AutoCanada Inc.

Consolidated Financial Statements
December 31, 2013

March 20, 2014

Independent Auditor's Report

To the Shareholders of
AutoCanada Inc.

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

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

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

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

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

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Opinion

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

PricewaterhouseCoopers LLP

Chartered Accountants

Edmonton, Canada

AutoCanada Inc.

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

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

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

Approved on behalf of the Company:

(Signed) "Gordon R. Barefoot", Director

(Signed) "Michael Ross", Director

AutoCanada Inc.

Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

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

Commitments and contingencies (Note 27)

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

AutoCanada Inc.

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

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

	Share capital	Treasury Shares	Contributed surplus	Total capital	Accumulated deficit	Equity
	$		$	$	$	$
Balance, January 1, 2012	190,435	-	3,918	194,353	(81,358)	112,995
Net comprehensive income	-	-	-	-	24,236	24,236
Dividends declared on common shares (Note 29)	-	-	-	-	(12,301)	(12,301)
Common shares repurchased (Note 29)	-	(935)	-	(935)	-	(935)
Share-based compensation	-	-	505	505	-	505
Balance, December 31, 2012	190,435	(935)	4,423	193,923	(69,423)	124,500

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

AutoCanada Inc.

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

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

1 General Information

Entity information

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

2 Basis of presentation

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

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

These financial statements were approved by the Board of Directors for issue on March 20, 2014.

3 Significant Accounting Policies

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

Basis of measurement

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

Principles of consolidation

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

Significant Accounting Policies continued

Principles of consolidation continued

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

Business combinations

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

Investments in associates

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

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

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

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

Significant Accounting Policies continued

Investments in associates continued

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

Revenue recognition

(a) Vehicles, parts, service and collision repair

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

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

(b) Finance and insurance

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

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

Significant Accounting Policies continued

Taxation

(a) Deferred tax

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the statement of financial position. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax liabilities:

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

Deferred tax assets:

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

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

(b) Current tax

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

Manufacturer incentives and other rebates

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

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

Significant Accounting Policies continued

Manufacturer incentives and other rebates continued

Advertising

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

Financial instruments

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

Cash and cash equivalents

Cash and cash equivalents include amounts on deposit with financial institutions and amounts with the Bank of Nova Scotia ("Scotiabank") that are readily available to the Company (See Note 22 - *Financial instruments - Credit risk* for explanation of credit risk associated with amounts held with Scotiabank).

Restricted cash

Restricted cash is cash held in a segregated account in connection with the facility from from Scotiabank. The restricted cash earns interest income to partially offset the interest expense incurred on the borrowings. (See Note 22 - *Financial instruments - Credit risk* for explanation of credit risk associated with restricted cash balances).

Significant Accounting Policies continued

Trade and other receivables

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

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

Inventories

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

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

Property and equipment

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

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

Significant Accounting Policies continued

Property and equipment continued

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

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

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

Goodwill and intangible assets

(a) Goodwill

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

(b) Intangible assets

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

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

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

Impairment

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

Significant Accounting Policies continued

Impairment continued

(a) Non-financial assets

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

(b) Intangible assets and goodwill

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

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

Trade Payables

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

Provisions

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

Leases

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

Significant Accounting Policies continued

Leases continued

(a) Finance leases

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

(b) Operating leases

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

New accounting policies

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

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

4 Accounting standards and amendments issued but not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are not yet effective for the financial year ended December 31, 2013. The standards issued that are applicable to the Company are as follows:

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

5 Critical accounting estimates, judgments & measurement uncertainty

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

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

Intangible assets and goodwill

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

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

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

Inventories

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

Critical accounting estimates, judgments & measurement uncertainty continued

Allowance for doubtful accounts

The Company must make an assessment of whether accounts receivable are collectible from customers. Accordingly, management establishes an allowance for estimated losses arising from non-payment and other sales adjustments, taking into consideration customer creditworthiness, current economic trends and past experience. If future collections differ from estimates, future earnings would be affected.

Estimated useful life of property and equipment

The Company estimates the useful life and residual values of property and equipment and reviews these estimates at each financial year end. The Company also tests for impairment when a trigger event occurs.

