CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

CFE CANDIDATE NUMBER: | | | | | | | |

Common Final Examination
Day 2
(Booklet #1 – Case)

Total examination time: 5 hours.
Further details on the examination can be found on the next page.

GENERAL INSTRUCTIONS BEFORE THE EXAMINATION

1. Fill in your 7-digit candidate number on the booklets. The examination booklets (or paper response, as instructed) must be submitted before leaving the writing centre. They must NOT BE REMOVED from the writing centre. If these items are not received, the response may not be accepted.
2. Follow the instructions provided. Instructions must not be removed from the writing centre.
3. Sign the Policy Statement and Agreement Regarding Examination Confidentiality below.

Policy Statement and Agreement Regarding Examination Confidentiality

I understand that all examination materials are the property of CPA Canada and are under the exclusive custody and control of CPA Canada. CPA Canada has the exclusive authority over examination materials to determine the contents, use, retention, disposition and disclosure of this material. Candidates do not have access to the examination questions, examination marking keys or any other marking materials for a non-disclosed examination. For disclosed examination questions, access to questions, marking keys and other marking materials is only available when published by CPA Canada.

I hereby agree that I will not:

- Obtain or use answers or information from, or give answers or information to, another candidate or person during the sitting of the examination;
- Refer to unauthorized material or use unauthorized equipment during testing; or
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I further agree to report to CPA Canada any situations where there is a material risk of compromising the integrity of the examination.

I affirm that I have had the opportunity to read the *CPA Examination Regulations* and I agree to all of its terms and conditions.

In addition, I understand that failure to comply with this Policy Statement and Agreement will result in the invalidation of my results, and may result in my disqualification from future examinations, expulsion from the profession and possible legal action.

_____ _____

CANDIDATE NAME (Please print) SIGNATURE

Examination Details

The examination consists of:

Booklet #1 – Case (this booklet)
Booklet #2 – Rough notes

Candidates are allowed **five (5) hours** to respond.

The case should be answered using the software provided, which includes a word processor and spreadsheet for inputting your response. The main body of your response should be in the word processor file. Only supporting calculations should appear in the spreadsheet file, in **Sheet 1**. You are responsible for clearly explaining all your calculations.

Answers or part answers will not be evaluated if they are recorded on anything other than on the computer or the CPA Canada writing paper provided.

The CPA Canada Handbooks and the *Income Tax Act* are available in *Folio Views* throughout the entire examination. *Folio Views* provides the standards in effect and tax laws substantively enacted as at December 31, 2019.

A tax shield formula and other relevant tax information are available at the end of this booklet.

Rough-note paper is available in a separate booklet. Rough notes, and any other notations made in the examination booklets, will not be evaluated.

Candidates are instructed to consider and respond to the case as presented even though the macro-economic circumstances described may not be reflective of the current environment.

Chartered Professional Accountants of Canada
277 Wellington Street West
Toronto, Ontario M5V 3H2

Case

Assume the pre-selected role in which you will be formulating your response. Answer all requireds as specifically directed in your role. Within the requireds for each role, candidates are directed to look at specific additional appendices, which are unique to each role. Use only the information you have been directed to refer to.

Information that is shared by all roles is presented in the "Common Information" section. Additional information, customized to each role, is presented in the "Specific Information" section.

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BACKGROUND
COMMON INFORMATION FOR ALL ROLES

Today is January 31, 2020. Jen Toy is a Canadian entrepreneur who lives in Calgary, Alberta, and is concerned about climate change and environmental sustainability.

In January 2017, Jen decided to start a taxi company, EnviroCab Inc. (ECI), operating in Calgary and Edmonton. ECI exclusively uses electric cars. Jen's plan involved:

- Step 1: Incorporate a standalone business, ECI, and operate it for several years.
- Step 2: Acquire an existing taxi business.
- Step 3: Convert the acquired company to ECI's business model.

Jen proceeded with Step 1 in January 2017 by incorporating ECI, issuing 1,000 common shares with voting rights to herself and $13 million Class A preferred shares to silent angel investors. Using the funds, ECI purchased 150 electric cars, the meters required by Alberta's taxi industry regulations and 150 taxi licences issued by the Alberta government.

