2017

AutoCanada

2017
Annual Report

AutoCanada

What's Inside

> *Our current multi-location automobile dealership model enables us to serve a diversified geographic customer base and enjoy benefits not available to single location dealerships.*

AutoCanada (TSX:ACQ)

AutoCanada is a leading North American multi-location automobile dealership group currently operating 68 franchised dealerships, comprised of 27 brands, in eight provinces in Canada as well as a group in Illinois, USA. Our dealerships generate revenue from the following four inter-related business operations:

- *New vehicle sales;*
- *Used vehicle sales;*
- *Parts, service & collision repair; and*
- *Finance and insurance.*

Our Brands

AutoCanada

What's Inside


quattro
CAFÉ

Where We Operate

BRITISH COLUMBIA

Abbotsford Volkswagen
Chilliwack Volkswagen
Island GM
Maple Ridge Chrysler
Maple Ridge Volkswagen
Northland Dodge
Northland Hyundai
Northland Nissan
Okanagan Dodge
Victoria Hyundai

ALBERTA

Airdrie Dodge
Calgary Hyundai
Capital Jeep Dodge
Courtesy Chrysler
Courtesy Mitsubishi
Crosstown Auto Centre
Crowfoot Hyundai
Fish Creek Nissan
Grande Prairie Chrysler
Grande Prairie Hyundai
Grande Prairie Mitsubishi
Grande Prairie Nissan
Grande Prairie Subaru
Grande Prairie Volkswagen
Grove Dodge
Hyatt Infiniti
North Edmonton Kia
Northland Volkswagen
Ponoka Chrysler
Sherwood Park Hyundai
Sherwood Park Volkswagen
Tower Chrysler

SASKATCHEWAN

Dodge City Auto
Mann-Northway
Bridges GM
Saskatoon Motor Products

MANITOBA

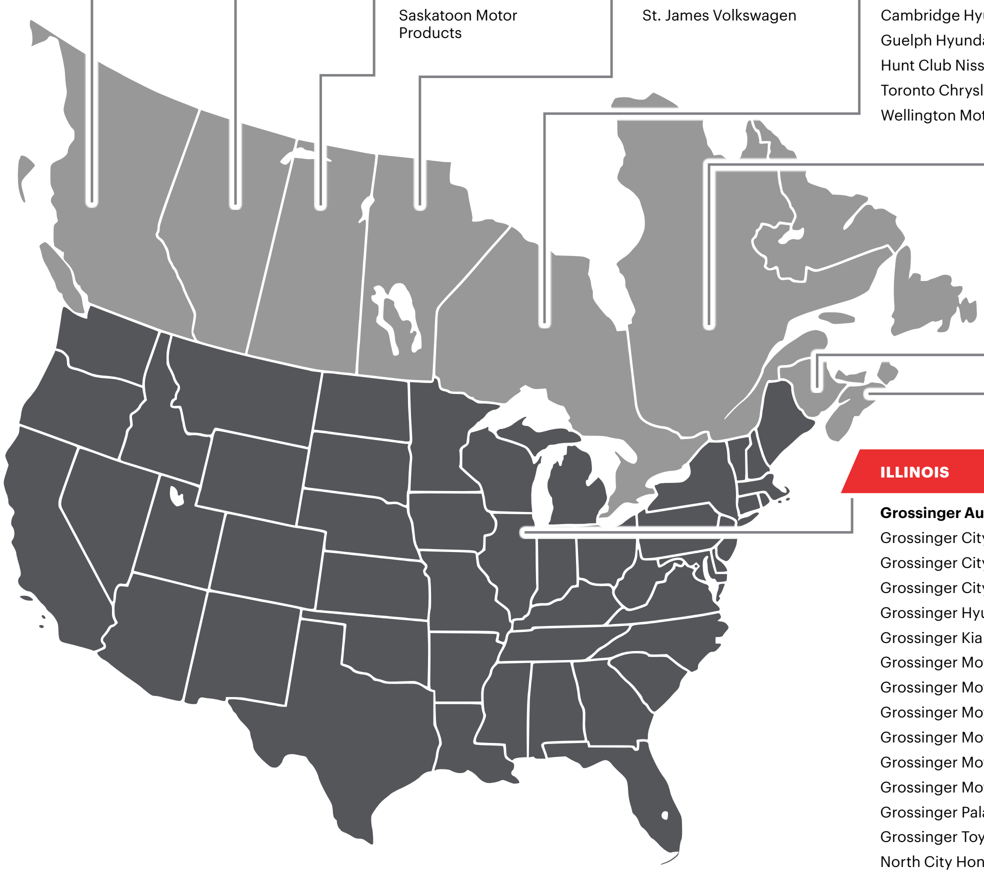
Audi Winnipeg
Eastern Chrysler
McNaught Cadillac
St. James Volkswagen

ONTARIO

401 Dixie Hyundai
417 Infiniti
417 Nissan
Cambridge Hyundai
Guelph Hyundai
Hunt Club Nissan
Toronto Chrysler
Wellington Motors

QUÉBEC

BMW Canbec
BMW Laval
MINI Mont Royal
MINI Laval
Mercedes-Benz Rive-Sud
Planète Mazda



NEW BRUNSWICK

Moncton Chrysler

NOVA SCOTIA

Dartmouth Dodge

ILLINOIS

Grossinger Auto Group
Grossinger City Cadillac
Grossinger City Chevrolet
Grossinger City Toyota
Grossinger Hyundai
Grossinger Kia
Grossinger Motors Audi
Grossinger Motors Lincoln
Grossinger Motors Mercedes-Benz
Grossinger Motors Subaru
Grossinger Motors Volkswagen
Grossinger Motors Volvo
Grossinger Palatine Chevrolet
Grossinger Toyota North
North City Honda

British Columbia › 10
Abbotsford
Chilliwack
Duncan
Kelowna
Maple Ridge
Prince George
Victoria

Alberta › 22
Airdrie
Calgary
Edmonton
Grande Prairie
Ponoka
Sherwood Park
Spruce Grove

Saskatchewan › 4
North Battleford
Prince Albert
Saskatoon

Manitoba › 4
Winnipeg

Ontario › 8
Cambridge
Guelph
Mississauga
Ottawa
Toronto

New Brunswick › 1
Moncton

Québec › 6
Laval
Montreal
Rive-Sud
Mirabel

Nova Scotia › 1
Dartmouth

Illinois › 14
Bloomington/Normal
Chicago
Lincolnwood
Palatine

We create long-term value for our shareholders with a strategy of disciplined acquisitions, operational excellence and prudent management of capital.

AutoCanada

What's Inside

Acquisition Strategy

AutoCanada's steady growth from its earliest days as a public company has been driven by acquisitions. We benefit from a highly-fragmented automotive retail market where there are an estimated 3,500 franchised automobile dealerships in Canada and close to 17,000 in the United States. AutoCanada is a key consolidator in the industry, as owners of stand-alone dealerships get older, and as their need – and cost – for capital increases to meet the ongoing requirements from Original Equipment manufacturers (OEMs). In our growth, we look for each acquisition to:

- *Add to our mix of brands (and ideally extend the number of OEM relationships we have), both in numbers and to better reflect the national mix of luxury, domestic and import brands*
- *Diversify our geographical reach*
- *Open or deepen our presence in a key market, through being a flagship store and/or part of a dealership cluster*
- *Be accretive*

As we expand our relationships with OEMs, we open more opportunities of potential acquisitions of dealerships, which in turn allows us to generate further growth.

Following an acquisition, we immediately focus on the integration of the store into our network. This involves working with the leadership at the dealer level to serve their customers, care for their employees and grow their business. We install our management information system at the dealership location as soon as possible. This makes financial, accounting and other operational data for that dealership easily accessible to our senior management. With access to this data, we can more efficiently incorporate our operating strategy at the newly acquired dealership. Because our management information system is scalable, we can integrate new acquisitions without significantly increasing the cost of operating the system.

Operational Excellence

The Company's continued focus on operational excellence results in enhanced dealership performance. AutoCanada's multi-location model serves a diversified geographic customer and revenue base while its dealership cluster strategy enables other scalable benefits. Our operations are decentralized with a centralized administration and strategy. We are able to provide strong support to the dealership network through brand team platforms, which are better positioned to meet the needs of both our dealers and OEMs.

Each of our franchised dealerships operates as a distinct profit centre, which allows our highly capable dealer principals to make key operating decisions within our financial and governance framework. AutoCanada has made significant investments in new technology and improving our websites to better accommodate our customers and improve our marketing and communication with potential customers. Our centralized marketing department continuously looks for ways to increase traffic to these sites and improve the functionality of the websites and user friendliness. How people buy cars has changed considerably over the last few years, which means our centralized marketing department will continue to be a driving force in lead generation activities and search engine optimization, among other things, for our dealerships.

Beyond sales support, our size and consolidated purchasing power provide both cost and revenue synergies. Cost synergies include achieving lower prices for items such as insurance, advertising, benefit plans and information systems. Revenue synergies include being a preferred provider for retail service and warranty contracts and earning higher commissions on finance and insurance activities.

Our organizational structure allows us to provide market specific responses to sales, service, marketing and inventory requirements while benefiting from the resources provided by an experienced and knowledgeable head office executive team. Operating a number of franchised automobile dealerships also allows us to share market information amongst our dealerships selling the same brands and quickly identify any changes in consumer buying patterns. We benchmark the success of our dealership operations against each other and rapidly implement new and innovative ideas across our dealership group.

Effective management of our inventory levels is critical to our business. Careful monitoring of inventories of new and used vehicles and parts by days of supply, both in units and dollar amount leads to increased profitability by minimizing interest expense incurred from financing our inventory, while maximizing our free cash flow through prudent management of our working capital requirements.

Prudent Management of Capital

Our disciplined approach to top line growth is matched by our determination to maintain cost control and balance sheet strength. Our continuous drive for efficiencies also ties into the working capital requirements contracted by our manufacturer partners.

Our centralized purchasing and shared resources operating structure enables effective cost management. It reduces costs for dealerships on everything from payroll to tires. Expense control and operating targets are also integral parts of our business planning – at each dealership and within the network overall. Our dealers are able to effectively manage inventory informed by our network's access to market information and analytics like consumer buying patterns.

Our bank credit agreements are flexible and efficient, providing enough capacity for both operating and capital expenditures and corporate (e.g. acquisitions) purposes.

We are prudent managers of capital and continuously assess our capital allocation with a view to generate the highest return on capital for our shareholders. This includes acquisitions to grow AutoCanada and investment in operations and technology to improve our business, balanced with return of capital to AutoCanada's shareholders in the form of quarterly dividends. The Company also has a Normal Course Issuer Bid to buyback, when it makes sense to do so, up to five per cent of the Company's issued and outstanding Common Shares.

AutoCanada

STRATEGY


GMC
EXIT

What's Inside

Our operations provide a diverse revenue base that we believe mitigates the impact of fluctuations in new vehicle sales volumes and gross profit margins.

Operations

Our multi-location automobile dealership network is comprised of 77 new vehicle franchises, representing 27 brands at 68 dealership locations across Canada and in Illinois, United States. We serve a diversified geographic customer base, across major urban centers, and enjoy benefits not available to single location dealerships. Our operations provide a diverse revenue base that we believe mitigates the impact of fluctuations in new vehicle sales volumes and gross profit margins. In addition, our expanding geographic footprint is increasingly lowering our exposure to regional economic downturns and our brand diversification decreases our exposure to manufacturer-specific risks such as brand perception or production disruptions. By operating multiple dealerships – clusters – in metropolitan areas we are able to gain the advantages associated with a "platform" of dealerships in a single geographic area.

While new vehicle sales generate approximately 59% of our revenue, parts & service, and finance & insurance provide higher profit margins and collectively account for approximately 66% of our gross profit, and have been historically more stable throughout economic cycles.

Our franchised automobile dealerships operate as distinct profit centres where the dealer principals are given significant autonomy within overall operating guidelines. This autonomy, combined with the dealer principals' understanding of their local markets, enables the dealer principals to effectively run day-to-day operations, market to customers, recruit new employees and gauge new opportunities in their local markets.

Our dealer principals are required to take an active, hands-on approach to operating their respective dealerships. Each dealer principal is supported by a complete management team that provides oversight and management over every facet of the business. While each member of a dealership's management team, other than the dealership controllers, report directly to the dealer principal, they also report to one or more members of our head office senior management team. The dealership controllers report directly to the head office finance group. Our reporting and dealer support structures are designed to facilitate the sharing of market intelligence, ideas and best practices throughout the entire AutoCanada network.

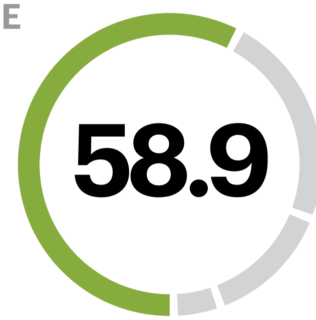

HYUNDAI
Guelph
PRE-OWNED
765

What's Inside

Revenue Streams

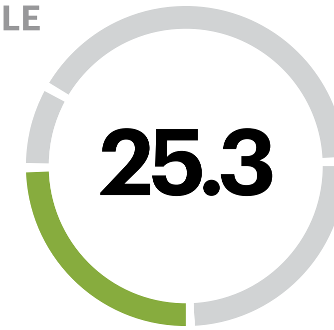
NEW VEHICLE SALES

% OF REVENUE



NEW VEHICLE SALES

% OF GROSS PROFIT

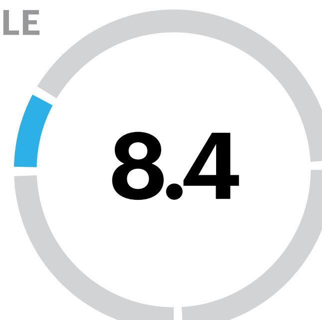


USED VEHICLE SALES

% OF REVENUE

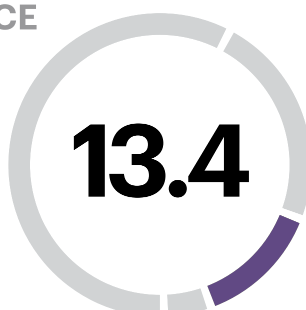
USED VEHICLE SALES

% OF GROSS PROFIT



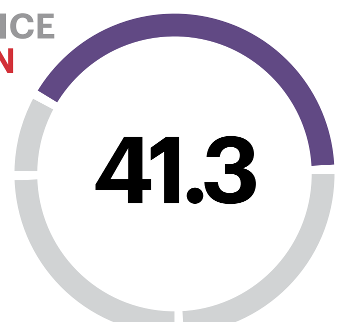
PARTS SERVICE & COLLISION

% OF REVENUE



PARTS SERVICE & COLLISION

% OF GROSS PROFIT

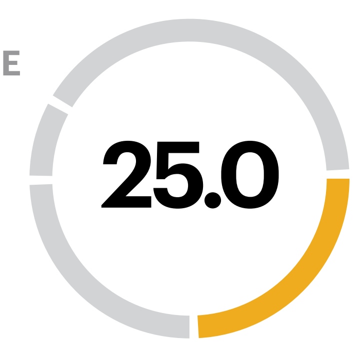


FINANCE & INSURANCE

% OF REVENUE

FINANCE & INSURANCE

% OF GROSS PROFIT



New Vehicle Sales

New vehicle sales are the driving force behind AutoCanada's business. While all four revenue streams contribute to gross profit, new vehicle sales is still the primary focus. In 2017, 59% of our revenue was generated from new vehicle sales. In addition to the profit from the sale itself, a typical new vehicle sale (or lease transaction) creates other profit opportunities for our dealerships including the resale of trade-in vehicles, sale of third party finance products, the sale of vehicle service and insurance contracts in connection with the retail sale, and the service and repair of the vehicle during and after the warranty period.

New vehicle revenues include new vehicle sales and lease transactions arranged by our dealerships with third-party financial institutions which generally have shorter terms than finance transactions. This results in customers returning to a dealership more frequently than in the case of financed purchases. We believe that leasing provides a number of benefits to our other business lines, including customer loyalty to the leasing dealership for repairs and maintenance. In addition, leases provide us with a source of late-model, off-lease vehicles for our used vehicle inventory. Generally, leased vehicles remain under factory warranty for the term of the lease, allowing franchised automobile dealers to provide repairs and service to the customer throughout the lease term.

43,773

Units Sold

1,828 M

Revenue

7.2%

Gross Margin

131 M

Gross Profit

Used Vehicle Sales

Used vehicle sales are a key contributor to the overall success of AutoCanada. Our new vehicle operations provide our used vehicle operations with a large supply of high quality trade-ins and off-lease vehicles, which are the best sources of attractive used vehicle inventory. Our dealers supplement their used vehicle inventory with purchases from auctions, daily rental companies, and wholesalers. Used vehicle sales give us an opportunity to further increase our revenues by aggressively pursuing customer trade-in vehicles, increase service contract sales, provide parts and services required in the maintenance of the vehicle, perform reconditioning work on trade-ins and provide financing to used vehicle purchasers.

We actively manage the quality and age of our used vehicle inventory and monitor our used inventory appraisal values, reconditioning costs, pricing, online marketing, stocking levels, turnover, and return on investment. We believe that monitoring these various processes results in greater sales volumes, higher turnover, and ultimately a greater return on investment.

Manufacturer certified pre-owned vehicles typically sell at a premium compared to other used vehicles and are available only at franchised automobile dealerships. We believe that the manufacturer's warranty that comes with these certified vehicles increases our potential to retain the purchaser as a future parts and service customer since certified warranty work can only be performed at franchised automobile dealerships.

19,379
Units Sold

716 M
Revenue

6.1%
Gross Margin

44 M
Gross Profit

Parts Service & Collision Repair

Parts, Service & Collision Repair is an important part of our overall business. It not only provides high-margin revenue but also supports our overall approach to customer service, leading to customer retention and vehicle sales. Parts and service activity is generally considered counter-cyclical.

In a downturn, consumers buy fewer new vehicles, but their older vehicles require more service. A significant number of our customers return to our dealerships for other services after the vehicle warranty expires. Each dealership has systems in place to track customer maintenance records and notify owners of vehicles purchased at the dealerships when their vehicles are due for periodic services. Parts are either used in repairs made in the service department, sold at retail to customers, or sold at wholesale to independent repair shops and other dealerships.

Our profitability in parts, service and collision repair can be attributed to our comprehensive management system, including the use of variable rate pricing structures, cultivation of strong customer relationships through an emphasis on preventive maintenance, and the efficient management of inventory. We manage our parts inventories to a target of 45 days' supply on hand in order to be responsive to our customers' needs while managing our working capital.

870,616
Service Orders

417 M
Revenue

51%
Gross Margin

214 M
Gross Profit

Finance Insurance & Other

Every vehicle sale presents us with an opportunity to increase profits through the sale of additional products such as third party financing or lease arrangements, extended warranties, service contracts and insurance products.

The finance and insurance products our dealerships currently offer are generally underwritten and administered by independent third parties, including the automobile manufacturers' captive finance companies. In return for arranging third party purchase and lease financing for our customers, we receive a fee from the third-party lender upon completion of the financing. These third-party lenders include the automobile manufacturers' captive finance companies and warranty divisions, selected commercial banks and a variety of other third party lenders, including credit unions and regional auto finance lenders. Under our arrangements with the providers of these products, we either sell these products on a straight commission basis or participate in future profits, if any, pursuant to a retrospective commission arrangement.

We arranged customer financing on a significant portion of the retail vehicles we sold in 2016. In addition to finance commissions, opportunities are created to sell other profitable products, such as warranty and extended protection products with purchases of new and used vehicles, including: service contracts; auto protection insurance; life, disability and dismemberment insurance, as well as lease "wear and tear insurance"; and theft protection. Our size and volume capabilities enable us to acquire these products at reduced fees compared to the industry average, which results in competitive advantages.

141 M
Revenue

92%
Gross Margin

130 M
Gross Profit

AutoCanada

What's Inside

Table of Contents

1. READER ADVISORIES

This Management's Discussion & Analysis ("MD&A") was prepared as of March 15, 2018 to assist readers in understanding AutoCanada Inc.'s (the "Company" or "AutoCanada") consolidated financial performance for the year ended December 31, 2017 and significant trends that may affect AutoCanada's future performance. The following discussion and analysis should be read in conjunction with the audited annual consolidated financial statements and accompanying notes (the "Consolidated Financial Statements") of AutoCanada as at and for the year ended December 31, 2017. Results are reported in Canadian dollars. Certain dollars have been rounded to the nearest thousand dollars, unless otherwise stated. Reference to the notes are to the Notes of the Consolidated Financial Statements of the Company unless otherwise stated.

To provide more meaningful information, this MD&A typically refers to the operating results for the three month period and year ended December 31, 2017 of the Company, and compares these to the operating results of the Company for the three month period and year ended December 31, 2016.

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

Additional information regarding our Company, including our 2017 Annual Information Form, dated March 15, 2018, is available on SEDAR at www.sedar.com and our website www.autocan.ca. Such additional information is not incorporated by reference herein, unless otherwise specified, and should not be deemed to be made part of this MD&A.