Critical judgments in applying accounting policies:

Investments in associates

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

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

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

- The CEO has not relied on any financial support from the Company in making his investment, and therefore the risk of loss and reward to the CEO personally is significant.

- There are no contractual rights providing the Company with decision making power over the CEO.

- The CEO's level of expertise and knowledge in operating DHL and Green Isle.

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

Critical accounting estimates, judgments & measurement uncertainty continued

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

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

6 Segment information

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

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

7 Economic dependence

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

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

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

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

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

7 Economic dependence continued

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

8 Revenue

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

9 Cost of sales

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

10 Operating expenses

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

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

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

11 Employees

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

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

Operating expenses incurred in respect of employees were:

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

12 Finance costs and finance income

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

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

13 Taxation

Components of income tax expense are as follows:

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

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

13 Taxation continued

Factors affecting tax expense for the year:

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

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

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

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

14 Business acquisitions

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

Grande Prairie Volkswagen

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

St. James Audi and Volkswagen

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

Courtesy Chrysler

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

Eastern Chrysler

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

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

14 Business acquisitions continued

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

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

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

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

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

15 Business divestiture

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

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

16 Investments in associates

Dealer Holdings Ltd.

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

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

Green Isle G Auto Holdings Inc.

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

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

16 Investments in associates continued

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

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

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

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

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

Carrying value of Investments in Associates

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

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

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

16 Investments in associates continued

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

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

Summarized financial information - DHL

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

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

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

Summarized financial information - Green Isle

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

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

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

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

17 Cash, cash equivalents and restricted cash

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

Short-term deposits consist of cash held with Scotiabank. The Company's revolving floorplan facility agreements allow the Company to hold excess cash in accounts with Scotiabank, which is used to offset our finance costs on our revolving floorplan facilities. Restricted cash relates to cash required by Scotiabank to be held in a separate account, which would be used to repay our facilities if we are in default of our facilities. See Note 22 for further detail regarding cash balances held with Scotiabank.

18 Trade and other receivables

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

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

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

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

18 Trade and other receivables continued

Included in amounts greater than 120 days are $567 (2012 - $328) of receivables related to corporate fleet leasing arrangements.

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

19 Inventories

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

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

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

20 Property and equipment

	Company & lease vehicles $	Leasehold Improvements $	Machinery & Equipment $	Land & buildings $	Furniture, fixtures & other $	Computer hardware $	Total $
Cost:							
January 1, 2012	5,065	5,933	11,146	10,226	5,125	3,609	41,104
Capital expenditures	-	747	514	-	207	673	2,141
Acquisitions of real estate	-	-	-	13,928	-	-	13,928
Disposals	-	(40)	(90)	-	(70)	(275)	(475)
Transfer in to inventory, net	112	-	-	-	-	-	112
December 31, 2012	5,177	6,640	11,570	24,154	5,262	4,007	56,810
Capital expenditures	348	802	1,003	-	125	880	3,158
Acquisitions of dealership assets	6,458	384	1,684	17,637	653	7	26,823
Acquisitions of real estate	-	-	-	63,947	-	-	63,947
Disposals	-	(586)	(459)	(3,248)	(158)	(178)	(4,629)
Transfer in (out) of inventory, net	(1,164)	-	-	-	-	-	(1,164)
December 31, 2013	10,819	7,240	13,798	102,490	5,882	4,716	144,945
Accumulated depreciation:							
January 1, 2012	(1,217)	(2,004)	(5,792)	(1,205)	(2,543)	(2,368)	(15,129)
Current year depreciation	(1,118)	(568)	(1,112)	(494)	(554)	(465)	(4,311)
Disposals	-	40	59	-	51	179	329
Transfers in to inventory, net	814	-	-	-	-	-	814
December 31, 2012	(1,521)	(2,532)	(6,845)	(1,699)	(3,046)	(2,654)	(18,297)
Current year depreciation	(1,729)	(695)	(1,376)	(1,410)	(559)	(577)	(6,346)
Disposals	-	576	455	-	141	91	1,263
Transfers out of inventory	1,350	-	-	-	-	-	1,350
December 31, 2013	(1,900)	(2,651)	(7,766)	(3,109)	(3,464)	(3,140)	(22,030)
Carrying amount:							
December 31, 2012	3,656	4,108	4,725	22,455	2,216	1,353	38,513
December 31, 2013	8,919	4,589	6,032	99,381	2,418	1,576	122,915