ECI's draft non-consolidated financial statements for the most recent fiscal year have been prepared. ECI's business model differs significantly from other Canadian taxi companies, who use self-employed drivers who own their cars. Jen believes that working conditions for taxi drivers are often substandard. She wants to provide a safe working environment with good conditions and, therefore, drivers are hired as employees.

ECI's vision is: "*To be the leader in sustainable personal transportation,"* and its mission is: *"To develop a collective transportation system that is environmentally friendly, socially conscious and respectful of its passengers and employees."*

In July 2019, Jen personally loaned ECI $2 million as the company required more cash at that time. She and the silent angel investors are willing to inject more funds if required.

On November 1, 2019, Jen executed Step 2. ECI borrowed from People First Bank (PFB) in order to purchase 100% of the outstanding common shares of the second-largest taxi operator in Alberta, Ruby Taxi Inc. (Ruby). Jen is concerned about the PFB loan covenant that requires both ECI and Ruby to comply with a maximum debt-to-equity ratio, calculated using their non-consolidated annual audited financial statements prepared in accordance with ASPE. She is considering asking PFB if they would accept annual audited consolidated financial statements for ECI for the purposes of the covenant calculation.

ECI is expected to have positive net income starting in 2022 and only Step 3 remains outstanding. Step 3 was originally scheduled to take place in 2021. However, Jen is now unsure of this timing, given the recent uncertainty that the industry is facing, with increased competition from ride-sharing services that have gained a substantial market share.

Additional information, customized to your role, is presented in your role package.

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REQUIREMENTS FOR YOUR ROLE
(READ ONLY THE ONE SPECIFIED FOR YOUR PRE-SELECTED ROLE)

ASSURANCE REQUIREMENTS

You, CPA, are a member of ECI's quality control (QC) team. You report to the Chief Quality Officer, Jason, who is a CPA and is certified in internal audit. The department consists of three other members: François, who has a Bachelor of Applied Science in Environmental Systems Engineering, and two other members who have a Bachelor of Biomedical Engineering. Jen has asked the QC team to look into several matters, which Jason has delegated to you.

The Calgary airport is seeking bids to allow only the chosen taxi companies to pick up customers for a three-year term. Jason asks you to determine the lowest fare that ECI could bid for servicing the airport. Jason also asks you to qualitatively assess whether winning the airport contract would be beneficial to ECI.

Knowing that ASPE allows for accounting policy choices, Jason asks you to assess the current accounting treatment for ECI's taxi licences, and for ECI's acquisition of Ruby, which is currently accounted for at cost, as well as to explain how the lease and convertible debt from Step 3 should be accounted for. In addition, Jason asks you to assess the accounting treatment for the stock options and stock appreciation rights that ECI granted in 2019 to its employees, and to recommend which financial instrument to grant in the future.

Ruby has had annual audits in the past, but ECI's financial statements have not previously been audited or reviewed. PFB now requires each of ECI and Ruby to obtain an external audit for its separate entity financial statements. To help ECI's management understand what they can expect, Jason had François prepare an initial audit planning memo for ECI and he asks you to comment on it.

Jason would also like you to recommend audit procedures for the ECI and Ruby financial reporting issues he asked you to address. In addition, François has audited ECI's accounts receivable and property, plant and equipment balances and Jason asks you to review the work.

Because Ruby's drivers use their own meters, Jason is concerned that they might not pay the full amount of royalties owed. He asks you to explain how this might occur and discuss what internal controls will ensure that Ruby receives all royalty revenue.

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REQUIREMENTS FOR YOUR ROLE
(READ ONLY THE ONE SPECIFIED FOR YOUR PRE-SELECTED ROLE)

ASSURANCE REQUIREMENTS (continued)

Management is eager to prepare for the Calgary airport contract, should ECI be one of the successful bidders. Therefore, Jason asks you to draft a memo to management, describing the procedures an external auditor would perform in order to provide the report required by the Calgary Airport Authority.

