2018

AutoCanada

Annual Financial Statements

Consolidated Financial Statements

For the year ended December 31, 2018

Independent Auditor's Report

To the Shareholders of AutoCanada Inc.

Our Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of AutoCanada Inc. and its subsidiaries (together, the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of comprehensive (loss) income for the years ended December 31, 2018 and 2017;
- the consolidated statements of financial position as at December 31, 2018 and 2017;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other Information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor’s report is Steven Hollinger.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

Edmonton, Alberta
March 14, 2019

AutoCanada Inc.

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

	December 31, 2018 $	December 31, 2017 $
Revenue (Note 8)	3,150,781	3,101,560
Cost of sales (Note 9)	(2,642,818)	(2,582,931)
Gross profit	507,963	518,629
Operating expenses (Note 10)	(474,804)	(426,253)
Operating profit before other income (expense)	33,159	92,376
Lease and other income, net (Note 12)	7,919	21,431
Gain on disposal of assets, net (Note 12)	21,480	1,345
(Impairment) recovery of non-financial assets (Note 25)	(95,500)	816
Income from loans to associates (Note 24)	294	3,001
Operating (loss) profit	(32,648)	118,969
Finance costs (Note 13)	(47,193)	(36,038)
Finance income (Note 13)	1,289	2,294
Other gains (Note 14)	950	3,285
Net (loss) income for the year before taxation	(77,602)	88,510
Income taxes (recovery) (Note 15)	(174)	22,713
Net (loss) income for the year	(77,428)	65,797
Other comprehensive (loss) income		
Items that may be reclassified to profit or loss		
Foreign operations currency translation	6,136	—
Change in fair value of cash flow hedge	(3,762)	—
Income tax relating to these items	1,015	—
Other comprehensive income for the year, net of tax	3,389	—
Comprehensive (loss) income for the year	(74,039)	65,797
Net (loss) income for the year attributable to:		
AutoCanada shareholders	(78,083)	57,844
Non-controlling interest	655	7,953
	(77,428)	65,797
Comprehensive (loss) income for the year attributable to:		
AutoCanada shareholders	(74,694)	57,844
Non-controlling interest	655	7,953
	(74,039)	65,797
Net (loss) income per share attributable to AutoCanada shareholders:		
Basic	(2.85)	2.11
Diluted	(2.85)	2.11
Weighted average shares		
Basic (Note 33)	27,399,117	27,379,193
Diluted (Note 33)	27,399,117	27,473,995

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

Approved on behalf of the Company

Paul W. Antony, Director

Barry L. James, Director

AutoCanada Inc.

Consolidated Statements of Financial Position

(In thousands of Canadian dollars)

	December 31, 2018 $	December 31, 2017 $
ASSETS		
Current assets		
Cash and cash equivalents (Note 19)	25,324	94,660
Trade and other receivables (Note 20)	131,152	79,931
Inventories (Note 21)	760,865	659,593
Current tax recoverable	10,685	—
Other current assets (Note 27)	6,513	3,593
Assets held for sale (Notes 22 and 35)	54,313	163,642
	988,852	1,001,419
Restricted cash (Note 19)	—	4,106
Property and equipment (Note 23)	237,141	350,354
Loans to associate (Note 24)	—	18,100
Other long-term assets (Note 27)	10,448	5,080
Deferred income tax (Note 15)	13,642	—
Intangible assets (Note 25)	412,353	359,996
Goodwill (Note 25)	58,132	21,991
	1,720,568	1,761,046
LIABILITIES		
Current liabilities		
Bank indebtedness (Note 19)	—	136
Trade and other payables (Note 28)	101,280	63,295
Revolving floorplan facilities (Note 29)	748,353	634,655
Current tax payable	—	9,033
Vehicle repurchase obligations (Note 30)	7,654	6,511
Current indebtedness (Note 29)	1,654	2,666
Redemption liabilities (Note 18)	14,948	16,300
Current intangible liabilities (Notes 16 and 31)	5,049	—
Liabilities held for sale (Notes 22 and 35)	5,281	132,683
	884,219	865,279
Long-term intangible liabilities (Notes 16 and 31)	31,112	—
Long-term indebtedness (Note 29)	326,998	332,450
Derivative financial instruments (Note 39)	3,762	—
Deferred income tax (Note 15)	27,170	25,710
	1,273,261	1,223,439
EQUITY		
Attributable to AutoCanada shareholders	428,568	488,272
Attributable to Non-controlling interests	18,739	49,335
	447,307	537,607
	1,720,568	1,761,046

Commitments and contingencies (Note 31)

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 $**	**Cumulative translation adjustment $**	**OCI - hedge reserve $**	**Accumulated deficit $**	**Total $**	**Non-controlling interests $**	**Total equity $**
Balance at December 31, 2017 as originally presented	**508,768**	**5,389**	**—**	—	**(25,885)**	**488,272**	**49,335**	**537,607**
Change in accounting policy, net of tax (Note 4)	—	—	—	—	367	367	—	367
Balance, January 1, 2018	**508,768**	**5,389**	**—**	—	**(25,518)**	**488,639**	**49,335**	**537,974**
Net (loss) income	—	—	—	—	(78,083)	(78,083)	655	(77,428)
Other comprehensive income	—	—	6,136	(2,746)	—	3,390	—	3,390
Dividends declared on common shares (Note 33)	—	—	—	—	(10,956)	(10,956)	—	(10,956)
Dividends declared by subsidiaries to non-controlling interests (Note 18)	—	—	—	—	—	—	(1,650)	(1,650)
Sale of non-controlling interest (Note 35)	—	—	—	—	—	—	5,847	5,847
Acquisition of non-controlling interest (Note 35)	—	—	—	—	(2,675)	(2,675)	(14,674)	(17,349)
Divestiture of subsidiaries (Note 35)	—	—	—	—	—	—	(20,774)	(20,774)
Derecognition of redemption liability upon divestiture of subsidiary (Note 35)	—	—	—	—	26,404	26,404	—	26,404
Derecognition of redemption liability granted to non-controlling interests (Note 35)	—	—	—	—	1,359	1,359	—	1,359
Treasury shares acquired (Note 33)	(29)	—	—	—	—	(29)	—	(29)
Shares settled from treasury (Note 33)	799	(799)	—	—	—	—	—	—
Share-based compensation	—	519	—	—	—	519	—	519
Balance, December 31, 2018	509,538	5,109	6,136	(2,746)	(89,469)	428,568	18,739	447,307

	Attributable to AutoCanada shareholders							
	Share capital $	Contributed surplus $	Cumulative translation adjustment $	OCI - hedge reserve $	Accumulated deficit $	Total $	Non-controlling interests $	Total equity $
Balance, January 1, 2017	507,886	5,223	—	—	(73,028)	440,081	57,511	497,592
Net and comprehensive income	—	—	—	—	57,844	57,844	7,953	65,797
Dividends declared on common shares (Note 33)	—	—	—	—	(10,952)	(10,952)	—	(10,952)
Dividends declared by subsidiaries to non-controlling interests (Note 18)	—	—	—	—	—	—	(12,300)	(12,300)
Transactions with non-controlling interests (Note 35)	—	—	—	—	(640)	(640)	(4,133)	(4,773)
Non-controlling interests arising on acquisitions	—	—	—	—	—	—	304	304
Derecognition of redemption liability granted to non-controlling interests	—	—	—	—	1,197	1,197	—	1,197
Recognition of redemption liability granted to non-controlling interests	—	—	—	—	(306)	(306)	—	(306)
Treasury shares acquired (Note 33)	(31)	—	—	—	—	(31)	—	(31)
Shares settled from treasury (Note 33)	913	(913)	—	—	—	—	—	—
Share-based compensation	–	1,079	—	—	—	1,079	—	1,079
Balance, December 31, 2017	508,768	5,389	—	—	(25,885)	488,272	49,335	537,607

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, 2018 $	December 31, 2017 $
Cash provided by (used in):		
Operating activities		
Net (loss) income for the year	(77,428)	65,797
Income taxes (recovery) (Note 15)	(174)	22,713
Amortization of prepaid rent	452	452
Depreciation of property and equipment (Note 23)	19,947	20,444
Gain on disposal of assets	(21,480)	(1,345)
Share-based compensation - equity-settled	(279)	1,079
Share-based compensation - cash-settled	371	(503)
Revaluation of contingent consideration	15	(401)
Income taxes (paid) recovered	(2,773)	(9,919)
Net change in non-cash working capital (Note 37)	(31,115)	(22,512)
Revaluation of redemption liabilities	7	(2,869)
Impairment (recovery) of non-financial assets	95,500	(816)
	(16,957)	72,120
Investing activities		
Withdrawals from restricted cash (Note 19)	4,106	2,390
Business acquisition, net of cash acquired (Note 16)	(176,569)	(20,961)
Purchases of property and equipment (Note 23)	(26,574)	(24,831)
Proceeds on sale of property and equipment	123,798	4,267
Income from loans to associates (Note 24)	(294)	(3,374)
Proceeds from loans to associates (Note 24)	18,394	—
Proceeds on divestiture of dealerships (Note 17)	3,320	—
Proceeds from divestiture of investments in subsidiaries (Note 35)	41,017	—
	(12,802)	(42,509)
Financing activities		
Proceeds from indebtedness	293,872	121,846
Repayment of indebtedness	(302,213)	(133,485)
Common shares settled, net (Note 33)	770	882
Dividends paid on common shares (Note 33)	(10,956)	(10,952)
Distributions paid to non-controlling interests by subsidiaries	(20,359)	(12,300)
Loans to non-controlling interest	—	(4,073)
	(38,886)	(38,082)
Effect of exchange rate changes on cash and cash equivalents	(555)	—
Net (decrease) in cash and cash equivalents	(69,200)	(8,471)
Cash and cash equivalents at beginning of year (Note 19)	94,524	102,995
Cash and cash equivalents at end of year (Note 19)	25,324	94,524

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 the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, Nova Scotia and New Brunswick, and in the State of Illinois in the United States. 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 Notes 6 and 7.

The Company adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers effective January 1, 2018. The adoption of these standards resulted in certain updates to accounting policies, described in Note 3, and certain retrospective adjustments, described in Note 4.

These financial statements were approved by the Board of Directors on March 14, 2019.

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 recognised by the acquiree) and liabilities (including contingent liabilities) of acquired businesses at fair value at the acquisition date. The excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill. If the acquisition cost is less than the fair value of the net assets acquired, the fair value of the net assets is re-assessed and any remaining difference is recognized directly in the Consolidated Statement of Comprehensive (Loss) 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 (Loss) Income.

Revenue recognition

Policy applicable from January 1, 2018

As described in Note 4, the Company adopted IFRS 15 *Revenue from Contracts with Customers,* effective January 1, 2018. Adoption of the standard did not result in any adjustments, however the Company has updated its accounting policies in accordance the framework prescribed by the standard.

(a) New and Used Vehicles

The Company sells new and used vehicles at our franchised dealerships. The transaction price for a vehicle sale is determined with the customer at the time of sale. Customers often trade in their own vehicle and apply the value against the purchase price of a new or used vehicle. The trade-in vehicle is considered non-cash consideration and is measured at fair value, based on external and internal market data, and applied toward the contract price for the purchased vehicle.

When a vehicle is sold, control is transferred at a point in time upon delivery of the vehicle to the customer, which is generally at time of sale. The Company does not directly finance customers' vehicle purchases or leases however in many cases, third-party financing is arranged for the sale or lease of vehicles to our customers in exchange for a fee paid to us by the third-party financial institution. The Company receives payment directly from the customer at the time of sale or from the third-party financial institution (referred to as contracts-in-transit or vehicle receivables, which are part of our receivables from contracts with customers) within a short period of time following the sale.

(b) Parts, service and collision repair

The Company sells parts and services related to customer-paid repairs and maintenance, repairs and maintenance under manufacturer warranties and extended service contracts, and collision-related repairs.

Each automotive repair and maintenance service is a single performance obligation that includes both the parts and labour associated with the service. Payment for automotive service work is typically due upon completion of the service, which is generally completed within a short period of time from contract inception. The transaction price for automotive repair and maintenance services is based on the parts used, the number of labour hours applied, and standardized hourly labour rates. We satisfy our performance obligations, transfer control, and recognize revenue over time for repair and maintenance services because we are creating an asset with no alternative use and we have an enforceable right to payment for performance completed to date.

The transaction price for retail counter parts sales is determined at the time of sale based on the quantity and price of each product purchased. Payment is typically due at the time of sale, or within a short period of time following the sale. Control is generally considered to transfer at the point of sale or when the products are shipped, which typically occurs the same day as or within a few days of the sale.

(c) 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. These chargebacks are a form of variable consideration and the Company only recognizes commission revenue at the estimated amount of consideration to which it ultimately expects to be entitled. 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.

For the majority of finance and insurance product sales, the Company's performance obligation is to arrange for the provision of goods or services by another party. This performance obligation is satisfied when the finance and insurance product is delivered to the end-customer, generally at the time of the vehicle sale. As an agent, revenue is recognized as the net amount retained after paying the third-party provider for the goods or services that party is responsible for fulfilling.

