

Jaguar Land Rover Canada ULC

Financial Statements

For fiscal years ended

31 March 2018 and 2017

Jaguar Land Rover Canada ULC

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Statutory Financial Statements of Jaguar Land Rover North America, LLC

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AUDIT OPINION

Jaguar Land Rover Canada ULC

| Balance Sheets in \$CAD | Note | As at 31 March | |
|--|------|-------------------------|-------------------------|
| | | 2018 | 2017 |
| Non-current assets | | | |
| Property, plant and equipment | 3 | \$ 2,177,909 | \$ 1,983,911 |
| Other financial assets | 4 | 210,218 | 321,684 |
| Deferred income taxes | 5 | 50,899,876 | 41,505,876 |
| Total non-current assets | | 53,288,003 | 43,811,471 |
| Current assets | | | |
| Inventories | 6 | 54,840,898 | 91,546,503 |
| Trade receivables | 19 | 16,232,128 | 11,884,429 |
| Finance receivables | 9 | 150,020,034 | - |
| Other financial assets | | 62,585 | 408,435 |
| Other current assets | | 21,462,900 | 134,747 |
| Cash and cash equivalents | 8 | 89,640,339 | 117,544,621 |
| Current income tax assets | 5 | 2,627,775 | - |
| Total current assets | | 334,886,659 | 221,518,735 |
| Total assets | | \$ 388,174,662 | \$ 265,330,206 |
| Current liabilities | | | |
| Accounts payable | | \$ (127,261,618) | \$ (48,733,096) |
| Marketing provisions | 10 | (78,398,561) | (58,972,659) |
| Financial liabilities | | (85,255) | (85,255) |
| Other current liabilities | 11 | (23,862,611) | (15,292,585) |
| Provisions | 13 | (38,463,161) | (32,611,125) |
| Current income tax liabilities | 5 | - | (9,205,289) |
| Total current liabilities | | (268,071,206) | (164,900,009) |
| Non-current liabilities | | | |
| Other non-current liabilities | 12 | (13,659,984) | (9,645,270) |
| Provisions | 13 | (100,906,039) | (85,937,127) |
| Other financial liabilities | | (163,405) | (248,660) |
| Total non-current liabilities | | (114,729,428) | (95,831,057) |
| Total liabilities | | (382,800,634) | (260,731,066) |
| Equity attributable to shareholders | | | |
| Retained earnings | | (5,374,028) | (4,599,140) |
| Equity attributable to shareholders | | (5,374,028) | (4,599,140) |
| Total liabilities and equity | | \$ (388,174,662) | \$ (265,330,206) |

See accompanying notes to the financial statements

Jaguar Land Rover Canada ULC

Income Statements in \$CAD

| | Note | Year ended 31 March | |
|-------------------------------|------|---------------------|---------------------|
| | | 2018 | 2017 |
| Income | | | |
| Revenue | | \$ 1,064,076,647 | \$ 971,282,962 |
| Cost of sales | 7 | (936,971,521) | (836,143,989) |
| Gross profit | | 127,105,126 | 135,138,973 |
| Employee costs | 14 | (5,838,379) | (5,032,087) |
| Other expenses | 15 | (117,432,376) | (127,472,563) |
| Other income | | 878,423 | 2,211,754 |
| Depreciation and amortisation | 3 | (489,470) | (410,827) |
| Foreign exchange income | | 40,409 | 94,418 |
| Finance income | | 3,296,788 | 1,533,504 |
| Finance costs | | (274,889) | (274,889) |
| Profit before tax | | 7,285,632 | 5,788,283 |
| Income Tax Expense | 5 | (1,911,604) | (1,189,143) |
| Profit for the period | | \$ 5,374,028 | \$ 4,599,140 |

Statements of Comprehensive Income In \$CAD

| | Year ended 31 March | |
|--|---------------------|---------------------|
| | 2018 | 2017 |
| Profit for the period | \$ 5,374,028 | \$ 4,599,140 |
| Other comprehensive income: | | |
| Actuarial losses | - | - |
| Other comprehensive income for the year | - | - |
| Total comprehensive income for the year | \$ 5,374,028 | \$ 4,599,140 |

See accompanying notes to the financial statements

Jaguar Land Rover Canada ULC

| In \$CAD | Note | For the Fiscal Year Ended 31 March | |
|--|------|------------------------------------|----------------|
| | | 2018 | 2017 |
| Cash flows from operating activities: | | | |
| Profit for the period | | \$ 5,374,028 | \$ 4,599,140 |
| Adjustments for noncash items included in net income: | | | |
| Depreciation and amortization | 6 | 489,470 | 410,827 |
| Inventory write-down | | 1,072,984 | 360,515 |
| Allowances for trade and other receivables | | 374,966 | - |
| Loss on sale of assets / assets written off | 6 | - | 5,204 |
| Income tax expense | 8 | 1,911,604 | 1,189,143 |
| Interest income/(expense) | | 1,738,964 | (1,004,471) |
| | | 10,962,016 | 5,560,358 |
| Changes in assets and liabilities: | | | |
| Decrease in Other Financial Assets (Non-current) | | 111,466 | 245,522 |
| Increase in Deferred tax assets | | (9,394,000) | (12,601,000) |
| Decrease/(Increase) in Inventories | | 35,632,621 | (25,160,233) |
| Increase in Trade receivables | | (4,722,665) | (7,787,107) |
| (Increase)/decrease in Finance receivables | | (153,316,822) | 269,916 |
| Decrease/(Increase) in Other Financial Assets | | 345,850 | (134,439) |
| Decrease/(Increase) in Other Current Assets | | (21,328,153) | (110,268) |
| Increase in Current income tax assets | | (2,627,775) | - |
| Increase in Accounts payables | | 78,528,522 | 17,374,257 |
| Increase in Current income tax liabilities | | 12,160,452 | 12,971,699 |
| Increase in Marketing Provisions | | 19,425,902 | 13,635,225 |
| Increase in Other Current Liabilities | | 8,844,915 | 7,232,327 |
| Increase in Provisions (Current) | | 5,852,036 | 6,182,181 |
| Increase in Other Non-Current Liabilities | | 4,014,714 | 4,712,879 |
| Increase in Provisions (Non-current) | | 14,968,912 | 28,001,736 |
| Decrease in Other Financial Liabilities (Non-current) | | (85,255) | (85,255) |
| Cash (used by)/generated from operating activities | | (627,264) | 50,307,798 |
| Income tax paid | | (23,277,345) | (9,448,699) |
| Net cash (used by)/generated from operating activities | | (23,904,609) | 40,859,099 |
| Cash flows from investing activities: | | | |
| Interest received | | 1,557,824 | 734,556 |
| Payments for property, plant and equipment | 6 | (683,468) | (270,488) |
| Net cash generated from investing activities | | 874,356 | 464,068 |
| Cash flows from financing activities: | | | |
| Interest paid | | (274,889) | (480,412) |
| Dividend paid to parent company | | (4,599,140) | (3,192,678) |
| Net cash used by financing activities | | (4,874,029) | (3,673,090) |
| Net change in cash and cash equivalents | | \$ (27,904,282) | \$ 37,650,077 |
| Cash and cash equivalents, beginning of the year | | 117,544,621 | 79,894,544 |
| Cash and cash equivalents, end of the year | | \$ 89,640,339 | \$ 117,544,621 |