Finally, since the QC team will now be dealing with external auditors, Jen asks Jason whether an external auditor will be able to rely on the work of the QC team, and if not, to make recommendations that will ensure that this is possible going forward. Jason asks you to draft this memo.

In addition to the common appendices (I to VI), information provided in Appendix VII (Assurance) is relevant for your analysis.

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REQUIREMENTS FOR YOUR ROLE
(READ ONLY THE ONE SPECIFIED FOR YOUR PRE-SELECTED ROLE)

FINANCE REQUIREMENTS

You, CPA, are an analyst at the consulting firm Dupuis, Plante & Potvin (DPP), of which ECI is a client. Raymond is a DPP partner and has received several requests from ECI.

The Calgary airport is seeking bids to allow only the chosen companies to pick up customers for a three-year term. Raymond asks you to determine the lowest fare that ECI could bid for servicing the airport. Raymond also asks you to qualitatively assess whether winning the airport contract would be beneficial to ECI.

Knowing that ASPE allows for accounting policy choices, Raymond asks you to assess the current accounting treatment for ECI's taxi licences, and for ECI's acquisition of Ruby, which is currently accounted for at cost, as well as to explain how the lease and convertible debt from Step 3 should be accounted for.

Raymond asks you to prepare a five-year cash budget for the combined ECI and Ruby entities in order to determine when ECI can repay Jen's shareholder loan. She has provided summary financial projections for Ruby, which assume that Step 3 is fully implemented. Raymond asks you to use Jen's projections as provided.

One of Jen's friends, Ethan, is offering to invest in ECI so the company can expand into the ride-sharing industry, either by developing its own app or by teaming up with Ryde Corporation (Ryde), an existing company. As she believes ride sharing represents the next generation of taxi companies, Jen is excited about this opportunity. Raymond asks you to assess both opportunities and provide a recommendation, after first determining ECI's required rate of return.

To incentivize more drivers to participate in the new ride-sharing program, Ethan proposes that ECI finance the purchase of electric vehicles for those people interested in driving for the ride-sharing program. Raymond asks you to discuss the financial risks associated with this proposal and recommend how ECI could mitigate those risks.

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REQUIREMENTS FOR YOUR ROLE
(READ ONLY THE ONE SPECIFIED FOR YOUR PRE-SELECTED ROLE)

FINANCE REQUIREMENTS (continued)

Ethan proposes to invest $5 million in exchange for newly-issued Class A preferred shares or a new class of preferred shares (Class B). Jen believes this investment will improve ECI's ability to fund expansion opportunities and wants to move ahead with Ethan's investment, but first wants your advice on which option to accept. To support this decision, Raymond asks you to calculate the conversion value of the Class B preferred shares at the end of 2024 and the percentage of ECI's common shares that Ethan will own post-conversion. The appropriate enterprise valuation multiple is five times current EBITDA.

In addition to the common appendices (I to VI), information provided in Appendix VII (Finance) is relevant for your analysis.

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REQUIREMENTS FOR YOUR ROLE
(READ ONLY THE ONE SPECIFIED FOR YOUR PRE-SELECTED ROLE)

PERFORMANCE MANAGEMENT REQUIREMENTS

You, CPA, are an analyst at the consulting firm Dupuis, Plante & Potvin (DPP), of which ECI is a client. Raymond is a DPP partner and has received several requests from ECI.

The Calgary airport is seeking bids to allow only the chosen companies to pick up customers for a three-year term. Raymond asks you to determine the lowest fare that ECI could bid for servicing the airport. Raymond also asks you to qualitatively assess whether winning the airport contract would be beneficial to ECI.

Knowing that ASPE allows for accounting policy choices, Raymond asks you to assess the current accounting treatment for ECI's taxi licences, and for ECI's acquisition of Ruby, which is currently accounted for at cost, as well as to explain how the lease and convertible debt from Step 3 should be accounted for.

Jen understands that moving Ruby to ECI's business model entails incurring significantly higher fixed costs while at the same time lowering variable costs. As part of the analysis of when to pursue Step 3, Raymond asks you to calculate the number of trips that Ruby would need to make per day, using ECI's business model, to generate the same profit as it would under Ruby's current model.