Policy applicable before January 1, 2018

(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 (Loss) 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, finance lease receivables, restricted cash and loans to associates, are measured at amortized cost. The contractual cash flows received from the financial assets are solely payments of principal and interest and are held within a business model whose objective is to collect contractual cash flows. The financial assets 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 bank indebtedness, trade and other payables, revolving floorplan facilities, vehicle repurchase obligations, long-term indebtedness, derivative financial instruments, 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 (Refer to Note 26 – 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. The Company applies the simplified approach to measuring expected credit losses, which uses a lifetime expected credit loss allowance for all trade receivables. 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 (Loss) 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 (Loss) Income.

Inventories

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

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

Assets held for sale

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

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

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

Property and equipment

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

Machinery and equipment	20%
Furniture, fixtures and other	20%
Company 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:

- Specific dealer agreements continue indefinitely by their terms; and

- Specific 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 carried at cost less accumulated impairment losses.

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 with indefinite lives and goodwill 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 CGUs 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.

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

Leases

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

(a) Finance leases

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

The Company as a lessor:

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

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

The Company as a lessee:

Assets meeting finance lease criteria are capitalized at the lower of the present value of the related lease payments or the fair value of the leased asset at the inception of the lease. Minimum lease payments are apportioned between the finance charge and the liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(b) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

The Company as a lessor:

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

The Company as a lessee:

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

Redemption liabilities

The potential cash payments related to put options issued by the Company over the equity of subsidiary companies are accounted for as financial liabilities when such options may only be settled other than by exchange of a fixed amount of cash, or another financial asset, or for a fixed number of shares in the subsidiary. The amount that may become payable under the option on exercise is initially recognised at fair value within redemption liabilities with a corresponding charge directly to equity attributable to AutoCanada shareholders. Subsequently, if the Company revises its estimates, the carrying amount of the redemption liability is adjusted and the adjustment will be recognised as income or expenses in the Consolidated Statement of Comprehensive (Loss) 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.

Shared-Based Payments

The Company operates a number of share-based compensation plans for the benefit of certain employees and Company directors, as described in Note 32.

The accounting for a share-based payment plan is based on whether the arrangement is classified as equity-settled or cash settled. Equity-settled arrangements are those in which the Company receives services as consideration for its own equity instruments. Cash-settled arrangements arise where the Company pays the employee cash amounts based on the value of the Company's shares.

The fair value of equity settled awards is recognized as an expense over the vesting period with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options at the grant date.

The fair value of cash-settled awards is also recognized as an expense over the vesting period, however since the award gives rise a cash obligation, a corresponding liability is recognized. The fair value of the liability is re-measured at each reporting date, with changes in fair value recognized in profit or loss for the period.

Foreign Currency Translation

On April 9, 2018, the Company acquired the Grossinger Auto Group in the Chicago, Illinois metropolitan area. The expansion of the Company into the United States requires the company to translate the financial results of these dealerships from the functional currency (USD) into the reporting currency (CAD) upon consolidation. Assets and liabilities have been translated to the reporting currency (CAD) using the exchange rates in effect on the consolidated balance sheet dates. Revenue and expense accounts are translated using the average exchange rate during the period. The cumulative translation adjustments associated with the net assets of foreign subsidiaries are recorded in accumulated other comprehensive income in the accompanying Consolidated Statement of Changes in Equity.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Derivative financial instruments

Derivatives are recognized initially at fair value on the date of contract inception and are subsequently re-measured to current fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the instrument is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company currently designates certain derivatives as hedges of the interest rate cash flow risk associated with the cash flows of variable rate loans, and does not hold any derivatives for trading or speculative purposes.

At the inception of the hedge relationship, the Company documents the economic relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedge transactions. The effective portion of changes in the fair value of qualifying hedging derivatives is recognized as a reserve within equity. The gain or loss relating to any ineffective portion is recognized immediately in profit or loss. The periodic net settlement of the interest rate swap is recognized in profit or loss within finance costs at the same time as the interest expense on the hedged borrowings.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is greater than one year.

Further information on the Company's risk management and hedge accounting is presented in Note 39.

Segment Reporting

Operating Segments are components of an entity that engage in business activities from which they earn revenues and incur expenses, the operations for which can be clearly distinguished and for which the operating results are regularly reviewed by a chief operating decision maker to make resource allocation decisions and to assess performance.

Previously, the Company's Chief Operating Decision Maker (CODM) was identified as the Executive Team and the Executive Chair. During the quarter ended September 30, 2018, the Company underwent a management shift and the CODM was reassessed. Going forward, the Chief Executive Officer (CEO) will serve as the function of the CODM and the CEO is responsible for allocating resources and assessing the performance of each dealership. In the absence of the CEO, the Executive Chair will serve the function of the CODM. Supporting the CODM will be the President, Canadian Operations and the President, U.S. Operations, both of whom report to the CODM. As each of these individuals, with support from their respective management teams, report to the CODM, the Company will report segmented information by Canadian Operations and U.S. Operations. Each reportable operating segment is comprised of retail automobile dealerships, which have been aggregated based on their economic similarities.

Our CODM measures the performance of each operating segment based on operating profit, which is defined as income before income taxes, net finance costs and other income (expense). The segmented information is set out in Note 40.

4 New accounting standards adopted in 2018

IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relates to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The standard was adopted on January 1, 2018, with the only impact being with respect to revising the Company's impairment methodology for its trade and other receivables.

The Company applies the simplified approach to measuring expected credit losses, which uses a lifetime expected credit loss allowance for all trade receivables. In accordance with the transitional provisions of IFRS 9, comparative figures have not been restated and the cumulative impact of adoption has been reflected in opening retained earnings of the current year. This has resulted in an increase to retained earnings as at January 1, 2018 of $367.

IFRS 15 Revenue from Contracts with Customers

The Company adopted IFRS 15 Revenue from Contracts with Customers, effective January 1, 2018. The Company has considered factors such as customer contracts with unique revenue recognition considerations, the nature and type of goods and services the Company offers, the degree to which contracts include multiple performance obligations or variable consideration, and the pattern in which revenue is currently recognized, among other things.

The adoption of IFRS 15 resulted in certain procedural changes in our accounting for revenue, however the accounting policies and the timing of revenue recognition for all revenue streams remains the same.

5 Accounting standards and amendments issued but not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are not yet effective for the financial year ended December 31, 2018.

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

IFRS 16 - Leases

IFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right-to-use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

The standard will affect primarily the accounting for the Company's operating leases. This will result in additional right-to-use assets, as well as lease liabilities, for which management is in the process of finalizing the valuation.

The standard is mandatory and will be adopted by the Company commencing with the interim period beginning January 1, 2019. The Company intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases, which comprise substantially all of the Company's right-of-use assets, will be measured on transition as if the new rules had always been applied.

6 Critical accounting estimates

The preparation of financial statements requires management to make estimates about the future. Estimates 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 were used to determine the value of the following 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 (refer to Note 25).

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 (refer to Note 18). 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 recognised as income or expenses in the Consolidated Statement of Comprehensive (Loss) Income.

7 Critical judgments and measurement uncertainty

The preparation of financial statements also requires management to make judgments about the future. 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. The critical judgments were applied to the following 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 was for a 14 month term, automatically renewable for successive one year terms, and cancellable by either party subject to a one year notice period.

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 possessed the legal right to control decisions as they pertained to the investees;

- Priestner had not relied on any financial support from the Company in making his investments, and therefore the risk of loss and reward to Priestner personally was significant; and
- Priestner's level of expertise and knowledge in operating the investees

Factors indicative of the Company controlling the investees:

- The Company had 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 had retained effective control of the relevant activities that would impact its investment returns through execution of the Agreement, which provided 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 were related parties of the Company; and
- The Company was 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 had concluded that it continued to have power over the relevant activities and therefore control of the investees. As a result, the financial results of the investees continued to be consolidated in the Company's financial statements.

On May 5, 2017, Priestner retired from his position as Chair. As a result of this change, the Company had updated its assessment of the relationship between Priestner and the Company as it related to its investments in these investees. As a result of the reassessment, it was concluded that the Company continued to control these investees, through an agreement, giving the Company control over the activities that would impact its investment returns.

On January 2, 2018, the Company reorganized its ownership interest in its investees acquiring the majority of the voting shares of certain investees, as described in Note 35. The Company has updated its assessment of the relationship between Mr. Patrick Priestner ("Priestner") and the Company as it relates to its investment in these investees. As a result of the reassessment, it was concluded that the Company continues to control these investees as a result of owning the majority of the voting shares. The details of this transaction are described in Note 18 and Note 35.

(b) Loans to associate

On March 31, 2018, the Company terminated its loans to PPH Holdings Ltd. ("PPH") and all amounts outstanding under the loans were repaid in full. The Company has updated its assessment of the relationship between Priestner and the Company, as it relates to PPH. It was concluded that AutoCanada does not control and should not consolidate PPH, as these loans have been terminated as described in Note 24.

AutoCanada had provided loans to PPH Holdings Ltd. ("PPH") for which the voting interests were held 100% by Priestner, as described in Note 24. When assessing whether the Company had control of PPH, management had considered the nature of the loans, the Company's relationship with Priestner and whether the Company had the ability to direct decision-making rights of Priestner pertaining to its loan to PPH. In making this assessment, the prevailing considerations were that the loans to PPH were repayable at any time without recourse, and grant the Company no power to control PPH. AutoCanada's returns from PPH were 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 impacted his returns but did not affect AutoCanada's returns.

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 was significant;
- There were no contractual rights providing AutoCanada with decision making power over Priestner, additionally the Company was not involved in the operational decision making of PPH;
- Priestner's level of expertise and knowledge in operating PPH; and
- Priestner had the ability to prepay or repay the loans at any time and AutoCanada had no ability to block such a transaction.

When combining these considerations with the fact that Priestner was the sole director of the Board of PPH, and therefore governs relevant activities of the investee, management had concluded that AutoCanada did not have power over PPH, and therefore had not consolidated PPH.

As a result of Priestner's change in employment from Executive Chair to non-executive Chair of the Board of Directors, then to retirement, the Company had assessed the relationship between Priestner and the Company as it relates to PPH. As a result of the reassessment, it was concluded that AutoCanada did not control and should not consolidate PPH.

8 Revenue

	2018 $	2017 $
New vehicles	1,802,203	1,827,559
Used vehicles	756,154	716,045
Parts, service and collision repair	451,760	416,690
Finance, insurance and other	140,664	141,266
	3,150,781	3,101,560

The Company has no material contract assets or liabilities as at December 31, 2018.

9 Cost of sales

	2018 $	2017 $
New vehicles	1,693,071	1,696,575
Used vehicles	712,826	672,307
Parts, service and collision repair	227,774	202,380
Finance, insurance and other	9,147	11,669
	2,642,818	2,582,931

10 Operating expenses

	2018 $	2017 $
Employee costs[1] (Note 11)	277,891	264,768
Administrative costs[2]	148,098	116,605
Facility lease costs	28,868	24,436
Depreciation of property and equipment (Note 23)	19,947	20,444
	474,804	426,253

1 *Employee costs includes management transition expenses.*
2 *Administrative costs include professional fees, consulting services, technology-related expenses, marketing, and other general and administrative costs.*

11 Employee costs

Operating expenses incurred in respect of employees were:

	2018 $	2017 $
Wages, salaries and commissions	235,041	235,573
Withholding taxes and insurance	15,601	13,599
Employee benefits	15,938	12,582
Share-based compensation	1,116	1,079
Other benefits[1]	10,195	1,935
	277,891	264,768

1 *Includes management transition costs.*

12 Lease, other income and gain on disposal of assets, net

	2018 $	2017 $
Lease and other income, net		
Non-recurring settlement income[1]	1,603	14,846
Lease and rental income	3,056	3,914
Other income	3,260	2,671
	7,919	21,431
Gain on disposal of assets, net		
Gain on dealership divestiture (Note 17)	757	—
Sale and leaseback transactions (Note 23)	13,882	—
Transactions with non-controlling interests (Note 35)	5,984	—
Disposals of property and equipment, net	857	1,345
	21,480	1,345

1 *The non-recurring settlement is from an automobile manufacturer and has been recognized net of estimated related expenses.*

13 Finance costs and finance income

	2018 $	2017 $
Finance costs:		
Interest on long-term indebtedness	(20,447)	(17,949)
Floorplan financing	(21,440)	(14,515)
Other finance costs	(5,306)	(3,574)
	(47,193)	(36,038)
Finance income:		
Short-term bank deposits	1,289	2,294

Cash interest paid during the year ended December 31, 2018 is $46,952 (2017 - $35,274).