See accompanying notes to the financial statements

Jaguar Land Rover Canada ULC

Statements of Changes in Equity
In \$CAD

| | Ordinary Share Capital | Share Premium | Retained Earnings | Pension Reserve | Total Equity |
|---------------------------------|---------------------------|---------------|-----------------------|-----------------|-----------------------|
| Balance at 31 March 2016 | \$ - | \$ - | \$ (3,192,678) | \$ - | \$ (3,192,678) |
| Profit for the period | | | (4,599,140) | | (4,599,140) |
| Dividend paid to parent company | | | 3,192,678 | | 3,192,678 |
| Balance at 31 March 2017 | \$ - | \$ - | \$ (4,599,140) | \$ - | \$ (4,599,140) |
| Profit for the period | | | (5,374,028) | | (5,374,028) |
| Dividend paid to parent company | | | 4,599,140 | | 4,599,140 |
| Balance at 31 March 2018 | \$ - | \$ - | \$ (5,374,028) | \$ - | \$ (5,374,028) |

See accompanying notes to the financial statements

Jaguar Land Rover Canada ULC

1. Background and operations

Jaguar Land Rover Canada ULC (the "Company" or "JLRC") is an unlimited liability corporation registered in the Province of Alberta. The registered office address is 855 2 Street SW Calgary, Alberta. JLRC is an importer and distributor of luxury sedans, sport utility vehicles and parts in the United States market. The Company also offers various vehicle related service plans to end users of its vehicles. The Company's primary areas of business are the distribution, marketing, sales, and service of its products.

JLRC headquarters is located at 75 Courtneypark Drive West Unit 3 Mississauga, Ontario L5W 0E3.

JLRC is a wholly-owned subsidiary of Jaguar Land Rover Limited ("JLR Limited"), which is a UK company. The ultimate parent and controlling party is Tata Motors Limited ("TML"), registered and domiciled in India.

The vehicles are purchased from JLR Limited and imported into the United States. Parts are primarily sourced from JLR Limited with some domestic procurement.

The parts business is managed under two different relationships with third party logistics providers whereby the third parties manage the warehousing of physical inventory and distribution. JLRC owns the inventory and manages the sale and collection function.

As a limited risk distributor, JLRC operates under an advanced transfer pricing agreement with JLR Limited whereby pretax operating profit is set at 0.55% of revenue. If pretax operating profit is between 0.4% and 0.7% of revenue before any adjustments are recorded, then no adjustment is to be recorded between JLRC and JLR Limited.

2. Significant accounting policies

a. Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (referred to as "IFRS") as issued by the International Accounting Standards Board (referred to as "IASB"). The results of the Company are included in the consolidated financial statements of JLR Limited and its ultimate parent, TML and these are publicly available.

Basis of preparation

The financial statements have been prepared on historical cost basis. The Company's fiscal year end is 31 March of each year.

All figures are presented in Canadian dollars unless otherwise stated.

Note 2 – Significant accounting policies (continued)

b. Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions, that affect the application of accounting policies and the reported amounts of assets, liabilities, income, expenses and disclosures of contingent assets and liabilities at the date of these financial statements and the reported amounts of revenues and expenses for the years presented. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are included in the following notes:

- i) Note 3 – Property, plant and equipment – the Company applies judgement in determining the estimate useful life of assets.
- ii) Note 5 – Recoverability/recognition of deferred tax assets –management applies judgement in establishing the timing of the recognition of deferred tax assets relating to historic losses.
- iii) Note 10 – Variable marketing incentives are estimated at the balance sheet date based on approved programs that are in place to incentivize retailers to meet sales volume requirements. These program needs can change from the initial expectation due to, among other variables, prevailing interest rates, competitive market conditions, macroeconomic factors, supply and demand, etc. Such changes will impact balances previously recorded.
- iv) Note 13 – Provisions – it is necessary for the Company to assess the provision for anticipated payments on locally offered vehicle services under such programs as roadside assistance and service loaner. The valuation of these provisions requires a significant amount of judgement and the requirement to form appropriate assumptions around expected future costs, which are based on expectations of product failure rates. Additionally, the Company is responsible for some of the residual value risk arising on vehicles sold by dealers under leasing arrangements. The provision is based on the latest available market expectations of future residual value trends. The timing of the outflows will be at the end of the lease arrangements – being typically three years.
- v) Notes 11 & 12 – Other current liabilities and Other noncurrent liabilities - it is necessary for the Company to assess the anticipated payments on locally offered vehicle services under such programs as certified pre-owned (“CPO”), scheduled maintenance, and connected car. Revenue related to these programs is deferred and recognized over the life of the service plan in line with when the claims emerge. The timing of the recognition of this deferred revenue requires a significant amount of judgement and the requirement to form appropriate assumptions around expected future costs, which are based on expectations of product failure rates for CPO, and retail customer take rates for scheduled maintenance and connected car.

Note 2 – Significant accounting policies (continued)

c. Going concern / Events after the Balance Sheet date

As a wholly-owned subsidiary of JLR Limited, the Company's going concern is linked to the going concern of that entity.

The directors of the Company have considered the financial position of JLR Limited at 31 March 2018 and the projected cash flows and financial performance of JLR Limited for at least 12 months from the date of approval of these financial statements, and believe that the plan for sustained profitability remains on course.

The directors of the Company have taken actions to ensure that appropriate long term cash resources are in place at the date of signing the accounts to fund the Company's operations.

Therefore the directors of the Company consider, after making appropriate enquiries and taking into consideration the risks and uncertainties, the Company has adequate resources to continue in operation as a going concern for the foreseeable future and is able to meet its financial covenants linked to the borrowings in place. Accordingly they continue to adopt the going concern basis in preparing the financial statements.

There were no events occurring after the balance sheet date that would have a material impact on the Company's results of operations, financial position or cash flows.

d. Revenue recognition

Revenue is measured at fair value of consideration received or receivable.

The Company recognizes revenues on the sale of vehicles, net of discounts, sales incentives, customer bonuses and rebates granted, when products are segregated for dispatch to dealers, which is when risks and rewards of ownership pass to the customer. Revenues on the sale of parts is recognized upon shipment. Sale of products is presented net of excise duty where applicable and other indirect taxes.

Revenues are recognized when collectability of the resulting receivable is reasonably assured.

For certain service plans, the Company defers revenue received for the future services to be provided. In the case of certified pre-owned warranties, cash is explicitly received at the point of vehicle certification; this cash is deferred and recognized over the life of the service plan in line with when the claims are expected to emerge. In the case of complementary scheduled maintenance programs and connected car, the cost of these services is embedded in the price of the vehicle. The Company defers a portion of the revenue attributable to these service plans and recognizes it when the service is expected to be provided.

e. Cost recognition

Costs and expenses are recognized when incurred and are classified according to their nature.