Based on a comparison of ECI's and Ruby's current business models at the operational, financial and strategic levels, and taking into consideration Jen's environmental concerns and ECI's overall strategic direction, Raymond asks you to recommend which model to adopt going forward.

The Alberta government recently adopted a Sustainable Economic Development Policy (Policy). Raymond asks you to provide Jen with arguments for how ECI's vision and strategy fit with the Policy's goals, and to explain why ECI and Ruby are eligible for funding from the financial support plan contained in the Policy.

A private equity fund, Eagle Eyes Energy Ventures (EEEV), recently approached Jen with a proposal to refinance ECI and fund its expansion plans. Jen is concerned about the governance implications of the proposal. Raymond asks for your opinion.

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REQUIREMENTS FOR YOUR ROLE
(READ ONLY THE ONE SPECIFIED FOR YOUR PRE-SELECTED ROLE)

PERFORMANCE MANAGEMENT REQUIREMENTS (continued)

Maintenance of ECI's 150 cars is currently being done in service stations in the drivers' neighbourhoods, with ECI reimbursing the cost to its employees. Jen thinks that considerable savings could be realized if ECI adopts a centralized model. Raymond wants you to analyze and comment on the alternatives being considered: development of in-house maintenance or outsourcing to a service provider. Ruby's business model will not be modified for now.

Many Ruby drivers have commented that they find ECI drivers' compensation packages unappealing. Moreover, Jen wonders if ECI's drivers' employment terms provide for a fair sharing of profits and risks between the drivers and ECI. Based on comments received from several passengers, she is concerned that a fixed salary does not incentivize drivers to enhance ECI's value to shareholders and passengers. Raymond asks you to assess the incentive and risk-sharing properties of ECI's current employment agreement, and the impact on drivers' behaviour. He also asks you to analyze the relative merits of three alternative compensation packages suggested by DPP's human capital consulting group.

A group of investors is asking ECI to invest $1 million in seed funding for additional studies on the development, construction and operation of a high-speed link between Edmonton and Calgary. In return, ECI will be granted exclusive access to the Edmonton and Calgary terminals of the link. Raymond asks you to recommend, from a qualitative standpoint only, whether this investment represents a good strategic decision for ECI.

In addition to the common appendices (I to VI), information provided in Appendix VII (Performance Management) is relevant for your analysis.

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REQUIREMENTS FOR YOUR ROLE
(READ ONLY THE ONE SPECIFIED FOR YOUR PRE-SELECTED ROLE)

TAXATION REQUIREMENTS

You, CPA, are an analyst at the consulting firm Dupuis, Plante & Potvin (DPP), of which ECI is a client. Raymond is a DPP partner and has received several requests from ECI.

The Calgary airport is seeking bids to allow only the chosen companies pick up customers for a three-year term. Raymond asks you to determine the lowest fare that ECI could bid for servicing the airport. Raymond also asks you to qualitatively assess whether winning the airport contract would be beneficial to ECI.

Knowing that ASPE allows for accounting policy choices, Raymond asks you to assess the current accounting treatment for ECI's taxi licences, and for ECI's acquisition of Ruby, which is currently accounted for at cost, as well as to explain how the lease and convertible debt from Step 3 should be accounted for.

Next, Raymond asks you to assist Jen with several tax issues. Ruby has accumulated loss carryforwards and Jen wants to ensure that they can be used after the acquisition. Raymond also asks you to calculate Ruby's taxable income and provide a detailed calculation of federal income taxes payable for the two-month period ending December 31, 2019.

To date, Jen has not personally taken any money out of ECI. As ECI obtains more investors, and begins earning income after 2021, Jen expects it will begin to accumulate cash, and she would like to receive $100,000 in the first year. She would like you to explain to her, from a tax perspective, the options for taking excess cash out, when it becomes available, and to provide a recommendation for the best way to do so.

In the implementation of Step 3, Ruby's drivers will become employees. Raymond asks you to discuss the tax implications, to the drivers, of the change in status from contractor to employee.