2. EXECUTIVE SUMMARY

Performance vs. the Fourth Quarter of Prior Year

The following table summarizes the Company's operations for the quarter as well as year to date results:

	Three months ended December 31			Year ended December 31		
Consolidated Operational Data	**2017**	**2016**	**% Change**	**2017**	**2016**	**% Change**
EBITDA attributable to AutoCanada shareholders[1,2]	28,127	25,260	11.3%	111,812	94,486	18.3%
Adjusted EBITDA attributable to AutoCanada shareholders[1,2]	21,880	19,038	14.9%	95,410	88,809	7.4%
Net earnings attributable to AutoCanada shareholders[1,2]	17,089	13,785	24.0%	57,844	2,596	2128.2%
Adjusted net earnings attributable to AutoCanada shareholders[1,2]	8,935	7,536	18.6%	42,665	39,926	6.9%
Basic EPS	0.62	0.50	24.0%	2.11	0.09	2244.4%
Adjusted diluted EPS[2]	0.33	0.27	22.2%	1.55	1.45	6.9%
Weighted average number of shares - Basic	27,389,167	27,353,431	0.1%	27,379,193	27,350,555	0.1%
Weighted average number of shares - Diluted	27,498,724	27,469,439	0.1%	27,473,995	27,455,686	0.1%
New retail vehicles sold (units)	8,444	7,590	11.3%	36,076	32,991	9.4%
New fleet vehicles sold (units)	1,378	859	60.4%	7,697	7,041	9.3%
Used retail vehicles sold (units)	4,653	4,463	4.3%	19,379	19,561	-0.9%
Total vehicles sold	14,475	12,912	12.1%	63,152	59,593	6.0%
Revenue	733,060	629,274	16.5%	3,101,560	2,891,581	7.3%
Gross Profit	125,210	116,785	7.2%	518,629	486,133	6.7%
Gross Profit %	17.1%	18.6%	-8.2%	16.7%	16.8%	-0.5%
Operating expenses	104,626	97,397	7.4%	426,253	400,417	6.5%
Operating expenses % of Gross Profit	83.6%	83.4%	0.2%	82.2%	82.4%	-0.3%
Operating Profit	26,505	20,761	27.7%	118,969	40,912	190.8%
Free cash flow	29,496	23,424	25.9%	72,213	96,288	-25.0%
Adjusted free cash flow	15,996	13,133	21.8%	90,786	68,566	32.4%
Same Store New retail vehicles sold (units)	7,196	6,845	5.1%	31,402	30,422	3.2%
Same Store New fleet vehicles sold (units)	1,349	808	67.0%	7,600	6,932	9.6%
Same Store Used retail vehicles sold (units)	4,051	4,162	-2.7%	17,233	18,560	-7.1%
Same Store Total vehicles sold	12,596	11,815	6.6%	56,235	55,914	0.6%
Same Store Revenue	647,099	582,368	11.1%	2,784,999	2,730,659	2.0%
Same Store Gross Profit	110,249	108,683	1.4%	467,030	459,984	1.5%
Same Store Gross Profit %	17.0%	18.7%	-8.7%	16.8%	16.8%	-0.4%

1 *Represents the portion attributable to AutoCanada Shareholders*
2 *These financial measures have been calculated as described under "NON-GAAP MEASURES".*

2017 Full Year Highlights

- Revenue was $3.1 billion, up 7.3% compared with 2016. Revenue from same stores was up 2.0% year-over-year.
- Operating expenses of $426.3 million, as a percentage of gross profit improved to 82.2% from 82.4% in 2016.
- Gross profit was $518.6 million, up 6.7% compared with 2016, with gross profit as a percentage of revenue relatively flat at 16.7% from 16.8% in 2016.
- Sales of new vehicles were 43,773 in the year, up 9.3% over the prior year. Revenue from the sale of new vehicles was $1.8 billion, up 10.6% from 2016. New vehicles accounted for 58.9% of the Company's total revenue and 25.3% of gross profit versus 57.2% of revenue and 24.3% of gross profit in 2016.
- Sales of used vehicles were 19,379 in 2017, down 1.0% from last year. Revenue from used vehicle sales was $716.0 million, down 1.3% from the prior year. Used vehicles accounted for 23.1% of the Company's total revenue and

8.4% of gross profit, versus 25.1% of revenue and 9.7% of gross profit in 2016.

- Parts, service and collision repair generated $416.7 million of revenue, up 8.8% from 2016. This accounted for 13.4% of the Company's total revenue and 41.3% of its gross profit, versus 13.2% of revenue and 41.4% of gross profit in 2016.
- Finance insurance and other generated $141.3 million of revenue, an improvement of 8.6% from 2016. This accounted for 4.6% of the Company's total revenue and 25.0% of its gross profit, up from 4.5% of revenue and 24.6% of profit in 2016.
- EBITDA attributable to AutoCanada shareholders increased by $17.3 million or 18.3% to $111.8 million from $94.5 million in the prior year.
- The Company generated net earnings attributable to AutoCanada shareholders of $57.8 million ($42.7 million on an adjusted basis), or $2.11 per share ($1.56 adjusted) versus $2.6 million in 2016 ($39.9 million adjusted) or $0.09 per share ($1.46 adjusted).

Fourth Quarter Highlights

- Revenue was $733.1 million, up 16.5% compared with the fourth quarter of 2016. Same store revenue growth was up 11.1% in the fourth quarter of this year.
- Operating expenses of $104.6 million, as a percentage of gross profit were up to 83.6% from 83.4% over the same period in 2016.
- Gross profit was $125.2 million, up 7.2% compared with the same quarter in 2016, with gross profit as a percentage of revenue decreasing to 17.1% from 18.6%.
- Operating profit of $26.5 million is up 27.7% from 20.7 million in the fourth quarter of 2016.
- New vehicle sales were 9,822, up 16.3% from same period in 2016. Revenue from the sale of new vehicles was $417.6 million, up 20.0% from same period in 2016. The sale of new vehicles accounted for 57.0% of the Company's total revenue and 24.0% of gross profit versus 55.3% of revenue and 21.4% of gross profit in the fourth quarter of 2016.
- Used vehicle sales were 4,653, up 4.3% from the same quarter last year. Revenue from the sale of used vehicles sales was $175.3 million, up 11.1% from same time last year. The sale of used vehicles accounted for 23.4% of the Company's total revenue and 6.0% of gross profit, versus 21.4% of revenue and 8.6% of gross profit in the fourth quarter of 2016.
- Parts, service and collision repair generated $107.2 million of revenue, up 16.1% from same time 2016. This accounted for 14.6% of the Company's total revenue and 45.5% of its gross profit, versus 14.7% of revenue and 45.3% of gross profit in the same quarter of 2016.
- Finance and insurance generated $33.0 million of revenue, an improvement of 6.1% from same period in 2016. This accounted for 4.5% of the Company's total revenue and 24.5% of its gross profit, down from 4.9% of revenue and 24.6% of profit in the fourth quarter of 2016.
- EBITDA attributable to AutoCanada shareholders increased by $2.9 million or 11.3% to $28.1 million from $25.3 million same time last year.
- The Company generated net earnings attributable to AutoCanada shareholders of $17.1 million ($8.9 million on an adjusted basis), or $0.62 per share ($0.33 adjusted) versus $13.8 million in 2016 ($7.5 million adjusted) or $0.50 per share ($0.28 adjusted).

3. OUTLOOK

The Canadian vehicle market established a new record for sales in 2017, surpassing the previous record set in 2016. Sales topped two million for the first time, with SUVs and trucks accounting for close to 7 out of 10 new vehicles sold in the country. Early projections for 2018 speak of a strong Canadian market continuing – the economy is doing well and interest rates continue to be low, but are expected to increase. For AutoCanada, a strong economy with low unemployment provides a healthy macro environment while the preference for trucks and SUVs sits well with the Company's current product mix.

AutoCanada will continue to add a wide range of new brands and dealerships in new and growing markets. New vehicle sales continue to be the initial touchpoint for building and growing customer relationships, including resale of trade-ins, sale of third-party service or insurance products and recurring service and repair business. Each of the Company's business segments experienced gains in the fourth quarter and throughout 2017, with the exception of a slight downturn of used vehicle sales over the year.

The Company's continued focus on operational excellence resulted in enhanced dealership performance in 2017 and should continue to lead to further improvement in 2018. The Company's multi-location model serves a diversified geographic customer and revenue base while its dealership cluster strategy enables other scalable benefits. The Company's operations continue to be decentralized while it centralizes administration and strategy. It is able to provide strong support to its dealership network through brand team platforms, which are better positioned to meet the needs of both dealers and OEMs. The brand team platform approach had its first full year of operation in 2017 and the Company saw same store sales and profitability both increase.

Growth will continue to be driven by the Company's acquisition strategy. Two single dealership businesses were acquired in 2017, each adding a new OEM relationship (Mercedes-Benz and Mazda) and both joining a cluster of dealerships in the same urban market (Montreal). The Company also strengthened its relationship with General Motors in 2017, a move that should help foster further growth over the long-term. A Public Company Master Agreement (PCMA) permits AutoCanada's direct ownership and voting control of GM Canada dealerships for the first time. On January 2, 2018 the Company closed an agreement with CanadaOne Auto Group, a company controlled by Patrick Priestner, the Company's former CEO and founder. As part of that agreement, AutoCanada assumed control of five of the nine dealerships where it held a majority equity stake with no voting rights and CanadaOne Auto Group bought AutoCanada's interest in the remaining four. Related to this agreement, AutoCanada will see decreases to Revenue, Gross Profit and Unit sales figures, given its divestiture of the four dealerships.

Acquiring new dealerships and effectively integrating them is key to AutoCanada's long-term success. The Company has made significant progress and will continue to look for further incremental improvements related to integration, operating efficiencies and deeper IT and analytical capabilities across its entire network of dealerships. AutoCanada is actively looking to replace General Motors volume and net earnings through GM acquisitions.

In addition to acquisitions, the Company pursues opportunisitic growth through planned capital projects, such as new dealership facilities, current dealership expansion and imaging requirements, and select open point opportunities. As at December 31, 2017, the Company has earmarked $142.7 million over five years for contemplated future capital projects.

While the Auto industry is experiencing disruption including electric vehicles, ride sharing, autonomous vehicles and car ride service providers, AutoCanada considers these changes in the industry to be positive. The company has indicated to our OEM partners that we are prepared to pilot any new trends in the disruption looking for opportunities to improve customer sales and service interaction digitally and at our dealerships.

4. MARKET

The Company's geographical profile is illustrated below by the number of dealerships, revenues and gross profit by province for the years ended December 31, 2017 and December 31, 2016.

	December 31, 2017					
Location of Dealerships	**Number of Franchises[1]**	**Number of Dealerships[1]**	**Revenue**	**Revenue % of Total**	**Gross Profit**	**Gross Profit % of Total**
British Columbia	13	11	590,528	19%	95,269	18%
Alberta	28	25	1,224,178	39%	219,738	42%
Saskatchewan	4	4	243,321	8%	45,146	9%
Manitoba	4	4	194,888	6%	35,145	7%
Ontario	9	8	281,562	9%	44,764	9%
Quebec	6	4	420,969	14%	57,955	11%
Atlantic	2	2	146,114	5%	20,612	4%
Total	66	58	3,101,560	100%	518,629	100%

1 "Dealerships" refers to each physical storefront while "Franchises" refers to each separate franchise agreement.

	December 31, 2016					
Location of Dealerships	**Number of Franchises[1]**	**Number of Dealerships[1]**	**Revenue**	**Revenue % of Total**	**Gross Profit**	**Gross Profit % of Total**
British Columbia	13	11	578,938	20%	92,404	19%
Alberta	27	24	1,168,334	40%	213,108	44%
Saskatchewan	4	4	236,354	8%	44,977	9%
Manitoba	4	4	182,282	6%	33,789	7%
Ontario	9	8	215,954	8%	31,879	6%
Quebec	4	2	334,255	12%	47,441	10%
Atlantic	2	2	175,464	6%	22,535	5%
Total	63	55	2,891,581	100%	486,133	100%

1 "Dealerships" refers to each physical storefront while "Franchises" refers to each separate franchise agreement.

The Company's manufacturers profile is illustrated below by number of dealerships and revenues by manufacturer for the years ended December 31, 2017 and December 31, 2016.

	December 31, 2017				December 31, 2016			
Manufacturer	**Number of Franchises[1]**	**Number of Dealerships[1]**	**Revenue**	**Revenue % of Total**	**Number of Franchises[1]**	**Number of Dealerships[1]**	**Revenue**	**Revenue % of Total**
FCA	23	17	1,246,120	40%	23	17	1,285,894	44%
General Motors	9	9	653,618	21%	9	9	579,337	20%
Hyundai	9	9	240,843	8%	9	9	218,403	8%
Nissan /Infiniti	7	7	234,824	8%	7	7	241,186	8%
Volkswagen / Audi	8	8	256,063	8%	7	7	187,911	6%
BMW / MINI	4	2	352,631	11%	4	2	334,254	12%
Other	6	6	117,461	4%	4	4	44,596	2%
Total	66	58	3,101,560	100%	63	55	2,891,581	100%

1 "Dealerships" refers to each physical storefront while "Franchises" refers to each separate franchise agreement.

Performance vs. the Canadian New Vehicle Market

The Canadian automotive retail sector year to date has increased by 4.6% compared to the prior year. New light vehicle sales in Alberta for the year ended December 31, 2017 were up 11.3% and up 7.0% in British Columbia when compared to the prior year.

The Company's same store unit sales of new vehicles increased by 11.7% during the three month period ended December 31, 2017, and increased by 4.4% during the year ended December 31, 2017.

The following table summarizes Canadian new light vehicle sales for the years ended December 31, 2017 and December 31, 2016 by Province:

	Canadian New Vehicle Sales by Province[1,2]			
	2017	**2016**	**Percent Change**	**Unit Change**
British Columbia	233,615	218,235	7.0%	15,380
Alberta	244,302	219,421	11.3%	24,881
Saskatchewan	55,260	50,888	8.6%	4,372
Manitoba	61,661	55,654	10.8%	6,007
Ontario	837,480	806,500	3.8%	30,980
Quebec	462,087	458,287	0.8%	3,800
Atlantic	144,393	139,914	3.2%	4,479
Total	2,038,798	1,948,899	4.6%	89,899

1 *DesRosiers Automotive Consultants Inc.*
2 *Readers are cautioned that the above table includes sales channels that the Company does not fully participate in such as daily rentals, and small and medium size leasing companies that are not part of the franchise dealership network.*

December Year to Date Canadian New Vehicle Sales by Brand[1,2]

	December 31, 2017	**December 31, 2016**	**Percent Change**	**Unit Change**
Audi	36,077	30,544	18.1%	5,533
BMW	38,562	38,012	1.4%	550
FCA	267,052	277,445	-3.7%	-10,393
General Motors	302,826	267,341	13.3%	35,485
Hyundai	129,348	136,156	-5.0%	-6,808
Infiniti	12,433	12,094	2.8%	339
Kia	76,504	71,670	6.7%	4,834
Mercedes-Benz	51,930	46,445	11.8%	5,485
MINI	7,051	6,609	6.7%	442
Mitsubishi	22,706	22,293	1.9%	413
Nissan	134,244	122,059	10.0%	12,185
Subaru	54,570	50,190	8.7%	4,380
Volkswagen	69,634	60,017	16.0%	9,617
Mazda	74,056	69,210	7.0%	4,846
Total - AutoCanada Brands	1,276,993	1,210,085	5.5%	66,908
Other - Non-AutoCanada Brands	761,805	738,814	3.1%	22,991
Total	2,038,798	1,948,899	4.6%	89,899

1 *DesRosiers Automotive Consultants Inc.*
2 *Readers are cautioned that the above table includes sales channels that the Company does not fully participate in such as daily rentals, and small and medium size leasing companies that are not part of the franchise dealership network.*

List of Dealerships

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

Location	Operating Name	Franchise	Year Opened or Acquired	Same Stores[1]	Owned or Leased[2]
Wholly-Owned Dealerships:					
Abbotsford, BC	Abbotsford Volkswagen	Volkswagen	2011	Y	Leased
Chilliwack, BC	Chilliwack Volkswagen	Volkswagen	2011	Y	Owned
Kelowna, BC	Okanagan Chrysler Jeep Dodge FIAT	FCA	2003	Y	Leased
Maple Ridge, BC	Maple Ridge Chrysler Jeep Dodge FIAT ALFA ROMEO	FCA	2005	Y	Leased
Maple Ridge, BC	Maple Ridge Volkswagen	Volkswagen	2008	Y	Leased
Prince George, BC	Northland Chrysler Jeep Dodge	FCA	2002	Y	Owned
Prince George, BC	Northland Hyundai	Hyundai	2005	Y	Owned
Prince George, BC	Northland Nissan	Nissan	2007	Y	Owned
Victoria, BC	Victoria Hyundai	Hyundai	2006	Y	Owned
Airdrie, AB	Airdrie Chrysler Jeep Dodge Ram	FCA	2015	Y	Leased
Calgary, AB	Courtesy Chrysler Dodge	FCA	2013	Y	Leased
Calgary, AB	Calgary Hyundai	Hyundai	2014	Y	Leased
Calgary, AB	Crowfoot Hyundai	Hyundai	2014	Y	Leased
Calgary, AB	Courtesy Mitsubishi	Mitsubishi	2014	Y	Leased
Calgary, AB	Northland Volkswagen	Volkswagen	2014	Y	Leased
Calgary, AB	Fish Creek Nissan	Nissan	2014	Y	Leased
Calgary, AB	Hyatt Infiniti	Infiniti	2014	Y	Leased
Calgary, AB	Tower Chrysler Jeep Dodge Ram	FCA	2014	Y	Leased
Edmonton, AB	Crosstown Chrysler Jeep Dodge FIAT	FCA	1994	Y	Leased
Edmonton, AB	Capital Chrysler Jeep Dodge FIAT	FCA	2003	Y	Leased
Edmonton, AB	North Edmonton Kia	Kia	2014	Y	Owned
Grande Prairie, AB	Grande Prairie Chrysler Jeep Dodge FIAT	FCA	1998	Y	Owned
Grande Prairie, AB	Grande Prairie Hyundai	Hyundai	2005	Y	Owned
Grande Prairie, AB	Grande Prairie Subaru	Subaru	1998	Y	Owned
Grande Prairie, AB	Grande Prairie Mitsubishi	Mitsubishi	2007	Y	Owned
Grande Prairie, AB	Grande Prairie Nissan	Nissan	2007	Y	Owned
Grande Prairie, AB	Grande Prairie Volkswagen	Volkswagen	2013	Y	Owned
Ponoka, AB	Ponoka Chrysler Jeep Dodge	FCA	1998	Y	Owned
Sherwood Park, AB	Sherwood Park Hyundai	Hyundai	2006	Y	Owned
Sherwood Park, AB	Sherwood Park Volkswagen[4]	Volkswagen	2016	Q2 2019	Owned
Spruce Grove, AB	Grove Dodge Chrysler Jeep	FCA	2015	Q1 2018	Leased
Saskatoon, SK	Dodge City Chrysler Jeep Dodge Ram	FCA	2014	Y	Leased
Winnipeg, MB	Audi Winnipeg	Audi	2013	Y	Owned
Winnipeg, MB	St. James Volkswagen	Volkswagen	2013	Y	Owned
Winnipeg, MB	Eastern Chrysler Jeep Dodge	FCA	2014	Y	Owned
Cambridge, ON	Cambridge Hyundai	Hyundai	2008	Y	Owned
Mississauga, ON	401 Dixie Hyundai	Hyundai	2008	Y	Leased
Ottawa, ON	Hunt Club Nissan	Nissan	2015	Q1 2018	Leased
Ottawa, ON	417 Nissan	Nissan	2015	Q1 2018	Leased
Ottawa, ON	417 Infiniti	Infiniti	2015	Q1 2018	Leased
Guelph, ON	Guelph Hyundai	Hyundai	2016	Q1 2019	Owned

Location	Operating Name	Franchise	Year Opened or Acquired	Same Stores[1]	Owned or Leased[2]
Guelph, ON	Wellington Motors	FCA	2016	Q1 2019	Owned
Toronto, ON	Toronto Chrysler Jeep Dodge Ram	FCA	2014	Y	Leased
Montreal, QC	Mercedes-Benz Rive-Sud[5]	Mercedes-Benz	2017	Q2 2019	Leased
Moncton, NB	Moncton Chrysler Jeep Dodge	FCA	2001	Y	Owned
Dartmouth, NS	Dartmouth Chrysler Jeep Dodge	FCA	2006	Y	Leased
Equity Investments:					
Duncan, BC	Island Chevrolet Buick GMC	General Motors	2013	Y	Leased
Kelowna, BC	Kelowna Chevrolet[7]	General Motors	2015	Y	Owned
Edmonton, AB	Lakewood Chevrolet[7]	General Motors	2014	Y	Owned
Sherwood Park, AB	Sherwood Park Chevrolet[7]	General Motors	2012	Y	Leased
Sherwood Park, AB	Sherwood Buick GMC[7]	General Motors	2012	Y	Leased
North Battleford, SK	Bridges Chevrolet Buick GMC	General Motors	2014	Y	Owned
Prince Albert, SK	Mann-Northway Auto Source	General Motors	2014	Y	Leased
Saskatoon, SK	Saskatoon Motor Products	General Motors	2014	Y	Leased
Winnipeg, MB	McNaught Cadillac Buick GMC	General Motors	2014	Y	Owned
Laval, QB	BMW Laval and MINI Laval	BMW / MINI	2014	Y	Owned
Montreal, QB	BMW Canbec and MINI Mont Royal	BMW / MINI	2014	Y	Leased
Montreal, QC	Planète Mazda[6]	Mazda	2017	Q1 2020	Leased
Dealership Loan Financing:					
Edmonton, AB	Southview Acura[3]	Acura	2016	N/A	N/A
Whitby, ON	Whitby Honda[3]	Honda	2015	N/A	N/A

1 *Same store (indicated with the letter "Y" in the table above) means the franchised automobile dealership has been owned for at least 2 full years since acquisition. The dealership is then included in the quarter thereafter, for same store analysis.*

2 *This column summarizes whether the dealership real estate is owned or leased.*

3 *For further detail on dealership loan financing, refer to "LIQUIDITY AND CAPITAL RESOURCES" section under Related Party Transactions.*

4 *On February 1, 2017, Sherwood Park Volkswagen open point opened for operations.*

5 *On May 1, 2017, the Company purchased all of the issued and outstanding shares of Mercedes-Benz Rive-Sud in Montreal, Quebec. See "ACQUISITIONS, RELOCATIONS, AND REAL ESTATE" for more information related to this dealership acquisition.*

6 *On December 1, 2017 the Company purchase 95% of the issued and outstanding shares of Planète Mazda in Montreal, Quebec. See "ACQUISITIONS, RELOCATIONS, AND REAL ESTATE" for more information related to this dealership acquisition.*

7 *On January 2, 2018 as part of the General Motors Transaction (M24) the Company sold 100% of its non-voting equity interests in these locations as disclosed in the annual consolidated financial statements of the company for the year ended December, 31, 2017 (Note 40).*

5. SELECTED ANNUAL FINANCIAL INFORMATION

The following table shows the results of the Company for the years ended December 31, 2017, December 31, 2016 and December 31, 2015. The results of operations for these years are not necessarily indicative of the results of operations to be expected in any given comparable period.

