0.68%	2.54%	3,538	3,195	343
L	0.05%	0.18%	3,901	3,610	291
Y	0.57%	1.58%	34,344	30,935	3,409

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	Change in Multiple	Recoverable amount	Carrying amount	Recoverable amount exceeds carrying amount
AJ	1.6	51,375	41,357	10,018
AN	1.3	32,617	27,389	5,228

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 recognized, 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 $151,313 (2015 - $139,125). The Company's financial assets and financial liabilities are disclosed below:

	December 31, 2016 $	December 31, 2015 $
Financial assets		
Cash and cash equivalents	103,221	62,274
Trade and other receivables	85,587	90,821
Current portion of finance lease receivables	3,797	4,012
Restricted cash	6,558	6,288
Loans to associate	14,726	8,470
Long-term portion of finance lease receivables	5,747	6,546
Financial liabilities		
Bank indebtedness	226	898
Trade and other payables	90,131	86,284
Revolving floorplan facilities	582,695	548,322
Current indebtedness	21,679	11,484
Current portion of redemption liabilities	22,752	6,338
Long-term indebtedness	330,351	285,759
Redemption liabilities	23,712	40,891

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	
	2016	2015	2016	2015
	$	$	$	$
Finance costs	15,200	13,295	7,600	6,647
Finance income	41	146	20	73

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. 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 18.

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

Concentration of cash and cash equivalents exist due to the significant amount of cash held with Scotiabank (see Note 17 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, 2016 (2015 - 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.

	2017 $	2018 $	2019 $	2020 $	Thereafter $	Total $
December 31, 2016						
Bank indebtedness	226	-	-	-	-	226
Trade and other payables	90,131	-	-	-	-	90,131
Revolving floorplan facilities	582,695	-	-	-	-	582,695
Vehicle repurchase obligations	6,794	-	-	-	-	6,794
Redemption liabilities	22,752	23,712	-	-	-	46,464
Senior unsecured notes	-	-	-	-	149,739	149,739
HSBC revolving term facility	-	151,121	-	-	-	151,121
Lease financing - RBC	8,079	-	-	-	-	8,079
Lease financing - Scotiabank	394	267	-	-	-	661
Servus mortgage	248	257	268	278	4,268	5,319
VCCI mortgages	10,284	406	1,216	2,563	2,962	17,431
BMW mortgage	768	797	828	860	16,191	19,444
Other long-term debt	1,906	785	153	185	-	3,029
Contractual interest payable	16,152	12,219	9,484	9,357	14,107	61,319
	740,429	189,564	11,949	13,243	187,267	1,142,452

	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
Vehicle repurchase obligations	1,846	-	-	-	-	1,846
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
Lease financing - RBC	7,797	-	-	-	-	7,797
Lease financing - Scotiabank	435	456	24	-	-	915
Lease financing - BMO	346	-	-	-	-	346
Servus mortgage	239	248	258	269	4,543	5,557
VCCI mortgages	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

26 Other long-term assets

	December 31, 2016 $	December 31, 2015 $
Prepaid rent	5,386	5,838
Other assets	1,724	1,240
	7,110	7,078

27 Trade and other payables

	December 31, 2016 $	December 31, 2015 $
Trade payables	45,783	46,443
Accruals and provisions	14,681	11,974
Sales tax payable	5,339	4,710
Wages and withholding taxes payable	24,328	23,157
	90,131	86,284

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

	Finance and insurance (a) $	Other $	Total $
January 1, 2015	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
Provisions arising during the year	815	826	1,641
Amounts expired or disbursed	(1,299)	(577)	(1,876)
December 31, 2016	1,428	788	2,216

(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 are 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, 2016 $	December 31, 2015 $
Revolving floorplan facilities		
Revolving floorplan facilities - Syndicate (i)	354,774	348,840
Revolving floorplan facilities - VCCI (ii)	37,418	33,086
Revolving floorplan facilities - BMW Financial (iii)	65,036	72,111
Revolving floorplan facilities - RBC (iv)	84,374	70,790
Revolving floorplan facilities - Scotiabank (v)	30,824	23,495
Revolving floorplan facilities - Toronto-Dominion Bank (vi)	10,269	-
	582,695	**548,322**
Indebtedness		
Senior unsecured notes (vii)		
Senior unsecured notes	149,739	149,739
Embedded derivative	(21)	(24)
Unamortized deferred financing costs	(2,370)	(2,907)
	147,348	146,808
HSBC revolving term facility (viii)		
HSBC revolving term facility	151,121	103,591
Unamortized deferred financing costs	(402)	(688)
	150,719	102,903
Other debt:		
Lease financing - RBC (ix)	8,079	7,797
Lease financing - Scotiabank (x)	661	915
Lease financing - BMO (xi)	-	346
Servus mortgage (xii)	5,319	5,557
VCCI mortgages (xiii)	17,431	4,032
BMW mortgage (xiv)	19,444	20,181
Other long-term debt	3,029	8,704
Total indebtedness	**352,030**	**297,243**
Current indebtedness	**21,679**	**11,484**
Long-term indebtedness	**330,351**	**285,759**