Note 2 – Significant accounting policies (continued)

f. Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

i) Locally offered vehicle services expenses

The estimated liability for locally offered vehicle services under such programs as roadside assistance and service loaner are recorded when vehicles are sold to retailers. These estimates are established using historical information on the nature, frequency and average cost of claims and management estimates regarding possible future incidences based on actions on product failures. The timing of outflows will vary as and when claim will arise, being typically up to five years.

ii) Residual risk

The Company is responsible for some of the residual risk arising on vehicles sold by dealers under leasing arrangements. The provision is based on the latest available market expectations of future residual value trends. The timing of the outflows will be at the end of the lease arrangements – being typically three years.

g. Foreign currency

These financial statements are presented in Canadian Dollars (CAD).

Transactions are typically not recorded in foreign currencies; in the rare instance of such a transaction, they would be recorded at the exchange rate prevailing on the date of transaction. Foreign currency denominated monetary assets and liabilities are re-measured into CAD at the exchange rate prevailing on the balance sheet date. Exchange differences are recognized in the Income Statements.

h. Income taxes

Income tax expense comprises current and deferred taxes. Income tax expense is recognized in the Income Statements except, when it relates to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case tax is also recognized outside profit or loss, or where it arises from the initial accounting for business combination. In the case of a business combination the tax effect is included in the accounting for the business combination.

Current income taxes are determined based on the taxable income of the Company and tax rules applicable for the USA.

Note 2 – Significant accounting policies (continued)

h. Income Taxes (continued)

Deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the carrying values of assets and liabilities and their respective tax bases, and unutilized business loss and depreciation carry-forwards and tax credits. Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available against which the deductible temporary differences, unused tax losses, depreciation carry-forwards and unused tax credits could be utilized.

Deferred tax assets and liabilities are measured based on the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

i. Inventories and Cost of sales

Inventories consist of finished vehicles and automotive parts and accessories and are valued at the lower of cost and net realizable value. As a limited risk distributor the Company operates under a transfer price agreement with JLR Limited whereby pretax profit is set at 0.55% of revenue. If pretax profit is between 0.4% and 0.7% of revenue before any adjustments are recorded, then no adjustment is to be recorded between JLRC and JLR Limited. Profit adjustments, negative or positive, to meet the required profit targets, are reflected in the Income Statements as a component of Cost of sales.

j. Property, plant and equipment

Property, plant and equipment are stated at cost of acquisition or construction less accumulated depreciation less accumulated impairment, if any.

Land is measured at cost and is not depreciated.

Cost includes purchase price, taxes and duties, labor cost and direct overheads for self constructed assets and other direct costs incurred up to the date the asset is ready for its intended use.

Note 2 – Significant accounting policies (continued)

Depreciation is provided on a straight-line basis over estimated useful lives of the assets. Estimated useful lives of the assets are as follows:

| | <u>Estimated useful life in years</u> |
|--------------------------------------|---|
| Buildings and leasehold improvements | Lesser of lease term or useful life |
| Office machines & equipment | 12.5 - 14.5 |
| Vehicles | 8 |
| Computer equipment | 10 |
| Software | 3 - 8 |
| Furniture & fixtures | 12.5 |
| Auto show displays | 5 |

Depreciation is not recorded on capital work-in-progress until construction and installation are complete and the asset is ready for its intended use. Capital work-in-progress includes capital advances.

k. Leases

At the inception of a lease, the lease arrangement is classified as either a finance lease or an operating lease, based on the substance of the lease arrangement. Currently, the Company only has operating leases. Payments made under operating leases are recognized in the Income Statements on a straight-line basis over the term of the lease.

l. Impairment - Property, plant and equipment

At each balance sheet date, the Company assesses whether there is any indication that any property, plant and equipment may be impaired. If any such impairment indication exists the recoverable amount of an asset is estimated to determine the extent of impairment, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the Income Statements.

Note 2 – Significant accounting policies (continued)

As of 31 March 2018, none of the Company's other property, plant and equipment were considered impaired.

m. Employee benefits

Plan Descriptions:

Defined Contribution Pension Plan ("DCPP") — covers all former employees from the Ford Motor Company who transferred as a result of the sale and became members of the DPP effective January 1, 2009. All full-time and part-time employees hired on or after January 1, 2009 automatically join the DCPP on their date of hire as a condition of employment. The Company will make contributions to the member's DCPP account in an amount equal to a percentage of the member's salary. The Company's only liability is limited to the contributions currently required under the plan.

Retirement Savings Plan ("RSP"), — An employee is eligible to join the RSP as of the date of hire. Participation is voluntary. The member may contribute a percentage of base salary and direct the contribution to the Group RRSP or the Employee Profit Sharing Plan ("EPSP") or a combination of both. The Company will match a portion of the member's contribution to the EPSP at a percentage authorized by the Company. The Company maintains at its discretion the right to change the level of matching contributions and to amend, modify, or terminate the plans.

Group Registered Retirement Savings Plan ("Group RRSP")— The Company also maintains a plan covering certain Ford legacy employees that provides additional postretirement benefits to replace pension benefits lost as a result of the acquisition of the Jaguar and Land Rover businesses on June 2, 2008 by a subsidiary of Tata Motors Limited. The Company funds these benefits on a pay-as-you go basis out of Company assets.

n. Financial instruments

i) Classification, initial recognition and measurement:

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets are classified into categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. Financial liabilities are classified into financial liabilities at fair value through profit or loss and other financial liabilities.

Financial instruments are recognized on the Balance Sheets when the Company becomes a party to the contractual provisions of the instrument.

Initially, a financial instrument is recognized at its fair value. Transaction costs directly attributable to the acquisition or issue of financial instruments are recognized in determining the carrying amount, if it is not classified as at fair value through profit or loss. Subsequently, financial instruments are measured according to the category in which they are classified.

Note 2 – Significant accounting policies (continued)

Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as financial assets at fair value through profit or loss or financial assets available-for-sale. Subsequently, these are measured at amortized cost using the effective interest method less any impairment losses.

These includes trade receivables, finance receivables, balances with banks, short-term deposits with banks, other financial assets and investments with fixed or determinable payments.

Other financial liabilities: These are measured at amortized cost using the effective interest method.

ii) **Determination of fair value:**

The fair value of a financial instrument on initial recognition is normally the transaction price (fair value of the consideration given or received). Subsequent to initial recognition, the Company determines the fair value of financial instruments that are quoted in active markets using the quoted bid prices (financial assets held) or quoted ask prices (financial liabilities held) and using valuation techniques for other instruments. All financial instruments held have a quoted market price in an active market. Valuation techniques include discounted cash flow method and other valuation models and utilize available market data.

iii) **Derecognition of financial assets and financial liabilities:**

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expires or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received. Financial liabilities are derecognized when these are extinguished, that is when the obligation is discharged, cancelled or has expired.

iv) **Impairment of financial assets:**

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Loans and receivables: Objective evidence of impairment includes default in payments with respect to amounts receivable from customers. Impairment loss in respect of loans and receivables is calculated as the difference between their carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Such impairment loss is recognized in the Income Statements. If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. The reversal is recognized in the Income Statements.