Jen is considering providing additional benefits to ECI's employees, which would be extended to the Ruby drivers if Step 3 is implemented. Raymond asks you to provide an explanation of the tax implications, to both the drivers and ECI, of the proposed benefits.

With the acquisition of Ruby, ECI's shares might no longer qualify as qualified small business corporation shares. Raymond asks you to analyze the impact of the purchase of Ruby on Jen's ability to utilize the lifetime capital gains deduction, should she sell ECI in the future.

In addition to the common appendices (I to VI), information provided in Appendix VII (Taxation) is relevant for your analysis.

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APPENDIX I – COMMON
DRAFT FINANCIAL STATEMENTS

EnviroCab Inc.
Draft Non-Consolidated Statement of Income and Retained Earnings
For the years ended December 31

	2019	2018
	Draft	Unaudited
Revenue		
Fares	$ 11,250,000	$ 9,980,000
Operating Expenses		
Administrative expenses	254,000	265,000
Automobile operating costs	2,547,000	2,475,000
Depreciation	635,000	625,000
Licence amortization	150,000	150,000
Publicity and promotion	761,000	764,000
Wages and benefits	7,975,000	7,484,000
Total expenses	12,322,000	11,763,000
Operating loss	(1,072,000)	(1,783,000)
Other Income and Expenses		
Dividend from Ruby	100,000	0
Interest on PFB loan	(33,000)	0
Interest on shareholder loan	(60,000)	0
	7,000	0
Loss before taxes	(1,065,000)	(1,783,000)
Income tax expense	0	0
Net loss	(1,065,000)	(1,783,000)
Deficit – opening balance	(3,879,000)	(2,096,000)
Dividends	0	0
Deficit – closing balance	$ (4,944,000)	$ (3,879,000)

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APPENDIX I – COMMON (continued)
DRAFT FINANCIAL STATEMENTS

EnviroCab Inc.
Draft Non-Consolidated Balance Sheet
As at December 31

	2019 Draft	2018 Unaudited
Assets		
Current assets		
Cash and cash equivalents	$ 1,865,000	$ 137,000
Accounts receivable – drivers	260,000	263,000
Prepaid expenses	5,000	5,000
Total current assets	2,130,000	405,000
Property, plant and equipment (Note 1)	4,284,000	4,919,000
Licences (Note 2)	4,050,000	4,200,000
Investment in Ruby – cost	3,100,000	0
Total assets	$ 13,564,000	$ 9,524,000
Liabilities		
Current liabilities		
Sales taxes payable	$ 217,000	$ 187,000
Trade payables and accrued liabilities	190,000	215,000
Total current liabilities	407,000	402,000
Shareholder loan (Note 3)	2,000,000	0
Loan from PFB	3,100,000	0
Total liabilities	5,507,000	402,000
Shareholders' Equity		
Common shares (Note 4)	1,000	1,000
Preferred shares (Note 5)	13,000,000	13,000,000
Deficit	(4,944,000)	(3,879,000)
Total shareholders' equity	8,057,000	9,122,000
Total liabilities and shareholders' equity	$ 13,564,000	$ 9,524,000

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APPENDIX I – COMMON (continued)
DRAFT FINANCIAL STATEMENTS

EnviroCab Inc.
Excerpts from Notes to the Draft Financial Statements

1. Property, Plant and Equipment

	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value 2019	Net Book Value 2018
Vehicles	10	$ 6,000,000	$ 1,800,000	$ 4,200,000	$ 4,800,000
Office equipment	8	28,000	16,000	12,000	9,000
Electronic meters	5	180,000	108,000	72,000	110,000
		$ 6,208,000	$ 1,924,000	$ 4,284,000	$ 4,919,000

2. Licences

	2019	2018
Cost	$ 4,500,000	$ 4,500,000
Accumulated amortization	(450,000)	(300,000)
	$ 4,050,000	$ 4,200,000

3. Shareholder Loan

The shareholder loan bears annual interest of 6% and has no repayment terms.

4. Common Shares

There are 1,000 common shares outstanding.