Terms and conditions of outstanding loans are as follows:

i Scotiabank and the Canadian Imperial Bank of Commerce ("CIBC") provide the Company's syndicated floorplan credit facility (the "Facility"). The availability of the Facility is $550,000 (2015 - $550,000) and it bears a rate of Bankers' Acceptance plus 1.15% (2015 - 1.15%) per annum for a total of 2.03% at December 31, 2016 (2015 - 2.17%). The Facility has certain reporting requirements and financial covenants and is collateralized by each individual dealership's inventories that are directly financed by the Facility, a general security agreement with each dealership financed, and a guarantee from AutoCanada Holdings Inc., a subsidiary of the Company.

ii VW Credit Canada, Inc. ("VCCI") provides floorplan financing for new, used and demonstrator vehicles for all of the Company's Volkswagen and Audi dealerships (the "VCCI facilities"). The VCCI facilities bear interest at Royal Bank of Canada ("RBC") prime rate plus 0.00%-1.25% (2015 - 0.00%-1.25%). The RBC prime rate was 2.70% at December 31, 2016 (2015 - 2.70%). The combined total interest rates were 2.70%-3.95% at December 31, 2016 (2015 – 2.70%-3.95%). The maximum amount of financing provided by the VCCI facilities is $52,845 (2015 - $46,930). The VCCI facilities have certain reporting requirements and financial covenants and 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 financed by VCCI. The individual notes payable of the VCCI facilities are due when the related vehicle is sold.

iii BMW Financial Services Canada ("BMW Financial"), a division of BMW Canada Inc., provides floorplan financing for new, used and demonstrator vehicles for all of the Company's BMW dealerships (the "BMW Facilities"). The BMW Facilities bear a variable interest rate of prime minus 0.40% (2015 - 0.40%) per 360 day annum for a total of 2.30% at December 31, 2016 (2015 - 2.30%). The BMW Facilities have a current advance limit of $93,550 (2015 - $103,150). The BMW Facilities have certain reporting requirements and financial covenants and are collateralized by the dealerships' movable and immovable property.

iv The Royal Bank of Canada ("RBC") provides floorplan financing for new, used and demonstrator vehicles for eight of the Company's dealerships (the "RBC Facilities"). The RBC Facilities bear interest rates of RBC's Cost of Funds Rate plus 0.40%-0.75% (2015 - 0.40%-1.35%). The RBC's Cost of Funds Rate was 1.78% at December 31, 2016 (2015 - 1.63%). The combined total interest rates were 2.18%-2.53% as at December 31, 2016 (2015 - 2.03%-2.98%). The maximum amount of financing provided by the RBC facilities is $134,300 (2015 - $136,500). The RBC Facilities have certain reporting requirements and financial covenants and are collateralized by the new, used, and demonstrator 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 demonstrator vehicles for three of the Company's dealerships (the "Scotiabank Facilities"). The Scotiabank Facilities bear interest rates of Scotia Fixed Flooring Rate plus 0.93% (2015 - 1.25%). The Scotia Fixed Flooring rate was 0.97% at December 31, 2016 (2015 - 0.93%). The combined total interest rate was 1.90% at December 31, 2016 (2015 - 2.18%). The maximum amount of financing provided by Scotiabank Facilities is $50,400 (2015 - $50,400). The Scotiabank Facilities have certain reporting requirements and financial covenants and are collateralized by the new, used, and demonstrator inventory financed by Scotiabank and a general security agreement from the Company's three dealerships financed by Scotiabank.

vi On October 14, 2016, the Company entered into an agreement with Toronto Dominion Bank ("TD") to provide floorplan financing for new, used and demonstrator vehicles for one of the Company's dealerships (the "TD Facilities"). The TD Facilities bear interest rates of TD prime rate (2.70% at December 31, 2016) minus 0.75% per annum and provide a maximum amount of financing of $21,500. The TD Facilities have certain reporting requirements and financial covenants and are collateralized by the new, used and demonstrator inventory financed by TD and a general security agreement from the Company's dealership financed by TD.