Note 2 – Significant accounting policies (continued)

o. Deferred revenue

In the normal course of business, the Company offers a certified pre-owned warranty program (“CPO”) for its vehicles. Upon reported sale of a CPO vehicle by an authorized retailer, the Company defers all revenue received from the retailers for the sale of this service contract. The revenue is released to profits in line with the trend of expected claims payments over the life of the CPO coverage. The Company does not receive any other revenue related to the sale of the vehicle by the retailer. Additionally, the company offers a variety of complementary scheduled maintenance plans which vary by make/model and model year. For complementary scheduled maintenance offerings, the Company allocates a portion of the wholesale revenue of the vehicle and defers this revenue over the life of the service offerings. This deferred revenue is recognized over the life of the service plan in line with expected claims emergence. The Company also equips vehicles with “connected car” hardware and software whereby the owner can enable the car as a wifi hotspot, activate on-demand roadside assistance in the event of an emergency, infotainment, vehicle tracking, and vehicle remote control. The Company provides the hardware as a permanent attachment to the vehicle and provides a trial period of software activation; for both of these, a portion of wholesale revenue is deferred. The owner can activate software features beyond the trial period at their own expense.

p. New accounting pronouncements

The following pronouncements, issued by the IASB and endorsed by the EU, are not yet effective and have not yet been adopted by JLR Limited or JLRC. JLR Limited and JLRC are evaluating the impact of these pronouncements on the financial statements.

IFRS 9 Financial Instruments addresses the classification, measurement and recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity’s business model and contractual cash flow characteristics of the financial asset.

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. JLR Limited and JLRC has undertaken an assessment of the impairment provisions, especially with regards to Trade Receivables and has applied the simplified approach under the standard. The Company operates with major financial institutions who take on the principal risks of sales to customers and consequently the Company receives full payment for these receivables between 0 – 30 days.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Company’s risk management practices. The Company has undertaken an assessment of their IAS 39 hedge relationships against the requirements of IFRS 9 and have concluded that the Company’s current hedge relationships will qualify as continuing hedges upon the adoption of IFRS 9.

Foreign exchange gains/losses for non-financial items will now be recognised as an adjustment to that non-financial item (i.e. inventory) when recorded on the balance sheet and this adjustment will be made on a prospective basis from 1 April 2018.

Note 2 – Significant accounting policies (continued)

p. New accounting pronouncements (continued)

The Company has undertaken an assessment of the above changes and the Company does not expect a material impact on the financial statements. Under the transition rules of IFRS 9, JLR Limited will restate comparative financial information for accounting for both the time value of options and cross currency basis. This does not impact JLRC materially.

IFRS 15 Revenue from Contracts with Customers replaces IAS 18 Revenue and IAS 11 Construction Contracts and related interpretations (such as IFRIC 13 Customer Loyalty Programmes).

Application of IFRS 15 is mandatory for reporting periods beginning on or after 1 January 2018, although early adoption is permitted. The Company will apply IFRS 15 for the first time for the financial year beginning on 1 April 2018.

The Company proposes to apply the modified retrospective application approach, meaning that comparative periods are not restated according to IFRS 15. Instead, the cumulative effect of the application of the Standard will be recognised in opening balance sheet reserves.

The new standard identifies a comprehensive five-step model for determining revenue recognition, including the amount and timing that revenue is recognised. This is generally to be applied to all contracts with customers. The model depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services.

The Company has assessed the impact on the financial statements of adopting IFRS 15 and it is not expected to have a significant impact on the Company's profitability, liquidity and capital resources or financial position.

The introduction of the Standard will give rise to new financial statement categories in the statement of financial position, being "contract assets" and "contract liabilities." These items can arise through advance payment or advance delivery at the contract level. In addition, disclosure requirements are extended.

The IASB published Amendments to IFRS 15 in April 2016. These changes allow for transitional arrangements for modified and fulfilled contracts, and clarify the identification of performance obligations, principal-agent relationships, and licenses. The application of these amendments is also not expected to have any major impact on the Company's profitability, liquidity and capital resources or financial position.

IFRS 16 ('Leases') sets out a new approach to accounting for leases by lessees. Whilst under IAS 17, the accounting treatment of a lease was determined on the basis of the transfer of risks and rewards incidental to ownership of the asset, whereas under the new standard, all leases in general are to be accounted for by the lessee in a similar way to finance lease arrangements. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted subject to EU endorsement and the adoption of IFRS 15.

The Company has continued with its IFRS 16 project during the financial year though as the compilation and assessment of contracts has yet to be concluded, a reliable quantitative measurement cannot be made. The Company will however apply the available exceptions regarding the recognition of short-term leases and low value leasing assets.

Note 2 – Significant accounting policies (continued)

p. New accounting pronouncements (continued)

The following pronouncements, issued by the IASB, have not yet been endorsed by the EU, are not yet effective and have not yet been adopted by the Company. The Company is evaluating the impact of these pronouncements on the financial statements.

IFRS 17 Insurance Contracts was published on 18 May 2017 and replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. For fixed-fee service contracts whose primary purpose is the provision of services, such as roadside assistance, entities have an accounting policy choice to account for them in accordance with either IFRS 17 or IFRS 15. Due to the existing operating activities of the Company, adoption of IFRS 17 is not expected to have a material impact on either the profitability or the net assets of the Company.

IFRIC 23 Uncertainty over Income Tax Treatments was published in June 2017 which sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to determine whether uncertain tax positions are assessed separately or as a group and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings. If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings. If no, the entity should reflect the effect of uncertainty in determining its accounting tax position. The Interpretation applies to annual reporting periods beginning on or after 1 January 1 2019 with earlier application permitted.

The IASB issued **IFRIC 22 (Foreign Currency Transaction and Advance Consideration)** in December 2016 which clarified accounting requirements with respect to exchange rate to be used for reporting foreign currency transactions when payment is made or received in advance. This is effective for annual periods beginning on or after 1 January 2018. The Company is currently assessing the impact of adopting IFRIC 22.

The IASB issued amendments to **IAS 19 (Employee Benefits)** in February 2018 which clarified the accounting for plan amendments, curtailments and settlements. If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The Company is currently assessing the impact of adopting the amendments.

The Company does not consider that any other standards, amendments or interpretations issued by the IASB, but not yet applicable, will have a significant impact on the financial statements.