14 Other gains (losses)

	2018 $	2017 $
Gain on foreign currency	972	—
Revaluation of redemption liabilities (Note 18)	(7)	2,869
Revaluation of contingent consideration	(15)	416
	950	3,285

15 Income Taxes

Components of income tax are as follows:

	2018 $	2017 $
Current tax	3,354	20,901
Deferred tax	(3,528)	1,812
Total income tax (recovery) expense	(174)	22,713

Segmented components of income tax are as follows:

	2018 $	2017 $
Canada	3,354	20,901
U.S.	—	—
Current income tax expense	3,354	20,901
Canada	(1,292)	1,812
U.S.	(2,236)	—
Deferred income tax (recovery) expense	(3,528)	1,812
Total income tax (recovery) expense	(174)	22,713

Factors affecting tax expense for the year ended December 31:

	2018 $	2017 $
Net (loss) income for the year before taxation	(77,602)	88,510
Net (loss) income for the year before taxation multiplied by the blended rate of Canadian corporate tax of 26.9% (2017 - 26.8%)	(20,866)	23,721
Effects of:		
Impact of non-deductible items	1,447	(90)
Difference between future and current tax rate	1,136	1,554
Income tax rates differential of foreign subsidiaries	254	—
Deferred tax recognized on sale of subsidiaries	3,851	—
Adjustment in respect of prior years	1,326	(2,333)
Tax losses and deductible temporary differences not recognized	11,196	—
Other, net	1,482	(139)
Income taxes (recovery)	(174)	22,713

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, 2017	(1,678)	1,889	(24,526)	(2,519)	2,151	(24,683)
(Expense) benefit to consolidated statement of comprehensive (loss) income	1,567	846	(4,707)	512	57	(1,725)
Acquisition of subsidiary (Note 16)	—	—	(2,747)	—	—	(2,747)
Held for sale (Note 23)	—	(1,470)	3,192	2,007	(284)	3,445
December 31, 2017	(111)	1,265	(28,788)	—	1,924	(25,710)
(Expense) benefit to consolidated statement of comprehensive (loss) income	5,669	174	(2,481)	—	166	3,528
Acquisition of subsidiary (Note 16)	—	58	5,414	—	—	5,472
Other	—	279	1,654	—	1,249	3,182
December 31, 2018	5,558	1,776	(24,201)	—	3,339	(13,528)

	2018 $	2017 $
Deferred tax asset	13,642	—
Deferred tax liability	27,170	25,710
Net deferred tax liability	13,528	25,710

Income tax (recovery) expense is recognized based on Management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual blended rate used for the year ended December 31, 2018 was 26.9% (2017 - 26.8%).

Changes in the deferred income tax components are adjusted through deferred tax expense. Of the above components of deferred income taxes, $5,558 (2017 - $413) of the deferred tax liabilities are expected to be recovered within 12 months.

Unused tax losses and deductible temporary differences for which no deferred tax asset has been recognized are as follows:

	2018 $
U.S. deductible temporary differences	17,251
U.S. tax losses	24,922
Total unrecognized temporary differences	42,173

The Company's U.S. Operations have state and federal net operating losses of $24,922, as well as deductible temporary differences of $66,504 available to reduce future taxable income. The federal losses can be carried forward indefinitely, while the state losses expire in 2030. The losses arose following the acquisition of the Grossinger Auto Group (Note 16) in April of 2018 and relate to certain under-performing dealerships, along with costs incurred related to integrating the operations. The deductible temporary differences arose primarily from impairment charges recorded against the goodwill and intangible assets of the acquired dealerships. The Company has recognized the benefit of $49,253 of the deductible temporary differences as a deferred tax asset at December 31, 2018. The Company has concluded that the deferred tax assets are more likely than not to be recovered using estimated future taxable income, based on approved business plans and budgets for the segment. This estimate will be updated in future periods, which may result in increases or decreases in the amount of deferred tax assets recognized based on the amount judged more likely than not to be recoverable.

The Company also has Canadian non-capital losses $4,752 (2017 - $18,956) available to reduce future taxable income, until their expiry between 2032 and 2038. The benefit of these losses has been recognized as an offset to Canadian taxable temporary differences.

16 Business Acquisitions

During the year ended December 31, 2018, the Company completed three business acquisition transactions: one comprising fifteen franchises in eight locations (Grossinger Auto Group) and two consisting of stand-alone automobile dealerships, representing two franchises. These acquisitions have been accounted for using the acquisition method. The acquisitions are as follows:

Grossinger Auto Group

Between the period of April 9, 2018 and April 23, 2018, the Company closed transactions to purchase substantially all of the operating and fixed assets of Grossinger City Autocorp Inc. ("Grossinger City Toyota"), Grossinger City Autoplex Inc. ("Grossinger City Chevrolet" and "Grossinger City Cadillac"), Grossinger Imports Inc. ("Grossinger Honda"), Grossinger North Autocorp Inc. ("Grossinger Toyota North"), Grossinger Autoplex Inc. ("Grossinger Hyundai North" and "Grossinger Kia"), Grossinger Chevrolet Inc. ("Grossinger Chevrolet Palatine"), Grossinger Hyundai of Palatine Inc. ("Grossinger Hyundai Palatine") and Grossinger Motors Inc. ("Audi Bloomington-Normal", "Lincoln Bloomington-Normal", "Mercedes Bloomington-Normal", "Subaru Bloomington-Normal", "Volvo Bloomington-Normal" and "Volkswagen Bloomington-Normal"), herein referred to as the "Grossinger Auto Group", located in Chicago, Illinois and Bloomington-Normal, Illinois for total cash consideration of $131,887. In addition, the Company assumed liabilities under a number of contracts with an acquisition date fair value of $39,803. The Company did not acquire the land and buildings associated with the dealerships, other than with respect to Grossinger Honda, which was allocated a value of $10,031. The Company entered into lease arrangements for the balance of the facilities. The purchase price of the Grossinger Auto Group was financed through a combination of funds drawn on the Scotiabank revolving term facility, proceeds from the repayment of loans to associate and proceeds from the Company's divestiture of dealerships in Canada.

Concurrent with this transaction, the Company purchased $81,950 of vehicle inventory through floorplan financing provided by Bank of America (Note 29).

As a result of entity-wide and business unit level impairment indicators identified as at June 30, 2018, all of the Company's CGU's were tested for impairment at that time and further testing was performed at December 31, 2018, which resulted in impairment charges against certain CGUs within the Grossinger Auto Group. Refer to Note 25.

Since the acquisition date and during the measurement period, additional information was obtained with respect to the value of certain assets acquired and liabilities assumed, resulting in adjustments to the fair values recorded.

The following table shows the revised purchase price allocation balances as at June 30, 2018 accounting for the fair value changes during the measurement period, including (i) the changes to fair values of identifiable assets acquired and liabilities assumed; and (ii) the impact on the associated balances resulting from changes in fair value. The business acquisition has been accounted for as if the fair value changes to the net identifiable assets had been completed as of the acquisition date.

	As reported June 30, 2018	**Fair value adjustments**	**Restated June 30, 2018**
Inventories[1]	13,128	(1,513)	11,615
Intangible assets[2]	67,177	(27,958)	39,219
Deferred income tax asset[3]	—	10,560	10,560
Other liabilities[1]	—	2,610	2,610
Intangible liabilities[4]	—	37,193	37,193
Goodwill[5]	16,845	58,714	75,559

1 *Certain adjustments to working capital balances for new information received during the measurement period were made.*

2 *Intangible assets relate to indefinite-life franchise rights associated with the respective dealerships. The fair value adjustments resulted from finalization of the related valuation models.*

3 *A deferred income tax asset has been recorded as a result of the fair market adjustments that create future differences between accounting and taxable income*
4 *Intangible liabilities have been recorded as a result of off market lease obligations that were taken on by the Company as part of the acquisition.*
5 *The fair value adjustment to goodwill was the result of the net change in the other assets and liabilities.*

Mercedes-Benz Heritage Valley

On October 1, 2018, the Company, through a wholly owned subsidiary, AutoCanada M LP, purchased all of the issued and outstanding shares of Ericksen M-B Ltd., which owns and operates a Mercedes-Benz dealership in Edmonton, Alberta, for total cash consideration of $23,901. The acquisition was funded through net proceeds of the sale and leaseback transactions with Automotive Properties Real Estate Investment Trust (Note 23).

Rose City Ford

On December 1, 2018, the Company, through a wholly owned subsidiary, 2667465 Ontario Inc., purchased all of the issued and outstanding shares of Rose City Ford Sales Limited, which owns and operates a Ford dealership in Windsor, Ontario, for total cash consideration of $24,753. At the time of acquisition, Rose City Ford Sales Limited had net working capital of $6,887. The acquisition was funded by drawing on the Company's revolving term facility.

The business acquisitions completed during the year ended December 31, 2018 are summarized as follows:

	Grossinger Auto Group $	Mercedes-Benz Heritage Valley $	Rose City Ford $	Total $
Current assets				
Cash and cash equivalents	21	274	3,677	3,972
Trade and other receivables	84	3,592	4,094	7,770
Inventories [1]	11,615	18,725	14,909	45,249
Other current assets	516	887	205	1,608
	12,236	23,478	22,885	58,599
Long-term assets				
Property and equipment	34,218	1,268	248	35,734
Other long term assets	—	3,456	10	3,466
Intangible assets	39,219	21,250	18,599	79,068
Deferred income tax	10,560	—	—	10,560
Total assets	96,233	49,452	41,742	187,427
Current liabilities				
Trade and other payables	102	1,887	1,510	3,499
Other liabilities	167	—	—	167
Intangible liabilities	4,656	—	—	4,656
Current indebtedness	—	4,330	—	4,330
Revolving floorplan facility [1]	—	18,449	14,369	32,818
	4,925	24,666	15,879	45,470
Long-term liabilities				
Long-term indebtedness	—	1,862	—	1,862
Other liabilities	2,443	—	—	2,443
Intangible liabilities	32,537	—	—	32,537
Deferred income tax	—	2,674	2,413	5,087
Total liabilities	39,905	29,202	18,292	87,399
Net assets acquired	56,328	20,250	23,450	100,028
Goodwill	75,559	3,651	1,303	80,513
Total net assets acquired	131,887	23,901	24,753	180,541
Total consideration	131,887	23,901	24,753	180,541

1 *Concurrent with this transaction, the Company purchased $81,950 of vehicle inventory through floorplan financing provided by Bank of America. Refer to Note 29.*

Acquisitions completed during the year ended December 31, 2018 generated revenue and net earnings (excluding impairment charges) of $393,235 and $9,707, 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 $1,751 have been charged to administrative expenses in the Consolidated Statement of Comprehensive (Loss) Income and operating activities in the Consolidated Statement of Cash Flows for the year ended December 31, 2018. 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 goodwill is created for tax purposes (Note 3).

If the acquisitions had occurred on January 1, 2018, consolidated pro forma revenue for the year ended December 31, 2018 from the acquired businesses would have been $614,435. These results have been calculated using the subsidiary's internal financial reports and adjusting them for differences in the accounting policies between the subsidiary and AutoCanada.

Prior year business acquisitions

During the year ended December 31, 2017, 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:

Mercedes-Benz Rive-Sud

On May 1, 2017, the Company purchased all of the voting shares of 8421722 Canada Inc., which owns and operates a Mercedes-Benz dealership in Montreal, Quebec, along with all of the operating and fixed assets of 9343091 Canada Inc. which owns and operates the dealership's collision centre (together "Mercedes-Benz Rive-Sud"), for total cash consideration of $16,133. The acquisition was funded by drawing on the Company's revolving term facility.

Planete Mazda

On December 1, 2017, the Company, through a wholly owned subsidiary, AutoCanada M Holdings Inc., purchased 95% of the issued and outstanding participating shares; and 90% of the non-participating voting shares of 156023 Canada Inc. ("Planete Mazda"), which owns and operates a Mazda dealership in Montreal, Quebec, for total cash consideration of $5,799. The acquisition was funded by drawing on the Company's revolving term facility.

The business acquisitions completed during the year ended December 31, 2017 are summarized as follows:

	Mercedes-Benz Rive Sud $	Planete Mazda $	Total $
Current assets			
Cash and cash equivalents	520	431	951
Trade and other receivables	5,150	216	5,366
Inventories	16,530	6,982	23,512
Other current assets	140	117	257
	22,340	7,746	30,086
Long-term assets			
Property and equipment	2,750	500	3,250
Other long-term assets	—	13	13
Intangible assets	11,549	4,128	15,677
Total assets	36,639	12,387	49,026
Current liabilities			
Trade and other payables	1,345	742	2,087
Revolving floorplan facilities	18,038	5,234	23,272
	19,383	5,976	25,359
Long-term liabilities			
Long-term indebtedness	2,071	—	2,071
Deferred income tax	2,140	607	2,747
Total liabilities	23,594	6,583	30,177
Net assets acquired	13,045	5,804	18,849
Goodwill	3,088	279	3,367
Non-controlling interest	—	(304)	(304)
Total net assets acquired	16,133	5,779	21,912
Total consideration	16,133	5,779	21,912

17 Dealership divestitures

North Edmonton Kia

On November 19, 2018, the Company sold substantially all of the operating and fixed assets, including the land and facilities, of North Edmonton Kia located in Edmonton, Alberta for cash consideration. Net proceeds of $10,202 resulted in a pre-tax gain on divestiture of $787 included in gain on disposal of assets in the Consolidated Statement of Comprehensive (Loss) Income.