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

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

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

21 Intangible assets and goodwill

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

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

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

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

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

21 Intangible assets and goodwill continued

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

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

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

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

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

21 Intangible assets and goodwill continued

Impairment test of indefinite life intangible assets

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

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

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

Valuation Techniques

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

Value in Use

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

Fair value less costs to sell

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

Significant Assumptions for Value in Use

Growth

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

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

21 Intangible assets and goodwill continued

Discount Rate

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

Significant Assumptions for Fair Value Less Costs to Sell

EBITDA

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

Costs to sell

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

Additional Assumptions

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

	Basis of Recoverable Amount	Discount Rate	Perpetual Growth Rate
A	FVLCS	12.33 %	2.00 %
B	FVLCS	12.63 %	2.00 %
C	VIU	12.18 %	2.00 %
D	FVLCS	12.93 %	2.00 %
E	FVLCS	13.23 %	2.00 %
F	FVLCS	12.33 %	2.00 %
G	FVLCS	12.63 %	2.00 %
H	FVLCS	13.38 %	2.00 %
I	VIU	12.03 %	2.00 %
J	VIU	12.18 %	2.00 %
K	FVLCS	12.63 %	2.00 %
L	VIU	12.78 %	2.00 %
Other M - W combined	FVLCS/VIU	11.73 - 12.93%	2.00 %

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

21 Intangible assets and goodwill continued

Sensitivity

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

Based on sensitivity analysis, no reasonably possible change in growth rate assumptions would cause the recoverable amount of any CGU to have a significant change from its current valuation. A 1% change in the discount rate would not have a significant impact on the recoverable amounts of CGUs. The recoverable amount of each CGU is sensitive to changes in market conditions and could result in material changes in the carrying value of intangible assets in the future.

22 Financial instruments

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

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

22 Financial instruments continued

Financial Risk Management Objectives

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

Market Risk

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

Foreign Currency Risk

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

Interest Rate Risk

The Scotiabank revolving floorplan facilities ("Scotiabank facilities") are subject to interest rate fluctuations and the degree of volatility in these rates. The Company does not currently hold any financial instruments that mitigate this risk. The Scotiabank facilities bear interest at Bankers' Acceptance Rate plus 1.15% (Bankers' Acceptance Rate as at December 31, 2013 is 1.22%).

The VW Credit Canada, Inc. revolving floorplan facilities ("VCCI facilities") are subject to interest rate fluctuations and the degree of volatility in these rates. The Company does not currently hold any financial instruments that mitigate this risk. The VCCI facilities bear interest at Prime Rate for new vehicles and Prime Rate plus 0.25-1.00% for used vehicles. These facilities define Prime Rate as the Royal Bank of Canada Prime Rate (3.00% as at December 31, 2013).

The HSBC Credit Facilities and the HSBC Term Loan are also subject to interest rate fluctuations and the degree of volatility in these rates. The Company does not currently hold any financial instruments that mitigate this risk. The HSBC Revolver bears interest at the HSBC Prime Rate plus 0.75% or Bankers' Acceptance Rate plus 2.25%. The Acquisition Facility bears interest at HSBC Prime Rate plus 2.00% or Bankers' Acceptance Rate plus 3.25%. The HSBC Term Loan bears interest at the HSBC Prime Rate plus 1.75% (HSBC Prime Rate as at December 31, 2013 is 3.00%).

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

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

The Company's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The sensitivity analysis below has been determined based on the exposure to interest rates at the reporting date and stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. The amounts below

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

22 Financial instruments continued

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

	+ 200 Basis Point		**- 200 Basis Point**		**+ 100 Basis Point**		**- 100 Basis Point**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Finance costs	6,899	4,433	(6,899)	(4,433)	3,450	2,216	(3,450)	(2,216)
Finance income	135	360	(135)	(360)	68	180	(68)	(180)

Credit Risk

The Company's exposure to credit risk associated with its accounts receivable is the risk that a customer will be unable to pay amounts due to the Company or its subsidiaries. Concentration of credit risk with respect to contracts-in-transit and accounts receivable is limited primarily to automobile manufacturers and financial institutions (see Note 7 for further discussion of the Company's economic dependence on Chrysler Canada and associated credit risk). Credit risk arising from receivables with commercial customers is not significant due to the large number of customers dispersed across various geographic locations comprising our customer base. Details of the aging of the Company's trade and other receivables is located in Note 18.