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3. Property, plant and equipment

| | Buildings | Plant and equipment | Computers | Furniture and fixtures | Total |
|--|---------------------|------------------------|-----------------|---------------------------|---------------------|
| Cost as of 1 April 2016 | \$ 1,396,099 | \$ 180,833 | \$ 3,698 | \$1,273,379 | \$ 2,854,009 |
| Additions | 74,615 | 23,180 | - | 172,693 | 270,488 |
| Disposal | - | (16,143) | - | - | (16,143) |
| Cost as of 31 March 2017 | <u>\$ 1,470,714</u> | <u>\$ 187,869</u> | <u>\$ 3,698</u> | <u>\$1,446,072</u> | <u>\$ 3,108,353</u> |
| Accumulated depreciation as 1 April 2016 | \$ (531,818) | \$ (37,093) | \$ (1,480) | \$ (154,164) | \$ (724,554) |
| Disposals | - | 10,939 | - | - | 10,939 |
| Depreciation charge for the year | (166,421) | (14,174) | (370) | (229,861) | (410,827) |
| Accumulated depreciation as of 31 March 2017 | <u>(698,239)</u> | <u>(40,328)</u> | <u>(1,849)</u> | <u>(384,026)</u> | <u>(1,124,442)</u> |
| Net book value as of 31 March 2017 | <u>\$ 772,475</u> | <u>\$ 147,541</u> | <u>\$ 1,849</u> | <u>\$1,062,046</u> | <u>\$ 1,983,911</u> |
| Cost as of 1 April 2017 | \$ 1,470,714 | \$ 187,869 | \$ 3,698 | \$1,446,072 | \$ 3,108,353 |
| Additions | 65,391 | 544,425 | - | 73,652 | 683,468 |
| Disposal | - | - | - | - | - |
| Cost as of 31 March 2018 | <u>\$ 1,536,105</u> | <u>\$ 732,294</u> | <u>\$ 3,698</u> | <u>\$1,519,724</u> | <u>\$ 3,791,821</u> |
| Accumulated depreciation as 1 April 2017 | \$ (698,239) | \$ (40,328) | \$ (1,849) | \$ (384,026) | \$ (1,124,442) |
| Disposals | - | - | - | - | - |
| Depreciation charge for the year | (176,986) | (68,334) | (370) | (243,780) | (489,470) |
| Accumulated depreciation as of 31 March 2018 | <u>(875,225)</u> | <u>(108,662)</u> | <u>(2,219)</u> | <u>(627,806)</u> | <u>(1,613,912)</u> |
| Net book value as of 31 March 2018 | <u>\$ 660,880</u> | <u>\$ 623,632</u> | <u>\$ 1,479</u> | <u>\$ 891,918</u> | <u>\$ 2,177,909</u> |

Notes:

1. The Company did not have any property, plant and equipment under finance lease arrangements.

4. Other financial assets (non-current)

Other financial assets (non-current) consist of deposits with banks whose use in whole or in part are restricted for specific purposes bound by virtue of contracted agreements. For both fiscal years presented, the Company has contractual arrangements with a financial institution requiring it to deposit collateral for the residual value of vehicles that are subject to retail leases financed by the financial institution, which the Company shares in the potential losses upon termination. At 31 March 2018 and 2017, these deposits amounted to \$0.2 million and \$0.3 million, respectively.

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5. Income taxes

The components of income tax expense were:

| | <u>31 March 2018</u> | <u>31 March 2017</u> |
|---------------------------------|----------------------|----------------------|
| Current taxes: | | |
| Current year | 11,349,889 | \$ 14,160,307 |
| Prior period adjustments | (44,285) | (370,164) |
| Deferred taxes: | | |
| Current year | (9,394,000) | (12,601,000) |
| Prior period adjustments | | - |
| Total income tax expense | \$ 1,911,604 | \$ 1,189,143 |

Income tax expense recognized in the Income Statements consist of the following:

| | <u>31 March 2018</u> | <u>31 March 2017</u> |
|---------------------------------|----------------------|----------------------|
| Current | 11,305,604 | 13,790,143 |
| Deferred | (9,394,000) | (12,601,000) |
| Total income tax expense | \$ 1,911,604 | \$ 1,189,143 |

The reconciliation of estimated income tax to income tax expense is as follows:

| | <u>31 March 2018</u> | <u>31 March 2017</u> |
|---|----------------------|----------------------|
| Profit before taxes | 7,285,632 | 5,788,283 |
| Income tax expense at tax rates applicable to individual entities | 1,930,692 | 1,533,895 |
| Non-deductible expenses | 21,065 | 23,298 |
| Reduction(increase) in tax rates | | - |
| Net prior period current and deferred tax adjustments | (44,285) | (370,164) |
| Other | 4,132 | 2,114 |
| Income tax expense reported | \$ 1,911,604 | \$ 1,189,143 |

The provincial government enacted changes to its statutory tax rate which cancelled the proposed decline in the tax rate and the tax rate was frozen at 11.5%. The combined federal and provincial statutory tax rate is 26.5% for the 2013 and future taxation years. The effective rate during the 12 months ended 31 March 2018 and 31 March 2017 were 26.24% and 20.54%

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Note 5 – Income taxes (continued)

Deferred tax assets have been recognized in the Balance Sheets in respect of deductible temporary differences. Significant components of deferred tax asset and liability for the year ended 31 March 2018 were as follows:

| | Opening balance | Recognized in Income statement | Closing balance |
|--|----------------------|--------------------------------------|----------------------|
| Deferred tax assets: | | | |
| Tax effects of excess depreciation over capital cost allowance | (34,031) | 18,454 | (15,577) |
| Expenses deductible in future years: | | | |
| Contingent liabilities incurred including warranty payables, step rent, and impact of reduction in tax rates | 41,087,421 | 9,255,948 | 50,343,369 |
| Inventory | 342,610 | 119,598 | 462,208 |
| Post retirement benefit plan | 109,876 | - | 109,876 |
| Deferred tax assets | \$ 41,505,876 | \$ 9,394,000 | \$ 50,899,876 |
| Valuation allowance | - | - | - |
| Net deferred tax assets | \$ 41,505,876 | \$ 9,394,000 | \$ 50,899,876 |

Significant components of deferred tax asset and liability for the year ended 31 March 2017 were as follows:

| | Opening balance | Recognized in Income statement | Closing balance |
|--|----------------------|--------------------------------------|----------------------|
| Deferred tax assets: | | | |
| Tax effects of excess depreciation over capital cost allowance | \$ (44,031) | 10,000 | \$ (34,031) |
| Expenses deductible in future years: | | | |
| Contingent liabilities incurred including warranty payables, step rent, and impact of reduction in tax rates | 28,551,421 | 12,536,000 | 41,087,421 |
| Inventory | 287,610 | 55,000 | 342,610 |
| Post retirement benefit plan | 109,876 | - | 109,876 |
| Deferred tax assets | \$ 28,904,876 | \$ 12,601,000 | \$ 41,505,876 |
| Valuation allowance | - | - | - |
| Net deferred tax assets | \$ 28,904,876 | \$ 12,601,000 | \$ 41,505,876 |

The deductible temporary differences do not expire under current tax legislation.