Courtesy Mitsubishi

On December 17, 2018, the Company sold substantially all of the operating and fixed assets of Courtesy Mitsubishi located in Calgary, Alberta for cash consideration. Net proceeds of $2,455 resulted in a pre-tax loss on divestiture of $30 included in gain on disposal of assets in the Consolidated Statement of Comprehensive (Loss) Income.

The dealership divestitures completed during the year ended December 31, 2018 are summarized as follows:

	North Edmonton Kia $	Courtesy Mitsubishi $	Total $
Trade and other receivables	—	121	121
Inventories	5,832	3,972	9,804
Property and equipment	8,445	135	8,580
Intangible assets	—	1,382	1,382
Other assets	—	16	16
Total Assets	14,277	5,626	19,903
Trade and other payables	19	61	80
Revolving floorplan facilities	4,843	3,080	7,923
Total Liabilities	4,862	3,141	8,003
Net assets disposed of	9,415	2,485	11,900
Net proceeds on divestiture	10,202	2,455	12,657
Net gain (loss) on divestiture	787	(30)	757

Prior year dealership divestitures

There were no dealership divestitures during the year ended December 31, 2017.

18 Interest in subsidiaries

The Company owns 100% of most subsidiaries, but also has a controlling interest in certain subsidiaries that also have non-controlling interests ("NCI") 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 2018 $	Dividends paid to non-controlling interests 2017 $
Green Isle G Auto Holdings Inc.[1]	British Columbia	10%	10%	—	576
Prairie Auto Holdings Ltd.[1]	Saskatchewan	15%	15%	900	2,477
Waverley BG Holdings Inc.[1]	Manitoba	10%	10%	—	630
NBFG Holdings Inc.[1]	Saskatchewan	5%	5%	—	270
AutoCanada B Holdings Inc.	Quebec	15%	15%	750	—
AutoCanada M Holdings Inc.	Quebec	5%	10%	—	—
RS M Motors LP.[4]	Quebec	10%	10%	—	—
Dealer Holdings Ltd.[2]	Alberta	—%	—%	—	6,780
DFC Holdings Inc.[2]	British Columbia	—%	—%	—	305
LWD Holdings Ltd.[2]	Alberta	—%	—%	—	831
AutoCanada HCN Holdings Inc.[3]	Ontario	—%	—%	—	6
GRV C Holdings LP[3]	Alberta	—%	—%	—	425
				1,650	12,300

1 *During the year ended December 31, 2018, the Company acquired the remaining NCI portion of these subsidiaries and subsequently sold non-controlling interests, between 5% and 15%, to the respective dealer principals, as described in Note 35 (Prairie Auto Holdings Ltd. holds interest in two operating dealerships where the dealer principal retained a 15% ownership interest).*

2 *On January 2, 2018, the Company sold its remaining interests in these subsidiaries, as described in Note 35.*

3 *During the year ended December 31, 2017, the Company acquired the remaining NCI portion of these subsidiaries, as described in Note 35.*

4 *Non-controlling interests of 10% were sold to the respective dealer principal, as described in Note 35.*

Prairie Auto Holdings Ltd., AutoCanada B Holdings Inc., and AutoCanada M 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, measured at their fair value on the Consolidated Statement of Financial Position.

The continuity of the redemption liabilities is summarized as follows:

	Redemption Liability $
Balance, January 1, 2017	46,464
Decrease in fair value (Note 14)	(2,869)
Recognition on business acquisition (Note 16)	306
Derecognition on settlement (Note 35)	(1,197)
Total	42,704
Less: Held for sale (Note 22)	26,404
Carrying amount	16,300
Balance, December 31, 2017	42,704
Increase in fair value (Note 14)	7
Derecognition on settlement (Note 35)	(27,763)
Balance, December 31, 2018	14,948

The change in fair value is recorded in other gains and losses on the Consolidated Statement of Comprehensive (Loss) Income (Note 14). The fair value is determined based on the dealership equity value of the related subsidiary (Note 38). 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 disclosure, 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.

19 Cash and cash equivalents

	December 31, 2018 $	December 31, 2017 $
Cash at bank and on hand	23,061	61,167
Short-term deposits	2,263	33,493
Cash and cash equivalents (excluding bank indebtedness)	25,324	94,660
Bank indebtedness	—	(136)
Cash and cash equivalents	25,324	94,524
Restricted cash	—	4,106
Cash and cash equivalents and restricted cash	25,324	98,630

Short-term deposits includes cash held with Scotiabank. The Company's revolving floorplan facility agreements allow the Company to hold excess cash in accounts with Scotiabank, which is used to offset our finance costs on revolving floorplan facilities. The Company has immediate access to this cash unless we are in default of our facilities, in which case the cash may be used by Scotiabank in repayment of our facilities. Refer to Note 26 for further detail regarding cash balances held with Scotiabank. The remaining short-term deposits are term deposits that bear interest at 3.2% (2017 - 0.10%). Restricted cash is held in a trust account and earns interest at 0.95% - 2.06% (2017 - 0.95% - 2.06%). Interest earned on restricted cash during the year ended December 31, 2018 was $21 (2017 - $62).

20 Trade and other receivables

	December 31, 2018 $	December 31, 2017 $
Trade receivables	129,338	77,851
Less: Expected loss allowance	(3,208)	(2,545)
Net trade receivables	126,130	75,306
Other receivables	5,022	4,625
Trade and other receivables	131,152	79,931

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

	December 31, 2018 $	December 31, 2017 $
Current	97,074	56,056
31 - 60 days	15,950	10,655
61 - 90 days	8,631	4,019
91 - 120 days	2,282	1,522
> 120 days[1]	10,423	10,224
	134,360	82,476
Less: Expected loss allowance	(3,208)	(2,545)
Trade and other receivables	131,152	79,931

1 *Includes $nil (2017 - $6,283) relating to a non-recurring settlement (Note 12).*

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.

21 Inventories

	December 31, 2018 $	December 31, 2017 $
New vehicles	580,216	513,237
Demonstrator vehicles	48,856	47,873
Used vehicles	98,109	70,544
Parts and accessories	33,684	27,939
	760,865	659,593

During the year ended December 31, 2018, $2,577 of inventory (2017 - $2,545) was expensed as cost of goods sold which included net write-downs on used vehicles of $185 (2017 - $34). During the year ended December 31, 2018, $9,982 of demonstrator expense (2017 - $8,415) was included in administration costs. During the year ended December 31, 2018, inventory reserves increased by $3,146 (2017 - increased by $2,275). As at December 31, 2018, the Company had recorded reserves for inventory write-downs of $10,777 (2017 - $7,445).

22 Assets and Liabilities Held for Sale

Land and buildings

The Company has committed to a plan and entered into various agreements to sell specific land and buildings. The agreements are subject to customary closing conditions. The assets have been reclassified as held for sale as at the Consolidated Statement of Financial Position date.

Dealerships

The Company has committed to a plan to sell three of its dealerships and has entered into agreements to sell the operating assets of two of these dealerships. The agreements are subject to customary closing conditions. The assets and liabilities have been reclassified as held for sale as at the Consolidated Statement of Financial Position date.

The assets and liabilities held for sale are included in the Canadian Operations segment and summarized as follows:

	Land and buildings $	Dealerships $	December 31, 2018 $
Net cash and cash equivalents	—	1,421	1,421
Trade and other receivables	—	482	482
Inventories	—	16,824	16,824
Property and equipment	31,915	920	32,835
Intangible assets	—	2,690	2,690
Other assets	—	61	61
Net assets held for sale	**31,915**	**22,398**	**54,313**
Trade and other payables	—	997	997
Revolving floorplan liabilities	—	4,284	4,284
Net liabilities held for sale	**—**	**5,281**	**5,281**

The carrying costs of the land and building reclassified to held for sale exceeded the expected net proceeds. As a result, the Company recorded an impairment charge of $2,092, as described in Note 25.

Assets and liabilities held for sale as at December 31, 2017 included land of $1,556, net assets of $162,086 and net liabilities of $132,683 (Note 35).

23 Property and equipment

	Company & lease vehicles $	Leasehold improvements $	Machinery & equipment $	Land & buildings[1] $	Furniture, fixtures & other $	Computer equipment $	Total $
Cost:							
January 1, 2017	19,028	34,858	30,055	307,986	14,515	12,567	419,009
Capital expenditures	27	765	2,866	—	2,217	1,205	7,080
Acquisitions of dealerships assets (Note 16)	25	105	631	—	2,468	21	3,250
Acquisitions of real estate	—	—	—	17,751	—	—	17,751
Disposals	—	(1,291)	(232)	(2,624)	(176)	(785)	(5,108)
Transfers to assets held for sale	(1,203)	(1,085)	(3,184)	—	(1,495)	(1,535)	(8,502)
Transfers in from inventory, net	1,402	—	—	—	—	—	1,402
December 31, 2017	19,279	33,352	30,136	323,113	17,529	11,473	434,882
Capital expenditures	—	7,170	4,020	—	2,229	2,237	15,656
Acquisitions of dealerships assets (Note 16)	—	20,467	2,915	10,031	1,998	323	35,734
Acquisitions of real estate	—	—	—	10,918	—	—	10,918
Disposals	—	(1,335)	(2,575)	(115,845)	(1,955)	(1,541)	(123,251)
Impairment losses recognized	—	(19,330)	(19)	—	(7)	(5)	(19,361)
Transfers to assets held for sale	(368)	(714)	(494)	(33,789)	(447)	(249)	(36,061)
Transfers from inventory, net	3,950	—	—	—	—	—	3,950
Foreign currency translation	—	1,169	141	—	111	14	1,435
December 31, 2018	22,861	40,779	34,124	194,428	19,458	12,252	323,902
Accumulated depreciation:							
January 1, 2017	(6,372)	(11,612)	(19,201)	(22,422)	(8,353)	(8,281)	(76,241)
Depreciation	(3,378)	(2,798)	(2,633)	(8,398)	(1,954)	(1,283)	(20,444)
Disposals	—	837	196	376	161	716	2,286
Transfers to assets held for sale	455	730	2,273	—	1,154	1,072	5,684
Transfers in from inventory, net	4,187	—	—	—	—	—	4,187
December 31, 2017	(5,108)	(12,843)	(19,365)	(30,444)	(8,992)	(7,776)	(84,528)
Depreciation	(3,934)	(2,966)	(2,891)	(6,576)	(2,032)	(1,548)	(19,947)
Disposals	—	1,163	2,324	6,502	817	1,385	12,191
Transfers to assets held for sale	153	299	376	1,339	337	176	2,680
Transfers in from inventory, net	2,894	—	—	—	—	—	2,894
Foreign exchange	(2)	(15)	(19)	—	(12)	(3)	(51)
December 31, 2018	(5,997)	(14,362)	(19,575)	(29,179)	(9,882)	(7,766)	(86,761)
Carrying amount:							
December 31, 2017	14,171	20,509	10,771	292,669	8,537	3,697	350,354
December 31, 2018	16,864	26,417	14,549	165,249	9,576	4,486	237,141

1 *As at December 31, 2018, the Company owns land of $94,882 (2017 - $124,155).*

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

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

Sale and Leaseback Transactions

During the year, the Company entered into multiple sale-leaseback transactions as follows:

- Laval BMW and Sherwood Park Volkswagen dealership facilities were sold to Automotive Properties Real Estate Investment Trust and the properties were leased back to the Company. The Company received net proceeds of $55,500 for the sale, which resulted in a $4,645 pre-tax gain. The minimum annual lease payments under the operating leases are $3,750;
- Four of its dealership properties were sold to Capital Automotive Real Estate Services Inc. ("Capital Automotive"). The Company received net proceeds of $54,737 for the sale. The Company realized a pre-tax gain of $9,237 on the sale of dealership properties. Net proceeds of $2,176 related to the sale of leasehold interests on a property it did not own which reduced impairment charges recorded at June 30, 2018. In addition, Capital Automotive agreed to fund building improvements and construction. Management expects to incur approximately $32,575 in Canada and $20,463 in the U.S. ($15,000 USD) for capital requirements in respect of the properties. The minimum annual lease payments under the operating leases are $4,090. Upon completion of the capital requirements the minimum annual lease payments will be amended for the capital requirements funding.

24 Loans to associate

PPH Holdings Ltd.

The Company loaned funds to PPH to acquire Whitby Oshawa Honda and Southview Acura. The Company holds no ownership interest in PPH. The Company has no participation in the equity of PPH, Whitby, or Southview.