vii The Company has $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 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 an equity offering or following certain dates specified in the agreement. In addition, the Noteholders 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 reinvested 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 this compound financial instrument is measured at fair value at each reporting date with gains or losses in fair value recognized through profit or loss.

viii 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, 2016, 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% for a total of 4.70% at December 31, 2016 (2015 - 4.70%). Amounts drawn under the Credit Agreement as at December 31, 2016 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 has certain reporting requirements and financial covenants and 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 priority agreements signed by HSBC, Scotiabank, VCCI, BMW Financial, TD, and the Company, the collateral for the Credit Agreement excludes all new, used and demonstrator inventory financed with Scotiabank, VCCI, BMW Financial, RBC, and TD revolving floorplan facilities.

ix RBC provides financing for the lease vehicles of two of the Company's dealerships (the "RBC lease financing"). The RBC lease financing bears interest rates of RBC's Costs of Funds Rate plus 0.90% (2015 - 0.90%-1.50%). The RBC's Cost of Funds Rate was 1.78% at December 31, 2016 (2015 - 1.63%). The combined total interest rates were 2.68% at December 31, 2016 (2015 - 2.53%-3.13%). The maximum amount of financing provided by RBC lease financing is $16,000 (2015 - $15,000) repayable over the terms of the contract in varying amounts of principal. The RBC lease financing has certain reporting requirements and financial covenants and is collateralized by the lease vehicles under the related lease agreements. The RBC lease financing is due on demand.

x Scotiabank provides financing for the lease vehicles of two of the Company's dealerships (the "Scotiabank lease financing"). The Scotiabank lease financing bears interest rates of Scotiabank's Cost of Funds Rate plus 1.25% (2015 - 1.25%) for a total of 3.47% at December 31, 2016 (2015 - 3.78%). The maximum amount of financing provided by the Scotia lease financing is $2,500 (2015 - $2,500) repayable over the terms of the contract in varying amounts of principal. The Scotiabank lease financing has certain reporting requirements and financial covenants and is collateralized by the lease vehicles under the related lease agreement. The Scotiabank lease financing is due on demand.

xi The Bank of Montreal ("BMO") provided financing for the lease vehicles of one of the Company's dealerships (the "BMO lease financing"). The BMO lease financing bears interest rates of BMO's Dealership Finance Base Rate plus 1.65% (2015 - 1.65%) for a total of 3.11%-3.59%, depending on term, at December 31, 2016 (2015 - 2.93%-3.59%). 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 balance has been fully repaid in 2016.

xii Servus Credit Union provides the Company with a mortgage (the "Servus Mortgage"). The Servus Mortgage bears a fixed annual rate of 3.90% (2015 - 3.90%) and is repayable with monthly blended installments of $38 (2015 - $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, 2016, the carrying amount of the property was $8,829 (2015 - $9,204).

xiii 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% (2015 - 0.15%-0.50%). The RBC prime rate was 2.70% at December 31, 2016 (2015 - 2.70%). The combined total interest rates were 2.85%-3.20% at December 31, 2016 (2015 - 2.85%-3.20%). The VCCI Mortgages are repayable with blended monthly payments of $51 amortized over a 20 year period with terms expiring in between April 2019 and April 2021. 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, 2016, the carrying amount of the properties was $34,334 (2015 - $11,268).

xiv 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 financial covenants 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, 2016, the carrying amount of the property was $30,390 (2015 - $31,023).

29 Vehicle repurchase obligations

The Company operates service loaner programs and provides vehicles to a third party vehicle rental company with individual terms not to exceed twelve months, at which time the Company has an obligation to repurchase each vehicle at a predetermined amount. As a result, the Company has recorded the contractual repurchase amounts as outstanding vehicle repurchase obligations and has classified the liability as current due to the short term nature of the obligation.

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-cancellable operating leases are as follows:

	December 31, 2016 $
2017	19,051
2018	16,912
2019	14,486
2020	12,520
2021	12,288
Thereafter	123,489
	198,746

Lawsuits and legal claims

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 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. Note 27 includes provisions to account for information known to the Company and based on estimates of probable resolutions.

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 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.