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

Concentration of cash and cash equivalents exist due to the significant amount of cash held with Scotiabank (see Note 7 for further discussion of the Company's concentration of cash held on deposit with Scotiabank). The Revolving floorplan facilities allow our dealerships to hold excess cash (used to satisfy working capital requirements of our various OEM partners) in an account with Scotiabank which bears interest equal to the interest rates of the Scotiabank facilities for new vehicles (2.37% at December 31, 2013). These cash balances are fully accessible by our dealerships at any time, however in the event of a default by a dealership in its floorplan obligation; the cash may be used to offset unpaid balances under the Scotiabank facilities. As a result, there is a concentration of cash balances risk to the Company in the event of a default under the Scotiabank facilities.

Liquidity Risk

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

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

22 Financial instruments continued

Liquidity Risk continued

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

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

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

	2013	2014	2015	2016	Thereafter	Total
	$	$	$	$	$	$
December 31, 2012						
Trade and other payables	35,590	-	-	-	-	35,590
Revolving floorplan facilities	203,525	-	-	-	-	203,525
HSBC revolving term facility	-	15,000	-	-	-	15,000
HSBC fixed term loan	175	2,940	-	-	-	3,115
BMO fixed rate term loan	2,604	-	-	-	-	2,604
Lease obligations	1,282	-	-	-	-	1,282
Servus Mortgage	213	221	230	239	5,315	6,218
Contractual interest payable	1,083	511	221	212	1,745	3,772
	244,472	18,672	451	451	7,060	271,106

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

23 Other long-term assets

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

24 Payables, accruals and provisions

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

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

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

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

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

25 Indebtedness

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

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

Terms and conditions of outstanding loans were as follows:

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

ii The revolving floorplan facilities (“VCCI facilities”) are available to the Company from VW Credit Canada, Inc. ("VCCI") to finance new and used vehicles for all of the Company's Volkswagen and Audi dealerships. The VCCI facilities bear interest at the greater of Royal Bank of Canada ("RBC") prime rate for new vehicles and RBC prime rate plus 0.25-1.00% for used vehicles (RBC prime rate = 3.00% at December 31, 2013). The maximum amount of financing provided by the VCCI facilities is $30,680. The VCCI facilities are collateralized by all of the dealerships’ assets financed by VCCI and all cash and other collateral in the possession of VCCI and a general security agreement from the Company's Volkswagen and Audi dealerships. The individual notes payable of the VCCI facilities are due when the related vehicle is sold, as outlined in the agreement with VW Credit Canada, Inc.

25 Indebtedness continued

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

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

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

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

iv HSBC provides the Company with a committed, extendible, non-revolving term loan (the “HSBC Term Loan”). The HSBC Term Loan has a maturity date of June 30, 2014; however the facility may be extended at the request of the Company and upon approval by HSBC. If the HSBC Term Loan is not extended by HSBC, repayment of the outstanding amount is not due until June 30, 2015. The HSBC Term Loan bears interest at HSBC’s Prime Rate plus 1.75% (4.75% at December 31, 2013). Repayments are based on a 20 year amortization of the original loan amount; consisting of fixed monthly principal repayments of $15 plus applicable interest. The HSBC Term Loan requires maintenance of certain financial covenants and is collateralized by a first fixed charge in the amount of $3,510 registered over the Newmarket Infiniti Nissan

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

25 Indebtedness continued

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

v Bank of Montreal ("BMO") provides the Company a non-revolving Demand Loan (the “BMO Demand Loan”). The BMO Demand Loan bears interest at BMO's Prime Rate plus 0.50% (3.50% at December 31, 2013). Repayments consist of fixed monthly payments totaling $15 plus interest per month. The BMO Demand Loan requires maintenance of certain financial covenants and is collateralized by a general security agreement consisting of a first fixed charge in the amount of $3,450 registered over the Cambridge Hyundai property. At December 31, 2013, the carrying amount of the Cambridge Hyundai property was $3,081.