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6. Inventories

Inventories consist of vehicles and automotive parts and are classified as finished goods and were comprised as follows:

| | As at 31 March | |
|--------------------------|----------------------|----------------------|
| | 2018 | 2017 |
| Vehicle inventory | \$ 32,063,294 | \$ 70,622,797 |
| Parts inventory | 24,521,785 | 22,215,616 |
| Obsolescence provisions | (1,744,181) | (1,291,910) |
| Total inventories | \$ 54,840,898 | \$ 91,546,503 |

Direct cost of inventories (including cost of purchased products) recognized as expense and inventory write-down expense during the years ended 31 March 31 2018 and 2017 were as follows:

| | As at 31 March | |
|-------------------------------------|-------------------------|-------------------------|
| | 2018 | 2017 |
| Cost of sales | \$ (936,971,521) | \$ (836,143,989) |
| Inventory write-down expense | \$ (1,072,984) | \$ (360,515) |

7. Operating Leases

The Company has taken buildings, plant and equipment, computers and furniture and fixtures under operating leases. The Company does not have any finance leases. The following is a summary of future minimum lease rental payments under non-cancellable operating leases entered into by the Company and operating lease rent expense recognized:

| | Minimum Lease Payments | |
|---|------------------------|---------------------|
| | 31 March 2018 | 31 March 2017 |
| Not later than one year | \$ 271,198 | \$ 271,198 |
| Later than one year but not later than five years | 519,793 | 790,993 |
| Later than five years | - | - |
| Total minimum lease commitments | \$ 790,991 | \$ 1,062,191 |

| | Minimum Lease Payments | |
|-------------------------|------------------------|---------------|
| | 31 March 2018 | 31 March 2017 |
| Facilities rent expense | \$ 271,198 | \$ 271,198 |
| Computer lease expense | \$ 26,132 | \$ 20,945 |

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8. Cash and cash equivalents

Cash and cash equivalents consist of amounts on deposit with banks for operating purposes. At 31 March 2018 and 2017, these amounted to \$89.6 million and \$117.5 million, respectively.

9. Finance Receivable

On 27 March 2018, in order to better utilize cash held in market subject to regulatory restrictions over pooling excess funds held by JLRC within JLR Limited, JLRC entered a loan agreement with JLR Limited permitting JLRC to lend up to \$200 million to JLR Limited. This loan has a term of 1 year after the end of the tax year the loan is made. This loan will bear interest at the Canada Bankers Acceptances 1-month rate plus 0.05% with interest payments deferred until repayment of principal. As of 31 March 2018, JLRC had loaned \$150.0 million to JLR Limited.

10. Marketing Provisions

Variable marketing accruals are comprised of liabilities for dealer incentives. Variable dealer margin consists of retailer funds held pending distribution upon completion of certain performance metrics. Fixed marketing accruals are comprised of liabilities for advertising and promotion. The maturity of these accruals is detailed in Note 19 – Disclosures on financial instruments. These accruals amounted to:

| | As at 31 March | |
|---------------------------------|------------------------|------------------------|
| | 2018 | 2017 |
| Variable marketing | \$ (40,775,711) | \$ (24,788,212) |
| Variable dealer margin | (35,987,776) | (30,761,922) |
| Fixed marketing | (1,635,074) | (3,422,525) |
| Total marketing accruals | \$ (78,398,561) | \$ (58,972,659) |

11. Other current liabilities

Other current liabilities consist of the following:

| | As at 31 March | |
|---|------------------------|------------------------|
| | 2018 | 2017 |
| VAT taxes | \$ (5,623,496) | \$ (4,400,539) |
| Import duties | (1,577,066) | (1,345,850) |
| Transfer price adjustments | (5,028,451) | (136,458) |
| Deferred revenue - certified pre-owned programs | (4,233,432) | (2,797,551) |
| Deferred revenue - service plans | (4,835,317) | (5,153,764) |
| Deferred revenue - connected car | (2,564,849) | (1,458,423) |
| Total Other current liabilities | \$ (23,862,611) | \$ (15,292,585) |

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12. Other Non-current Liabilities:

Other non-current liabilities consist of the following:

| | As at 31 March | |
|---|------------------------|-----------------------|
| | 2018 | 2017 |
| Deferred revenue - certified pre-owned programs | \$ (6,987,277) | \$ (5,450,579) |
| Deferred revenue - service plans | (1,591,895) | (792,442) |
| Deferred revenue - connected car | (5,080,812) | (3,402,249) |
| Total Other non-current liabilities | \$ (13,659,984) | \$ (9,645,270) |

13. Provisions

Provisions consist of accruals for the Company's expected future cash flow related to locally offered vehicle services under such programs as manufacturer's warranty, roadside assistance and service loaner as well as residual risk sharing agreements on leased vehicles and retirement leave. The overall provision was as follows:

| | Locally Offered Vehicle Services | Residual Risk | Retirement Plans | Total |
|----------------------------------|-------------------------------------|------------------------|--------------------|-------------------------|
| Balance at March 31, 2016 | \$ (67,076,788) | \$ (17,211,972) | \$ (75,573) | \$ (84,364,333) |
| Provisions made during the year | (43,739,150) | (16,582,956) | - | (60,322,106) |
| Provisions used during the year | 20,703,262 | 7,156,226 | - | 27,859,488 |
| Other adjustments | - | (1,761,524) | 40,225 | (1,721,299) |
| Balance at March 31, 2017 | \$ (90,112,676) | \$ (28,400,226) | \$ (35,348) | \$ (118,548,250) |
| Current | \$ (27,358,845) | \$ (5,252,280) | \$ - | \$ (32,611,125) |
| Noncurrent | \$ (62,753,832) | \$ (23,147,947) | \$ (35,348) | \$ (85,937,127) |
| Provisions made during the year | (37,841,152) | (21,299,052) | - | (59,140,204) |
| Provisions used during the year | 25,024,517 | 4,193,416 | - | 29,217,933 |
| Other adjustments | - | 9,101,321 | - | 9,101,321 |
| Balance at March 31, 2018 | \$ (102,929,311) | \$ (36,404,541) | \$ (35,348) | \$ (139,369,200) |
| Current | \$ (31,637,699) | \$ (6,825,462) | \$ - | \$ (38,463,161) |
| Noncurrent | \$ (71,291,612) | \$ (29,579,079) | \$ (35,348) | \$ (100,906,039) |

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14. Employee Cost

Employee cost consists of the following:

| | Year ended 31 March | |
|-----------------------------|---------------------|---------------------|
| | 2018 | 2017 |
| Salaries, wages and bonus | \$ 4,301,779 | \$ 4,216,879 |
| Benefits | 1,430,628 | 778,827 |
| Other | 105,972 | 36,381 |
| Total employee costs | \$ 5,838,379 | \$ 5,032,087 |

15. Other Expenses

Other expenses consist of the following:

| | Year ended 31 March | |
|--|-----------------------|-----------------------|
| | 2018 | 2017 |
| Warranty (Scheduled maintenance, Goodwill, Service loaner and Roadside assistance) | \$ 50,509,080 | \$ 69,115,962 |
| Fixed Marketing | 37,643,156 | 32,900,763 |
| Depots and distribution costs, prep and handling | 20,573,389 | 16,974,771 |
| Consulting costs and other purchased services | 4,460,181 | 4,854,523 |
| Travel and entertainment costs | 679,003 | 639,451 |
| Facilities costs | 363,768 | 394,861 |
| Information technology costs | 156,149 | 124,840 |
| Other general operating expenses | 3,047,650 | 2,467,392 |
| Total Other expenses | \$ 117,432,376 | \$ 127,472,563 |

16. Employee benefits

The Company sponsors and administers a Defined Contribution Pension Plan (“DCPP”) a Retirement Savings Plan (“RSP”), a Group Registered Retirement Savings Plan (“Group RRSP”) and an Employee Profit Sharing Plan (“EPSP”) for the benefit of its employees.