Letters of guarantee

The Company has outstanding letters of guarantee totaling $1,223 as at December 31, 2016 (2015 - $1,015) 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, 2016, the Company is committed to capital expenditure obligations in the amount of $15,856 (2015 - $35,484) related to dealership relocations, dealership re-imagings, and dealership open points with expected completion of these commitments in 2017.

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 share-based payments. The plans are as follows:

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:

	2016 Number of RSUs	**2016 Amount $**	**2015 Number of RSUs**	**2015 Amount $**
Outstanding, beginning of the year	64,835	1,566	84,772	3,772
Settled - equity	(40,019)	(784)	(31,558)	(1,211)
Settled - cash	(26,679)	(522)	(21,039)	(808)
Granted	45,586	875	30,452	1,302
Forfeited units	(11,539)	(235)	-	-
Dividends reinvested	1,492	29	2,208	69
Impact of movements in share price	-	(150)	-	(1,558)
Outstanding, end of the year	33,676	779	64,835	1,566

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 for the years ended:

	2016 Number of DSUs	**2016 Amount $**	**2015 Number of DSUs**	**2015 Amount $**
Outstanding, beginning of the year	25,659	620	16,612	739
Settled	(6,362)	(152)	-	-
Granted	14,519	293	8,481	304
Dividends reinvested	915	19	566	19
Impact of movements in share price	-	45	-	(442)
Outstanding, end of the year	34,731	824	25,659	620

Stock Option Plan

The Stock Option Plan (the "Plan") is designed to provide long-term incentives to designated management to deliver long-term shareholder returns. Under the Plan, participants are granted options which only vest if certain service conditions are met. The terms of the Plan specify that following retirement an employee may exercise vested options with the rights to exercise continuing for 120 days following the retirement date.

Options are granted under the Plan for no consideration and carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share. The exercise price of options is determined by the Board and shall not be lower than the closing price of the AutoCanada shares on the Toronto Stock Exchange immediately preceding the date of grant.

The following table shows the change in the number of stock options for the year ended December 31, 2016:

	Average exercise price per share option $	**Share options #**
Outstanding, beginning of the year	-	-
Granted	18.68	520,000
Outstanding, end of the year	18.68	520,000
Vested and exercisable at end of the year	18.68	10,000

During the year ended December 31, 2016, no options have been exercised, forfeited, or expired.

The following table shows the expiry date and exercise prices for stock options outstanding for the year ended December 31, 2016:

Grant date	**Expiry date**	**Exercise price $**	**Share options December 31, 2016 #**
April 1, 2016	March 31, 2026	18.68	520,000
Total			**520,000**
Weighted average remaining contractual life of options outstanding at end of the year			9.25 years

The assessed fair value at grant date of options granted on April 1, 2016 was $6.03 per option. The fair value at grant date is determined using an adjusted form of the Black Scholes Model that takes into account the exercise price, the expected life of the option, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield of the underlying share, and the risk free interest rate for the term of the option.

The model inputs for options granted include:

a) Options are granted for no consideration and vest based on varying terms over a four year period. Vested options are exercisable for a period of ten years after grant date.

b) Exercise price: $18.68

c) Grant date: April 1, 2016

d) Expected life of option: five years

e) Share price at grant date: $18.18

f) Expected price volatility of the Company's shares: 45.52%

g) Expected dividend yield: 2.20%

h) Risk-free interest rate: 1.50%

Expected price volatility was determined at the time of grant using the AutoCanada share price on a historical basis. It reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

During the year ended December 31, 2016, total expenses of $1,306 arose as a result of options issued under the Plan.

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.

There were no common shares issued during the year ended December 31, 2016. The following table shows the common shares issued during the year ended 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.*

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, 2016 on the shares held in trust of $57 (2015 - $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, 2016. As the Company controls the Trust, it has included the Trust in its consolidated financial statements for the year ended December 31, 2016.

The following table shows the change in shareholders' capital for the years ended:

	2016 Number of shares	2016 Amount $	2015 Number of shares	2015 Amount $
Outstanding, beginning of the year	27,388,750	508,237	24,409,656	434,572
Common shares issued	-	-	2,950,000	72,702
Treasury shares acquired	(60,824)	(1,244)	-	-
Dividends reinvested	(2,832)	(57)	(2,463)	(89)
Treasury shares settled	31,345	950	31,557	1,052
Outstanding, end of the year	27,356,439	507,886	27,388,750	508,237

As at December 31, 2016, 103,244 (2015 - 70,933) common shares were held in trust for the Restricted Share Unit Plan, resulting in a total of 27,459,683 (2015 - 27,459,683) 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, 2016, eligible dividends totaling $0.55 (2015 – $1.00) per common share were declared and paid, resulting in total payments of $15,046 (2015 - $24,432).