The transactions relating to the Company's loans to PPH were as follows:

	December 31, 2018 $	December 31, 2017 $
Outstanding, beginning of year	18,100	14,726
Accrued interest income	124	674
Accrued licensing fees	170	2,327
Additional advances	–	373
Loan repayments	(18,394)	–
Outstanding, end of year	—	18,100

As of March 31, 2018, the PPH Loan was terminated and all associated interest and licensing fees ceased as of the same date.

25 Impairment of non-financial assets

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 quarters ended June 30, 2018 and September 30, 2018, the Company concluded that an interim test for impairment of certain cash generating units ("CGUs") was required. These tests were updated for the Company's annual impairment test as of December 31, 2018. As a result of the tests performed, the Company recorded a net impairment in the amount of $93,408 for the year ended December 31, 2018 (2017 - net recovery of $816), as certain CGUs had actual results that fell short of previous estimates and the outlook for these markets is less robust. An impairment charge of $2,092 (Note 22) was also recorded in respect of assets classified as held for sale at December 31, 2018.

The impairment charges were allocated to the assets of the respective CGU's as follows:

	Year ended December 31, 2018 $
Leasehold improvements	19,330
Land and buildings (Note 22)	2,092
Intangible assets	25,788
Goodwill	48,290
	95,500

The changes in the book value of intangible assets and goodwill for the year ended December 31, 2018 were as follows:

	Intangible assets $	Goodwill $	Total $
Cost:			
January 1, 2017	438,040	41,604	479,644
Acquisitions (Note 16)	15,677	3,367	19,044
Sale of Open Point asset	(100)	—	(100)
Transfer to assets and liabilities held for sale (Note 22)	(39,829)	(6,349)	(46,178)
December 31, 2017	413,788	38,622	452,410
Acquisitions (Note 16)	79,068	80,513	159,581
Transfer to assets and liabilities held for sale (Note 22)	(2,690)	—	(2,690)
Effect of foreign currency translation	3,303	3,924	7,227
December 31, 2018	493,469	123,059	616,528
Accumulated impairment:			
January 1, 2017	59,058	17,240	76,298
Impairment (recovery)	(1,729)	913	(816)
Transfer to assets and liabilities held for sale (Note 22)	(3,537)	(1,522)	(5,059)
December 31, 2017	53,792	16,631	70,423
Impairment	25,788	48,290	74,078
Transfer to assets and liabilities held for sale (Note 22)	—	—	—
Effect of foreign currency translation	1,536	6	1,542
December 31, 2018	81,116	64,927	146,043
Carrying amount:			
December 31, 2017	359,996	21,991	381,987
December 31, 2018	412,353	58,132	470,485

The impairment for the year ended December 31, 2018 relates to our reportable segments as follows:

	Canadian Operations $	U.S. Operations $	Total $
Leasehold improvements	—	19,330	19,330
Land and buildings	2,092	—	2,092
Intangible assets	25,520	268	25,788
Goodwill	6,441	41,849	48,290
	34,053	61,447	95,500

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:

			December 31, 2018 $			December 31, 2017 $
Cash Generating Unit	**Intangible**	**Goodwill**	**Total**	**Intangible**	**Goodwill**	**Total**
AX	27,807	6,135	33,942	27,807	6,135	33,942
A	24,228	11,790	36,018	—	—	—
AQ	24,494	506	25,000	24,494	506	25,000
C	21,250	3,651	24,901	—	—	—
AD	16,848	7,770	24,618	—	—	—
BL[2]	—	—	—	21,880	—	21,880
BC	18,044	3,724	21,768	18,044	3,724	21,768
AB	21,687	—	21,687	21,687	—	21,687
D	18,599	1,303	19,902	—	—	—
P	15,400	—	15,400	20,181	—	20,181
AH	14,791	—	14,791	14,791	—	14,791
T	13,836	—	13,836	16,148	—	16,148
AJ	13,700	—	13,700	14,801	—	14,801
BI	12,496	941	13,437	12,496	941	13,437
AY	13,148	—	13,148	13,148	—	13,148
X	12,930	—	12,930	17,724	—	17,724
L	11,549	459	12,008	11,549	3,088	14,637
W	11,498	—	11,498	14,273	0	14,273
AZ	10,516	—	10,516	14,659	1,514	16,173
BD	9,263	950	10,213	9,263	950	10,213
AC	9,626	—	9,626	9,626	—	9,626
AG	9,431	—	9,431	9,431	—	9,431
V	9,592	—	9,592	8,507	—	8,507
BM[2]	—	—	—	5,273	2,176	7,449
BK[2]	—	—	—	7,395	5	7,400
U	7,795	—	7,795	8,497	—	8,497
K	6,591	409	7,000	6,591	409	7,000
Z[1]	4,684	1,343	6,027	4,685	1,874	6,559
AI[2]	5,217	—	5,217	6,532	—	6,532
Other CGUs less than $5,000[1]	50,023	19,151	69,174	56,806	5,496	62,302
	415,043	58,132	473,175	396,288	26,818	423,106
Held for sale (Note 22)	2,690	—	2,690	36,292	4,827	41,119
Carrying amount	412,353	58,132	470,485	359,996	21,991	381,987

1 *The original CGU was split into two CGUs (dealerships), as an Open Point began operations in 2018.*

2 *The CGU was sold during the year and therefore, has no CGU carrying amount. Refer to Notes 17 and 35.*

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

Canadian dealerships

	December 31, 2018 $			December 31, 2017 $		
Cash Generating Unit	**Intangible**	**Goodwill**	**Total**	**Intangible**	**Goodwill**	**Total**
E	(1,788)	—	(1,788)	(1,023)	—	(1,023)
H	—	1,567	1,567	—	—	—
L	—	2,629	2,629	—	—	—
M	—	—	—	187	73	260
P	4,782	—	4,782	—	—	—
S	84	—	84	—	—	—
T	2,312	—	2,312	4,469	—	4,469
U	702	—	702	(1,999)	—	(1,999)
V	(1,085)	—	(1,085)	—	—	—
W	2,776	—	2,776	(765)	—	(765)
X	4,794	—	4,794	3,056	458	3,514
Z	—	531	531	—	—	—
AI	1,315	—	1,315	(1,913)	—	(1,913)
AJ	1,101	—	1,101	(2,593)	—	(2,593)
AR	2,109	—	2,109	1,086	—	1,086
AS	903	—	903	558	—	558
AY	—	—	—	(2,518)	—	(2,518)
AZ	4,142	1,514	5,656	—	—	—
BE	1,063	—	1,063	(3,811)	—	(3,811)
BJ	810	200	1,010	—	—	—
BL	—	—	—	3,537	382	3,919
BN	1,500	—	1,500	—	—	—
Net impairment (recovery)	25,520	6,441	31,961	(1,729)	913	(816)

1 *The original CGU impairment was assessed prior to the two CGU splits and the impairment was split in the same manner as the intangible and goodwill split. Additional assessment was performed as at December 31, 2018, to ensure there was no further impairment of either CGU.*

U.S. dealerships

	December 31, 2018 $			December 31, 2017 $		
Cash Generating Unit	**Intangible**	**Goodwill**	**Total**	**Intangible**	**Goodwill**	**Total**
A	—	2,661	2,661	—	—	—
B	—	2,622	2,622	—	—	—
F	—	6,179	6,179	—	—	—
N	—	10,155	10,155	—	—	—
AA	132	4,959	5,091	—	—	—
AD	—	472	472	—	—	—
G	—	2,265	2,265	—	—	—
AF	136	12,372	12,508	—	—	—
AT	—	164	164	—	—	—
Net impairment (recovery)	268	41,849	42,117	—	—	—

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:

Canadian dealerships

Cash Generating Unit	FVLCTD or VIU	December 31, 2018 $	December 31, 2017 $
E	FVLCTD	5,490	4,691
H	FVLCTD	9,549	14,441
L	FVLCTD	16,753	—
M[1]	N/A	—	3,047
P	VIU	17,807	25,841
S[1]	N/A	—	2,436
T	VIU	17,967	18,730
U	VIU	11,126	14,216
V	VIU	16,318	16,692
W	VIU	15,667	21,425
X	VIU	15,550	20,777
Z	VIU	10,583	17,270
AI[1]	N/A	—	8,010
AJ	VIU	15,771	18,999
AR	VIU	4,283	5,617
AS	FVLCTD	5,207	8,928
AY	VIU	17,035	17,961
AZ	VIU	15,667	22,538
BE	VIU	4,942	5,852
BJ	VIU	8,847	10,991
BL[1]	N/A	—	22,551
BN	FVLCTD	—	1,500

1 *The CGU was sold during the year and therefore, has no CGU recoverable amount. Refer to Notes 17 and 35.*

U.S. dealerships

Cash Generating Unit	FVLCTD or VIU	December 31, 2018 $	December 31, 2017 $
A	FVLCTD	41,444	—
B	FVLCTD	7,016	—
F	FVLCTD	9,562	—
N	FVLCTD	8,642	—
AA	FVLCTD	2,251	—
AD	FVLCTD	26,755	—
G	FVLCTD	4,577	
AF	FVLCTD	3,363	—
AT	FVLCTD	8,024	—

Impairment test of indefinite life intangible assets

The 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 EBITDA ("Earnings before interest, taxes, depreciation and amortization") multiples comparable to the businesses in each CGU. Data for EBITDA multiples was based on recent comparable transactions and management estimates. Multiples used in the test for impairment for each CGU were in the range of 3.5 to 8.8 times forecasted EBITDA (2017 - 3.6 to 8.1 times).

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. In arriving at its forecasts, the Company considered past experience, economic trends and inflation as well as industry and market trends.

During the second quarter, due to an unforeseen decline in the performance of certain of the CGU's based in the US, as well as revised expectations for the timeline of U.S. operational profitability, the Company's assumptions for U.S. operations were based on wholly revised forecasts for all individual U.S. CGU's. These forecasts were reviewed and approved by members of the Company's Executive Management and provided the revised basis for U.S. CGU earnings and growth.

During the third quarter, it became apparent that the performance of certain Canadian CGUs were sufficiently below expectations such that a re-forecast was warranted. Revised forecasts were approved by Executive Management and used in the third quarter impairment test.

The second and third quarter estimates were updated in the Company's annual impairment test, which is based on the 2019 Board approved budget.

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 10.18% and 13.45% in its projections (2017 - 11.36% and 12.86%).

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, market comparatives and management estimates.

As noted above, due to the unforeseen decline in the performance of certain of the CGU's based in the U.S. in the second quarter, as well as revised expectations for the timeline of U.S. operational profitability, the Company's assumptions for U.S. operations were based on wholly revised forecasts for all individual U.S. CGU's. These forecasts were reviewed and approved by members of the Company's Executive Management and provide the revised basis for U.S. CGU earnings and growth.

During the third quarter, it became apparent that the performance of certain Canadian CGUs were sufficiently below expectations such that a re-forecast was warranted. Revised forecasts were approved by Executive Management and used in the third quarter impairment test.

The second and third quarter estimates were updated in the Company's annual impairment test, which is based on the 2019 Board approved budget.

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 are as follows:

Cash Generating Unit	Change In Discount Rate	Change In Growth Rate	Recoverable amount	Carrying amount	Recoverable amount exceeds carrying amount
V	0.02%	0.52%	16,318	15,463	855
AH	0.02%	0.58%	16,519	16,208	311
AY	0.02%	0.58%	17,035	16,544	491

CGUs, which use FVLCD 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 are as follows:

Cash Generating Unit	Change In Multiple	Recoverable amount	Carrying amount	Recoverable amount exceeds carrying amount
E	0.1	5,490	5,407	83
AS	0.5	5,207	5,207	—

26 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 are measured at amortized cost. The Company's financial liabilities are measured at amortized cost except for redemption liabilities and contingent consideration which are carried at fair value through profit or loss. The carrying values of financial instruments approximate their fair values, excluding the senior unsecured notes. The fair value of the senior unsecured notes is $147,000 (2017 – $154,125).

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

The Company has operations in Canada and the United States. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities denominated in a currency that is not the functional currency of the relevant Company entity. The Company is not currently exposed to significant foreign exchange risk because its Canadian and U.S. operations engage in limited transactions denominated in a currency other than their respective functional currency.

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, the indebtedness note (refer to Note 29), and the hedge accounting note (refer to Note 39). 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	
	2018 $	**2017 $**	**2018 $**	**2017 $**
Finance costs	18,656	16,082	9,328	8,041
Finance income	26	46	13	23

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 20.

The Company applies the simplified approach to measuring expected credit losses, which uses a lifetime expected credit loss allowance for all trade receivables. The expected loss rates are based on the payment profiles of sales over the 12 month periods prior to December 31, 2018 and January 1, 2018 and the corresponding historical credit losses experienced within these periods.