AutoCanada (in thousands of dollars, except Gross Profit %, Earnings per share, and Operating Data)	2017	2016	2015
Income Statement Data			
New vehicles	1,827,559	1,652,795	1,668,237
Used vehicles	716,045	725,430	704,569
Parts, service and collision repair	416,690	382,933	387,614
Finance, insurance and other	141,266	130,423	143,383
Revenue	3,101,560	2,891,581	2,903,803
New vehicles	130,984	118,297	122,408
Used vehicles	43,738	47,192	40,629
Parts, service and collision repair	214,310	201,259	193,868
Finance, insurance and other	129,597	119,385	130,804
Gross profit	518,629	486,133	487,709
Gross Profit %	16.7%	16.8%	16.8%
Operating expenses	426,253	400,417	395,877
Operating expenses as a % of gross profit	82.2%	82.4%	81.2%
Operating Profit[2]	118,969	40,912	78,919
Impairment (recovery) of intangible assets and goodwill	(816)	54,096	18,757
Net earnings attributable to AutoCanada shareholders	57,844	2,596	22,821
Adjusted net earnings attributable to AutoCanada shareholders[2,4]	42,665	39,926	40,343
EBITDA attributable to AutoCanada shareholders[2]	111,812	94,486	89,838
EBITDA % of Sales[2]	3.6%	3.3%	3.1%
Free cash flow[2]	72,213	96,288	38,675
Adjusted free cash flow[2]	90,786	68,566	38,796
Basic earnings per share	2.11	0.09	0.93
Diluted earnings per share	2.11	0.09	0.92
Basic adjusted earnings per share[2,4]	1.56	1.46	1.64
Diluted adjusted earnings per share[2,4]	1.55	1.45	1.64
Dividends declared per share	0.40	0.55	1.00
Operating Data			
Vehicles (new and used) sold	63,152	59,593	62,799
New vehicles sold[3]	43,773	40,032	42,457
New retail vehicles sold[3]	36,076	32,991	35,323
New fleet vehicles sold[3]	7,697	7,041	7,134
Used retail vehicles sold[3]	19,379	19,561	20,342
# of service & collision repair orders completed[3]	870,616	863,970	847,702
Absorption rate[2]	89%	86%	91%
# of dealerships at year end	58	55	54
# of same store dealerships	49	44	28
# of service bays at year end	999	928	912
Same store revenue growth[1]	2.0%	(5.6)%	(5.9)%
Same store gross profit growth[1]	1.5%	(5.4)%	(11.7)%

1 *Same stores revenue growth and same stores gross profit growth is calculated using franchised automobile dealerships that we have owned for at least 2 full years.*
2 *These financial measures have been calculated as described under "NON-GAAP MEASURES".*
3 *This number includes 100% of vehicles and service and collision repair orders sold by dealerships in which we have less than 100% investment.*
4 *In Q1 2017, the Company redefined the calculation of adjusted net earnings.*

6. SELECTED QUARTERLY FINANCIAL INFORMATION

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

(in thousands of dollars, except Gross Profit %, Earnings per share, and Operating Data)	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Income Statement Data								
New vehicles	417,626	497,711	558,682	353,540	348,107	444,482	497,025	363,181
Used vehicles	175,251	192,473	182,913	165,408	157,724	179,582	208,016	180,108
Parts, service and collision repair	107,156	104,816	113,983	90,735	92,310	95,585	100,317	94,721
Finance, insurance and other	33,027	39,571	39,324	29,344	31,133	33,529	36,899	28,862
Revenue	733,060	834,571	894,902	639,027	629,274	753,178	842,257	666,872
New vehicles	30,033	36,806	38,555	25,590	25,042	31,578	34,410	27,267
Used vehicles	7,563	11,140	13,095	11,940	10,064	12,950	13,758	10,420
Parts, service and collision repair	56,915	53,805	56,306	47,284	52,957	47,676	52,957	47,669
Finance, insurance and other	30,699	36,218	35,867	26,813	28,722	30,733	33,577	26,353
Gross profit	125,210	137,969	143,823	111,627	116,785	122,937	134,702	111,709
Gross Profit %	17.1%	16.5%	16.1%	17.5%	18.6%	16.3%	16.0%	16.8%
Operating expenses	104,626	110,560	112,897	98,170	97,397	99,041	107,932	96,047
Operating expenses as a % of gross profit	83.6%	80.1%	78.5%	87.9%	83.4%	80.6%	80.1%	86.0%
Operating profit[2]	26,505	30,287	46,539	15,638	20,761	(28,776)	28,442	20,483
Impairment (recovery) of intangible assets and goodwill	(816)	–	–	–	–	54,096	–	–
Net earnings (loss) attributable to AutoCanada shareholders	17,089	12,100	24,977	3,678	13,785	(32,619)	14,158	7,272
Adjusted net earnings attributable to AutoCanada shareholders [2,4]	8,935	13,581	15,547	4,602	7,536	10,327	15,523	6,253
EBITDA attributable to AutoCanada shareholders [2]	28,127	25,827	43,722	14,136	25,260	23,842	27,072	18,312
EBITDA % of Sales[2]	3.8%	3.1%	4.9%	2.7%	4.5%	3.6%	3.7%	3.2%
Free cash flow[2]	29,496	31,114	10,982	621	23,424	30,897	37,922	4,045
Adjusted free cash flow[2]	15,996	23,296	36,277	15,217	13,133	27,766	21,632	6,035
Basic earnings per share	0.62	0.44	0.91	0.13	0.50	(1.19)	0.53	0.27
Diluted earnings per share	0.62	0.44	0.91	0.13	0.50	(1.19)	0.53	0.27
Basic adjusted earnings per share[2,4]	0.33	0.50	0.57	0.17	0.28	0.38	0.57	0.23
Diluted adjusted earnings per share[2,4]	0.33	0.50	0.57	0.17	0.27	0.38	0.57	0.23
Dividends declared per share	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.25
Operating Data								
Vehicles (new and used) sold[3]	14,475	17,132	18,490	13,055	12,912	15,955	17,425	13,301
New vehicles sold[3]	9,822	12,014	13,429	8,508	8,449	10,983	12,098	8,502
New retail vehicles sold[3]	8,444	10,334	10,545	6,753	7,590	8,949	9,374	7,078
New fleet vehicles sold[3]	1,378	1,680	2,884	1,755	859	2,034	2,724	1,424
Used retail vehicles sold[3]	4,653	5,118	5,061	4,547	4,463	4,972	5,327	4,799
# of service and collision repair orders completed[3]	224,006	220,669	228,872	197,069	217,418	209,912	227,446	209,194
Absorption rate[2]	90%	87%	87%	82%	86%	89%	90%	83%
# of dealerships at period end	58	57	57	56	55	53	53	53
# of same store dealerships[1]	49	48	47	47	44	33	27	27
# of service bays at period end	999	977	977	949	928	898	898	898
Same store revenue growth[1]	11.1%	2.9%	0.1%	(7.1)%	(10.0)%	(9.2)%	(3.2)%	(3.1)%
Same store gross profit growth[1]	1.4%	6.3%	1.1%	(1.2)%	(5.8)%	(11.0)%	(5.3)%	(5.5)%

1 *Same store revenue growth and same store gross profit growth is calculated using franchised automobile dealerships that we have owned for at least 2 full years. Same store growth is in comparison with the same quarter in the prior year.*
2 *These financial measures have been calculated as described under "NON-GAAP MEASURES".*
3 *This number includes 100% of vehicles and service and collision repair orders sold by dealerships in which we have less than 100% investment.*
4 *In Q1 2017, the Company redefined the calculation of adjusted net earnings.*

7. RESULTS OF OPERATIONS

Fourth Quarter Operating Results

EBITDA attributable to AutoCanada shareholders for the quarter increased by $2.9 million or 11.3% to $28.1 million, from $25.3 million when compared to the results of the Company for the same period in the prior year. The increase in EBITDA attributable to AutoCanada shareholders for the quarter is a result of an increase in gross profit as a result of additional stores added since the prior year as well as improved profitability of existing stores.

Adjusted EBITDA attributable to AutoCanada shareholders for the quarter ended December 31, 2017 increased by $2.9 million or 14.9% from $19.0 million to $21.9 million when compared to the results of the Company for the same quarter in the prior year.

The following table illustrates EBITDA and adjusted EBITDA attributable to AutoCanada shareholders for the three month period ended December 31, for the last three years of operations:

(in thousands of dollars)	2017	2016	2015
Period from October 1 to December 31			
Net earnings (loss) attributable to AutoCanada shareholders	17,089	13,785	(7,361)
Impairment (recovery) of intangible assets and goodwill[2]	(3,136)	–	18,126
Income taxes[2]	4,964	2,531	3,474
Depreciation of property and equipment[2]	4,947	4,634	4,866
Interest on long-term indebtedness[2]	4,263	4,310	4,248
EBITDA attributable to AutoCanada shareholders[1]	28,127	25,260	23,353
Add back:			
Share-based compensation attributed to changes in share price	69	105	(30)
Revaluation of redemption liabilities	(4,397)	(1,470)	2,566
Revaluation of contingent consideration	(416)	(4,840)	149
Unrealized gain on embedded derivative	15	(17)	(8)
Non-recurring settlement income	(1,518)	–	–
Adjusted EBITDA attributable to AutoCanada shareholders[1]	21,880	19,038	26,030

1 *This financial measure is identified and defined under the section "NON-GAAP MEASURES".*
2 *Represents the portion attributable to AutoCanada shareholders.*

Net earnings attributable to AutoCanada shareholders increased by $3.3 million or 24.0% to $17.1 million in the fourth quarter of 2017 from $13.8 million when compared to the prior year. Income tax expense attributable to AutoCanada shareholders increased by $2.5 million to $5.0 million in the fourth quarter of 2017 from $2.5 million in the same period of 2016.

Adjusted net earnings attributable to AutoCanada shareholders increased by $1.4 million or 18.6% to $8.9 million for the quarter from $7.5 million in the same period of the prior year.

The following table reconciles net earnings to adjusted net earnings for the three month period ended December 31:

(in thousands of dollars)	**2017**	**2016**	**2015**
Net earnings (loss) attributable to AutoCanada shareholders	17,089	13,785	(7,361)
Add back:			
Impairment (recovery) of intangible assets and goodwill, net of tax	(2,296)	–	13,286
Share-based compensation attributed to changes in share price, net of tax	51	78	(22)
Revaluation of redemption liabilities	(4,397)	(1,470)	2,566
Revaluation of contingent consideration	(416)	(4,840)	149
Unrealized gain on embedded derivative	15	(17)	(8)
Non-recurring settlement income, net of tax	(1,111)	–	–
Adjusted net earnings attributable to AutoCanada shareholders[1,2]	8,935	7,536	8,610
Weighted average number of shares - Basic	27,389,167	27,353,431	25,016,637
Weighted average number of shares - Diluted	27,498,724	27,469,439	25,110,033
Adjusted net earnings per share attributable to AutoCanada shareholders - Basic[1]	0.33	0.28	0.34
Adjusted net earnings per share attributable to AutoCanada shareholders - Diluted[1]	0.33	0.27	0.34

1 *This financial measure is identified and defined under the section "NON-GAAP MEASURES".*

2 *In Q1 2017, the Company redefined the calculation of adjusted net earnings.*

Annual Operating Results

EBITDA attributable to AutoCanada shareholders for the year ended December 31, 2017 increased by $17.3 million or 18.3% to $111.8 million, from $94.5 million when compared to the results of the Company for the same period in the prior year. The increase in EBITDA attributable to AutoCanada shareholders for the year is a result of an increase in gross profit as a result of additional stores added since the prior year as well as improved profitability of existing stores.

Adjusted EBITDA attributable to AutoCanada shareholders for the year ended December 31, 2017 increased by $6.6 million or 7.4% from $88.8 million to $95.4 million when compared to the results of the Company in the prior year.

The following table illustrates EBITDA and adjusted EBITDA attributable to AutoCanada shareholders for the year ended December 31, for the last three years:

(in thousands of dollars)	**2017**	**2016**	**2015**
Period from January 1 to December 31			
Net earnings attributable to AutoCanada shareholders	57,844	2,596	22,821
Impairment (recovery) of intangible assets and goodwill	(3,136)	51,180	18,126
Income taxes	19,800	5,826	16,171
Depreciation of property and equipment	19,410	18,432	17,863
Interest on long-term indebtedness	17,894	16,452	14,857
EBITDA attributable to AutoCanada shareholders[1]	111,812	94,486	89,838
Add back:			
Share-based compensation attributed to changes in share price	30	(75)	(272)
Revaluation of redemption liabilities	(2,869)	(765)	4,329
Unrealized loss (gain) on embedded derivative	15	3	(42)
Revaluation of contingent consideration	(416)	(4,840)	149
Non-recurring management transition cost	1,684	–	–
Non-recurring settlement income	(14,846)	–	–
Adjusted EBITDA attributable to AutoCanada shareholder[1]	95,410	88,809	94,002

1 *This financial measure is identified and defined under the section "NON-GAAP MEASURES".*

For the year ended December 31, 2017, pre-tax earnings attributable to AutoCanada shareholders increased by $69.2 million to $77.6 million from $8.4 million in the same period of the prior year. Net earnings attributable to AutoCanada shareholders increased by $55.2 million to $57.8 million in the year ended December 31, 2017 from $2.6 million when compared to the prior year due to impairment of intangible assets recognized during the prior year.

Income tax expense attributable to AutoCanada shareholders increased by $14.0 million to $19.8 million in the year ended December 31, 2017 from $5.8 million in the same period of 2016.

Adjusted net earnings attributable to AutoCanada shareholders increased by $2.8 million or 6.9% to $42.7 million in 2017 from $39.9 million in the prior year.

The following table reconciles net earnings to adjusted net earnings for the year ended December 31:

(in thousands of dollars)	**2017**	**2016**	**2015**
Net earnings attributable to AutoCanada shareholders	57,844	2,596	22,821
Add back:			
Impairment (recovery) of intangible assets and goodwill, net of tax	(2,295)	42,987	13,286
Share-based compensation attributed to changes in share price, net of tax	22	(55)	(200)
Revaluation of redemption liabilities	(2,869)	(765)	4,329
Revaluation of contingent consideration	(416)	(4,840)	149
Unrealized loss (gain) on embedded derivative	15	3	(42)
Non-recurring management transition cost, net of tax	1,231	–	–
Non-recurring settlement income, net of tax	(10,867)	–	–
Adjusted net earnings attributable to AutoCanada shareholders[1,2]	42,665	39,926	40,343
Weighted average number of shares - Basic	27,379,193	27,350,555	24,574,022
Weighted average number of shares - Diluted	27,473,995	27,455,686	24,674,083
Adjusted net earnings per share attributable to AutoCanada shareholders - Basic[1]	1.56	1.46	1.64
Adjusted net earnings per share attributable to AutoCanada shareholders - Diluted[1]	1.55	1.45	1.64

1 *This financial measure is identified and defined under the section "NON-GAAP MEASURES".*
2 *In Q1 2017, the Company redefined the calculation of adjusted net earnings.*

Revenues

The following table summarizes revenue for the three months and year ended December 31:

	Three Months Ended December 31			Year Ended December 31		
	2017 $	2016 $	Change $	2017 $	2016 $	Change $
New vehicles	417,626	348,107	69,519	1,827,559	1,652,795	174,764
Used vehicles	175,251	157,724	17,527	716,045	725,430	(9,385)
Finance, insurance and other	33,027	31,133	1,894	141,266	130,423	10,843
Parts, service and collision repair	107,156	92,310	14,846	416,690	382,933	33,757
	733,060	629,274	103,786	3,101,560	2,891,581	209,979

Gross Profit

The following table summarizes gross profit for the three months and year ended December 31:

	Three Months Ended December 31			Year Ended December 31		
	2017 $	2016 $	Change $	2017 $	2016 $	Change $
New vehicles	30,033	25,042	4,991	130,986	118,297	12,689
Used vehicles	7,563	10,064	(2,501)	43,738	47,192	(3,454)
Finance, insurance and other	30,699	28,722	1,977	129,596	119,385	10,211
Parts, service and collision repair	56,915	52,957	3,958	214,309	201,259	13,050
	125,210	116,785	8,425	518,629	486,133	32,496

New vehicles

New vehicle revenue increased by 20.0% for the quarter and 10.6% for the year.

Gross profit increased in the quarter for new vehicles as a result of an increase in new vehicles sold of 1,373, and increased gross profit per unit of $94 compared to Q4, 2016.

The increase in gross profit in the year from new vehicles is due to an increase in new vehicles sold of 3,741 and an increase in gross profit per unit of $37 compared to the same period of the prior year.

Used vehicles

Used vehicle revenue increased by 11.1% for the quarter and incurred a decrease of 1.3% for the year.

The decrease in gross profit in the quarter from used vehicles is due to a decline in gross profit per unit of $630, offset by a quarterly increase in used vehicles sold of 190 compared to Q4, 2016.

The decrease in gross profit in the year from used vehicles is due to a decline in gross profit per unit of $156 and a decline in used vehicles sold of 182 compared to the same period of the prior year.

Finance, insurance and other

Finance and insurance products are sold with both new and used retail vehicles, but a larger proportion are sold in conjunction with new retail vehicles.

Finance and insurance revenue increased by 6.1% for the quarter and 8.3% compared to prior year. This resulted in an increased gross profit of 6.9% for the quarter and 8.6% for the year.

Parts, service and collision repair

Parts, service and collision repair revenues increased by 16.1% in the quarter and 8.8% for the year.

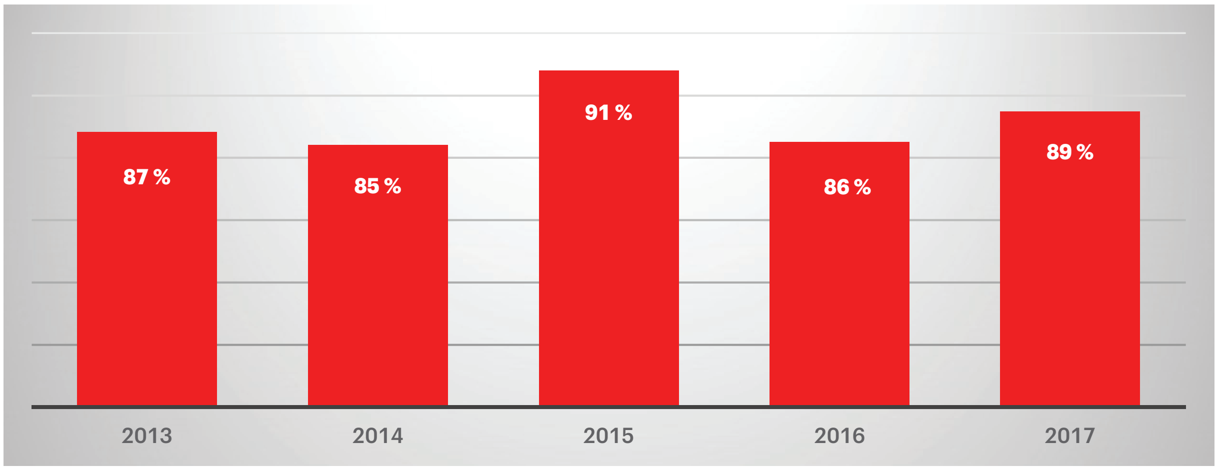
The increase in gross profit in the quarter from parts, service and collision repair is due to an increase in gross profit per order of $11 and a quarterly increase in repair orders of 6,588 compared to Q4, 2016.

The increase in gross profit in the year from parts, service and collision repair is due to an increase in gross profit per order of $13 and an increase in repair orders of 6,646 compared to the same period of the prior year.

Absorption rate[1]

Absorption rate measures the extent to which the gross profits of a franchised automobile dealership from parts, service and collision repair cover the costs of these departments plus the fixed costs of operating the dealership.

The following table summarizes Absorption rate since the 2013 fiscal year:



The positive change in Absorption rate for fiscal 2017 is a strong indicator that the increase in gross profit for Parts, service and collision repair was greater than the corresponding increase in related departmental and overall dealership fixed expenses.

1 *This financial measure is identified and defined under the section "NON-GAAP MEASURES".*

Operating expenses

Operating costs consist of four major categories:

Employee costs

Employee costs are the costs associated with employing staff both at the dealerships and at AutoCanada's head office. Dealership employees are largely commission based, resulting in employee costs being substantially variable in nature. Our dealership pay structures are tied to meeting sales objectives, maintaining customer satisfaction indices, as well as improving gross profit and net income.

Administrative costs

Administrative costs comprise the remaining costs of running our dealerships. Advertising, utilities, service shop consumables, information processing, insurance, and consulting costs comprise a significant portion of the administrative costs. Administrative costs can be either fixed or variable in nature. The Company operates a centralized marketing department and information technology department both of which provide services to the dealerships in order to leverage the size of the group as a means to lower the operating costs of the dealerships.

Facility lease costs

Facility lease costs relate to the cost of leasing dealership facilities not owned by AutoCanada. Facility lease costs are fixed in nature as lease contracts are based on the market value of the property and are long-term.

Depreciation of property and equipment

Depreciation of property and equipment relates to the depreciation of the dealership assets including buildings, machinery and equipment, leasehold improvements, company and lease vehicles, furniture, and computer hardware. Depreciation rates vary based on the nature of the asset.

Since many operating expenses are variable in nature, Management considers operating expenses as a percentage of gross profit to be a good indicator of expense control.

The following tables summarize operating expenses as a percentage of gross profit, broken into their fixed and variable components. Fixed expenses are costs that do not fluctuate with changes in sales volume while variable expenses are costs that vary depending on sales volume.