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:

	2016 $	2015 $
Earnings attributable to common shares	2,596	22,821

The following table shows the weighted-average number of shares outstanding for the years ended:

	2016	2015
Basic	27,350,555	24,574,022
Effect of dilution from RSUs	50,334	100,061
Effect of dilution from stock options	54,797	-
Diluted	27,455,686	24,674,083

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, 2016 $	December 31, 2015 $
Long-term indebtedness (Note 28)	330,351	285,759
Equity	497,592	510,029
	827,943	795,788

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, 2016.

34 Related party transactions

Transactions with Companies Controlled by the Chair of AutoCanada

During the year ended December 31, 2016, the Company had financial transactions with entities controlled by the Company's Chair. Priestner is the controlling shareholder of Canada One Auto Company ("COAG") and its subsidiaries, which beneficially own approximately 8.6% (2015 - 8.6%) of the Company's shares. In addition to COAG, Priestner is the controlling shareholder of other companies in which AutoCanada earns administrative fees. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. All significant transactions between AutoCanada and companies controlled by 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, 2016, total rent paid to companies controlled by Priestner amounted to $2,822 (2015 - 2,846). The Company currently leases two of its dealership 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, 2016, total administrative support fees received from companies controlled by Priestner amount to $1,384 (2015 - $977).

(c) Loans to related parties

During the year ended December 31, 2016, interest only, unsecured loans of $3,120 (2015 - $8,421) and additional advances of $1,971 were made to a company controlled by Priestner (Note 23). Total interest charged relating to the loans were $603 (2015 - $35) and the total licensing fees were $562 (2015 - $14). As at December 31, 2016 there were $638 (2015 - $35) of interest receivable and $576 (2015 - $14) of licensing fees receivable related to the loans (Note 23).

Commitments with Companies controlled by the 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, 2016 $
2017	2,458
2018	2,458
2019	2,458
2020	2,458
2021	2,273
Thereafter	17,990
	30,095

Key management personnel compensation

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

	2016 $	**2015 $**
Employee costs (including Directors)	5,636	3,106
Short-term employee benefits	455	222
Share-based compensation	1,887	1,997
	7,978	5,325

Payable to related parties

Included in trade and other payables at December 31, 2016 is $2,527 (2015 - $465) payable to related parties. These amounts are unsecured and non-interest bearing.

35 Net change in non-cash working capital

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

	December 31, 2016 $	December 31, 2015 $
Trade and other receivables	8,031	1,939
Inventories	(8,765)	(3,584)
Finance lease receivables	1,014	3,271
Other current assets	150	(1,761)
Trade and other payables	2,670	3,959
Revolving floorplan facilities	20,535	(2,867)
Vehicle repurchase obligations	4,948	307
	28,583	1,264

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.

36 Fair value of financial instruments

The Company's financial instruments at December 31, 2016 are represented by cash and cash equivalents, trade and other receivables, loans to associate, finance lease receivables, trade and other payables, revolving floorplan facilities, vehicle repurchase obligations, long-term indebtedness, contingent consideration, 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), contingent consideration (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 financial instruments 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.

The following table summarizes the remeasurements at fair value with the gain or loss being recognized through profit or loss for the years ended:

	Redemption liabilities $	Contingent consideration $	Total $
Opening balance, January 1, 2015	(41,798)	(2,775)	(44,573)
Acquisitions (Note 14)	(1,102)	(5,416)	(6,518)
(Loss) gain recognized in net income (Note 12)	(4,329)	(149)	(4,478)
Closing balance, December 31, 2015	(47,229)	(8,340)	(55,569)
Gain recognized in net income (Note 12)	765	5,020	5,785
Settlement of contingent consideration	-	1,500	1,500
Closing balance, December 31, 2016	(46,464)	(1,820)	(48,284)

37 Subsequent events

Dividends

On February 21, 2017, the Board of Directors of the Company declared a quarterly eligible dividend of $0.10 per common share on the Company's outstanding Class A common shares, payable on March 15, 2017 to shareholders of record at the close of business on February 28, 2017.

AutoCanada Inc.
200 - 15511 123 Avenue NW
Edmonton, AB T5V 0C3
www.autocan.ca