The DCPP covers all former employees of the Ford Motor Company who transferred as a result of the sale and became members of the DCPP effective January 1, 2009. All full-time and part-time employees hired on or after January 1, 2009 will automatically join the DCPP on their date of hire as a condition of employment. The Company will make contributions to the member’s DCPP account in an amount equal to a percentage of the member’s salary. The Company’s only liability is limited to the contributions currently required under the plan. For the years ended 31 March 2018 and 2017, the Company made a contribution of approximately \$189,000 and \$194,000.

An employee is eligible to join the RSP as of the date of hire. Participation is voluntary. The member may contribute a percentage of base salary and direct the contribution to the Group RRSP or the EPSP or a combination of both. The Company will match a portion of the member’s contribution to the EPSP at a percentage authorized by the Company. The Company maintains at its discretion the right to change the

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level of matching contributions and to amend, modify, or terminate the plans. For the years ended 31 March 2018 and 2017, the Company made a matching contribution of approximately \$149,000 and \$122,000.

The Company maintained a plan covering certain Ford legacy employees that provides additional postretirement benefits to replace pension benefits lost as a result of the acquisition of the Jaguar and Land Rover businesses on June 2, 2008 by a subsidiary of Tata Motors Limited. The Company funds these benefits on a pay-as-you go basis out of Company assets. As of 31 March 2018 and 2017, the Company had accrued approximately \$35,000 for both dates related to future benefit payments.

17. Commitments and contingencies

In the normal course, the Company faces claims and assertions by various parties. The Company assesses such claims and assertions and monitors the legal environment on an ongoing basis, with the assistance of external legal counsel wherever necessary. The Company records a liability for any claims where a potential loss is probable and capable of being estimated and discloses such matters in its financial statements, if material. For potential losses that are considered possible, but not probable, the Company provides disclosure in the financial statements but does not record a liability in its accounts unless the loss becomes probable. Any claims of a product liability nature are assessed and a liability is recorded, if necessary, by JLR Limited.

Management asserts that none of the claims against the Company are probable or estimable, and it believes that none of the contingencies either individually or in aggregate, would have a material adverse effect on the Company's financial condition, results of operations or cash flows.

Guarantees

The Company does not make any guarantees for related parties or unrelated third parties.

Commitments

In the normal course of business, the Company contracts with third parties to provide goods and/or services to the Company in order to operate day to day.

For commitments related to leases, refer Note 7.

Contingent Asset on Residual Risk

In the normal course of business, the Company has a vehicle residual risk sharing arrangement with a financial institution that underwrites retail leases. The Company is not a party to these retail leases. Under the current arrangement, residual collateral deposits are made at the inception of the lease based on final expected residual values of the underlying vehicle at lease termination. At certain points in the life of the retail leases, an interim review is performed and if there is excess collateral on deposit, the Company is entitled to receive a refund of previously deposited collateral. Due to the uncertainty in future residual values as they are impacted by many factors (e.g. economic environment, fuel prices, etc.) management is unable to predict the value, if any, of any future refunds.

Taxing Authority Reviews

In the normal course of business, the Company is subject to income taxes in numerous federal, state and local jurisdictions and judgement is required in determining the appropriate provision, if any, for transactions where the ultimate tax determination is uncertain. In such circumstances the Company recognizes liabilities for anticipated taxes based on the best information available and where the anticipated liability is both probable and estimable.

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The Company has income-tax related contingent liabilities where the ultimate tax determination is uncertain. No provision has been recognized for income tax-related contingencies as no reliable estimate can be made or it is not probable the tax uncertainty will result in a future economic outflow. Income tax related contingent liabilities are assessed continually and as a reliable estimate can be made, or if they become probable, a provision is recognized in the financial statements of the period in which the change in estimate or probability occurs. Where the final outcome of such matters differs from the amount recorded, any differences may impact income taxes in the period in which the final determination is made.

18. Capital Management

The Company is capitalized via investment from its parent company, JLR Limited. The Company purchases the majority of products it sells from the parent company and related Group companies. The cash flow from the sale of vehicles and parts is sufficient to pay JLR Limited and all other suppliers. Any remaining cash after paying all suppliers, vendors and operating expenses is retained within the Company. As such, no additional financing is required. From time to time, the Company will remit excess cash to JLR Limited in the form of a dividend. During the year ended 31 March 2018, the Company paid a dividend to Jaguar Land Rover Limited in the amount of \$4,599,140.

19. Disclosures on financial instruments

This section gives an overview of the significance of financial instruments for the Company and provides additional information on Balance Sheet items that contain financial instruments.

The details of significant accounting policies, 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, financial liability and equity instrument are disclosed in Note 2 to the financial statements.

a) Financial assets and liabilities

The following table presents the carrying amounts and fair value of each category of financial assets and liabilities as of 31 March 2018 and 2017, respectively.

| | As at 31 March | | | |
|--------------------------------------|-------------------------|-------------------------|-------------------------|------------------------|
| | 2018 | | 2017 | |
| | Total Carrying Value | Total Fair Value | Total Carrying Value | Total Fair Value |
| Financial Assets | | | | |
| Cash and cash equivalents | \$ 89,640,339 | \$ 89,640,339 | \$ 117,544,621 | \$ 117,544,621 |
| Trade receivables | 16,232,128 | 16,232,128 | 11,884,429 | 11,884,429 |
| Finance receivables | 150,020,034 | 150,020,034 | - | - |
| Other financial assets (current) | 62,585 | 62,585 | 408,435 | 408,435 |
| Other financial assets (non-current) | 210,218 | 210,218 | 321,684 | 321,684 |
| Total | \$ 256,165,304 | \$ 256,165,304 | \$ 130,159,169 | \$ 130,159,169 |
| Financial Liabilities | | | | |
| Accounts payable | \$ (127,261,618) | \$ (127,261,618) | \$ (48,733,096) | \$ (48,733,096) |
| Financial liabilities | (85,255) | (85,255) | (85,255) | (85,255) |
| Other financial liabilities | (163,405) | (163,405) | (248,660) | (248,660) |
| Total | \$ (127,510,278) | \$ (127,510,278) | \$ (49,067,011) | \$ (49,067,011) |

The Company does not have any derivative financial instruments.

The short term financial assets and liabilities are stated at amortized cost which is approximately equal to their fair value.

Note 19 – Disclosures on financial instruments (continued)

Management uses its best judgment in estimating the fair value of its financial instruments. However, there are inherent limitations in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented above are not necessarily indicative of all the amounts that the Company could have realized or paid in a sales transaction as of the respective dates. The estimated fair value amounts as of 31 March 2018 and 2017 have been measured as of the respective dates. As such, the fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

b) Financial risk management

In the course of its business, the Company is exposed primarily to fluctuations in interest rates, credit risk and liquidity risk, which may adversely impact the fair value of its financial instruments.