	Three Months Ended December 31			Year Ended December 31		
Operating expenses as a % of Gross Profit	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Employee costs before management transition costs	50.6%	51.1%	(0.5)%	50.7%	50.7%	–%
Management transition costs	–%	–%	–%	0.3%	0.5%	(0.2)%
Administrative costs - Variable	19.3%	18.0%	1.3%	17.8%	17.4%	0.4%
Total Variable Expenses	69.9%	69.1%	0.8%	68.8%	68.6%	0.2%
Administrative costs - Fixed	4.3%	5.0%	(0.7)%	4.7%	4.9%	(0.2)%
Facility lease costs	5.1%	5.1%	–%	4.7%	4.8%	(0.1)%
Depreciation of property and equipment	4.2%	4.2%	–%	4.0%	4.1%	(0.1)%
Total fixed expenses	13.6%	14.3%	(0.7)%	13.4%	13.8%	(0.4)%
Total operating expenses	83.5%	83.4%	0.1%	82.2%	82.4%	(0.2)%

Total Operating expenses

Total operating expenses remained relatively flat in the quarter and year over year.

Variable Expenses

Total variable expenses for the quarter and year remained relatively flat, changing by 0.8% and 0.2% respectively.

Employee costs have decreased in the quarter by 0.5% of operating expenses as a percentage of gross profit and remained flat versus the previous year.

Variable administrative costs increased 1.3% in the quarter and 0.4% year over year as a percentage of gross profit.

Fixed Expenses

Total fixed expenses for the quarter decreased by 0.7% and the year by 0.4%.

Fixed administrative costs decreased, for both the quarter and year to date, as a percentage of gross profit. Facility lease costs and depreciation of property and equipment saw a 0.1% decrease for the year to date, as a percentage of gross profit.

Impairment of intangible assets and goodwill

The Company has a number of franchise agreements for its individual dealerships which it classifies as intangible assets. These intangible assets are tested for impairment at least annually, or more frequently if events or changes in circumstances indicate that they may be impaired.

Under IFRS, previously recognized impairment charges, with the exception of impairment charges related to goodwill, may potentially be reversed if the circumstances causing the impairment have improved or are no longer present. If such circumstances change, a new recoverable amount should be calculated and all or part of the impairment charge should be reversed to the extent the recoverable amount exceeds carrying value.

The Company performed a test for all cash generating units for the year ended December 31, 2017. As a result of the test performed, the Company recorded a recovery of $0.8 million of intangible assets. (2016 impairment of $54.1 million).

Income Taxes

The following table summarizes income taxes for the three months and year ended December 31:

	Three Months Ended December 31			Year Ended December 31		
	2017 $	2016 $	Change	2017 $	2016 $	Change
Current tax	13,254	(6,157)	19,411	20,901	12,316	8,585
Deferred tax	(8,193)	9,144	(17,337)	1,812	(3,741)	5,553
Income tax expense	5,061	2,987	2,074	22,713	8,575	14,138

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual rates used for the year ended December 31, 2017 was 26.8% (December 31, 2016 - 27.2%).

Finance costs

The Company incurs finance costs on its revolving floorplan facilities, long-term indebtedness and banking arrangements.

During the quarter ended December 31, 2017, finance costs on our revolving floorplan facilities increased by 28.9% to $4.2 million from $3.2 million compared to Q4 2016, mainly due to increased inventory as a result of the two dealership acquisitions and one open point completed in 2017.

For the year ended December 31, 2017, finance costs on our revolving floorplan facilities increased by 17.0% to $14.5 million from $12.4 million in the same period of the prior year.

Some of our manufacturers provide non-refundable credits on the finance costs for our revolving floorplan facilities to offset the dealership's cost of inventory that, on average, effectively provide the dealerships with interest-free floorplan financing for the first 45 to 60 days of ownership of each financed vehicle.

Accounting standards require the floorplan credits to be accounted for as a reduction in the cost of new vehicle inventory and subsequently a reduction in the cost of sales as vehicles are sold.

Management believes that a comparison of floorplan financing costs to floorplan credits can be used to evaluate the efficiency of our new vehicle sales relative to stocking levels.

The following table details the carrying cost of vehicles based on floorplan interest net of floorplan assistance earned:

	Three Months Ended December 31			Year Ended December 31		
(in thousands of dollars)	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Floorplan financing	4,187	3,247	940	14,515	12,408	2,107
Floorplan credits earned	(4,114)	(3,860)	(254)	(17,054)	(14,634)	(2,420)
Net carrying cost of vehicle inventory	73	(613)	686	(2,539)	(2,226)	(313)

8. SAME STORES RESULTS

Same store is defined as a franchised automobile dealership that has been owned for at least two full years since acquisition. The dealership is then included in the quarter thereafter, for same store analysis. The Company believes that it takes two years for an acquired dealership or Open Point to achieve normal operating results.

The dealerships which have been acquired over the past two years are integrating well into their respective platforms and within the Company. Five dealerships were added to same stores since the start of 2017. We believe that there continues to be opportunities within these dealerships and continue to dedicate significant resources to newly acquired dealerships to successfully integrate acquisitions in an efficient manner. As a result, we expect to incur additional selling and administrative costs in the future to successfully integrate new dealerships into our model.

Number of Same Stores by Province

The following table summarizes the number of same stores for the period ended December 31, 2017 by Province:

	British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	Atlantic	Total
FCA	4	7	1	1	1	–	2	16
Hyundai	2	4	–	–	2	–	–	8
General Motors	1	3	3	1	–	–	–	8
Volkswagen	3	2	–	1	–	–	–	6
Nissan/Infiniti	1	3	–	–	–	–	–	4
Mitsubishi	–	2	–	–	–	–	–	2
BMW	–	–	–	–	–	2	–	2
Audi	–	–	–	1	–	–	–	1
Subaru	–	1	–	–	–	–	–	1
KIA	–	1	–	–	–	–	–	1
Total	11	23	4	4	3	2	2	49

Same Store Revenue and Vehicles Sold

	Three Months Ended December 31			Year Ended December 31		
(in thousands of dollars)	**2017**	**2016**	**% Change**	**2017**	**2016**	**% Change**
New vehicles - Retail	305,414	263,304	16.0%	1,320,350	1,279,471	3.2%
New vehicles - Fleet	60,883	55,818	9.1%	320,444	274,973	16.5%
Total New vehicles	366,297	319,122	14.8%	1,640,794	1,554,444	5.6%
Used vehicles - Retail	108,508	104,085	4.2%	451,736	459,887	(1.8)%
Used vehicles - Wholesale	48,866	43,149	13.2%	196,014	230,598	(15.0)%
Total Used vehicles	157,374	147,234	6.9%	647,750	690,485	(6.2)%
Finance, insurance and other	30,367	29,409	3.3%	129,979	123,567	5.2%
Subtotal	554,038	495,765	11.8%	2,418,523	2,368,496	2.1%
Parts, service and collision repair	93,061	86,603	7.5%	366,476	362,163	1.2%
Total	647,099	582,368	11.1%	2,784,999	2,730,659	2.0%
New retail vehicles sold	7,196	6,845	5.1%	31,402	30,422	3.2%
New fleet vehicles sold	1,349	808	67.0%	7,600	6,932	9.6%
Used retail vehicles sold	4,051	4,162	(2.7)%	17,233	18,560	(7.1)%
Total	12,596	11,815	6.6%	56,235	55,914	0.6%
Total vehicles retailed	11,247	11,007	2.2%	48,635	48,982	(0.7)%

Revenues - Same Store Analysis

Same store revenue increased by $64.7 million or 11.1%, and $54.3 million or 2.0%, for the three month period and the year ended December 31, 2017 respectively when compared to the same period in the prior year.

New vehicle revenues increased by $47.2 million or 14.8% for the fourth quarter of 2017 over the prior year due to an increase in new vehicle sales of 892 units or 11.7% and an increase in the average revenue per new vehicle sold of $1,168 or 2.8%. Same store new vehicle revenues increased by $86.4 million or 5.6% for the year ended December 31, 2017 over the same period in the prior year due to a increase in new vehicle sales of 1,648 units or 4.4% and an increase in the average revenue per new vehicle sold of $456 or 1.1%.

Same store used vehicle revenues increased by $10.1 million or 6.9% for the three month period ended December 31, 2017 over the same period in the prior year due to a decrease in used vehicle sales of 111 units or 2.7% offset by a increase in the average revenue per used vehicle sold of $3,473 or 9.8%. For the year ended December 31, 2017, used vehicle revenues decreased by $42.7 million or 6.2% due to a decrease in used vehicle sales of 1,327 units or 7.1%, offset by an increase in the average revenue per used vehicle sold of $385 or 1.0%.

Same store parts, service and collision repair revenue increased by $6.5 million or 7.5% for the fourth quarter of 2017 compared to the prior period. For the year ended December 31, 2017, parts, service and collision repair revenue increased by $4.3 million or 1.2%.

Same store finance, insurance and other revenue increased by $1.0 million or 3.3% for the three month period ended December 31, 2017 over the same period in 2016. For the year ended December 31, 2017, same store finance, insurance and other revenue increased by $6.4 million or 5.2% over the same period in 2016.

Same Store Gross Profit and Gross Profit Percentage

Revenue Source (in thousands of dollars)	Three Months Ended December 31				
	Gross Profit			Gross Profit %	
	2017	2016	% Change	2017	2016
New vehicles - Retail	24,008	21,389	12.2%	7.9%	8.1%
New vehicles - Fleet	1,677	1,580	6.1%	2.8%	2.8%
Total New vehicles	25,685	22,969	11.8%	7.0%	7.2%
Used vehicles - Retail	6,588	8,220	(19.9)%	6.1%	7.9%
Used vehicles - Wholesale	1,088	1,146	(5.1)%	2.2%	2.7%
Total Used vehicles	7,676	9,366	(18.0)%	4.9%	6.4%
Finance, insurance and other	27,748	26,755	3.7%	91.4%	91.0%
Subtotal	61,109	59,090	3.4%	11.0%	11.9%
Parts, service and collision repair	49,140	49,593	(0.9)%	52.8%	57.3%
Total	110,249	108,683	1.4%	17.0%	18.7%

Revenue Source (in thousands of dollars)	Year Ended December 31				
	Gross Profit			Gross Profit %	
	2017	2016	% Change	2017	2016
New vehicles - Retail	110,168	104,793	5.1%	8.3%	8.1%
New vehicles - Fleet	5,934	6,665	(11.0)%	1.9%	2.9%
Total New vehicles	116,102	111,458	4.2%	7.1%	7.2%
Used vehicles - Retail	36,706	39,667	(7.5)%	8.1%	8.7%
Used vehicles - Wholesale	5,902	5,172	14.1%	3.0%	1.9%
Total Used vehicles	42,608	44,839	(5.0)%	6.6%	6.5%
Finance, insurance and other	118,552	112,777	5.1%	91.2%	91.5%
Subtotal	277,262	269,074	3.0%	11.5%	11.4%
Parts, service and collision repair	189,768	190,910	(0.6)%	51.8%	53.2%
Total	467,030	459,984	1.5%	16.8%	16.8%

Gross Profit - Same Store Analysis

Same store gross profit increased by $1.6 million or 1.4% and $7.0 million or 1.5% for the three month period and the year ended December 31, 2017 respectively when compared to the same period in the prior year.

Same store new vehicle gross profit increased by $2.7 million or 11.8% in the three month period ended December 31, 2017 when compared to 2016 as a result of an increase in new vehicle sales of 892 units or 11.7%, and an increase in the average gross profit per new vehicle sold of $5 or 0.2%. For the year ended December 31, 2017, new vehicle gross profit increased by $4.6 million or 4.2% which can be mainly attributed to a increase in new vehicle sales of 1,648 units or 4.4% offset by an decrease in the average gross profit per new vehicle sold of $7 or 0.2%.

Same store used vehicle gross profit decreased by $1.7 million or 18.0% in the three month period ended December 31, 2017 over the prior year. This was due to a decrease in the number of used vehicles sold of 111 units and an decrease in the average gross profit per used vehicle retailed of $355 or (15.8)%. For the year ended December 31, 2017, same store used vehicle gross profit decreased by $2.2 million or 5.0% which was mainly due to an increase in the average gross profit per vehicle retailed of $57 or 2.4% offset by a decrease in the number of vehicles retailed of 1,327 units.

Same store parts, service and collision repair gross profit decreased by $0.5 million or 0.9% in the three month period ended December 31, 2017 when compared to the same period in the prior year. For the year ended December 31, 2017, parts, service and collision repair gross profit decreased by $1.1 million or 0.6%.

Same store finance and insurance gross profit increased by $1.0 million or 3.7% in the three month period ended December 31, 2017 when compared to the prior year as a result a increase in units retailed of 1,165, offset by an decrease in the average gross profit per unit sold of $188. For the year ended December 31, 2017, finance and insurance gross profit increased by $5.8 million or 5.1% and can be attributed to a increase in units retailed of 583, and an increase in the average gross profit per unit sold of $91.

The following table summarizes same store total revenue for the three months and year ended December 31, 2017 by Province:

(in thousands of dollars)	Three Months Ended December 31			Year Ended December 31		
	2017	2016	% Change	2017	2016	% Change
British Columbia	133,885	116,036	15.4%	590,528	578,938	2.0%
Alberta	259,195	236,376	9.7%	1,148,533	1,121,811	2.4%
Saskatchewan	58,179	54,582	6.6%	243,321	236,354	2.9%
Manitoba	45,688	42,626	7.2%	194,888	182,282	6.9%
Ontario	26,681	21,042	26.8%	108,984	101,555	7.3%
Quebec	93,012	81,198	14.5%	352,631	334,255	5.5%
Atlantic	30,459	30,508	(0.2)%	146,114	175,464	(16.7)%
Total	647,099	582,368	11.1%	2,784,999	2,730,659	2.0%

The following table summarizes same store gross profit for the three months and year ended December 31, 2017 by Province:

(in thousands of dollars)	Three Months Ended December 31			Year Ended December 31		
	2017	2016	% Change	2017	2016	% Change
British Columbia	21,879	20,578	6.3%	95,268	92,404	3.1%
Alberta	49,135	49,817	(1.4)%	206,227	204,034	1.1%
Saskatchewan	10,289	10,625	(3.2)%	45,146	44,977	0.4%
Manitoba	8,142	7,663	6.3%	35,144	33,789	4.0%
Ontario	3,991	3,463	15.2%	15,590	14,804	5.3%
Quebec	12,323	12,045	2.3%	49,043	47,441	3.4%
Atlantic	4,490	4,492	–%	20,612	22,535	(8.5)%
Total	110,249	108,683	1.4%	467,030	459,984	1.5%

9. ACQUISITIONS, RELOCATIONS AND REAL ESTATE

Dealership Operations and Expansion

Our goals are to maximize the profit potential of every store and to generate incremental growth through accretive acquisitions. In 2017 we acquired two stores, and opened a Volkswagen open point in early 2017, bringing the total number of dealerships we operate to 58, representing 66 franchises. We continue to focus on our acquisition strategy, concentrating on growth throughout Canada with a greater diversification in both geography and brand.

The Company is being patient with our acquisition strategy, focusing on acquisitions that are accretive and provide diversity. The Company plans to diversify across Canada through the acquisition of flagship stores in major markets. Management and the Company have excellent relationships with our manufacturer partners, providing the Company with greater opportunities with brands we currently operate.

Mercedes-Benz Rive-Sud

On May 1, 2017, the Company purchased all of the voting shares of 8421722 Canada Inc., which owns and operates a Mercedes-Benz dealership in Montreal, Quebec, along with all of the opearting and fixed assets of 9343091 Canada Inc. which owns and operates the dealership's collision centre (together "Mercedes-Benz Rive-Sud"), for total cash consideration of $16.1 million. The acquisition was funded by drawing on the Company's revolving term facility. This dealership represents our first Mercedes-Benz franchise and we are extremely pleased to have added a top selling luxury brand to our portfolio and look forward to sustained success and growth with Mercedes-Benz.

Planete Mazda

On December 1, 2017, the Company purchased 95% of the issued and outstanding shares of Planete Mazda, which owns and operates a Mazda dealership in Montreal, Quebec, for total cash consideration of $5.8 million. The acquisition was funded by drawing on the Company's revolving term facility. This dealership represents our first Mazda dealership and becomes our 23rd brand.

History has shown that within two years a newly acquired store adopts AutoCanada processes and culture. As we expand our presence into eastern Canada we are establishing regional and brand specialists whose role it is to ensure that every store in our portfolio meets not only our volume and profit targets but also every automaker sales and customer satisfaction objectives.

AutoCanada continues to diligently evaluate acquisition opportunities. We believe that we have sufficient capital to be able to acquire stores that meet our specific criteria. While our focus remains on flagship stores in each market, we are also targeting smaller stores that offer both organic growth as well as synergies with our other local stores.

General Motors Transaction

On December 7, 2017, we announced two new agreements that strengthened our relationship with GM Canada. We executed a Public Company Master Agreement (PCMA) with GM Canada that permits AutoCanada's direct ownership and control of GM Canada dealerships. As part of that agreement, on January 2, 2018 the company closed an agreement with CanadaOne Auto Group, a company controlled by the Company's former CEO and founder, Mr. Patrick Priestner, seeing AutoCanada assume control of five of the nine GM Canada dealerships where it held a majority equity stake with no voting rights, and CanadaOne Auto Group buying AutoCanada's interest in four dealerships. AutoCanada received a one-time net payment of approximately $23 million from CanadaOne Auto Group as part of the transaction.

The New PCMA has allowed AutoCanada to outright own and operate GM dealerships along with our dealer partners. This creates an opportunity for us to evaluate future GM opportunities and further expand our relationship with GM Canada.

Related to the agreement made with CanadaOne Auto Group, we will see decreases to Revenue, Gross Profit, and Unit sales figure in the interim as we evaluate current and future opportunities.

For the year ended December 31, 2017	Revenue	Gross Profit	Proportion of ownership interest[1]	Operating Data New vehicles sold	New fleet vehicles sold	Used retail vehicles sold	Vehicles (new and used) sold
Kelowna Chevrolet	57,145	8,827	80%	524	334	276	1,134
Lakewood Chevrolet	83,147	12,271	75%	688	661	310	1,659
Sherwood Park Chevrolet	123,590	20,403	31%	1,265	120	675	2,060
Sherwood Park Buick GMC	110,187	17,436	31%	1,067	197	569	1,833
Total	374,069	58,937		3,544	1,312	1,830	6,686

1 *Through the various interest in subsidiaries as disclosed in the annual consolidated financial statements of the company for the year ended December, 31, 2017 (Note 18).*

Dealership Open Points

The retail automotive industry is a mature industry and rights to open new franchised automobile dealerships are rarely awarded by the automobile manufacturers. However, from time to time automobile manufacturers may seek to establish new dealerships in attractive markets. The right to open a new franchised automobile dealership in a specific location granted by an automobile manufacturer to a dealer is referred to in the industry as an Open Point. Generally a new franchised automobile dealership is fully performing within one to three years depending on the manufacturer and location.

The Company will review on a case-by-case basis whether to own or lease a particular dealership facility. In either case, the Company would incur the costs of equipping and furnishing these facilities, including the costs relating to the integration of our management information systems into the new dealerships. These costs vary by dealership depending upon size and location.

Nissan – Calgary, Alberta

The dealership construction is expected to begin late 2018 with anticipated opening in mid 2019. The dealership will be constructed by a third party and subsequently leased by the Company.

Capital Plan

The Company maintains a capital plan for contemplated future capital projects. Details of the capital plan are described below:

Dealership Relocations

Management estimates the total capital requirements of currently planned dealership relocations to be approximately $47.3 million to the end of 2021. The Company expects dealership relocations to provide long-term earnings sustainability and result in significant improvements in revenues and overall profitability. Management continually updates its capital plan and as such the estimates provided may vary as delays occur or projects are added or removed.

Current Dealership Expansion and Imaging Requirements

The Company has identified approximately $78.4 million in capital costs that it may incur in order to expand or renovate various current locations through to the end of 2022. The Company is required by its manufacturers to undertake periodic imaging upgrades to its facilities.

Open Point Opportunities

Management regularly reviews potential open point opportunities. If successful in being awarded these opportunities, management would then estimate additional capital costs in order to construct suitable facilities for open point. The Company estimates approximately $17.0 million in capital costs that it may incur by the end of 2019 related to awarded Open Points. If awarded in the future, Management will provide additional cost estimates and further information regarding the proposed timing of construction. In order to be successful in some opportunities, Management may be required to secure appropriate land for the potential open point, in which case, additional land purchase costs may be incurred in the future.

The following summarizes the capital plan for contemplated future capital projects:

(in millions of dollars)	2018	2019	2020	2021	2022	Total
Same Store						
Dealership Relocations	4.8	11.5	14.5	16.5	–	47.3
Current Dealership Expansion and Imaging Requirements	19.4	15.3	8.4	11.5	18.1	72.7
Capital Plan	24.2	26.8	22.9	28.0	–	120.0
Expected to be financed	2.9	8.6	–	–	–	11.5
Cash Outlay[1]	21.3	18.2	22.9	28.0	18.1	108.5
Non Same Store						
Current Dealership Expansion and Imaging Requirements	2.0	1.7	1.0	–	1.0	5.7
Open Point Opportunities	3.9	13.1	–	–	–	17.0
Capital Plan	5.9	14.8	1.0	–	1.0	22.7
Expected to be financed	2.9	8.6	–	–	–	11.5
Cash Outlay[1]	3.0	6.2	1.0	–	1.0	11.2
Total Capital Plan	30.1	41.6	23.9	28.0	19.1	142.7
Total Cash outlay	24.3	24.4	23.9	28.0	19.1	119.7

1 *Refers to amount expected to be funded by internal Company cash flow.*

During the year, the Company re-examined its capital expenditures and has reduced its planned capital budgets. At December 31, 2016, the five year capital plan was $145.3 million. As a result of increased focus on reducing capital expenditures, the five year capital plan at December 31, 2017 is $142.7 million.

Notwithstanding the capital plan laid out above, expected capital expenditures are subject to deferral due to issues in obtaining permits, construction delays, changes in reimaging requirements, economic factors, or other delays that are normal to the construction process. The above is considered to be a guide for when the Company expects to perform capital expenditures, however, significant deferral may occur in the future. Management closely monitors the capital plan and adjusts as appropriate based on Company performance, manufacturer requirements, expected economic conditions, and individual dealership needs. Management performs a robust analysis on all future expenditures prior to the allocation of funds. Timing of dealership relocations is determined based on the dealership's current performance, the market, and expected return on invested capital. It is expected that a dealership relocation will result in improved performance and increased profitability.