5. Preferred Shares

There are 13 million Class A preferred shares outstanding. The holders of the preferred shares are entitled to cumulative dividends of 9%. No dividends have been declared or paid since issuance.

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APPENDIX II – COMMON INDUSTRY BACKGROUND

Government Regulations

Transportation of passengers in a car, for a fare, requires a taxi licence. The government regulates the issuance of licences and sets the safety, cleanliness and maintenance standards.

The government instituted the taxi licensing system in the early 1960s, and 30-year licences were issued for $5,000 each at that time. The province was divided into territories, with a predetermined number of licences issued in each territory. Over the years, additional licences have been issued in proportion to population growth.

Once issued, licences can be bought and sold on the open market. The purchaser is extended the same rights as the previous owner, subject to compliance with government regulations.

In 2017, the government sold 150 new 30-year licences to ECI for $30,000 each. This was their market value at the time, compared to approximately $100,000 at their peak value several years earlier.

The government regulates the fares, which can vary from city to city. For example, the Calgary fare is currently a $5 flat rate plus $2 per kilometre, regardless of the type of vehicle. However, airport authorities regulate fares for trips starting at the airport.

Industry Business Model

Apart from ECI, all taxi companies in Alberta operate under the same business model: the taxi drivers supply their own cars, electronic meters and taxi licences, and pay all costs to operate the car, such as gasoline, insurance, maintenance and registration.

Drivers sign an exclusivity contract with a taxi company. The contract enables drivers to access the company's dispatching service. When a passenger calls the company to request a taxi, the dispatcher assigns this request to a driver through the meter installed in the car. The drivers are self-employed contractors who pay a fee to the company for dispatch and other services.; the fee is generally a percentage of the overall fare, before GST. For example, Ruby drivers pay a 7.5% royalty to Ruby on all fares.

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APPENDIX II – COMMON (continued)
INDUSTRY BACKGROUND

ECI's Business Model

ECI owns the cars, meters and taxi licences. Its drivers are employees, who are paid an average of $18 per hour, including benefits. Drivers are required to work a 40-hour week and are not allowed to work overtime. Drivers return the cars to ECI's premises at the end of each shift. ECI determines the schedule and territory that each driver covers.

Passengers pay a fare, which belongs to ECI. Each car has a meter that is linked to ECI's systems.

ECI incurs all the costs of owning and operating the vehicles. The cost of charging the electric cars is approximately $0.02 per kilometre travelled. Annual insurance and registration costs for each car are $800 and $250, respectively. Car repair, maintenance and inspection costs are estimated at $1,500 annually, plus $0.15 per kilometre travelled. Regardless of its usage, each car is subject to an annual depreciation expense of $4,000.

Ride-sharing Services

In recent years, several ride-sharing services have emerged in Alberta that are competing with traditional taxi services. Ride-share drivers do not require taxi licences and use their own cars to transport passengers, who use a smartphone app to request a ride. These services are tolerated by the Alberta government due to their popularity. Taxi drivers are extremely unhappy and have staged numerous protests. Having paid significant amounts of money to purchase licences, they feel unfairly treated by the government. In addition, the open market for licences has stalled because buyers are waiting until there is more certainty regarding the government's view on ride-sharing services. Although Jen is satisfied that ECI's financial future is strong, given its current projections, she wonders if ECI's licences are impaired because of market changes.

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APPENDIX III – COMMON
PURCHASE OF RUBY TAXI INC.

On November 1, 2019, ECI purchased all 4 million outstanding common shares of Ruby for $3.1 million. Ruby also has a December 31 year end. Most taxi businesses in the industry own very few tangible assets as they generally lease their premises, and the drivers own the cars, licences and meters. Taxi companies are usually bought for their reputation, faithful client base and brand recognition. Ruby owns the land and building in which it operates, and earns rental income on 75% of the building, for space not used for its operations.

At the time ECI acquired this subsidiary, the carrying value of Ruby's net assets under ASPE was $1,160,000. According to the independent appraiser hired by ECI, the fair values of Ruby's assets and liabilities at the time of acquisition were all equal to their carrying values, except for the land, which had a fair market value (FMV) of $800,000, compared to a carrying value of $500,000. On the acquisition date, the building had an outstanding mortgage payable of $1,340,000.