The loss allowance for trade receivables as at December 31, 2018 and January 1, 2018 (at the adoption of IFRS 9) was determined as follows:

	December 31, 2018			January 1, 2018		
	Expected loss rate %	**Gross carrying amount - Trade receivables $**	**Loss Allowance $**	**Expected loss rate %**	**Gross carrying amount - Trade receivables $**	**Loss Allowance $**
Current	0.07%	97,074	68	0.01%	56,056	6
31 - 60 days	1.99%	15,950	317	1.05%	10,655	112
61 - 90 days	8.42%	8,631	727	4.11%	4,019	165
91 - 120 days	11.69%	2,282	267	7.98%	1,522	121
> 120 days	17.55%	10,423	1,829	16.05%	10,224	1,641
Total		**134,360**	**3,208**		**82,476**	**2,045**

The closing loss allowance for trade receivables as at December 31, 2018 reconciles to the opening loss allowances as follows:

	2018
December 31, 2017 - calculated under IAS 39	2,545
Amounts restated through opening retained earnings (Note 4)	(500)
Opening loss allowance at January 1, 2018 - calculated under IFRS 9	2,045
Increase in loan loss allowance recognized in profit or loss during the year	3,450
Receivables written off during the year as uncollectible	(2,213)
Unused amount reversed	(74)
As at December 31, 2018	**3,208**

The amounts disclosed on the balance sheet for accounts receivable are net of the expected loss allowance, details of which are disclosed in Note 20. 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 (Loss) Income.

Previous accounting policy for impairment of trade receivables

In the prior year, the Company evaluated receivables for collectability based on the age of the receivable, the credit history of the customer and past collection experience. An expected loss allowance was provided for potential losses that had been incurred at the balance sheet date.

Concentration of cash and cash equivalents exist due to the significant amount of cash held with Scotiabank (refer to Note 19 for further discussion of the Company's concentration of cash held on deposit with Scotiabank). The syndicated revolving floorplan facility (Note 29) 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 3.348% at December 31, 2018 (2017 – 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.

As at December 31, 2018, the Company has $240,747 (2017 - $106,170) in readily available liquidity from its revolving term facility. However, the Company's ability to borrow under this facility requires it to comply with its financial covenants.

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.

	2019 $	2020 $	2021 $	2022 $	Thereafter $	Total $
December 31, 2018						
Bank indebtedness	—	—	—	—	—	—
Trade and other payables	101,280	—	—	—	—	101,280
Revolving floorplan facilities	748,353	—	—	—	—	748,353
Vehicle repurchase obligations	7,654	—	—	—	—	7,654
Senior unsecured notes	—	—	149,739	—	—	149,739
Scotiabank revolving term facility	—	—	179,253	—	—	179,253
VCCI mortgages	52	53	805	—	—	910
BMW mortgage	—	—	—	—	—	—
Other long-term debt	1,601	97	—	—	—	1,698
Contractual interest payable	17,125	17,065	6,387	—	—	40,577
Derivative financial instruments	752	752	752	752	754	3,762
	876,817	17,967	336,936	752	754	1,233,226

	2018 $	2019 $	2020 $	2021 $	Thereafter $	Total $
December 31, 2017						
Bank indebtedness	136	—	—	—	—	136
Trade and other payables	63,295	—	—	—	—	63,295
Revolving floorplan facilities	634,655	—	—	—	—	634,655
Vehicle repurchase obligations	6,511	—	—	—	—	6,511
Senior unsecured notes	—	—	—	149,739	—	149,739
HSBC revolving term facility	—	—	143,830	—	—	143,830
Lease financing - Scotiabank	365	693	—	—	—	1,058
Demand term loan	196	214	214	214	178	1,016
Servus mortgage	257	268	278	289	3,979	5,071
VCCI mortgages	955	1,766	3,112	3,511	8,518	17,862
BMW mortgage	797	828	859	894	15,299	18,677
Other long-term debt	95	116	89	—	—	300
Contractual interest payable	16,655	16,340	12,431	4,716	9,430	59,572
	723,917	20,225	160,813	159,363	37,404	1,101,722

27 Other assets

	December 31, 2018 $		December 31, 2017 $	
	Current	Long-term	Current	Long-term
Prepaid rent	6,474	4,482	3,505	4,934
Finance lease receivables	39	19	88	51
Other assets[1]	—	5,947	—	95
	6,513	10,448	3,593	5,080

1 *$5,847 (2017 - $nil) relates to long-term loans receivable from the respective non-controlling interests (refer to Note 35).*

28 Trade and other payables

	December 31, 2018 $	December 31, 2017 $
Trade payables	49,805	24,561
Accruals and provisions	22,751	11,365
Sales tax payable	5,852	4,833
Wages and withholding taxes payable	22,872	22,536
	101,280	63,295

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

	Finance and insurance[1] $	Other[2] $	Total $
January 1, 2017	1,428	788	2,216
Provisions arising during the year	957	216	1,173
Amounts expired or disbursed	(754)	(315)	(1,069)
December 31, 2017	1,631	689	2,320
Provisions arising during the year	405	3,236	3,641
Amounts expired or disbursed	(765)	(354)	(1,119)
December 31, 2018	1,271	3,571	4,842

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

2 *During the year the company recorded a non-recurring legal and loss provision of $2,000 associated with the fraud that occurred at Capital Chrysler in Q2 2018 related to the wholesaling of new and used vehicles.*

29 Indebtedness

This note provides information about the contractual terms of the Company's interest-bearing debt, which is measured at amortized cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, refer to Note 26.

	December 31, 2018 $	December 31, 2017 $
Revolving floorplan facilities[1]		
Revolving floorplan facilities - Syndicate (i)	384,954	428,862
Revolving floorplan facilities - BoA (ii)	122,950	—
Revolving floorplan facilities - VCCI (iii)	51,784	50,759
Revolving floorplan facilities - BMW Financial (iv)	82,810	62,885
Revolving floorplan facilities - RBC (v)	30,534	112,011
Revolving floorplan facilities - Scotiabank (vi)	23,664	35,594
Revolving floorplan facilities - Toronto-Dominion Bank (vii)	9,068	11,580
Revolving floorplan facilities - Mercedes-Benz Financial (viii)	46,873	17,378
	752,637	719,069
Held for sale	4,284	84,414
Carrying value	748,353	634,655
Indebtedness		
Senior unsecured notes (ix)		
Senior unsecured notes	149,739	149,739
Unamortized deferred financing costs	(1,297)	(1,840)
	148,442	147,899
Revolving term facilities (x)		
HSBC revolving term facility	—	143,830
Scotiabank revolving term facility	179,253	—
Unamortized deferred financing costs	(1,651)	(598)
	177,602	143,232
Other debt		
Lease financing - RBC (xi)	—	6,689
Lease financing - Scotiabank (xii)	—	1,058
Servus mortgage (xiii)	—	5,071
VCCI mortgage (xiv and xv)	910	17,863
BMW mortgage (xv)	—	18,677
Other long-term debt	1,698	1,510
Total indebtedness	328,652	341,999
Held for sale	—	6,883
Carrying value	328,652	335,116
Current indebtedness	**1,654**	**2,666**
Long-term indebtedness	**326,998**	**332,450**

1 *Certain re-classifications were made to these balances for the year ended December 31, 2017.*

Terms and conditions of outstanding loans are as follows:

i. During the second quarter of 2018, the Company completed a $1,080,000 syndicated credit agreement with the Bank of Nova Scotia ("Scotiabank"), the Canadian Imperial Bank of Commerce ("CIBC"), the Royal Bank of Canada ("RBC"), HSBC and Alberta Treasury Branches ("ATB"), with Scotiabank serving as the administrative agent for the Facility. The three-year credit agreement provides the Company with a $660,000 facility for floorplan and lease financing of new, used and demonstrator vehicles, a $350,000 facility for the financing of acquisitions and capital expenditures and a $70,000 facility for general corporate purposes. The floorplan facilities bear interest rates of Canadian Dollar Offered Rate ("CDOR") plus 1.05% per annum for a total of 3.348% at December 31, 2018. Interest on borrowings under the general operating and acquisition facilities 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 CDOR plus 1.75% to CDOR plus 2.75%.

   During the third quarter of 2018, the three-year credit agreement was amended whereby the Company is now provided with a $680,000 facility for floorplan and lease financing of new, used and demonstrator vehicles, a $330,000 facility for the financing of acquisitions and capital expenditures and a $70,000 facility for general corporate purposes. The amendment increased the Total Funded Debt to EBITDA Ratio covenant to 4.50:1.00 for the period commencing on September 1, 2018 and ending on June 30, 2019.

   As at December 31, 2018, the Company is in the fourth of five tiers of the pricing grid, with the fourth tier providing interest rates of CDOR plus 2.50% for a total of 4.798% at December 31, 2018. The agreement has certain reporting requirements and financial covenants. The floorplan facility is collateralized by each individual dealership's inventories that are directly financed by the facility. The general operating and acquisition facilities are collateralized by certain of the Company's real property and fixed assets, as well as, certain current receivable and inventory assets not otherwise pledged as collateral.

ii. Bank of America ("BoA") provides floorplan financing for new, used and demonstrator vehicles for all of the Company's U.S. dealerships. The BOA facilities for New and Demonstrator vehicles bear interest rates of London Interbank Offered Rate ("LIBOR") plus 1.15% per annum for a total of 3.67% at December 31, 2018. The maximum amount of financing provided by BoA for New and Demonstrator vehicle financing is $106,500. The floorplan facilities for Used vehicles bear interest rates of London Interbank Offered Rate ("LIBOR") plus 1.40% per annum for a total of 3.92% at December 31, 2018. The maximum amount of financing provided by BoA for Used vehicle financing is $25,000. The floorplan facility has certain reporting requirements and financial covenants and is collateralized by each individual dealership's inventories that are directly financed by the facility.

iii. 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% – 0.75%(2017 - 0.00% - 1.25%). The RBC prime rate was 3.95% at December 31, 2018 (2017 – 3.20%). The combined total interest rates were 3.95% – 4.70% at December 31, 2018 (2017 – 3.20% – 4.45%). The maximum amount of financing provided by the VCCI facilities is $77,935 (2017 – $77,480). The VCCI facilities have certain reporting requirements and financial covenants and are collateralized by all of the dealerships' assets financed by VCCI. The individual notes payable of the VCCI facilities are due when the related vehicle is sold.

iv. 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% (2017 - 0.40%) per 360 day annum for a total of 3.55% at December 31, 2018 (2017 - 2.80%). The BMW Facilities have a current advance limit of $98,806 (2017 - $94,461). The BMW Facilities have certain reporting requirements and financial covenants and are collateralized by the dealerships' movable and immovable property.

v. The Royal Bank of Canada ("RBC") provides floorplan financing for new, used and demonstrator vehicles for three of the Company's dealerships (the "RBC Facilities"). The RBC Facilities bear interest rates of RBC's Cost of Funds Rate plus 0.25% – 0.65%(2017 – 0.25% – 0.75%). The RBC's Cost of Funds Rate was 3.04% at December 31, 2018 (2017 – 2.31%). The combined total interest rates were 3.29% – 3.69% as at December 31, 2018 (2017 – 2.56% – 3.06%). The maximum amount of financing provided by the RBC facilities is $45,800 (2017 – $147,300). 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.

vi. Scotiabank provides floorplan financing for new, used and demonstrator vehicles for two of the Company's dealerships (the "Scotiabank Facilities"). The Scotiabank Facilities bear interest rates of Scotia Fixed Flooring

Rate plus 0.93% (2017 - 0.93% - 1.40%). The Scotia Fixed Flooring rate was 2.27% at December 31, 2018 (2017 - 1.54%). The combined total interest rate was 3.20% at December 31, 2018 (2017 – 2.47% - 2.94%). The maximum amount of financing provided by Scotiabank Facilities is $47,800 (2017 - $74,200). 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 two dealerships financed by Scotiabank.

vii. Toronto Dominion Bank ("TD") provides 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 minus 0.75% (2017 – 0.75%) per annum and provide a maximum amount of financing of $23,500. The TD prime rate was 3.95% at December 31, 2018 (2017 – 3.20%). The combined total interest rate was 3.20% at December 31, 2018 (2017 – 2.45%). 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.

viii. Mercedes-Benz Financial provides floorplan financing for new, used and demonstrator vehicles for two of the Company's dealerships (the "Mercedes-Benz Facilities"). The Mercedes-Benz Facilities bear interest rates of Canadian Dollar Offered Rate ("CDOR") plus 1.80% (2017 - 1.80%) per annum for a total of 4.10% at December 31, 2018 (2017 - 3.24%) and provide a maximum amount of financing of $46,500 (2017 - $23,500). The Mercedes-Benz Facilities have certain reporting requirements and financial covenants and are collateralized by the new, used, and demonstrator inventory financed by Mercedes-Benz Financial and a general security agreement from the Company's dealership financed by Mercedes-Benz Financial.

ix. 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 Note holders have the right to require the Company to redeem the Notes or a portion thereof, at the redemption prices set forth in the agreement in the event of change in control or in the event certain asset sale proceeds are not reinvested in the time and manner specified in the agreement.

x. During the second quarter of 2018, the Company completed an extinguishment of the HSBC revolving term facility loan for a lump sum payment of $232,398. The carrying amount of the loan at the time of payment was $232,125. Expensed during the period as a result of the extinguishment were direct fees of $273 and $475 in unamortized deferred financing costs related to the HSBC facility. The result is a net loss on settlement of $748 which is included in finance expenses in the Consolidated Statements of Comprehensive (Loss) Income.