10. LIQUIDITY AND CAPITAL RESOURCES

Our principal uses of funds are for capital expenditures, repayment of debt, funding the future growth of the Company and paying dividends to Shareholders. We have historically met these requirements by using cash generated from operating activities and through short-term and long-term indebtedness.

Under our franchise agreements, manufacturers require us to maintain a minimum level of working capital. We maintain working capital in excess of manufacturer requirements which may be used for capital expenditures. The Company's analysis of its available capital based on the balance sheet at December 31, 2017 is as follows:

- The Company had drawn $143.8 million on its $250.0 million revolving term facility.

As a result of the above, as at December 31, 2017, the Company currently has approximately $106.2 million in readily available liquidity, not including future retained cash from operations, that it may deploy for growth expenditures including acquisitions.

Cash Flow from Operating Activities

Cash flow from operating activities (including changes in non-cash working capital) of the Company for the year ended was $78.8 million (cash provided by operating activities of $94.6 million minus net change in non-cash working capital of $15.8 million) compared to $104.7 million (cash provided by operating activities of $76.1 million plus net change in non-cash working capital of $28.6 million) in the same period of the prior year.

Cash Flow from Investing Activities

For the year ended December 31, 2017, cash flow from investing activities of the Company was a net outflow of $49.2 million as compared to a net outflow of $100.9 million in the same period of the prior year.

Cash Flow from Financing Activities

For the year ended December 31, 2017, cash flow from financing activities was a net outflow of $38.1 million as compared to a net inflow of $37.8 million in the same period of 2016.

Credit Facilities and Floor Plan Financing

Details of the Company's credit facilities and floorplan financing are included in Note 30 of the annual audited consolidated financial statements for the year ended December 31, 2017.

Key Financial Covenants

The Company is required by its debt agreements to comply with several financial covenants.

The following is a summary of the Company's actual performance against its financial covenants as at December 31, 2017:

Financial Covenant	Requirement	Q4 2017 Actual Calculation	Q3 2017 Actual Calculation
Syndicated Revolver:			
Senior Secured Leverage Ratio	Shall not exceed 2.75	1.46	1.44
Adjusted Total Leverage Ratio	Shall not exceed 5.00	3.79	3.76
Fixed Charge Coverage Ratio	Shall not be less than 1.20	2.92	3.55
Current Ratio	Shall not be less than 1.05	1.18	1.13
Syndicated Floorplan:			
Current Ratio	Shall not be less than 1.05	1.12	1.15
Tangible Net Worth (millions)	Shall not be less than $40 million	81.8	87.2
Debt to Tangible Net Worth	Shall not exceed 7.50	5.56	4.59

The covenants above are based on consolidated financial statements of the dealerships that are financed directly by the lender. As a result, the actual performance against the covenant does not necessarily reflect the actual performance of AutoCanada. The Company is required to comply with other covenants under the terms of its remaining credit agreements. The Company stress tests all covenants on a monthly and quarterly basis and notes that a significant further drop in performance would be necessary to breach the covenants.

As at December 31, 2017, the Company is in compliance with all of its financial covenants.

Financial Instruments

Details of the Company's financial instruments, including risks and uncertainties are included in Note 27 of the annual audited consolidated financial statements for the year ended December 31, 2017.

Growth vs. Non-Growth Capital Expenditures

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

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

(in thousands of dollars)	October 1, 2017 to December 31, 2017	January 1, 2017 to December 31, 2017
Leasehold improvements	298	755
Machinery and equipment	409	1,770
Furniture and fixtures	476	872
Computer equipment	307	899
	1,490	4,296

Amounts relating to the expansion of sales and service capacity are considered growth expenditures. Growth expenditures are discretionary, represent cash outlays intended to provide additional future cash flows and are expected to provide benefit in future periods. During the three month period and the year ended December 31, 2017, growth capital expenditures of $7.0 million and $20.5 million were incurred, respectively. These expenditures relate primarily to land and buildings that were purchased for future dealership operations during 2017. Dealership relocations are included as growth expenditures if they contribute to the expansion of sales and service capacity of the dealership.

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

(in thousands of dollars)	October 1, 2017 to December 31, 2017	January 1, 2017 to December 31, 2017
Purchase of property and equipment from the Statement of Cash Flows	9,017	24,831
Less: Amounts related to the expansion of sales and service capacity	(7,527)	(20,534)
Purchase of non-growth property and equipment	1,490	4,297

Repairs and maintenance expenditures are expensed as incurred and have been deducted from earnings for the period. Repairs and maintenance expense incurred during the three month period and the year ended December 31, 2017, were $1.8 million and $6.9 million (2016 - $1.7 million and $6.2 million), respectively.

Planned Capital Expenditures

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

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

Financial Position

The following table shows selected audited balances of the Company (in thousands) for December 31, 2017 and December 31, 2016, as well as unaudited balances of the Company at September 30, 2017, June 30, 2017, March 31, 2017, September 30, 2016, June 30, 2016, and March 31, 2016:

(in thousands of dollars)	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Cash and cash equivalents	94,660	104,966	95,417	100,402	103,221	96,368	77,582	72,878
Trade and other receivables	79,931	137,155	157,275	113,688	85,587	108,363	115,427	116,092
Inventories	659,593	636,685	629,171	701,559	619,718	597,831	555,957	628,641
Total Assets	1,761,046	1,693,533	1,698,290	1,707,063	1,600,615	1,547,344	1,548,879	1,578,225
Revolving floorplan facilities	634,655	616,144	624,847	688,173	582,695	569,581	532,283	600,578
Non-current debt and lease obligations	332,450	331,803	338,212	330,563	330,351	291,408	295,922	293,273

Net Working Capital

The automobile manufacturers represented by the Company require the Company to maintain net working capital for each individual dealership. At December 31, 2017, the aggregate of net working capital requirements was approximately $109.0 million. At December 31, 2017, all working capital requirements had been met by each dealership. The working capital requirements imposed by the automobile manufacturers' may limit our ability to fund capital expenditures, acquisitions, dividends, or other commitments in the future if sufficient funds are not generated by the Company. Net working capital, as defined by automobile manufacturers, may not reflect net working capital as determined using GAAP measures. As a result, it is possible that the Company may meet automobile manufacturers' net working capital requirements without having sufficient aggregate working capital using GAAP measures. The Company defines net working capital amounts as current assets less current liabilities as presented in the consolidated financial statements. The net working capital requirements above restrict the Company's ability to transfer funds up from its subsidiaries, as each subsidiary dealership is required to be appropriately capitalized as explained above. In addition, our VCCI Facilities require the VW and Audi dealerships to maintain minimum cash and equity, which also restricts our ability to transfer funds up.

Off Balance Sheet Arrangements

The Company has operating lease commitments, with varying terms through 2037, to lease premises and equipment used for business purposes. The Company leases the majority of the lands and buildings used in its franchised automobile dealership operations from related parties and other third parties.

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

2018	18,892
2019	16,429
2020	14,430
2021	14,199
2022	13,731
Thereafter	130,759
Total	208,440

Information regarding our contractual obligations with respect to long-term debt, capital lease obligations and other long-term obligations is included in the Liquidity Risk section of Note 27 of the Company's annual consolidated financial statements.

Related Party Transactions

Note 37 of the annual consolidated financial statements of the Company for the year ended December 31, 2017 summarizes the transactions between the Company and its related parties.

Transactions with Companies Controlled by the Former Chair of the Board of Directors of AutoCanada

Until May 5, 2017, Mr. Patrick Priestner was the Chair of AutoCanada and was a related party as a result of his position on the Board of Directors of AutoCanada. Prior to Priestner's retirement on May 5, 2017, the company had financial transactions with entities controlled by Priestner. Priestner is the controlling shareholder of Canada One Auto Group ("COAG") and its subsidiaries, which beneficially own approximately 8.6% (2016 – 8.6%) of the Company's shares. In addition to COAG, Priestner is the controlling shareholder of other companies from which AutoCanada earns administrative fees. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. All significant transactions between AutoCanada and companies controlled by Priestner were approved by the Company's independent members of the Board of Directors. The Company continues to provide services to entities controlled by Priestner, which are provided at market rates.

Loan to related parties

The Company has provided dealership loan financing to PPH Holdings Ltd. ("PPH"), a company controlled and formed by Priestner. The Company holds no ownership interest in PPH or its subsidiaries. The loans to associates have been structured as executed to satisfy the requirements of the manufacturer.

11. OUTSTANDING SHARES

As at December 31, 2017, the Company had 27,459,683 common shares outstanding. Basic and diluted weighted average number of shares outstanding for the year ended December 31, 2017 were 27,379,193 and 27,473,995, respectively. As at December 31, 2017, the value of the shares held in trust was $1.8 million (2016 – $1.8 million) which was comprised of 70,783 (2016 - 103,244) in shares with a nil aggregate cost. As at March 15, 2018, there were 27,459,683 shares issued and outstanding.

12. DIVIDENDS

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

The following table summarizes the dividends declared by the Company in 2017:

Record date	Payment date	Per Share $	Total $
February 28, 2017	March 15, 2017	0.10	2,735
May 31, 2017	June 15, 2017	0.10	2,739
August 31, 2017	September 15, 2017	0.10	2,739
November 30, 2017	December 15, 2017	0.10	2,739
		0.40	10,952

On February 23, 2018 the Board declared a quarterly eligible dividend of $0.10 per common share on AutoCanada's outstanding Class A shares, payable on March 15, 2018 to shareholders of record at the close of business on March 1, 2018.

As per the terms of the HSBC facility, we are restricted from declaring dividends and distributing cash if we are in breach of financial covenants or our available margin and facility limits or if such dividend would result in a breach of our covenants or our available margin and facility limits. At this time, the Company is within these covenants.

13. FREE CASH FLOW

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

(in thousands of dollars, except unit and per unit amounts)	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Cash provided by operating activities	31,479	32,091	12,255	2,967	24,930	32,594	40,374	6,831
Deduct:								
Purchase of property and equipment	(1,983)	(977)	(1,273)	(2,346)	(1,506)	(1,697)	(2,452)	(2,786)
Free cash flow[1]	29,496	31,114	10,982	621	23,424	30,897	37,922	4,045
Weighted average shares outstanding at end of period	27,389,167	27,389,473	27,378,919	27,358,766	27,353,431	27,347,585	27,338,767	27,362,440
Free cash flow per share	1.08	1.14	0.40	0.02	0.86	1.13	1.39	0.15
Free cash flow - 12 month trailing	72,213	66,141	65,924	92,864	96,288	81,930	66,028	45,882

1 *This financial measure is identified and defined under the section "NON-GAAP MEASURES".*

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

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

The following table summarizes the net increase in cash due to changes in non-cash working capital for the years ended December 31, 2017 and December 31, 2016.

(in thousands of dollars)	January 1, 2017 to December 31, 2017	January 1, 2016 to December 31, 2016
Trade and other receivables	(10,176)	8,031
Inventories	(104,383)	(8,765)
Finance lease receivables	1,978	1,014
Other current assets	2,418	150
Trade and other payables	(18,496)	2,670
Vehicle repurchase obligations	(283)	4,948
Revolving floorplan facilities	113,102	20,535
	(15,840)	28,583

Adjusted Free Cash Flow

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

(in thousands of dollars, except unit and per unit amounts)	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Cash provided by operating activities before changes in non-cash working capital	17,486	24,070	37,355	15,721	14,344	28,996	24,050	8,754
Deduct:								
Purchase of non-growth property and equipment	(1,490)	(774)	(1,078)	(504)	(1,211)	(1,230)	(2,418)	(2,719)
Adjusted free cash flow[1]	15,996	23,296	36,277	15,217	13,133	27,766	21,632	6,035
	27,389,167	27,389,473	27,378,919	27,358,766	27,353,431	27,347,585	27,338,767	27,362,440
Adjusted free cash flow per share	0.58	0.85	1.32	0.56	0.48	1.02	0.79	0.22
Adjusted free cash flow - 12 month trailing	90,786	87,923	92,393	77,748	68,566	63,511	54,696	52,251

1 *This financial measure is identified and defined under the section "NON-GAAP MEASURES".*

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

In the year ending December 31, 2017, the Company paid approximately $9.9 million in 2016 corporate income taxes and 2017 tax installments. Accordingly, this reduced our adjusted free cash flow by this amount. The Company expects the payment of corporate income taxes to have a more significant negative affect on free cash flow and adjusted free cash flow. See "RESULTS FROM OPERATIONS – Income Taxes" for further detail regarding the impact of corporate income taxes on cash flow.

Adjusted Return on Capital Employed

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

(in thousands of dollars, except unit and per unit amounts)	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
EBITDA[1,2]	31,124	29,978	47,757	17,228	28,536	26,915	30,845	21,010
Deduct:								
Depreciation of property and equipment	(5,213)	(5,297)	(5,082)	(4,852)	(4,921)	(4,860)	(4,822)	(4,954)
EBIT[1,2]	25,911	24,681	42,675	12,376	23,615	22,055	26,023	16,056
Average long-term debt	339,741	353,315	357,103	351,986	333,310	315,678	310,281	300,520
Average shareholder's equity	534,338	526,209	510,610	498,732	491,026	503,163	516,513	510,595
Average capital employed[1]	874,079	879,524	867,713	850,718	824,336	818,841	826,794	811,115
Return on capital	3.0%	2.8%	4.9%	1.5%	2.9%	2.7%	3.1%	2.0%
Comparative adjustment[3]	24,371	25,959	25,959	25,959	25,959	(13,191)	(13,191)	(13,191)
Adjusted average capital employed[1]	899,244	905,482	893,672	876,677	830,720	805,650	813,603	797,924
Adjusted return on capital employed[1]	2.9%	2.7%	4.8%	1.4%	2.8%	2.7%	3.2%	2.0%
Adjusted return on capital employed - 12 month trailing	12.2%	12.1%	11.8%	9.9%	10.9%	10.6%	11.2%	11.7%

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

2 *EBITDA and EBIT used in the calculation of Adjusted Return on Capital Employed is calculated using the financial results including non-controlling interests.*

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

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

14. CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICY DEVELOPMENTS

A complete listing of critical accounting policies, estimates, judgments and measurement uncertainty can be found in Notes 3 and 6 of the annual consolidated financial statements for the year ended December 31, 2017.

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are not yet effective for the period ended December 31, 2017. A listing of the standards issued which are applicable to the Company can be found in Note 5 of the annual consolidated financial statements for the year ended December 31, 2017.

The Company adopted the amendments to IAS 7, Statement of Cash Flows, effective for the annual consolidated financial statements commencing January 1, 2017.

15. DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls & Procedures

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

As of December 31, 2017, the Company's management, with participation of the CEO and CFO, evaluated the effectiveness of the design and operation of its disclosure controls and procedures, as defined in National Instrument 52–109 of the Canadian Securities Administrators, and have concluded that the Company's disclosure controls and procedures are effective.

Internal Controls over Financial Reporting

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

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

Management, under the supervision of and with the participation of the Company's CEO and CFO, evaluated the effectiveness of the Corporation's internal controls over financial reporting (as defined under national Instrument 52–109 Certification of Disclosure in Issuers' Annual and Interim Filings). In making this evaluation, management used the criteria set forth by the *Committee of Sponsoring Organizations of the Treadway Commissions* ("COSO") in *Internal Control – Integrated Framework (2013)*. Based on that evaluation, management and the CEO and CFO have concluded that, as at December 31, 2017, the Corporation's internal controls over financial reporting were effective. This evaluation took into consideration the Corporation's Corporate Disclosure Policy and the functioning of its Disclosure Policy Committee.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting during the year ended December 31, 2017.

16. RISK FACTORS

We face a number of business risks that could cause our actual results to differ materially from those disclosed in this MD&A (See "FORWARD LOOKING STATEMENTS"). Investors and the public should carefully consider our business risks, other uncertainties and potential events as well as the inherent uncertainty of forward looking statements when making investment decisions with respect to AutoCanada. If any of the business risks identified by AutoCanada were to occur, our business, financial condition, results of operations, cash flows or prospects could be materially adversely affected. In such case, the trading price of our shares could decline. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also adversely affect our business and operations. A comprehensive discussion of the known risk factors of AutoCanada and additional business risks is available in our 2017 Annual Information Form dated March 15, 2018 available on the SEDAR website at www.sedar.com.

17. FORWARD LOOKING STATEMENTS

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

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

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

18. NON-GAAP MEASURES

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

Operating profit

Operating profit is a measure commonly reported and widely used by investors as an indicator of a company’s operating performance. The Company believes Operating profit assists investors in analyzing a company’s performance before the costs of debt and other financing, also excluding other gains or losses and income taxes. References to “Operating profit” are to earnings before interest expense interest income, other gains or losses and income taxes.

EBITDA

EBITDA is a measure commonly reported and widely used by investors as an indicator of a company’s operating performance and ability to incur and service debt, and as a valuation metric. The Company believes EBITDA assists investors in comparing a company’s performance on a consistent basis without regard to depreciation and amortization and asset impairment charges which are non-cash in nature and can vary significantly depending upon accounting methods or non-operating factors such as historical cost. References to “EBITDA” are to earnings before interest expense (other than interest expense on floorplan financing and other interest), income taxes, depreciation, amortization and asset impairment charges. EBITDA attributable to AutoCanada shareholders refers to the parent portion of consolidated financial results. Non-controlling interest (the portion of ownership not attributable to the parent) is excluded.

Adjusted EBITDA

Adjusted EBITDA is an indicator of a company’s operating performance and ability to incur and service debt. The portion of share-based compensation related to changes in the share price and its impact on the Company’s cash-settled portions of its share-based compensation programs, the revaluation of redemption liabilities, the unrealized gain or loss on embedded derivatives, gains or losses on dealership divestitures and certain non-recurring items are added back to EBITDA to get to adjusted EBITDA. The Company believes adjusted EBITDA provides a better representation of continuing operations and improved continuity with respect to the comparison of our operating results over a period of time. Adjusted EBITDA attributable to AutoCanada shareholders refers to the parent portion of consolidated financial results. Non-controlling interest (the portion of ownership not attributable to the parent) is excluded.

Adjusted Net Earnings and Adjusted Net Earnings per Share

Adjusted net earnings and adjusted net earnings per share are measures of our profitability. Adjusted net earnings is calculated by adding back the after-tax effect of impairment or reversals of impairment of intangible assets, impairments of goodwill, the revaluation of redemption liabilities, the unrealized gain or loss on embedded derivatives, and the portion of share-based compensation related to changes in the share price and its impact on the Company’s cash-settled portions of its share-based compensation programs, gains or losses on dealership divestitures and certain non-recurring items. Adding back these amounts to net earnings allows management to better assess the net earnings of the Company from continuing operations. Adjusted net earnings per share is calculated by dividing adjusted net earnings by the weighted-average number of shares outstanding.

EBIT

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

Free Cash Flow

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

Adjusted Free Cash Flow

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

Absorption Rate

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

Average Capital Employed

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

Adjusted Average Capital Employed

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

Return on Capital Employed

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

Adjusted Return on Capital Employed

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

Cautionary Note Regarding Non-GAAP Measures

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

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For the year ended December 31, 2017

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, 2017 and December 31, 2016 and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AutoCanada Inc. and its subsidiaries as at December 31, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants
March 15, 2018
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, 2017 $	December 31, 2016 $
Revenue (Note 8)	3,101,560	2,891,581
Cost of sales (Note 9)	(2,582,931)	(2,405,448)
Gross profit	518,629	486,133
Operating expenses (Note 10)	(426,253)	(400,417)
Operating profit before other income (expense)	92,376	85,716
Lease and other income, net (Note 12)	21,431	5,171
Gain on disposal of assets, net	1,345	2,956
Recovery (impairment) of intangible assets, net (Note 26)	816	(54,096)
Income from loans to associate (Note 25)	3,001	1,165
Operating profit	118,969	40,912
Finance costs (Note 13)	(36,038)	(31,664)
Finance income (Note 13)	2,294	2,121
Other gains (Note 14)	3,285	5,785
Net income for the year before taxes	88,510	17,154
Income taxes (Note 15)	22,713	8,575
Net and comprehensive income for the year	65,797	8,579
Net and comprehensive income for the year attributable to:		
AutoCanada shareholders	57,844	2,596
Non-controlling interests	7,953	5,983
	65,797	8,579
Net earnings per share attributable to AutoCanada shareholders (Note 34)		
Basic	2.11	0.09
Diluted	2.11	0.09
Weighted average shares (Note 34)		
Basic	27,379,193	27,350,555
Diluted	27,473,995	27,455,686

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

Approved on behalf of the Company:

Gordon R. Barefoot, Director

Barry L. James, Director

AutoCanada Inc.
Consolidated Statements of Financial Position
(in thousands of Canadian dollars)

	December 31, 2017 $	December 31, 2016 $
ASSETS		
Current assets		
Cash and cash equivalents (Note 19)	94,660	103,221
Trade and other receivables (Note 20)	79,931	85,587
Inventories (Note 21)	659,593	619,718
Current tax recoverable	–	2,262
Current portion of finance lease receivables (Note 22)	89	3,797
Other current assets	3,504	4,219
Assets held for sale (Note 23)	163,642	1,556
	1,001,419	820,360
Restricted cash (Note 19)	4,106	6,558
Property and equipment (Note 24)	350,354	342,768
Loans to associate (Note 25)	18,100	14,726
Long-term portion of finance lease receivables (Note 22)	51	5,747
Other long-term assets (Note 28)	5,029	7,110
Intangible assets (Note 26)	359,996	378,982
Goodwill (Note 26)	21,991	24,364
	1,761,046	1,600,615
LIABILITIES		
Current liabilities		
Bank indebtedness (Note 19)	136	226
Trade and other payables (Note 29)	63,295	90,131
Revolving floorplan facilities (Note 30)	634,655	582,695
Current tax payable	9,033	–
Vehicle repurchase obligations (Note 31)	6,511	6,794
Current indebtedness (Note 30)	2,666	21,679
Current portion of redemption liabilities (Note 18)	16,300	22,752
Liabilities held for sale (Note 23)	132,683	–
	865,279	724,277
Long-term indebtedness (Note 30)	332,450	330,351
Deferred income tax (Note 15)	25,710	24,683
Redemption liabilities (Note 18)	–	23,712
	1,223,439	1,103,023
EQUITY		
Attributable to AutoCanada shareholders	488,272	440,081
Attributable to Non-controlling interests	49,335	57,511
	537,607	497,592
	1,761,046	1,600,615

Commitments and contingencies (Note 32)

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

AutoCanada Inc.