According to Ruby's internal financial statements, the net income earned by Ruby for the two-month period ending December 31, 2019, was $250,000. On December 31, 2019, Ruby declared and paid a $100,000 dividend to ECI.

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APPENDIX IV – COMMON
ECI FINANCIAL PROJECTION

ECI's financial projection, which excludes any income or cash flows associated with Ruby, is as follows.

	Projection Year ended December 31				
	2020	**2021**	**2022**	**2023**	**2024**
Fare revenue	$ 11,900,000	$ 12,600,000	$ 13,400,000	$ 14,200,000	$ 15,000,000
Operating income (loss)	$ (820,000)	$ (150,000)	$ 480,000	$ 1,390,000	$ 2,095,000
Finance costs (Note 1)	$ (318,000)	$ (318,000)	$ (318,000)	$ (318,000)	$ (318,000)
Income (loss) before taxes	$ (1,138,000)	$ (468,000)	$ 162,000	$ 1,072,000	$ 1,777,000
Additional information:					
Automobile operating costs and driver wages and benefits	$ 9,600,000	$ 10,250,000	$ 10,800,000	$ 11,500,000	$ 12,300,000
Depreciation and amortization	$ 785,000	$ 785,000	$ 785,000	$ 785,000	$ 785,000

Note 1: Finance costs are comprised of interest on the PFB and shareholder loan. The full balance of the PFB loan is due on December 31, 2024.

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APPENDIX V – COMMON IMPLEMENTATION PLAN FOR STEP 3

Step 3 involves the acquisition of 200 new cars and hiring Ruby's current 200 self-employed drivers as employees. The drivers will use their existing electronic meters and licences. ECI's plan is as follows:

1. Ruby will lease 120 electric cars. It has an agreement in principle with Cars Financing Inc. to lease the cars for a seven-year term, with monthly payments of $500 per car. The cars currently sell for $40,000 each. At the end of the lease, Ruby may purchase the cars for $5,000 each, which is their estimated fair value at that time.

2. Ruby will purchase 80 electric limousine taxis for $50,000 each, financed through long-term debt. The new debt will be payable in five years and will bear annual interest of 4%, payable at the end of each year. The debt will be convertible at the option of the holder into 1 million common shares of Ruby. The Environmental Advantages Fund, a government-backed venture capital fund, has already expressed interest in providing this debt. The market interest rate for similar debt, without the conversion feature, is 6%. The limousines are expected to have a useful life of 10 years.

If the ECI business model is implemented for Ruby, each new car is expected to have the same annual insurance, inspection, registration and maintenance costs, and the same electrical consumption per kilometre travelled, as ECI's cars.

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APPENDIX VI – COMMON AIRPORT BID

Commencing in 2021, the Calgary airport is offering exclusive access to its premises to three taxi companies. Interested companies must submit a bid proposing a set fare for a trip from the airport to anywhere in the Calgary area. The three lowest bids will each be awarded a contract and the standard fare will be the average of the three companies' bids. All companies will be required to comply with certain performance measures as established by the airport.

Airport officials state that an average of 3,000 taxi trips depart from the Calgary airport daily, and the three companies selected will have the right to approximately one-third of the trips. The average round trip is 20 kilometres.

If ECI is one of the winning bids, ECI will allocate 40 cars for airport use only, from 6:00 am to midnight daily. The airport will require a minimum number of taxis to be at the airport during that time. It is estimated that a car allocated to the airport will miss out on 30 trips daily that it would otherwise have provided elsewhere in the city. However, those trips are shorter, averaging eight kilometres each and providing an average fare of $21 each.

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ASSURANCE ROLE
ADDITIONAL INFORMATION

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APPENDIX VII
ASSURANCE – ADDITIONAL INFORMATION

Stock Compensation Packages

On January 2, 2019, when the estimated value of ECI's shares was $1 per share, each of ECI's 150 drivers was given the choice of two stock-based compensation packages:

1. 1,000 options entitling them to acquire one ECI non-voting common share per option at an exercise price of $1; or

2. 1,000 stock appreciation rights entitling them to a cash payment representing the difference between the market value of one ECI share at the time of exercise and a $1 benchmark value per share. For example, if the shares are worth $1.85 each, the holder is entitled to a cash payment of $850 (1,000 × $0.85).