The Company has a risk management policy which covers risks associated with the financial assets and liabilities like interest rate risks and credit risks. The risk management policy is approved by the board of directors. The risk management framework aims to:

- Create a stable business planning environment – by reducing the impact of currency and interest rate fluctuations on the Company's business plan.
- Achieve greater predictability to earnings – by determining the financial value of the expected earnings in advance.

i) Market risk

Market risk is the risk of any loss in future earnings, in realizable fair values or in future cash flows that may result from a change in the price of a financial instrument. The value of a financial instrument may change as a result of changes in the interest rates, foreign currency exchange rate, equity price fluctuations, liquidity and other market changes. Future specific market movements cannot be normally predicted with reasonable accuracy.

a. Foreign currency exchange rate risk

The Company does not have any material exchange risk due to limited transactions in currencies other than Canadian dollars, nor does it have any material balances at the period end which are denominated in any currency other than CAD.

b. Interest rate risk

The Company's interest rate risk is limited to any short term borrowings, which are at market rates.

ii) Credit risk

Credit risk is the risk of financial loss arising from counterparty failure to repay or service debt according to the contractual terms or obligations. Credit risk encompasses both the direct risk of default and the risk of deterioration of creditworthiness, as well as concentration risks.

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Financial instruments that are subject to concentrations of credit risk principally consist of trade receivables and finance receivables. None of the financial instruments of the Company result in material concentrations of credit risks.

Note 19 – Disclosures on financial instruments (continued)

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk was \$256.2 million and \$130.2 million as of 31 March 2018 and 2017, respectively, being the total of the carrying amount of Cash and cash equivalents, Trade receivables, Finance receivables and Other financial assets.

Financial assets that are neither past due nor impaired

None of the Company's cash equivalents, including time deposits with banks, are impaired. Regarding trade receivables and other receivables, and other loans or receivables that are neither impaired, there were no indications as of 31 March 2018, that any defaults in payment obligations will occur.

Credit quality of financial assets and impairment loss

The ageing of trade receivables and finance receivables as of the balance sheet date is given below. The age analysis has been considered from the due date.

| | 31 March 2018 | | | 31 March 2017 | | |
|----------------------------|----------------------|-------------|----------------------|----------------------|-------------|----------------------|
| | Gross | Allowance | Total | Gross | Allowance | Total |
| Trade Receivables | | | | | | |
| Period | | | | | | |
| Not due | \$ 16,230,002 | \$ - | \$ 16,230,002 | \$11,884,429 | \$ - | \$ 11,884,429 |
| Overdue 1-3 months | 2,126 | - | 2,126 | - | - | - |
| Overdue 3-6 months | - | - | - | - | - | - |
| Overdue more than 6 months | - | - | - | - | - | - |
| Total | \$ 16,232,128 | \$ - | \$ 16,232,128 | \$ 11,884,429 | \$ - | \$ 11,884,429 |

| | 31 March 2018 | | | 31 March 2017 | | |
|----------------------------|----------------------|-------------|-----------------------|---------------|-------------|-------------|
| | Gross | Allowance | Total | Gross | Allowance | Total |
| Finance Receivables | | | | | | |
| Period | | | | | | |
| Not due | \$150,020,034 | \$ - | \$ 150,020,034 | \$ - | \$ - | \$ - |
| Overdue 1-3 months | - | - | - | - | - | - |
| Overdue 3-6 months | - | - | - | - | - | - |
| Overdue more than 6 months | - | - | - | - | - | - |
| Total | \$150,020,034 | \$ - | \$ 150,020,034 | \$ - | \$ - | \$ - |

iii) Liquidity risk

Liquidity risk refers to the risk that the Company cannot meet its financial obligations. The objective of liquidity risk management is to maintain sufficient liquidity and ensure that it is available for use as per requirements.

The Company is primarily funded through the sale of vehicles and parts at a profit. Generally, funds generated through that means are sufficient to cover all obligations. Any excess cash is remitted back to the parent company, Jaguar Land Rover Limited.

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Note 19 – Disclosures on financial instruments (continued)

The table below provides details regarding the contractual maturities of financial liabilities as of 31 March 2018:

| | Carrying amount | Due in 1st year | Due in 2nd year | Due in 3rd - 5th year | Due after 5 years | Non-cash amount |
|-----------------------------|-------------------------|-------------------------|-----------------|-----------------------|-------------------|---------------------|
| Accounts payable | \$ (127,261,618) | \$ (127,261,618) | | | | |
| Financial liabilities | (85,255) | | | | | (85,255) |
| Other financial liabilities | (163,405) | | | | | (163,405) |
| Total | \$ (127,510,278) | \$ (127,261,618) | \$ - | \$ - | \$ - | \$ (248,660) |

iv) Derivative financial instruments and risk management

The Company does not have any derivative financial instruments.

20. Collaterals

The Company does not have any guarantees or assets pledged as collateral.

21. Segment reporting

The Company operates in one segment: the sale of Jaguar Land Rover vehicles, parts and accessories and one geographic segment, the Canada.

22. Related party transactions

The Company's related parties principally consist of subsidiaries of its parent company, JLR Limited, TML, and other Tata related companies. The Company routinely enters into transactions with these related parties in the ordinary course of business.

The Company purchases the majority of its inventory from subsidiaries of the UK parent company JLR Limited. As a result, the Company will incur payables to those entities. Additionally, the Company has entered into a transfer price arrangement with JLR Limited whereby profitability is fixed as a percentage of selected selling expenses. As a result of this arrangement, the Company will transfer profits or losses to these entities to arrive at the appropriate profit target by adjusting cost of revenues and offsetting payables to affiliated companies. At 31 March 2018 and 2017, the Company had approximately \$97.6 million and \$21.5 million, respectively recorded as payables owed to JLR Limited and \$0.1 million and \$15.9 million, respectively recorded as receivables due from JLR Limited.

The Company also receives various services from Jaguar Land Rover North America including, but not limited to legal, accounting, information technology, purchasing, tax services and training. These services are charged to the Company under a service level agreement. During the 12 months ended 31 March 2018 and 2017 the Company was charged \$3.4 million and \$4.1 million, respectively, from Jaguar Land Rover North America and paid these funds in cash.

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Additionally, in the normal course of business, the Company transacts with other subsidiaries of JLR Limited. At 31 March 2018, the Company had trade receivables and trade payables with Jaguar Land Rover North America in the amount of nil and \$0.5 million, respectively.

Note 22 – Related party transactions (continued)

Additionally, the Company engages various related entities whereby these entities provide outsourced information technology support, technology development, and marketing purchasing to the Company. During the 12 months ended 31 March 2018, the Company recognized expense of \$5.6 million related to services received during that period. The Company made cash payments to these entities during the 12 months ended 31 March 2018 of \$5.7 million. Additionally, the Company had an outstanding accounts payable balances to these entities of \$0.6 million at 31 March 2018.

Key management personnel is defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. Cumulative compensation of those individuals identified as key management personnel was as follows:

| | Year ended 31 March | |
|--|---------------------|---------------------|
| | 2018 | 2017 |
| Salaries | \$ 1,529,358 | \$ 1,368,226 |
| Incentive compensation | 921,264 | 1,075,450 |
| Other | 400,146 | 243,206 |
| Total key employee compensation | \$ 2,850,768 | \$ 2,686,882 |

The Company did not have any other transactions with key management personnel.

Refer Note 16 for information on transactions with post-employment benefit plans.

23. Subsequent events

There were no events occurring after the balance sheet date that would have a material impact on the Company's results of operations, financial position or cash flows.

24. Approval of financial statements

The financial statements were approved by the board of directors and authorized for issue on 8 May 2018

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