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

	Attributable to AutoCanada shareholders					
	Share capital $	Contributed surplus $	Accumulated deficit $	Total $	Non-controlling Interests $	Total Equity $
Balance, January 1, 2017	507,886	5,223	(73,028)	440,081	57,511	497,592
Net and comprehensive income	–	–	57,844	57,844	7,953	65,797
Dividends declared on common shares (Note 34)	–	–	(10,952)	(10,952)	–	(10,952)
Dividends declared by subsidiaries to non-controlling interests (Note 18)	–	–	–	–	(12,300)	(12,300)
Transactions with non-controlling interests (Note 36)	–	–	(640)	(640)	(4,133)	(4,773)
Non-controlling interests arising on acquisitions (Note 16)	–	–	–	–	304	304
Derecognition of redemption liability granted to non-controlling interests (Note 36)	–	–	1,197	1,197	–	1,197
Recognition of redemption liability granted to non-controlling interests (Note 16)	–	–	(306)	(306)	–	(306)
Treasury shares acquired (Note 34)	(31)	–	–	(31)	–	(31)
Shares settled from treasury (Note 34)	913	(913)	–	–	–	–
Share-based compensation (Note 11)	–	1,079	–	1,079	–	1,079
Balance, December 31, 2017	508,768	5,389	(25,885)	488,272	49,335	537,607

	Attributable to AutoCanada shareholders					
	Share capital $	Contributed surplus $	Accumulated deficit $	Total $	Non-controlling Interests $	Total Equity $
Balance, January 1, 2016	508,237	4,286	(60,578)	451,945	58,084	510,029
Net and comprehensive income	–	–	2,596	2,596	5,983	8,579
Dividends declared on common shares (Note 34)	–	–	(15,046)	(15,046)	–	(15,046)
Dividends declared by subsidiaries to non-controlling interests (Note 18)	–	–	–	–	(6,556)	(6,556)
Treasury shares acquired (Note 34)	(1,301)	–	–	(1,301)	–	(1,301)
Shares settled from treasury (Note 34)	950	(950)	–	–	–	–
Share-based compensation (Note 11)	–	1,887	–	1,887	–	1,887
Balance, December 31, 2016	507,886	5,223	(73,028)	440,081	57,511	497,592

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, 2017 $	December 31, 2016 $
Cash provided by (used in)		
Operating activities		
Net and comprehensive income	65,797	8,579
Income taxes (Note 15)	22,713	8,575
Amortization of prepaid rent	452	452
Depreciation of property and equipment (Note 24)	20,444	19,557
Gain on disposal of assets	(1,345)	(2,956)
Impairment (recovery of impairment) of intangible assets (Note 26)	(816)	54,096
Share-based compensation – equity-settled (Note 11)	1,079	1,887
Share-based compensation – cash-settled	(503)	(452)
Unrealized loss on embedded derivative (Note 13)	15	3
Revaluation of redemption liabilities (Note 14)	(2,869)	(765)
Revaluation of contingent consideration (Note 14)	(416)	(5,020)
Income taxes paid	(9,919)	(7,810)
Net change in non-cash working capital (Note 38)	(15,840)	28,583
	78,792	104,729
Investing activities		
Reductions (additions) to restricted cash (Note 19)	2,390	(270)
Reclassification to assets held for sale (Note 23)	(6,672)	–
Business acquisitions, net of cash acquired (Note 16)	(20,961)	(40,859)
Proceeds on divesture of dealership (Note 17)	–	10,077
Purchases of property and equipment (Note 24)	(24,831)	(63,702)
Proceeds on sale of property and equipment	4,267	121
Loans to associate (Note 25)	(3,374)	(6,256)
	(49,181)	(100,889)
Financing activities		
Proceeds from long-term indebtedness	121,846	251,282
Repayment of long-term indebtedness	(133,485)	(191,550)
Common shares repurchased, net of settled (Note 34)	882	(351)
Dividends paid (Note 34)	(10,952)	(15,046)
Dividends paid to non-controlling interests by subsidiaries (Note 18)	(12,300)	(6,556)
Transactions with non-controlling interests (Note 36)	(4,073)	–
	(38,082)	37,779
Net (decrease) increase in cash and cash equivalents	(8,471)	41,619
Cash and cash equivalents at beginning of year (Note 19)	102,995	61,376
Cash and cash equivalents at end of year (Note 19)	94,524	102,995

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

1 General Information

AutoCanada Inc. ("AutoCanada" or the "Company") is incorporated in Alberta, Canada with common shares listed on the Toronto Stock Exchange ("TSX") under the symbol of "ACQ". The business of AutoCanada, held in its subsidiaries, is the operation of franchised automobile dealerships in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, Nova Scotia and New Brunswick. The Company offers a diversified range of automotive products and services, including new vehicles, used vehicles, vehicle leasing, vehicle parts, vehicle maintenance and collision repair services, extended service contracts, vehicle protection products and other after-market products. The Company also arranges financing and insurance for vehicle purchases by its customers through third-party finance and insurance sources. The address of its registered office is 200, 15511 123 Avenue NW, Edmonton, Alberta, Canada, T5V 0C3.

2 Basis of Presentation

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

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are described in Note 6.

These financial statements were approved for issue by the Board of Directors on March 15, 2018.

3 Significant Accounting Policies

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

Basis of measurement

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

Principles of consolidation

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

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

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

Business combinations

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

Revenue recognition

(a) Vehicles, parts, service and collision repair

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

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

(b) Finance and insurance

The Company arranges financing for customers through various financial institutions and receives a commission from the lender based on the difference between the interest rate charged to the customer and the interest rate set by the financing institution, or a flat fee.

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

Taxation

(a) Deferred tax

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

Deferred tax liabilities:

- are generally recognized for all taxable temporary differences; and

- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

  Deferred tax assets:

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

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

(b) Current tax

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

Manufacturer incentives and other rebates

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

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

Manufacturer advertising rebates that are reimbursements of costs associated with specific advertising expenses are earned in accordance with the respective manufacturers' reimbursement-based advertising assistance programs, which is typically after the corresponding advertising expenses have been incurred, and are reflected as a reduction in advertising expense included in administrative costs as an operating expense in the consolidated Statement of Comprehensive Income.

Financial instruments

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

Financial assets are recognized on the settlement date, which is the date on which the asset is delivered to or by the Company. Financial assets are derecognized when the rights to receive cash flows from the instruments have expired or were transferred and the Company has transferred substantially all risks and rewards of ownership.

The Company's financial assets, including cash and cash equivalents, trade and other receivables, finance lease receivables, restricted cash and loans to associates, are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method.

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

Cash and cash equivalents

Cash and cash equivalents include amounts on deposit with financial institutions and amounts with Scotiabank that are readily available to the Company (See Note 27 – Financial instruments – Credit risk for explanation of credit risk associated with amounts held with Scotiabank).

Trade and other receivables

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

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

Inventories

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

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

Assets held for sale

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

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

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

Property and equipment

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

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

Buildings are depreciated on a straight-line basis over the estimated useful lives of the buildings ranging from ten to forty-five years. Useful lives are determined based on independent appraisals.

The useful life of leasehold improvements is determined to be the lesser of the lease term or the estimated useful life of the improvement. Leasehold improvements are depreciated using the straight-line method over the useful life of the asset.

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

Intangible assets and goodwill

(a) Intangible assets

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

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

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

(b) Goodwill

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

Impairment

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

(a) Non-financial assets

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

(b) Intangible assets and goodwill

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

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

Trade and other payables

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

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

Leases

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

(a) Finance leases

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

The Company as a lessor:

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

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

The Company as a lessee:

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

(b) Operating leases

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

The Company as a lessor:

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

The Company as a lessee:

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

Redemption liabilities

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

Share capital

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

Dividends

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

Earnings per share

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

4 New accounting pronouncement adopted in 2017

The Company adopted the amendments to IAS 7, *Statement of Cash Flows*, effective for the annual consolidated financial statements commencing January 1, 2017 (see Note 30).

5 Accounting standards and amendments issued but not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are not yet effective for the financial year ended December 31, 2017.

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

IFRS 9 – Financial instruments

IFRS 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Company will adopt the new standard on January 1, 2018.

The Company does not expect the new guidance to have a significant impact on the classification and measurement of its financial instruments for the following reasons:

- Other than its loans to associate, which will likely be recorded at fair value, the Company does not currently hold any financial assets that would be accounted for differently under the new standard;
- The Company does not have any financial liabilities designated at fair value through profit or loss, which are the only liabilities impacted by the new standard; and
- The Company does not currently have any outstanding hedges that would require reassessment under the updated hedge accounting rules.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. This will apply to the Company's trade and other receivables, finance lease receivables and loans to associate. We do not expect our financial performance or disclosure to be materially affected by the application of the standard.

IFRS 15 – Revenue from contracts with customers

This standard will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Company will adopt the new standard on January 1, 2018. We do not expect our financial performance or disclosure to be materially affected by the application of the standard.

IFRS 16 – Leases

IFRS 16 was issued in January, 2016. It will result in almost all leases being recognized on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Company's operating leases. The Company has not yet determined the extent to which these lease commitments will result in the recognition of a right of use asset and a liability for future payments and how this will affect the Company's profit and classification of cash flow.

Some of the commitments may be covered off by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after January 1, 2019. The Company intends to adopt the standard from January 1, 2019.

6 Critical accounting estimates, judgments & measurement uncertainty

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

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

Intangible assets and goodwill

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

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

The Company tests, at least annually or more frequently if events or changes in circumstances indicate that they may be impaired, in accordance with its accounting policies. The recoverable amounts of CGUs have been estimated based on the greater of fair value less costs to dispose and value-in-use calculations (see Note 26).

Inventories

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

Redemption liabilities

Redemption liabilities arise during business combinations where non-controlling interest shareholders have the right to require the Company to redeem their equity interests in certain non-wholly owned subsidiaries (see Note 18). The redemption amounts are determined with reference to the future profitability generated by those subsidiaries and their operating businesses. The Company will initially recognise a financial liability at the present value of the estimated redemption amount, and at the end of each subsequent reporting period, the Company will revisit their estimates. If the Company revises its estimates, the Company will adjust the carrying amount of the financial liability to reflect revised estimated profitability and the adjustments will be recognised as income or expenses in the consolidated statement of comprehensive income.

Loans to associate

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

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

Refer to Note 39 for further information about methods and assumptions used in determining the carrying value.

Critical judgments in applying accounting policies:

Associates

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

(a) Investments in subsidiaries

On May 6, 2016, Mr. Patrick Priestner ("Priestner"), then Executive Chair of the Company, transitioned from his role as an employee and assumed the role of non-executive Chair of the Board of Directors ("Chair"). Priestner also signed an agreement effective May 6, 2016 (the "Agreement") giving the Company certain rights as it relates to its investments in subsidiaries (the "investees"). The agreement was for a 14 month term, automatically renewable for successive one year terms, and cancellable by either party subject to a one year notice period.

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

Factors indicative of Priestner controlling the investees:

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

Factors indicative of the Company controlling the investees:

- The Company has contractual rights to participate in any issuance or sale of securities that would impact its proportionate interest in the investees, as well as a right of first refusal to purchase Priestner's shares in applicable circumstances;
- The Company has retained effective control of the relevant activities that will impact its investment returns through execution of the Agreement, which provides the Company with, among other things, the ability to hire, manage and terminate the general managers of the relevant dealerships;
- The directors and officers of the investees are related parties of the Company; and
- The Company is involved in the operational decision making of its investees in a fashion consistent with its wholly-owned dealerships

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

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

On January 2, 2018 the Company reorganized its ownership interest in its investees. The details of this transaction are described in Note 23 and Note 40.

(b) Loans to associate

AutoCanada has provided loans to PPH Holdings Ltd. ("PPH") for which the voting interests are held 100% by Priestner, as described in Note 25. When assessing whether the Company has control of PPH, management has considered the nature of the loans, the Company's relationship with Priestner and whether the Company has the ability to direct decision-making rights of Priestner pertaining to its loan to PPH. In making this assessment, the prevailing considerations are that the loans to PPH are repayable at any time without recourse, and grant the Company no power to control PPH. AutoCanada's returns from PPH are derived from interest on the loans and license fees based on gross profit, as such, operating decisions made by Priestner impacting operating profit or net income will impact his returns but will not affect AutoCanada's returns.

The following facts were also considered to assess the relationship between AutoCanada and Priestner as it relates to PPH:

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

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

As a result of Priestner's change in employment from Executive Chair to non-executive Chair of the Board of Directors, then to retirement, the Company has assessed the relationship between Priestner and the Company as it relates to PPH. As a result of the reassessment, it was concluded that AutoCanada does not control and should not consolidate PPH. Should the nature of the relationship and/or the relevant agreements between Priestner and the Company change in the future, this assessment would need to be further evaluated.

7 Segment information

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

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

8 Revenue

	2017 $	**2016 $**
New vehicles	1,827,559	1,652,795
Used vehicles	716,045	725,430
Finance, insurance and other	141,266	130,423
Parts, service and collision repair	416,690	382,933
	3,101,560	2,891,581

9 Cost of sales

	2017 $	**2016 $**
New vehicles	1,696,575	1,534,498
Used vehicles	672,307	678,238
Finance, insurance and other	11,669	11,038
Parts, service and collision repair	202,380	181,674
	2,582,931	2,405,448

10 Operating expenses

	2017 $	**2016 $**
Employee costs[1] (Note 11)	264,768	248,976
Administrative costs[2]	116,605	108,363
Facility lease costs	24,436	23,521
Depreciation of property and equipment (Note 24)	20,444	19,557
	426,253	400,417

1 *Employee costs include management transition expenses.*

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

11 Employee costs

Operating expenses incurred in respect of employees were:

	2017 $	2016 $
Wages, salaries and commissions	237,257	223,536
Withholding taxes and insurance	13,599	12,797
Employee benefits	12,582	10,696
Share-based compensation	1,079	1,887
Other benefits	251	60
	264,768	248,976

12 Lease and other income

During the year ended December 31, 2017, the Company recognized $14,846 relating to a non-recurring settlement from an automobile manufacturer which has been included in lease and other income. The settlement has been recognized net of estimated related expenses.

13 Finance costs and finance income

	2017 $	2016 $
Finance costs:		
Interest on long-term indebtedness	(17,949)	(16,500)
Unrealized loss on embedded derivative (Note 30)	(15)	(3)
Floorplan financing	(14,515)	(12,408)
Other interest expense	(3,559)	(2,753)
	(36,038)	(31,664)
Finance income:		
Finance income	2,294	2,121

Cash interest paid during the year ended December 31, 2017 was $35,274 (2016 – $31,548).

14 Other gains

	2017 $	2016 $
Revaluation of redemption liabilities (Note 18)	2,869	765
Revaluation of contingent consideration	416	5,020
	3,285	5,785

15 Income taxes

Components of income tax expense were as follows:

	2017 $	2016 $
Current tax	20,901	12,316
Deferred tax	1,812	(3,741)
Total income tax expense	22,713	8,575

Factors affecting tax expense for the year:

	2017 $	2016 $
Comprehensive income before taxes	88,510	17,154
Comprehensive income before tax multiplied by the blended rate of Canadian corporate tax of 26.8% (2016 – 27.2%)	23,721	4,667
Effects of:		
Impact of non-deductible items	(90)	4,553
Difference between future and current rate	1,554	(39)
Adjustment in respect of prior years	(2,333)	(556)
Other, net	(139)	(50)
Total income tax expense	22,713	8,575

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

Deferred tax assets (liabilities)	Deferred income from partnerships $	Property and equipment $	Goodwill and intangible assets $	Lease receivables $	Other $	Total $
January 1, 2016	(1,205)	2,209	(26,625)	(2,836)	2,619	(25,838)
(Expense) benefit to consolidated statement of comprehensive income	(473)	(320)	4,837	317	(649)	3,712
Acquisition of subsidiary (Note 16)	–	–	(2,738)	–	–	(2,738)
Other	–	–	–	–	181	181
December 31, 2016	(1,678)	1,889	(24,526)	(2,519)	2,151	(24,683)
(Expense) benefit to consolidated statement of comprehensive income	1,567	846	(4,707)	512	57	(1,725)
Acquisition of subsidiary (Note 16)	–	–	(2,747)	–	–	(2,747)
Held for sale (Note 23)	–	(1,470)	3,192	2,007	(284)	3,445
December 31, 2017	(111)	1,265	(28,788)	–	1,924	(25,710)

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The impairment recovery recorded during the year resulted in $1,110 in deferred tax recovery for the year ended December 31, 2017. The estimated average annual blended rate used for the year ended December 31, 2017 was 26.8% (2016 – 27.2%).

Changes in the deferred income tax components are adjusted through deferred tax expense. Of the above components of deferred income taxes, $413 (2016 – $2,703) of the deferred tax liabilities are expected to be recovered within 12 months.

16 Business acquisitions

During the year ended December 31, 2017, the Company completed two business acquisitions comprising two automotive dealerships, representing two franchises. All acquisitions have been accounted for using the acquisition method. Acquisitions completed during the year are as follows:

Mercedes-Benz Rive-Sud

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

Planete Mazda

On December 1, 2017, the Company, through a wholly owned subsidiary, AutoCanada M Holdings Inc., purchased 95% of the issued and outstanding participating shares; and 90% of the non-participating voting shares of 156023 Canada Inc. ("Planete Mazda"), which owns and operates a Mazda dealership in Montreal, Quebec, for total cash consideration of $5,779. The acquisition was funded by drawing on the Company's revolving term facility.

Recognition of redemption liabilities

During the year $306 of redemption liabilities were recognized in connection with the business acquisitions completed. These liabilities relate to put options held by certain non-controlling interests.

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

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

Acquisitions completed during the year ended December 31, 2017 generated revenue and net earnings of $68,338 and $679, respectively, since the time of acquisition. The purchase prices allocated, as presented above, are estimates and subject to change due to finalization of the associated allocations. Acquisition related costs of $691 have been charged to administrative expenses in the consolidated statement of comprehensive income for the year ended December 31, 2017. The full amount of acquired receivables is expected to be collected.

Goodwill arose on these acquisitions due to the potential future revenue growth and synergies expected to occur. For asset purchases, the tax basis equals the price paid for the acquired assets and liabilities. Where the acquisition price exceeds the aggregate fair value of identifiable assets acquired and liabilities assumed, the excess is treated as goodwill for tax purposes. For share purchases, the tax base of the identifiable assets and liabilities of the acquired entity passes over to the Company at pre-acquisition amounts, and no new tax goodwill is created (Note 3).

Prior year business acquisitions

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

Wellington Motors

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

Guelph Hyundai

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

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

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

17 Dealership divesture

There was no dealership divesture during the year ended December 31, 2017.

Prior year dealership divesture

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

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

18 Interests in subsidiaries

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

Subsidiary	Principal place of business	Proportion of ownership interests held by non-controlling interests	Proportion of voting rights held by non-controlling interests	Dividends paid to non-controlling interests 2017 $	Dividends paid to non-controlling interests 2016 $
Dealer Holdings Ltd.	Alberta	69%	100%	6,780	3,854
Green Isle G Auto Holdings Inc.	British Columbia	20%	100%	576	40
Prairie Auto Holdings Ltd.	Saskatchewan	30%	100%	2,477	1,137
Waverley BG Holdings Inc.	Manitoba	20%	100%	630	286
LWD Holdings Ltd.	Alberta	25%	100%	831	922
NBFG Holdings Inc.	Saskatchewan	20%	100%	270	132
DFC Holdings Inc.	British Columbia	20%	100%	305	185
AutoCanada B Holdings Inc.	Quebec	15%	15%	–	–
AutoCanada M Holdings Inc.	Quebec	5%	10%	–	–
AutoCanada HCN Holdings Inc.[1]	Ontario	0%	0%	6	–
GRV C Holdings LP[1]	Alberta	0%	0%	425	–
				12,300	6,556

1 *During the year ended December 31, 2017, the Company acquired the remaining NCI portion of these subsidiaries as described in Note 36.*

Dealer Holdings Ltd., Green Isle G Auto Holdings Inc., Prairie Auto Holdings Ltd., Waverley BG Holdings Inc., LWD Holdings Ltd., NBFG Holdings Inc., AutoCanada B Holdings Inc., and AutoCanada M Holdings Inc. also have put options whereby the non-controlling shareholders are able to sell their shares back to the Company. These put options are recognized as redemption liabilities and measured at their fair value on the Consolidated Statement of Financial Position.

The continuity of the redemption liabilities is summarized as follows:

	Redemption Liability $
Balance, January 1, 2016	47,229
Decrease in fair value (Note 14)	(765)
Balance, December 31, 2016	46,464
Decrease in fair value (Note 14)	(2,869)
Recognition on business acquisition (Note 16)	306
Derecognition on settlement (Note 36)	(1,197)
Balance, December 31, 2017	42,704
Held for sale (Note 23)	26,404
Carrying amount	16,300

The change in fair value is recorded in other gains on the Consolidated Statement of Comprehensive Income (Note 14). The fair value is determined based on the dealership equity value of the related subsidiary (Note 39). Those options eligible to be executed in the next fiscal year are presented as current liabilities.

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

19 Cash and cash equivalents

	December 31, 2017 $	December 31, 2016 $
Cash at bank and on hand	61,167	79,168
Short-term deposits	33,493	24,053
Cash and cash equivalents (excluding bank indebtedness)	94,660	103,221
Bank indebtedness	(136)	(226)
Cash and cash equivalents	94,524	102,995
Restricted cash	4,106	6,558
Cash and cash equivalents and restricted cash	98,630	109,553

Short-term deposits includes cash held with Scotiabank. The Company's revolving floorplan facility agreements allow the Company to hold excess cash in accounts with Scotiabank, which is used to offset our finance costs on revolving floorplan facilities. The Company has immediate access to this cash unless we are in default of our facilities, in which case the cash may be used by Scotiabank in repayment of our facilities. See Note 27 for further detail regarding cash balances held with Scotiabank. The remaining short-term deposits are term deposits that bear interest at 0.10% (2016 – 0.10%). Restricted cash is held in a trust account and earns interest at 0.95%-2.06% (2016 – 0.95%-2.06%). Interest earned on restricted cash during the year ended December 31, 2017 was $62 (2016 – $89).