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

26 Leases

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

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

Terms and conditions of lease obligations were as follows:

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

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

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

27 Commitments and contingencies

Commitments

The Company has operating lease commitments, with varying terms through 2029, to lease premises and equipment used for business purposes. The Company leases the certain of the lands and buildings used in its franchised automobile dealership operations from related parties (Note 31) and other third parties. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

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

Lawsuits and legal claims

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

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

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

27 Commitments and contingencies continued

Letters of guarantee

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

28 Share-based payments

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

Restricted Share Units (RSUs)

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

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

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

Deferred Share Units (DSUs)

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

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

28 Share-based payments continued

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

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

29 Share capital

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

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

Restricted Share Unit Trust

In June 2012, the Company established a trust ("Trust") to hedge the risk of future share price increases from the time Restricted Share Units ("RSU" - see Note 28) are granted to when they are fully vested and can be exercised. The beneficiaries of the Trust are members of the Executive Management Team who participate in the long-term incentive compensation plan called the Restricted Share Unit Plan (the "Plan"). Under the Trust Agreement, the third party trustee will administer the distribution of cash and shares to the beneficiaries upon vesting, as directed by the Company. During the year ended December 31, 2013, the Company contributed cash to the trustee to purchase a total of 17,925 shares of the Company at a total cost of $513 on the open market to fund the future payment of awards to eligible individuals under the Plan and directed the trustee to transfer a total of 16,131 shares to members of the Executive Management Team for fully vested RSUs. Dividends earned on the shares held in trust of $66 are reinvested to purchase additional shares. The shares held in the Trust are accounted for as treasury shares and have been deducted from the Company's consolidated equity as at December 31, 2013. As the Company controls the Trust, it has included the Trust in its consolidated financial statements for the year ended December 31, 2013.

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

29 Share capital continued

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

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

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

Dividends

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

Earnings per share

Basic earnings per share was calculated by dividing earnings attributable to common shares by the sum of the weighted-average number of shares outstanding during the period. The Company does not have any dilutive stock options or other securities. Earnings used in determining earnings per share from continuing operations are presented below:

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

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

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

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

30 Capital disclosures

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

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

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

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

31 Related party transactions

Transactions with Companies Controlled by the CEO of AutoCanada

During the year period ended December 31, 2013, the Company had financial transactions with entities controlled by the Company's CEO. Mr. Priestner is the controlling shareholder of Canada One Auto Group ("COAG") and its subsidiaries, which beneficially own approximately 22.9% of the Company's shares. In addition to COAG, Mr. Priestner is the controlling shareholder of other companies in which AutoCanada earns administrative fees. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. All significant transactions between AutoCanada and companies controlled by Mr. Priestner are approved by the Company's independent members of the board of Directors.

a Prepaid rent

During the year ended December 31, 2013, the Company prepaid rent to a company controlled by Mr. Priestner as part of an agreement for a long-term rent reduction, which was entered into in 2009. Total prepayments of rent for the period ended December 31, 2013 was $nil (2012 - $2,160). The total unamortized prepayment of rent to the Company as at December 31, 2013 is $7,194 (2012 - $7,646), which is included in "Other long term assets" on the Consolidated Statement of Financial Position. Prepayments of rent are amortized straight-line over the term of the lease as an increase in facilities lease costs. As such, a total of $452 (2012 - $452) has been amortized to current period facility lease costs.

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

31 Related party transactions continued

b Rent paid to companies with common directors

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

c Administrative support fees

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

d Purchase of real estate

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

Commitments with Companies controlled by the CEO of AutoCanada

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

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

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

31 Related party transactions continued

Key management personnel compensation

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

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

32 Net change in non-cash working capital

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

The following table summarizes the net increase in cash due to changes in non-cash working capital, which excludes the effects of acquisitions, for the years ended December 31, 2013 and December 31, 2012:

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

33 Fair value of financial instruments

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

33 Fair value of financial instruments continued

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

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

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

34 Subsequent Events

Volkswagen Open Point

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

Investment in Prairie Auto Holdings Inc.

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