   The Scotiabank revolving term facility provides the Company with a $350,000 facility for the financing of acquisitions and capital expenditures and a $70,000 facility for general corporate purposes. Interest on borrowings under the general operating and acquisition facilities 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 CDOR plus 1.75% to CDOR plus 2.75%.

   During the third quarter of 2018, the three-year credit agreement was amended whereby the Company is now provided with a $330,000 facility for the financing of acquisitions and capital expenditures and a $70,000 facility for general corporate purposes. The amendment increased the Total Funded Debt to EBITDA Ratio covenant to 4.50:1.00 for the period commencing on September 1, 2018 and ending on June 30, 2019.

   As at December 31, 2018, the Company is in the fourth of five tiers of the pricing grid, with the fourth tier providing interest rates of CDOR plus 2.50% for a total of 4.798%. The agreement has certain reporting requirements and financial covenants. The general operating and acquisition facilities are collateralized by certain of the Company's real property and fixed assets, as well as certain current receivable and inventory assets not otherwise pledged as collateral.

xi. RBC provided financing for the lease vehicles of two of the Company's GM dealerships (the "RBC lease financing"). The RBC lease financing had interest rates of RBC's Costs of Funds Rate plus 0.90% (2017 – 0.90%). The RBC's Cost of Funds Rate was 2.31% at December 31, 2018 (2017 – 2.31%). The combined total interest rate was 3.21% at December 31, 2018 (2017 – 3.21%). The maximum amount of financing provided by RBC lease financing was $17,331 (2017 – $17,331) repayable over the terms of the contract in varying amounts of principal. The RBC lease financing was extinguished during the second quarter of 2018.

xii. Scotiabank provided financing for the lease vehicles to two of the Company's dealerships (the "Scotiabank lease financing"). The Scotiabank lease financing had interest rates of Scotiabank's Cost of Funds Rate plus 1.25% (2017 – 1.25%) for a total of 5.35% during the year ended December 31, 2018 (2017 – 5.35%). The maximum amount of financing provided by the Scotia lease financing was $2,500 (2017 – $2,500) which was repayable over the terms of the contract in varying amounts of principal. The Scotiabank lease financing was extinguished during the second quarter of 2018.

xiii. Servus Credit Union provided the Company with a mortgage (the "Servus Mortgage"). The Servus Mortgage had a fixed annual rate of 3.80% (2017 – 3.80%) and was repayable with monthly blended installments of $37 (2017 – $37), originally amortized over a 20 year period with term expiring September 30, 2018. The Servus Mortgage required certain reporting requirements and financial covenants and was collateralized by a general security agreement consisting of a first fixed charge over the property. The Servus Mortgage was extinguished during the second quarter of 2018.

xiv. During the period, the Company repaid one of its mortgages as part of the sale leaseback transaction (Note 23). VCCI provides the Company with a mortgage (the "VCCI Mortgage"), which bears interest at a floating rate of interest per annum equal to the Royal Bank of Canada's prime rate plus 0.15% (2017 – 0.15% – 0.50%). The RBC prime rate was 3.95% at December 31, 2018 (2017 – 3.20%). The total interest rate was 4.10% at December 31, 2018 (2017 – 2.85% – 3.70%). The VCCI Mortgage is repayable with blended monthly payments of $120 amortized over a 20 year period with the term expiring in 2021. The VCCI Mortgage has certain reporting requirements and financial covenants and is collateralized by a general security agreement consisting of a first fixed charge over the property. At December 31, 2018, the carrying amount of the property was $1,540 (2017 – $48,268).

xv. During the period, the Company completed a sale leaseback transaction for six of its dealership properties and repaid those related mortgages (Note 23).

The following table shows the movement of indebtedness during the year ended December 31:

	2018 $	2017 $
Balance, beginning of year	335,116	352,030
Amortization of deferred finance charges	1,658	989
Draws and additions	294,085	123,439
Repayments	(302,207)	(134,459)
Reclassification to held for sale	—	(6,883)
Balance, end of year	328,652	335,116

30 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.

31 Commitments and contingencies

Commitments

The Company has operating lease commitments, with varying terms through 2038, to lease premises used for business purposes. The Company leases certain lands and buildings used in its franchised automobile dealership operations from third parties. The future aggregate minimum lease payments under non-cancelable operating leases are as follows:

	December 31, 2018 $
2019	35,007
2020	32,698
2021	30,230
2022	28,896
2023	27,881
Thereafter	287,296
	442,008

As at December 31, 2018, the Company has recorded an intangible liability of $36,161 (2017 - $nil) related to the acquisition of unfavourable leases (Note 16), which will be amortized against lease expense in future years.

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 28 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 $1,293 as at December 31, 2018 (2017 – $935) 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, 2018, the Company is committed to capital expenditure obligations in the amount of $11,215 (2017 – $4,225) related to dealership relocations, dealership re-imagings, and dealership Open Points with expected completion of these commitments in 2019.

32 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. Prior to August 11, 2018, it was the Company's practice to settle RSU awards partially in cash and partially in shares. Effective August 11, 2018, the RSU Plan was modified such that awards are intended to be settled in shares. As no other modifications were made to the value of awards at the time of Plan modification, the value of vested awards was transferred from a liability to equity. The RSU plan settles by way of common shares, based on the Company's share price at each vesting date. If the Board of Director's Governance and Compensation Committee determines it is not prudent to settle in shares, the settlement may be made in cash. 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 and value of RSUs for the years ended:

	2018		2017	
	Number of RSUs	Amount $	Number of RSUs	Amount $
Outstanding, beginning of the year	20,032	454	33,676	779
Settled - equity	(29,732)	(464)	(27,075)	(643)
Settled - cash	(17,017)	(279)	(18,050)	(428)
Granted	80,910	693	31,044	738
Dividends reinvested	596	9	437	6
Impact of movements in share price	–	209	–	2
Outstanding, end of the year	54,789	622	20,032	454

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 granted. 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. Prior to January 1, 2018, it was the Company's practice to settle DSU awards in cash. Effective January 2018 the DSU Plan was modified such that awards are intended to be settled in shares. As no other modifications were made to the value of awards at the time of Plan modification, the value of vested awards was transferred from a liability to equity.

The DSUs granted are scheduled to vest upon the termination date of the Director, at which time, the DSUs will be settled in common shares no earlier than the termination date and no later than December 15 of the calendar year following the Director’s termination date. If the Board of Director's Governance and Compensation Committee determines it is not prudent to settle in shares, the settlement may be made in cash.

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

	2018		2017	
	Number of DSUs	Amount $	Number of DSUs	Amount $
Outstanding, beginning of the year	49,716	1,126	34,731	825
Granted	28,490	394	14,168	316
Dividends reinvested	1,412	20	817	17
Impact of movements in share price	–	(636)	–	(32)
Outstanding, end of the year	79,618	904	49,716	1,126

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 and market 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 exercisable to acquire one common 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 years ended:

	2018		2017	
	Average exercise price per share option $	Share options #	Average exercise price per share option $	Share options #
Outstanding, beginning of the period	18.68	420,000	18.68	520,000
Granted	10.05	2,530,000	—	—
Exercised	—	—	18.68	(10,000)
Forfeited	18.68	(206,668)	18.68	(90,000)
Outstanding, end of the period	10.72	2,743,332	18.68	420,000
Vested and exercisable, end of the period	18.68	213,332	18.68	106,666

During the year ended December 31, 2018, no options were exercised or expired.

The following table shows the expiry date and exercise price for the share options outstanding for the year ended December 31, 2018:

Grant date	Expiry date	Exercise price $	Share options #
April 1, 2016	March 31, 2026[1]	18.68	213,332
August 14, 2018	August 14, 2028	10.05	2,530,000
Total			2,743,332
Weighted average remaining contractual life of options outstanding, end of the period			9.44 years

1 *These options were granted to individuals who have retired from AutoCanada. If these stock options are not exercised, 200,000 will terminate on March 6, 2019 and 13,332 will terminate on March 11, 2019.*

The weighted average remaining contractual life for the share options outstanding as at December 31, 2017 was 8.25 years.

The assessed weighted average fair value at grant date of options granted during the year ended December 31, 2018 was $2.49 per option. The fair value at grant date is determined using an adjusted form of the Black-Scholes Model that takes into account probabilities using the Monte Carlo simulation as well as 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 during the year ended December 31, 2018 include:

a) Options are granted for no consideration and vest based on varying service and market price conditions over a three year period. For example, a portion of the options vest on the later of 2 years from the date of grant and the share price hitting at least $15.08 and another portion only vests at the later of three years and the share price hitting at least $20.10. Vested options are exercisable for a period of ten years after grant date.

b) Exercise price: $10.05

c) Grant date: August 14, 2018

d) Expected life of option: 10 years

e) Share price at grant date: $10.05

f) Expected price volatility of the company's shares: 29.43%

g) Expected dividend yield: 3.96%

h) Risk-free interest rate: 2.70%

Expected price volatility was determined at the time of grant using the AutoCanada share price on a historical basis, adjusted for any expected changes to future volatility due to publicly available information. It reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

The market price condition was factored into the fair value of the options granted using the Monte Carlo simulation to determine the probability that the options will vest based on the market price vesting condition.

An additional 370,000 stock options will be granted when room becomes available under the Plan. Alternative compensation will be provided for these stock options if the Grant price is above $10.05 or if the stock options are not able to be granted prior to the expiry date of August 14, 2028. During the period, the Company modified the alternative compensation from being cash-settled to equity-settled. As a result of the modification, the liability accrued in the third quarter for these ungranted options has been derecognized and expenses of $18 has arisen. The fair value at modification date has been determined using an adjusted form of the Black-Scholes Model that takes into account probabilities using the Monte Carlo simulation. The assessed weighted average fair values of the alternative compensation is $0.62 per option.

The model inputs for the alternative compensation as at the modification date were as follows:

- Exercise price: $10.05
- Expected life of option: 10 years
- Share price at valuation date: $11.35
- Expected volatility of the company's shares: 31.77%
- Expected dividend yield: 3.65%
- Risk-free interest rate: 2.47%

Expected price volatility was determined at the time of grant using the AutoCanada share price on a historical basis, adjusted for any expected changes to future volatility due to publicly available information. 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, 2018, expenses of $1,630 (2017 - $848) and recoveries of $735 (2017 - $249) arose as a result of options issued in 2016.

Share Appreciation Rights

The share appreciation rights been designed to advance the Go-Forward Plan of the Corporation by enabling those granted options under the plan to participate in the growth and profitability of the Company. All of the options are time-based and vest over a maximum period of three years. Vested options are exercisable for a maximum period of five years after grant date. In connection with the grant of share appreciation rights, annual variable profit share bonuses of some participants will be reduced annually by amounts pre-determined by the Company over a maximum of three compensation years.

Each share appreciation right that is exercised entitles the employee to receive a number of common shares that is equal to (i) the amount by which the fair market value of one common share exceeds the notional exercise price of the vested share appreciation right; divided by (ii) the fair market value of one common share. If the Company determines that it is not prudent to acquire such common shares, the Company may, in lieu of the payment through Common Shares, pay an amount in cash equal to the appreciation of the common shares.

The following table shows the change in the number of share appreciation rights for the year ended December 31, 2018:

	Weighted average exercise price per share appreciation right $	Share appreciation rights #
Outstanding, beginning of the period	—	—
Granted	11.18	1,043,950
Outstanding, end of the period	11.18	1,043,950
Vested and exercisable, end of the period	—	—

During the year ended December 31, 2018, no share appreciation rights were exercised, forfeited or expired.

The weighted average contractual life remaining for these share appreciation rights as at December 31, 2018 is 4.59 years.

The assessed weighted average fair value at grant date of the share appreciation rights granted during the year ended December 31, 2018 was $2.14 per option. The fair value at grant date has been determined using the Black-Scholes Model.

The weighted average model inputs for the share appreciation rights granted during the year ended December 31, 2018 include:

- Exercise price: $11.18
- Expected life of option: 3.89 years
- Share price at grant date: $11.14
- Expected price volatility of the company's shares: 30.03%
- Expected dividend yield: 3.61%
- Risk-free interest rate: 2.12%

Expected price volatility was determined at the time of grant using the AutoCanada share price on a historical basis, adjusted for any expected changes to future volatility due to publicly available information. It reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

Total expenses net of recoveries arising from share-based payment transactions recognized during the year included in employee benefits expense are as follows:

	2018 $	2017 $
Stock options	896	600
Share appreciation rights	220	—
	1,116	600

33 Share capital

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

Restricted Share Unit Trust

Shares are held in trust to mitigate the risk of future share price increases from the time the RSUs and DSUs (refer to Note 32) are granted to when they are fully vested and can be exercised. The beneficiaries 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 year-ended December 31, 2018 on the shares held in trust of $(29) (2017 – $31) are reinvested to purchase additional shares. The shares held in trust are accounted for as treasury shares and have been deducted from the Company's consolidated equity as at December 31, 2018.