20 Trade and other receivables

	December 31, 2017 $	December 31, 2016 $
Trade receivables	77,851	81,511
Less: Allowance for doubtful accounts	(2,545)	(2,810)
Net trade receivables	75,306	78,701
Other receivables	4,625	6,886
Trade and other receivables	79,931	85,587

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

	December 31, 2017 $	December 31, 2016 $
Current	56,056	71,711
Past due 31 – 60 days	10,655	9,483
Past due 61 – 90 days	4,019	3,079
Past due 91 – 120 days	1,522	1,218
Past due > 120 days	10,224[1]	2,906
	82,476	88,397
Less: Allowance for doubtful accounts	(2,545)	(2,810)
Trade and other receivables	79,931	85,587

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

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

21 Inventories

	December 31, 2017 $	December 31, 2016 $
New vehicles	513,237	471,610
Demonstrator vehicles	47,873	50,757
Used vehicles	70,544	69,009
Parts and accessories	27,939	28,342
	659,593	619,718

During the year ended December 31, 2017, $2,544,968 of inventory (2016 – $2,370,492) was expensed as cost of sales which included net write-downs on used vehicles of $34 (2016 – $232). As at December 31, 2017, the Company had recorded reserves for inventory write downs of $7,445 (2016 – $5,136). During the year ended December 31, 2017, $8,415 of demonstrator expense (2016 – $5,842) was included in administrative costs and demonstrator reserves increased by $2,275 (2016 – decreased by $1,350).

22 Finance lease receivables

	December 31, 2017[1] $	December 31, 2016 $
Current portion of finance lease receivables		
Finance lease receivables	101	4,256
Unearned finance income – current	(12)	(459)
	89	3,797
Long-term portion of finance lease receivables		
Finance lease receivables	49	6,217
Unearned finance income – long-term	2	(470)
	51	5,747
Gross receivables from finance leases:		
No later than 1 year	101	4,256
Later than 1 year and no later than 5 years	49	6,217
Later than 5 years	–	–
	150	10,473
Unearned future finance income on finance leases	(10)	(929)
	140	9,544
Net investment in finance leases		
Net investment in finance leases:		
No later than 1 year	89	3,797
Later than 1 year and no later than 5 years	51	5,747
Later than 5 years	–	–
	140	9,544

1 *December 31, 2017 current and long-term finance lease receivables exclude $7,426 which have been classified as held for sale (Note 23).*

23 Assets and liabilities held for sale

Land

The Company has committed to a plan to sell a parcel of land held in Winnipeg, Manitoba. The carrying cost of the land is $1,556 at December 31, 2017 (2016 – $1,556). No decommissioning liability has been recognized on the land. Efforts to sell the land have commenced and the sale is expected to be completed within the next year.

Investees

On October 27, 2017, the Company entered into an agreement to sell 100% of its non-voting equity interests in Dealer Holdings Ltd., DFC Holdings Inc. and LWD Holdings Ltd. The sale transaction was effective January 2, 2018 (Note 40).

Net assets and liabilities held for sale are summarized as follows:

	Land $	Investees $	December 31, 2017 Total $
Net cash and cash equivalents	–	6,672	6,672
Trade and other receivables	–	21,198	21,198
Inventories	–	82,431	82,431
Net income tax recoverable	–	226	226
Finance lease receivables	–	7,426	7,426
Property and equipment	1,556	2,818	4,374
Intangible assets	–	36,292	36,292
Goodwill	–	4,827	4,827
Other assets	–	196	196
Net assets held for sale	1,556	162,086	163,642
Trade and other payables	–	11,537	11,537
Revolving floorplan facilities	–	84,414	84,414
Redemption liabilities	–	26,404	26,404
Indebtedness	–	6,883	6,883
Deferred income tax	–	3,445	3,445
Net liabilities held for sale	–	132,683	132,683

24 Property and equipment

	Company & lease vehicles $	Leasehold improvements $	Machinery & equipment $	Land & buildings $	Furniture, fixtures & other $	Computer equipment $	Total $
Cost:							
January 1, 2016	22,634	29,400	28,693	236,762	13,059	11,708	342,256
Capital expenditures	24	7,687	1,711	–	1,429	1,314	12,165
Acquisitions of dealership assets (Note 16)	39	45	446	16,347	214	98	17,189
Acquisitions of real estate	–	–	–	51,537	–	–	51,537
Disposals	–	(2,274)	(795)	(145)	(187)	(553)	(3,954)
Transfer from asset held for sale	–	–	–	3,485	–	–	3,485
Transfers to inventory, net	(3,669)	–	–	–	–	–	(3,669)
December 31, 2016	19,028	34,858	30,055	307,986	14,515	12,567	419,009
Capital expenditures	27	765	2,866	–	2,217	1,205	7,080
Acquisitions of dealership assets (Note 16)	25	105	631	–	2,468	21	3,250
Acquisitions of real estate	–	–	–	17,751	–	–	17,751
Disposals	–	(1,291)	(232)	(2,624)	(176)	(785)	(5,108)
Transfers to assets held for sale	(1,203)	(1,085)	(3,184)	–	(1,495)	(1,535)	(8,502)
Transfers in from inventory, net	1,402	–	–	–	–	–	1,402
December 31, 2017	19,279	33,352	30,136	323,113	17,529	11,473	434,882
Accumulated depreciation:							
January 1, 2016	(6,216)	(11,044)	(17,493)	(14,897)	(7,054)	(7,167)	(63,871)
Depreciation	(3,760)	(2,842)	(2,425)	(7,556)	(1,470)	(1,504)	(19,557)
Disposals	–	2,274	717	31	171	390	3,583
Transfers to inventory, net	3,604	–	–	–	–	–	3,604
December 31, 2016	(6,372)	(11,612)	(19,201)	(22,422)	(8,353)	(8,281)	(76,241)
Depreciation	(3,378)	(2,798)	(2,633)	(8,398)	(1,954)	(1,283)	(20,444)
Disposals	–	837	196	376	161	716	2,286
Transfers to assets held for sale	455	730	2,273	–	1,154	1,072	5,684
Transfers to inventory, net	4,187	–	–	–	–	–	4,187
December 31, 2017	(5,108)	(12,843)	(19,365)	(30,444)	(8,992)	(7,776)	(84,528)
Carrying amount:							
December 31, 2016	12,656	23,246	10,854	285,564	6,162	4,286	342,768
December 31, 2017	14,171	20,509	10,771	292,669	8,537	3,697	350,354

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

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

25 Loans to associate

PPH Holdings Ltd.

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

The loans are due on November 30, 2035 and May 1, 2036 and carry interest at a variable rate (2017 – 5%, 2016 – 5%). The interest rates on the loans are adjusted annually by way of mutual agreement and are intended to approximate market rates of interest available under arms-length agreements. The loan agreements also provide licensing fees to the Company benchmarked to approximate a total return to the Company equal to 80% of PPH's net income.

During the year ended December 31, 2017, additional advances of $373 were loaned to PPH due to adjustments in the initial purchase price of the dealerships.

The carrying value approximates the fair value of the loans to associates at December 31, 2017 at $18,100 (2016 – $14,726).

Although the Company holds no voting rights in PPH the Company exercises significant influence by virtue of the existence of its loan and the provision of essential technical information required for operations. However, the Company does not have the power to make or block key decisions under the terms of the underlying agreements. As a result, the Company has accounted for its loan to PPH under the effective interest method and it is carried at amortized cost. PPH's principal place of business is Alberta, Canada. Refer to (Note 37) for disclosure over related parties.

For the year ended December 31, 2017, transactions relating to the Company's loans to PPH are as follows:

	December 31, 2017 $	**December 31, 2016 $**
Outstanding, beginning of year	14,726	8,470
Issuance of loan	–	3,120
Accrued interest income	674	603
Accrued licensing fees	2,327	562
Additional advances	373	1,971
Outstanding, end of year	18,100	14,726

26 Intangible assets and goodwill

Intangible assets consist of rights under franchise agreements with automobile manufacturers ("dealer agreements"). Intangible assets and goodwill are tested for impairment annually as at December 31 or more frequently if events or changes in circumstances indicate that they may be impaired. The Company performed its annual test for impairment at December 31, 2017. As a result of the test performed, the Company recorded a net recovery of previous impairment in the amount of $816 for the year ended December 31, 2017 (2016 - Impairment of $54,096).

The changes in the book value of intangible assets and goodwill for the year ended December 31, 2017 were as follows:

	Intangible assets $	Goodwill $	Total $
Cost:			
January 1, 2016	413,710	41,096	454,806
Acquisitions (Note 16)	24,330	508	24,838
December 31, 2016	438,040	41,604	479,644
Acquisitions (Note 16)	15,677	3,367	19,044
Sale of open point asset	(100)	–	(100)
Held for sale (Note 23)	(39,829)	(6,349)	(46,178)
December 31, 2017	413,788	38,622	452,410
Accumulated impairment:			
January 1, 2016	14,062	8,140	22,202
Impairment	44,996	9,100	54,096
December 31, 2016	59,058	17,240	76,298
Impairment (recovery)	(1,729)	913	(816)
Held for sale (Note 23)	(3,537)	(1,522)	(5,059)
December 31, 2017	53,792	16,631	70,423
Carrying amount:			
December 31, 2016	378,982	24,364	403,346
December 31, 2017	359,996	21,991	381,987

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

	December 31, 2017 $			December 31, 2016 $		
Cash Generating Unit	**Intangible**	**Goodwill**	**Total**	**Intangible**	**Goodwill**	**Total**
Y	27,807	6,135	33,942	27,807	6,135	33,942
AV	24,494	506	25,000	24,494	506	25,000
C	21,881	–	21,881	25,417	381	25,798
AQ	18,044	3,724	21,768	18,044	3,724	21,768
Q	21,687	–	21,687	21,687	–	21,687
AC	20,181	–	20,181	20,181	–	20,181
BH	17,724	–	17,724	20,780	458	21,238
AK	14,659	1,514	16,173	14,659	1,514	16,173
H	16,148	–	16,148	20,617	–	20,617
F	14,801	–	14,801	12,208	–	12,208
P	14,791	–	14,791	14,791	–	14,791
B	11,549	3,088	14,637	–	–	–
D	14,273	–	14,273	13,508	–	13,508
BG	12,496	941	13,437	12,496	941	13,437
BA	13,148	–	13,148	10,630	–	10,630
W	8,602	3,441	12,043	8,602	3,441	12,043
AW	9,263	950	10,213	9,263	950	10,213
A	9,626	–	9,626	9,626	–	9,626
BI	9,431	–	9,431	9,431	–	9,431
AO	8,507	–	8,507	8,507	–	8,507
AZ	8,497	–	8,497	6,498	–	6,498
AA	5,273	2,176	7,449	5,273	2,176	7,449
BC	7,395	5	7,400	7,395	5	7,400
V	6,591	409	7,000	6,591	409	7,000
AT	6,532	–	6,532	–	–	–
I	5,799	201	6,000	5,799	201	6,000
S	5,251	–	5,251	1,440	–	1,440
G	4,283	–	4,283	5,369	–	5,369
AG	3,541	–	3,541	4,099	–	4,099
Other CGUs less than $5,000	34,014	3,728	37,742	33,770	3,523	37,293
	396,288	**26,818**	**423,106**	**378,982**	**24,364**	**403,346**
Held for sale (Note 23)	36,292	4,827	41,119	–	–	–
Carrying amount	359,996	21,991	381,987	378,982	24,364	403,346

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

Cash Generating Unit	December 31, 2017 $			December 31, 2016 $		
	Intangibles	Goodwill	Total	Intangibles	Goodwill	Total
C	3,537	382	3,919	–	–	–
D	(765)	–	(765)	4,688	1,669	6,357
F	(2,593)	–	(2,593)	10,594	–	10,594
G	1,086	–	1,086	–	–	–
H	4,469	–	4,469	1,192	428	1,620
P	–	–	–	2,507	2,657	5,164
R	(1,023)	–	(1,023)	2,809	36	2,845
S	(3,811)	–	(3,811)	4,388	–	4,388
AC	–	–	–	204	991	1,195
AG	558	–	558	5,154	384	5,538
AO	–	–	–	6,571	2,699	9,270
AP	187	73	260	–	–	–
AT	(1,913)	–	(1,913)	–	–	–
AZ	(1,999)	–	(1,999)	1,999	–	1,999
BA	(2,518)	–	(2,518)	4,890	236	5,126
BH	3,056	458	3,514	–	–	–
Net impairment (recovery)	(1,729)	913	(816)	44,996	9,100	54,096

The valuation methodology used to assess the recoverable value of the CGUs uses level 2 inputs, indirectly derived from the market, where possible, for key assumptions such as the discount rate. Where level 2 inputs are not available, as is the case with the growth rate, the Company uses level 3 inputs, which are unobservable to the market, but reflect management's best estimates from historical performance and expectations for the future.

The following table shows the recoverable amounts of CGUs with impairments or recoveries of impairments recorded in either the current year or prior year:

Cash Generating Unit	December 31, 2017 $	December 31, 2016 $
C	22,551	30,709
D	21,425	16,557
F	18,999	13,497
G	5,617	8,340
H	18,370	23,523
K	2,854	2,245
P	19,594	17,816
R	4,691	3,451
S	5,852	1,774
T	4,240	2,359
AC	25,841	22,455
AG	8,928	8,417
AH	2,436	4,271
AO	16,692	16,546
AP	3,047	3,538
AT	8,010	8,650
AZ	14,216	9,973
BA	17,961	14,838
BH	20,777	–

Impairment test of indefinite life intangible assets

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

Valuation Techniques

The Company did not make any changes to the valuation methodology used to assess impairment in the current year. The recoverable amount of each CGU was based on the greater of fair value less cost to dispose and value in use.

Value in Use

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

Fair value less costs to dispose

Fair value less costs to dispose ("FVLCD") assumes that companies operating in the same industry will share similar characteristics and that Company values will correlate to those characteristics. Therefore, a comparison of a CGU to similar companies may provide a reasonable basis to estimate fair value. Under this approach, fair value is calculated based on EBITDA ("Earnings before interest, taxes, depreciation and amortization") multiples comparable to the businesses in each CGU. Data for EBITDA multiples was based on recent comparable transactions and management estimates. Multiples used in the test for impairment for each CGU were in the range of 3.6 to 8.1 times forecasted EBITDA (2016 – 5.3 to 10.9 times).

Significant Assumptions for Value in Use

Growth

The assumptions used were based on the Company's internal budget which is approved by the Board of Directors. The Company projected revenue, gross margins and cash flows for a period of one year, and applied growth rates for years thereafter commensurate with industry forecasts. Management applied a terminal growth rate in its projections of between 2.00% and 2.45%. In arriving at its forecasts, the Company considered past experience, economic trends and inflation as well as industry and market trends.

Discount Rate

The Company applied a discount rate in order to calculate the present value of its projected cash flows. The discount rate represented the Company's internally computed weighted average cost of capital ("WACC") for each CGU with appropriate adjustments for the risks associated with the CGU's in which intangible assets are allocated. The WACC is an estimate of the overall required rate of return on an investment for both debt and equity owners and serves as the basis for developing an appropriate discount rate. Determination of the discount rate requires separate analysis of the cost of equity and debt, and considers a risk premium based on an assessment of risks related to the projected cash flows of each CGU. Management applied a discount rate between 11.36% and 12.86% in its projections (2016 – 11.02% and 12.97%).

Significant Assumptions for Fair Value Less Costs to Dispose

EBITDA

The Company's assumptions for EBITDA were based on the Company's internal budget which is approved by the Board of Directors. As noted above, data for EBITDA multiples was based on recent comparable transactions and management estimates.

Costs to dispose

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

Sensitivity

As there are CGUs that have intangible assets with original costs that exceed their current year carrying values, the Company expects future impairments and recoveries of impairments to occur as market conditions change and risk premiums used in developing the discount rate change.

The recoverable amount of each CGU is sensitive to changes in market conditions and could result in material changes in the carrying value of intangible assets in the future. Based on sensitivity analysis, no reasonably possible change in key assumptions would cause the recoverable amount of any CGU to have a significant change from its current valuation except for the CGUs identified below.

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

Cash Generating Unit	Change in Discount Rate	Change in Growth Rate	Recoverable amount	Carrying amount	Recoverable amount exceeds carrying amount
Q	0.77%	2.25%	32,844	29,655	3,189
AC	0.08%	0.08%	25,841	25,676	165
AH	0.24%	0.34%	2,436	2,397	39
AO	0.05%	0.06%	16,692	14,683	2,009
AV	0.92%	0.93%	36,248	33,031	3,217

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

Cash Generating Unit	Change in Multiple	Recoverable amount	Carrying amount	Recoverable amount exceeds carrying amount
I	0.80	10,991	9,980	1,011
AE	1.30	4,076	3,408	668

27 Financial instruments

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset and financial liability are disclosed in the accounting policies. The Company's financial assets have been classified as loans and receivables. The Company's financial liabilities have been classified as other financial liabilities. The carrying values of financial instruments approximate their fair values, excluding the senior unsecured notes. The fair value of the senior unsecured notes is $154,125 (2016 – $151,313).

Financial Risk Management Objectives

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

Market Risk

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

Foreign Currency Risk

Foreign currency risk arises from fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. The Company is not significantly exposed to foreign currency risk with respect to its financial instruments as it engages in minimal transactions denominated in currencies other than the Canadian dollar.

Interest Rate Risk

The Company's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note as well as the indebtedness note (see Note 30). The sensitivity analysis below has been determined based on the exposure to interest rates at the reporting date and stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. The amounts below represent the absolute change to the reported account, an increase in the basis point would result in a positive amount and a decrease in the basis point would result in a negative amount. A 100 basis point change and 200 basis point change is used when reporting interest risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

	+/- 200 Basis Point		+/- 100 Basis Point	
	2017 $	2016 $	2017 $	2016 $
Finance costs	16,002	15,200	8,001	7,600
Finance income	46	41	23	20

Credit Risk

The Company's exposure to credit risk associated with its accounts receivable is the risk that a customer will be unable to pay amounts due to the Company. Concentration of credit risk with respect to contracts-in-transit and accounts receivable is limited primarily to automobile manufacturers and financial institutions. Credit risk arising from receivables with commercial customers is not significant due to the large number of customers dispersed across various geographic locations comprising our customer base. Details of the aging of the Company's trade and other receivables is disclosed in Note 20.

The Company evaluates receivables for collectability based on the age of the receivable, the credit history of the customer and past collection experience. Allowances are provided for potential losses that have been incurred at the balance sheet date. The amounts disclosed on the balance sheet for accounts receivable are net of the allowance for doubtful accounts, details of which are disclosed in Note 20.

Concentration of cash and cash equivalents exist due to the significant amount of cash held with Scotiabank (see Note 19 for further discussion of the Company's concentration of cash held on deposit with Scotiabank). The syndicated revolving floorplan facility (see Note 30) allows our dealerships to hold excess cash (used to satisfy working capital requirements of our various OEM partners) in an account with Scotiabank which bears interest at 2.43% at December 31, 2017 (2016 – 2.43%). These cash balances are fully accessible by our dealerships at any time, however in the event of a default by a dealership in its floorplan obligation; the cash may be used to offset unpaid balances under the facility. As a result, there is a concentration of cash balances risk to the Company in the event of a default under the facility.

Liquidity Risk

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

The following tables detail the Company's remaining contractual maturity for its financial liabilities. The amounts below have been determined based on the undiscounted contractual maturities of the financial liabilities. Contractual interest payable includes interest that will accrue to these liabilities.

	2018 $	2019 $	2020 $	2021 $	Thereafter $	Total $
December 31, 2017						
Bank indebtedness	136	–	–	–	–	136
Trade and other payables	63,295	–	–	–	–	63,295
Revolving floorplan facilities	634,655	–	–	–	–	634,655
Vehicle repurchase obligations	6,511	–	–	–	–	6,511
Senior unsecured notes	–	–	–	–	149,739	149,739
HSBC revolving term facility	–	–	143,830	–	–	143,830
Lease financing – Scotiabank	365	693	–	–	–	1,058
Demand term loan	196	214	214	214	178	1,016
Servus mortgage	257	268	278	289	3,979	5,071
VCCI mortgages	955	1,766	3,112	3,511	8,518	17,862
BMW mortgage	797	828	859	894	15,299	18,677
Other long-term debt	95	116	89	–	–	300
Contractual interest payable	16,655	16,340	12,431	4,716	9,430	59,572
	723,917	20,225	160,813	9,624	187,143	1,101,722

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

28 Other long-term assets

	December 31, 2017 $	December 31, 2016 $
Prepaid rent	4,934	5,386
Other assets	95	1,724
	5,029	7,110

29 Trade and other payables

	December 31, 2017 $	December 31, 2016 $
Trade payables	24,561	45,783
Accruals and provisions	11,365	14,681
Sales tax payable	4,833	5,339
Wages and withholding taxes payable	22,536	24,328
	63,295	90,131

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

	Finance and insurance[1] $	Other $	Total $
January 1, 2016	1,912	539	2,451
Provisions arising during the year	815	826	1,641
Amounts expired or disbursed	(1,299)	(577)	(1,876)
December 31, 2016	1,428	788	2,216
January 1, 2017	1,428	788	2,216
Provisions arising during the year	957	216	1,173
Amounts expired or disbursed	(754)	(315)	(1,069)
December 31, 2017	1,631	689	2,320

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

30 Indebtedness

This note provides information about the contractual terms of the Company's interest-bearing debt, which is measured at amortized cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see Note 27.

	December 31, 2017 $	December 31, 2016 $
Revolving floorplan facilities		
Revolving floorplan facilities – Syndicate (i)	420,629	354,774
Revolving floorplan facilities – VCCI (ii)	39,302	37,418
Revolving floorplan facilities – BMW Financial (iii)	62,386	65,036
Revolving floorplan facilities – RBC (iv)	124,422	84,374
Revolving floorplan facilities – Scotiabank (v)	43,372	30,824
Revolving floorplan facilities – Toronto Dominion Bank (vi)	11,580	10,269
Revolving floorplan facilities – Mercedes-Benz Financial (vii)	17,378	–
	719,069	**582,695**
Held for sale (Note 23)	84,414	–
Carrying value	634,655	582,695
Indebtedness		
Senior unsecured notes (viii)		
Senior unsecured notes	149,739	149,739
Embedded derivative	(6)	(21)
Unamortized deferred financing costs	(1,834)	(2,370)
	147,899	147,348
HSBC revolving term facility (ix)		
HSBC revolving term facility	143,830	151,121
Unamortized deferred financing costs	(598)	(402)
	143,232	150,719
Other debt:		
Lease financing – RBC (x)	6,689	8,079
Lease financing – Scotiabank (xi)	1,058	661
Servus mortgage (xii)	5,071	5,319
VCCI mortgages (xiii)	17,863	17,431
BMW mortgage (xiv)	18,677	19,444
Other long-term debt	1,510	3,029
Total indebtedness	**341,999**	**352,030**
Held for sale (Note 23)	6,883	–
Carrying value	335,116	352,030
Current indebtedness	**2,666**	**21,679**
Long-term indebtedness	**332,450**	**330,351**

Terms and conditions of outstanding loans are as follows:

i Scotiabank and the Canadian Imperial Bank of Commerce ("CIBC") provide the Company's syndicated floorplan credit facility (the "Facility"). The availability of the Facility is $550,000 (2016 – $550,000) and it bears a rate of Bankers' Acceptance plus 1.15% (2016 – 1.15%) per annum for a total of 2.59% at December 31, 2017 (2016 – 2.03%). The Facility has certain reporting requirements and financial covenants and is collateralized by each individual dealership's inventories that are directly financed by the Facility, a general security agreement with each dealership financed, and a guarantee from AutoCanada Holdings Inc., a subsidiary of the Company.

ii VW Credit Canada, Inc. ("VCCI") provides floorplan financing for new, used and demonstrator vehicles for all of the Company's Volkswagen and Audi dealerships (the "VCCI facilities"). The VCCI facilities bear interest at Royal Bank of Canada ("RBC") prime rate plus 0.00% – 1.25% (2016 – 0.00% – 1.25%). The RBC prime rate was 3.20% at December 31, 2017 (2016 – 2.70%). The combined total interest rates were 3.20% – 4.45% at December 31, 2017 (2016 – 2.70% – 3.95%). The maximum amount of financing provided by the VCCI facilities is $77,480 (2016 – $52,845). The VCCI facilities have certain reporting requirements and financial covenants and are collateralized by all of the dealerships' assets financed by VCCI and a general security agreement over the Volkswagen and Audi dealerships financed by VCCI. The individual notes payable of the VCCI facilities are due when the related vehicle is sold.

iii BMW Financial Services Canada ("BMW Financial"), a division of BMW Canada Inc., provides floorplan financing for new, used and demonstrator vehicles for all of the Company's BMW dealerships (the "BMW Facilities"). The BMW Facilities bear a variable interest rate of prime minus 0.40% (2016 – 0.40%) per 360 day annum for a total of 2.80% at December 31, 2017 (2016 – 2.30%). The BMW Facilities have a current advance limit of $94,461 (2016 – $93,550). The BMW Facilities have certain reporting requirements and financial covenants and are collateralized by the dealerships' movable and immovable property.

iv The Royal Bank of Canada ("RBC") provides floorplan financing for new, used and demonstrator vehicles for eight of the Company's dealerships (the "RBC Facilities"). The RBC Facilities bear interest rates of RBC's Cost of Funds Rate plus 0.25% – 0.75% (2016 – 0.40% – 0.75%). The RBC's Cost of Funds Rate was 2.31% at December 31, 2017 (2016 – 1.78%). The combined total interest rates were 2.56% – 3.06% as at December 31, 2017 (2016 – 2.18% – 2.53%). The maximum amount of financing provided by the RBC facilities is $147,300 (2016 – $134,300). The RBC Facilities have certain reporting requirements and financial covenants and are collateralized by the new, used, and demonstrator inventory financed by RBC and a general security agreement from the General Motors dealerships financed by RBC.

v Scotiabank provides floorplan financing for new, used and demonstrator vehicles for four of the Company's dealerships (the "Scotiabank Facilities"). The Scotiabank Facilities bear interest rates of Scotia Fixed Flooring Rate plus 0.93% – 1.40% (2016 – 0.93%). The Scotia Fixed Flooring rate was 1.54% at December 31, 2017 (2016 – 0.97%). The combined total interest rate was 2.47% – 2.94% at December 31, 2017 (2016 – 1.90%). The maximum amount of financing provided by Scotiabank Facilities is $74,200 (2016 – $50,400). The Scotiabank Facilities have certain reporting requirements and financial covenants and are collateralized by the new, used, and demonstrator inventory financed by Scotiabank and a general security agreement from the Company's four dealerships financed by Scotiabank.

vi Toronto Dominion Bank ("TD") provides floorplan financing for new, used and demonstrator vehicles for one of the Company's dealerships (the "TD Facilities"). The TD Facilities bear interest rates of TD prime rate minus 0.75% (2016 – 0.75%) per annum and provide a maximum amount of financing of $23,500. The TD prime rate was 3.20% at December 31, 2017 (2016 – 2.70%). The combined total interest rate was 2.45% at December 31, 2017 (2016 – 1.95%). The TD Facilities have certain reporting requirements and financial covenants and are collateralized by the new, used and demonstrator inventory financed by TD and a general security agreement from the Company's dealership financed by TD.

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

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

ix On March 16, 2017, the Company amended the existing Credit Agreement with HSBC Bank Canada ("HSBC") Alberta Treasury Branches ("ATB"), and RBC, with HSBC acting as administrative agent to the Credit Agreement. The revised Credit Agreement provides the Company with a $250,000 revolving operating facility that may be used for general corporate purposes, including repayment of existing indebtedness, funding working capital requirements, capital expenditures and financing acquisitions.

Fees and interest on borrowings under the Credit Agreement are subject to a pricing grid whereby the pricing level is determined by the leverage ratio. Based on the Company's Leverage Ratio, as defined by the Lender, the interest rate on the loan ranges from HSBC's prime rate plus 0.50% to HSBC's prime rate plus 1.75%. As at December 31, 2017, the Company is in the second of four tiers of the pricing grid, with the second tier providing interest rates of HSBC's prime rate plus 1.25% for a total of 4.45% at December 31, 2017 (2016 – 4.70%). Amounts drawn under the Credit Agreement as at December 31, 2017 are due May 22, 2020 and may be extended annually for an additional 364 days at the request of the Company and upon approval by the lenders. The Credit Agreement has certain reporting requirements and financial covenants and is collateralized by all of the present and future assets of AutoCanada Holdings Inc., a subsidiary of AutoCanada Inc., and all of its subsidiaries. As part of a priority agreement signed by HSBC, Scotiabank, VCCI, BMW Financial, TD, and the Company, the collateral for the Credit Agreement excludes all new, used and demonstrator inventory financed with Scotiabank, VCCI, BMW Financial, RBC and TD revolving floorplan facilities.

x RBC provides financing for the lease vehicles of two of the Company's GM dealerships (the "RBC lease financing"). The RBC lease financing bears interest rates of RBC's Costs of Funds Rate plus 0.90% (2016 – 0.90%). The RBC's Cost of Funds Rate was 2.31% at December 31, 2017 (2016 – 1.78%). The combined total interest rate was 3.21% at December 31, 2017 (2016 – 2.68%). The maximum amount of financing provided by RBC lease financing is $17,331 (2016 – $16,000) repayable over the terms of the contract in varying amounts of principal. The RBC lease financing has certain reporting requirements and financial covenants and is collateralized by the lease vehicles under the related lease agreements. The RBC lease financing is due on demand.

xi Scotiabank provides financing for the lease vehicles of two of the Company's dealerships (the "Scotiabank lease financing"). The Scotiabank lease financing bears interest rates of Scotiabank's Cost of Funds Rate plus 1.25% (2016 – 1.25%) for a total of 5.35% at December 31, 2017 (2016 – 3.47%). The maximum amount of financing provided by the Scotia lease financing is $2,500 (2016 – $2,500) repayable over the terms of the contract in varying amounts of principal. The Scotiabank lease financing has certain reporting requirements and financial covenants and is collateralized by the lease vehicles under the related lease agreement. The Scotiabank lease financing is due on demand.

xii Servus Credit Union provides the Company with a mortgage (the "Servus Mortgage"). The Servus Mortgage bears a fixed annual rate of 3.80% (2016 – 3.90%) and is repayable with monthly blended installments of $37 (2016 – $38), originally amortized over a 20 year period with term expiring September 30, 2018. 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, 2017, the carrying amount of the property was $8,455 (2016 – $8,829).

xiii VCCI provides the Company with mortgages (the "VCCI Mortgages"), which bear interest at a floating rate of interest per annum equal to the Royal Bank of Canada's prime rate plus 0.15% – 0.50% (2016 – 0.15% – 0.50%). The RBC prime rate was 3.20% at December 31, 2017 (2016 – 2.70%). The combined total interest rate was 2.85% – 3.70% at December 31, 2017 (2016 – 2.85% – 3.20%). The VCCI Mortgages are repayable with blended monthly payments of $120 amortized over a 20 year period with terms expiring in between April 2019 and May 2022. The VCCI Mortgages have certain reporting requirements and financial covenants and are collateralized by a general security agreement consisting of a first fixed charge over the properties. At December 31, 2017, the carrying amount of the properties was $48,268 (2016 – $34,334).

xiv BMW Financial provides the Company with a mortgage (the "BMW Mortgage"), which bears a fixed rate of interest per annum of 3.80%. The BMW Mortgage is repayable with sixty equal blended monthly payments of $124, amortized over a twenty year period with term expiring on December 31, 2019. The BMW Mortgage has certain reporting requirements and financial covenants and is collateralized by the property and any other present and future property, rights and assets, movable or immovable, and a general security agreement consisting of a first fixed charge over the property. At December 31, 2017, the carrying amount of the property was $29,756 (2016 – $30,390).

The following table shows the movement of indebtedness during the year ended December 31, 2017:

	Indebtedness $
Balance – January 1, 2017	352,030
Revaluation of embedded derivative	15
Amortization of deferred finance charges	989
Draws and additions	123,439
Repayments	(134,474)
Reclassification to held for sale	(6,883)
Balance – December 31, 2017	335,116

31 Vehicle repurchase obligations

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

32 Commitments and contingencies

Commitments

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

	December 31, 2017 $
2018	18,892
2019	16,429
2020	14,430
2021	14,199
2022	13,731
Thereafter	130,759
	208,440

Lawsuits and legal claims

The Company is engaged in various legal proceedings and claims that have arisen in the ordinary course of business. The outcome of all of the proceedings and claims against the Company is subject to future resolution, including the uncertainties of litigation. Based on information currently known to the Company and after consultation with outside legal counsel, management believes that the probable ultimate resolution of any such proceedings and claims, individually or in the aggregate, will not have a material adverse effect on the financial condition of the Company, taken as a whole. Note 29 includes provisions to account for information known to the Company and based on estimates of probable resolutions.

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

Letters of guarantee

The Company has outstanding letters of guarantee totaling $935 as at December 31, 2017 (2016 – $1,223) with various due dates.

The Company will settle obligations as they arise for which these letters have been issued as security and it is not the Company's intent that draws will be made on these letters.

Capital Commitments

At December 31, 2017, the Company is committed to capital expenditure obligations in the amount of $4,225 (2016 – $15,856) related to dealership relocations, dealership re-imagings, and dealership open points with expected completion of these commitments in 2018.

33 Share-based payments

The Company operates a combination of cash and equity-settled compensation plan under which it receives services from employees as consideration for share-based payments. The plans are as follows:

Restricted Share Units (RSUs)

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

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

	2017 Number of RSUs	2017 Amount $	2016 Number of RSUs	2016 Amount $
Outstanding, beginning of the year	33,676	779	64,835	1,566
Settled – equity	(27,075)	(643)	(40,019)	(784)
Settled – cash	(18,050)	(428)	(26,679)	(522)
Granted	31,044	738	45,586	875
Forfeited units	–	–	(11,539)	(235)
Dividends reinvested	437	6	1,492	29
Impact of movements in share price	–	2	–	(150)
Outstanding, end of the year	20,032	454	33,676	779

Deferred Share Units (DSUs)

Independent members of the Board of Directors are paid a portion of their annual retainer in the form of DSUs. They may also elect to receive up to 100% of their remaining cash remuneration in the form of DSUs. The underlying security of DSUs are the Company's common shares and are valued based on the Company's average share price for the five business days prior to the date on which Directors' fees are granted. The DSUs are also entitled to earn additional units based on dividend payments made by the Company and the share price on date of payment. The DSUs granted are scheduled to vest upon the termination date of the

Director, at which time, the DSUs will be settled in cash no earlier than the termination date and no later than December 15 of the calendar year following the Director's termination date.

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

	2017 Number of DSUs	2017 Amount $	2016 Number of DSUs	2016 Amount $
Outstanding, beginning of the year	34,731	825	25,659	620
Settled	–	–	(6,362)	(152)
Granted	14,168	316	14,519	293
Dividends reinvested	817	17	915	19
Impact of movements in share price	–	(32)	–	45
Outstanding, end of the year	49,716	1,126	34,731	825

Stock Option Plan

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

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

The following table shows the change in the number of stock options for the year ended December 31, 2017:

	Average exercise price per share option $	Share options #
Outstanding, beginning of the year	18.68	520,000
Forfeited	18.68	(90,000)
Exercised	18.68	(10,000)
Outstanding, end of the year	18.68	420,000
Vested and exercisable at end of the year	18.68	106,666

During the year ended December 31, 2017, no options expired.

The following table shows the expiry date and exercise prices for stock options outstanding for the year ended December 31, 2017:

Grant date	Expiry date	Exercise price $	Share options December 31, 2017 #
April 1, 2016	March 31, 2026	18.68	420,000
Weighted average remaining contractual life of options outstanding at end of the year			8.25 years

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

The model inputs for options granted include:

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

b) Exercise price: $18.68

c) Grant date: April 1, 2016

d) Expected life of option: five years

e) Share price at grant date: $18.18

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

g) Expected dividend yield: 2.20%

h) Risk-free interest rate: 1.50%

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

During the year ended December 31, 2017, total expenses of $848 (2016 – $1,306) and recoveries of $249 (2016 – $nil) arose as a result of options issued under the Plan.

34 Share capital

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

Restricted Share Unit Trust

Shares are held in trust to mitigate the risk of future share price increases from the time the RSUs and DSUs (see Note 33) are granted to when they are fully vested and can be exercised. The beneficiaries are members of the Executive and Senior Management Team who participate in the long-term incentive compensation plan called the RSU Plan and independent members of the Board of Directors who participate in the DSU Plan. Under the Trust Agreement, the third party trustee will administer the distribution of cash and shares to the beneficiaries upon vesting, as directed by the Company. Dividends earned during the twelve month period ended December 31, 2017 on the shares held in trust of $31 (2016 – $57) are reinvested to purchase additional shares. The shares held in trust are accounted for as treasury shares and have been deducted from the Company's consolidated equity as at December 31, 2017.

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

	2017 Number of shares	2017 Amount $	2016 Number of shares	2016 Amount $
Outstanding, beginning of the year	27,356,439	507,886	27,388,750	508,237
Treasury shares acquired	–	–	(60,824)	(1,244)
Dividends reinvested	(1,431)	(31)	(2,832)	(57)
Treasury shares settled	33,892	913	31,345	950
Outstanding, end of the year	27,388,900	508,768	27,356,439	507,886

As at December 31, 2017, 70,783 (2016 – 103,244) common shares were held in trust for the Restricted Share Unit Plan, resulting in a total of 27,459,683 (2016 – 27,459,683) common shares issued.

Dividends

Dividends are discretionary and are determined based on a number of factors. Dividends are subject to approval of the Board of Directors. During the year ended December 31, 2017, eligible dividends totaling $0.40 (2016 – $0.55) per common share were declared and paid, resulting in total payments of $10,952 (2016 – $15,046).

Earnings per share

Basic earnings per share was calculated by dividing earnings attributable to common shares by the sum of the weighted-average number of shares outstanding during the period. Basic earnings per share are adjusted by the dilutive impact of the RSUs and stock options to calculate the diluted earnings per share.

	2017 $	2016 $
Earnings attributable to common shares	57,844	2,596

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

	2017	2016
Basic	27,379,193	27,350,555
Effect of dilution from RSUs	22,526	50,334
Effect of dilution from stock options	72,276	54,797
Diluted	27,473,995	27,455,686

35 Capital disclosures

The Company's objective when managing its capital is to safeguard the Company's assets and its ability to continue as a going concern while at the same time maximize the growth of the business, returns to shareholders, and benefits for other stakeholders. No specific targets or ratios are set by the Company. The Company views its capital as the combination of long-term indebtedness, long-term lease obligations and equity.

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

	December 31, 2017 $	December 31, 2016 $
Long-term indebtedness (Note 30)	332,450	330,351
Equity	537,607	497,592
	870,057	827,943

The Company manages its capital structure in accordance with changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may assume additional debt, refinance existing debt with different characteristics, sell assets to reduce debt, issue new shares or adjust the amount of dividends paid to its shareholders. The Company was in compliance with its debt covenants at December 31, 2017.

36 Transactions with non-controlling interests

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

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

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

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

As a result of the above transaction, redemption liabilities in the amount of $1,197 were derecognized during the year.

37 Related party transactions

Transactions with Companies Controlled by the Former Chair of AutoCanada

On May 5, 2017 Priestner retired from his position as Board Chair. As a result of this change, the Company has assessed its relationship with Priestner as a related party and determined that Priestner is no longer a related party. As Priestner was a related party prior to his retirement, transactions with companies controlled by Priestner prior to May 5, 2017 are included for disclosure.

During the period from January 1 to May 5, 2017, the company had financial transactions with entities controlled by Priestner. Priestner is the controlling shareholder of Canada One Auto Group ("COAG") and its subsidiaries, which beneficially own approximately 8.6% (2016 – 8.6%) of the Company's shares. In addition to COAG, Priestner is the controlling shareholder of other companies from which AutoCanada earns administrative fees. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. All significant transactions between AutoCanada and companies controlled by Priestner were approved by the Company's independent members of the Board of Directors.

a. Rent paid to companies with common directors

   During the period ended May 5, 2017, total rent paid to companies controlled by Priestner amounted to $979 (12 months ended December 31, 2016 – $2,882). The Company currently leases two of its facilities from affiliates of COAG. The Company's independent Board of Directors has received advice from a national real estate appraisal company that the market rents at each of the COAG properties were at fair market value rates at inception.

b. Administrative support fees

   During the period ended May 5, 2017, total administrative support fees received from companies controlled by Priestner amount to $428 (year ended December 31, 2016 – $1,384).

c. Loans to associate

During the year ended December 31, 2017, interest only, additional advances of $373 were made to a company controlled by Priestner (Note 25). Total interest charged relating to the loans were $674 (2016 – $603) and the total licensing fees were $2,327 (2016 – $562). As at December 31, 2017 there were $1,312 (2016 – $638) interest receivable and $2,904 (2016 – $576) of licensing fees receivable related to the loans (Note 25).

Key management personnel compensation

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

	2017 $	2016 $
Employee costs (including Directors)	7,606	5,636
Short-term employee benefits	222	455
Share-based compensation	1,079	1,887
	8,907	7,978

38 Net change in non-cash working capital

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

	December 31, 2017 $	December 31, 2016 $
Trade and other receivables	(10,176)	8,031
Inventories	(104,383)	(8,765)
Finance lease receivables	1,978	1,014
Other current assets	2,418	150
Trade and other payables	(18,496)	2,670
Revolving floorplan facilities	113,102	20,535
Vehicle repurchase obligations	(283)	4,948
	(15,840)	28,583

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.

39 Fair value of financial instruments

The Company's financial instruments at December 31, 2017 are represented by cash and cash equivalents, trade and other receivables, loans to associate, finance lease receivables, trade and other payables, revolving floorplan facilities, vehicle repurchase obligations, long-term indebtedness, restricted cash, bank indebtedness, contingent consideration, and redemption liabilities.

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

The long-term indebtedness has a carrying value that approximates the fair value due to the floating rate nature of the debt, While there is a portion that has a fixed rate, the long-term indebtedness has a carrying value that is not materially different from its fair value. Senior unsecured notes have a fair value that is different than the carry value, refer to Note 27.

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

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

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

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

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

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

	Redemption liabilities $	Contingent consideration $	Total $
Opening balance, January 1, 2016	(47,229)	(8,340)	(55,569)
Gain recognized in net income (Note 14)	765	5,020	5,785
Settlement of contingent consideration	–	1,500	1,500
Closing balance, December 31, 2016	(46,464)	(1,820)	(48,284)
Acquisitions	(306)	–	(306)
Gain recognized in net income (Note 14)	2,869	416	3,285
Settlement of redemption liabilities	1,197	–	1,197
Settlement of contingent consideration	–	1,500	1,500
Closing balance, December 31, 2017	(42,704)	96	(42,608)

40 Subsequent events

Investees transaction

On January 2, 2018 the Company reorganized its ownership interest in its investees.

As part of the transactions, the Company sold 100% of its non-voting equity interests in Dealer Holdings Ltd., DFC Holdings Inc. and LWD Holdings Ltd. The company purchased Priestner's interest in Green Isle G Auto Holdings Inc., Prairie Auto Holdings Ltd., Waverley BG Holdings Inc. and NBFG Holdings Inc.

AutoCanada will receive a one-time net payment of approximately $24,000 as part of the transaction. Redemption liabilities totaling approximately $26,000 will be retired and reclassified to retained earnings as a result of the transaction.

Dividends

On February 23, 2018, the Board of Directors of the Company declared a quarterly eligible dividend of $0.10 per common share on the Company's outstanding Class A common shares, payable on March 15, 2018 to shareholders of record at the close of business on March 1, 2018.

AutoCanada Inc.

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