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

	2018		2017	
	Number of shares	$	Number of shares	$
Outstanding, beginning of the year	27,388,900	508,768	27,356,439	507,886
Dividends reinvested	(1,567)	(29)	(1,431)	(31)
Treasury shares settled	29,729	799	33,892	913
Outstanding, end of the year	27,417,062	509,538	27,388,900	508,768

As at December 31, 2018, 42,621 (2017 - 70,783) common shares were held in trust for the Restricted Share Unit Plan, resulting in a total of 27,459,683(2017 - 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 twelve month period ended December 31, 2018, eligible dividends totaling $0.40 (2017 - $0.40) per common share were declared and paid, resulting in total payments of $10,956 (2017 - $10,952).

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 and stock options to calculate the diluted earnings per share.

	2018 $	2017 $
(Loss) earnings attributable to common shares	(78,083)	57,844

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

	2018	2017
Basic	27,399,117	27,379,193
Effect of dilution from RSUs	—	22,526
Effect of dilution from stock options	—	72,276
Diluted	27,399,117	27,473,995

For the year ended December 31, 2018, 29,645 potential common shares related to RSU's and 869,139 related to stock options were excluded from the computation of diluted earnings per share because they were anti-dilutive.

34 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 maximizing 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 leases and equity.

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

	December 31, 2018 $	December 31, 2017 $
Long-term indebtedness (Note 29)	326,998	332,450
Equity	447,307	537,607
	774,305	870,057

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, 2018.

35 Transactions with non-controlling interests

Acquisition of non-controlling interest

On January 2, 2018, the Company acquired a 100% ownership interest in certain subsidiaries by acquiring the remaining 20% of issued shares of Green Isle G Auto Holdings Inc., 20% of issued shares of Waverley BG Holdings Inc., 20% of issued shares of NBFG Holdings Inc., and 17.6% of issued shares in Prairie Auto Holdings Ltd. (Prairie Auto Holdings Ltd. holds interest in two operating dealerships where the dealer principal retained a 15% ownership interest) for cash consideration of $18,708. Immediately prior to the purchase, the carrying amount of the existing non-controlling interest of Green Isle G Auto Holdings Inc., Waverly BG Holdings Inc., NBFG Holdings Inc., and Prairie Auto Holdings Ltd. was $14,674. The Company recognized a decrease in non-controlling interests of $14,674 and a decrease in equity attributable to owners of the company of $2,675.

The effect on the equity attributable to the owners of AutoCanada during the period is summarized as follows:

	January 2, 2018 $
Carrying amount of non-controlling interests	14,674
Total consideration paid to non-controlling interests	(17,349)
Decrease in equity attributable to AutoCanada shareholders	(2,675)

In combination with the above transaction, redemption liabilities in the amount of $1,359 were settled during the year.

Divestiture of subsidiaries

On January 2, 2018, the Company sold its 31% interest in Dealer Holdings Ltd., its 80% interest in DFC Holdings Inc., and its 75% interest in LWD Holdings Ltd. for cash consideration of $41,017. Immediately prior to the divestiture, the carrying amount of the existing non-controlling interests in Dealer Holdings Ltd., DFC Holdings., and LWD Holdings Ltd. was $20,774. The Company recognized a decrease in non-controlling interest of $20,774 and a pre-tax gain attributable to AutoCanada Shareholders of $5,984.

The breakdown of the transaction was as follows:

	January 2, 2018 $
Assets held for sale	162,086
Liabilities held for sale	(132,683)
Derecognition of redemption liability	26,404
Derecognition of non-controlling interests	(20,774)
Net assets disposed of	35,033
Net proceeds on divestiture	41,017
Net gain on divestiture	5,984

Since the divestiture date, adjustments have been made to the previously disclosed assets and liabilities part of the transaction, resulting in the changes noted below:

	As reported March 31, 2018	Post-close adjustments	Final Balances
Assets held for sale	163,228	(1,142)	162,086
Net gain on divestiture	4,842	1,142	5,984

The net gain on divestiture is included in the gain on disposal of assets, net on the Consolidated Statements of Comprehensive (Loss) Income.

Sale of non-controlling interest

During the year ended December 31, 2018, the Company sold non-controlling interests, between 5% and 10%, in four of its dealerships to the respective dealer principals for consideration of $5,847.

The Company retained the balance of the ownership interests and therefore continues to control and consolidate the dealerships.

Prior year transactions with non-controlling interests

On August 1, 2017, the Company acquired the remaining 10% of the issued shares of AutoCanada HCN Holdings Inc. for cash consideration of $1,700 and the extinguishment of loans of $700, for total consideration of $2,400. Immediately prior to the purchase, the carrying amount of the existing 10% non-controlling interest in AutoCanada HCN Holdings Inc. was $1,970. The group recognized a decrease in non-controlling interest of $1,970 and a decrease in equity attributable to owners of the Company of $430.

On December 31, 2017, the Company acquired the remaining 10% of the issued shares of GRV C Holdings LP, for cash consideration of $2,284. Immediately prior to the purchase, the carrying amount of the existing 10% non-controlling interest in GRV C Holdings LP was $2,163. The group recognized a decrease in non-controlling interest of$2,163 and a decrease in equity attributable to owners of the Company of $121.

The effect on the equity attributable to the owners of AutoCanada during the year is summarized as follows:

	AutoCanada HCN Holdings Inc.	GRV C Holdings LP	Total
Carrying amount of non-controlling interests acquired	1,970	2,163	4,133
Total consideration paid to non-controlling interests	(2,400)	(2,284)	(4,684)
Contingent settlement on sale of property	(89)	—	(89)
Excess of consideration paid recognized in the transactions with non-controlling interests within equity	(519)	(121)	(640)

36 Related party transactions

Transactions with Companies controlled by Directors

During the year there were transactions with companies that are related to directors of the Company. All significant transactions between AutoCanada and companies related to directors were approved by the Company’s independent members of the Board of Directors. A summary of those transactions are as follows:

	2018 $	2017 $
Consulting services	135	—
Rent	—	979
Administrative and other support fees	307	428
Loans to associate	—	7,590
	442	8,997

Key management personnel compensation

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

	2018 $	2017 $
Employee costs (including Directors)	12,508	7,606
Short-term employee benefits	165	222
Share-based compensation	741	1,079
	13,414	8,907

37 Net change in non-cash working capital

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

	December 31, 2018 $	December 31, 2017 $
Trade and other receivables	(42,448)	(10,176)
Inventories	3,236	(104,383)
Finance lease receivables	3,566	1,978
Current tax recoverable/payable	(22,830)	—
Other current assets	(2,269)	2,418
Trade and other payables	23,583	(18,496)
Other liabilities	1,359	—
Vehicle repurchase obligations	3,545	113,102
Revolving floorplan facilities	1,143	(283)
	(31,115)	(15,840)

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.

38 Fair value of financial instruments

The Company's financial instruments at December 31, 2018 are represented by cash and cash equivalents, trade and other receivables, trade and other payables, revolving floorplan facilities, vehicle repurchase obligations, long-term indebtedness, restricted cash, bank indebtedness, contingent consideration, redemption liabilities and hedging derivatives.

The fair values of cash and cash equivalents, trade and other 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 26.

Derivative financial instruments are made up of interest-rate swaps (Level 2). The fair value of interest-rate swaps are calculated as the present value of the future cash flows. Both contractually agreed payments and forward interest rates are used to calculate the cash flows, which are then discounted on the basis of a yield curve that is observable in the market.

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 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, 2017	(46,464)	(1,820)	(48,284)
Acquisitions	(306)	—	(306)
Gain (loss) recognized in net income (Note 14)	2,869	416	3,285
Settlement of redemption liabilities	1,197	—	1,197
Settlement of contingent consideration	—	1,500	1,500
Closing balance, December 31, 2017	(42,704)	96	(42,608)
Gain (loss) recognized in net income (Note 14)	(7)	(15)	(22)
Settlement of redemption liabilities	27,764	—	27,764
Closing balance, December 31, 2018	(14,947)	81	(14,866)

39 Hedge accounting

Hedging of interest-rate risk

The Company uses cash flow hedge accounting in connection with the hedging of interest-rate risk. It hedged the interest-rate risk arising on the variable-rate debt of the syndicated floorplan by entering into a number of interest-rate swaps, thereby, transforming the variable interest-rate exposure into fixed-rate obligations.

In total, $200 million of variable-rate debt, which has a weighted-average hedge rate of 2.98%, was hedged and designated as hedged items — the $200 million notional amount relates to cash flows that are expected in 2019 to 2023.

Hedge ineffectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

The Company enters into interest rate swaps that have similar critical terms as the hedged item, such as interest rate, payment dates, maturities and notional amount. The group does not hedge 100% of its loans, therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps. As all critical terms matched during the year, the economic relationship was 100% effective.

The Company performs a qualitative assessment of hedge ineffectiveness for interest rate swaps which may occur due to:

- The credit value/debit value adjustment on the interest rate swaps which is not matched by the loan; and
- Differences in critical terms between the interest rate swaps and loans.

The associated derivative financial instrument was valued at $3.76 million at December 31 (2017 - $nil). There was no ineffectiveness during 2018 and the Company did not have any interest-rate swaps in 2017.

40 Segmented reporting

During the year the Executive Chair served as the function of the CODM. The Executive Chair is responsible for allocating resources and assessing the performance of the following segments: Canadian Operations and U.S. Operations.

Each reportable operating segment is comprised of retail automobile dealerships.

Transactions between reportable segments are accounted for in accordance with the accounting policies described in the summary of significant accounting policies.

Our CODM measures the performance of each operating segment based on Operating (loss) profit, which is defined as income before Finance costs, Finance income, Other (losses) gains and Income taxes (recovery). The segmented information is set out in the following tables:

	Year Ended December 31, 2018			
	Canada[1] $	U.S.[2] $	Eliminations and Adjustments $	Total $
Revenues				
External revenues	2,778,820	371,961	—	3,150,781
Inter-segment revenue	—	—	—	—
Total Revenues	2,778,820	371,961	—	3,150,781

1 *AutoCanada's corporate office has been included with the Canadian operating segment, as it is located in Canada.*
2 *Grossinger Auto Group was acquired in April 2018; refer to Note 16.*

	Year Ended December 31, 2018			
	Canada[1] $	U.S.[2] $	Eliminations and Adjustments $	Total $
Operating profit before other income (expense)	43,503	(10,344)	—	33,159
Lease and other income, net	7,197	722	—	7,919
Gain on disposal assets, net	17,484	3,996	—	21,480
(Impairment) recovery of non-financial assets	(34,053)	(61,447)	—	(95,500)
Income from loans to associates	294	—	—	294
Operating (loss) profit	34,425	(67,073)	—	(32,647)
Finance costs				(47,193)
Finance income				1,289
Other gains				950
Net (loss) income for the year before taxation				(77,602)

1 *AutoCanada's corporate office has been included with the Canadian operating segment, as it is located in Canada.*
2 *Grossinger Auto Group was acquired in April 2018; refer to Note 16.*

	As at December 31, 2018			
	Canada[1] $	U.S.[2] $	Eliminations and Adjustments $	Total $
Assets held for sale	54,313	—	—	54,313
Segment Assets	1,473,856	246,712	—	1,720,568
Capital expenditure	23,247	3,327	—	26,574
Segment Liabilities	996,947	276,313	—	1,273,260

1 *AutoCanada's corporate office has been included with the Canadian operating segment, as it is located in Canada.*
2 *Grossinger Auto Group was acquired in April 2018; refer to Note 16.*

Disaggregation of Revenue

The significant majority of our revenue is from contracts with customers. Taxes assessed by governmental authorities that are directly imposed on revenue transactions are excluded from revenue. In the following table, revenue is disaggregated by major lines of goods and services and timing of transfer of goods and services. We have determined that these categories depict how the nature, amount, timing, and uncertainty of our revenue and cash flows are affected by economic factors. The table below also includes a reconciliation of the disaggregated revenue with our reportable segments:

	Canada[1] $	U.S.[2] $	Total $
New vehicles	1,587,047	215,156	1,802,203
Used vehicles	664,163	91,991	756,154
Parts, service and collision repair	403,759	48,001	451,760
Finance, insurance and other	123,851	16,813	140,664
Total Revenue	2,778,820	371,961	3,150,781

1 *AutoCanada's corporate office has been included with the Canadian operating segment, as it is located in Canada.*
2 *Grossinger Auto Group was acquired in April 2018; refer to Note 16.*

41 Subsequent events

Dividends

On February 22, 2019, 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, 2019 to shareholders of record at the close of business on March 1, 2019.

Toronto Dodge Divestiture

On March 6, 2019, the Company closed the sale of Toronto Dodge for cash considerations of $5.0 million, which was presented as held for sale at December 31, 2018. The agreement is subject to customary closing adjustments.

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