Only drivers who satisfy the five-year vesting requirement will be eligible to exercise either instrument.

Using the Black-Scholes model, the controller has determined that, on January 2, 2019, the fair value of the options was $0.35 each. He also determined that, on December 31, 2019, ECI's non-voting shares had an estimated fair value of $1.50 each, and the fair value of the options, using the Black-Scholes model, was $0.75 each.

Of all the drivers, 60% selected the stock options and 40% selected the stock appreciation rights. Jen estimates that 80% of the drivers granted these instruments will still be employed by ECI on January 2, 2024.

No amounts have been recorded in the financial statements for these packages.

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APPENDIX VII (continued)
ASSURANCE – ADDITIONAL INFORMATION

Audit Planning Performed by François

The risk of material misstatement at the financial statement level is assessed as moderate. Although Jen's extensive business experience and the straightforward nature of the taxi business lowers the risk, accounting for the acquisition of Ruby is complex and increases risk.

Materiality is calculated as $106,500, or 10% of the loss before income taxes for the year ended December 31, 2019; given the moderate risk of the audit, I think this is appropriate.

Because this will be the first audit of ECI's financial statements, we must adopt a substantive approach for all accounts.

Accounts receivable working paper

From December 31, 2018, to December 31, 2019, accounts receivable decreased by approximately 1%. Since this decrease is immaterial, work was limited to agreeing the total accounts receivable balance per the aged subledger to the financial statements.

Property, plant and equipment working paper

Prepared by: François
Date prepared: Jan. 22, 2020

Account	Notes	Cost	Accumulated Depreciation	2019 Net Book Value		2018 Net Book Value
Vehicles	1, 2, 5	$6,100,000	$1,800,000	$4,300,000		$4,800,000
Office equipment	1, 3, 5	28,000	16,000	12,000		9,000
Electronic meters	1, 4, 5	180,000	108,000	72,000		110,000
		$6,308,000	$1,924,000	$4,384,000	v	$4,919,000
		^	^	^		^

Notes:

1. Balances agreed to capital asset continuity schedule.
2. Purchase price of two new vehicles, totalling $200,000, as confirmed with management.
3. Per management, the only addition was a new desk for Jen. Since the amount is immaterial, no further work considered necessary.
4. Per management, no additions or disposals, so no further work considered necessary.
5. Accumulated depreciation recalculated. No errors noted.

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^ Footed
v Cross footed

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APPENDIX VII (continued)
ASSURANCE – ADDITIONAL INFORMATION

Taxi Fares and Related Processes

Approximately 80% of all trips are arranged through Ruby's dispatch centre and 20% result from passengers hailing taxis. Passengers can pay their fares by cash or credit card. Drivers contracted by Ruby provide their own meters to track fares. Because Ruby does not require a specific model, a considerable variety of meters are used.

A small number of drivers have meters that print receipts automatically while also transmitting an electronic record of the fare to Ruby. Most of Ruby's drivers have basic meters that only determine the fare to be charged. These drivers use handwritten receipts that they fill out with the date, pickup and drop off points, fare and GST registration number. Receipts are only provided when requested by the passenger. Whether or not a receipt is issued, the driver notes the trip in a paper log so that the total amount of fare revenues can be tracked.

Regardless of the type of meter used, drivers are required to pay the 7.5% royalty revenue to Ruby every Sunday. On a weekly basis, Ruby's accountant calculates the royalty and reconciles it to the payment received, and drivers are required to reimburse Ruby for any shortfall. Ruby allows its drivers to submit royalty revenue by cash or cheque delivered to Ruby's office or by electronic fund transfer. Because of the bank fees involved, few drivers pay by electronic fund transfer. Other than late remittances, Ruby has not encountered any difficulties with royalty revenues paid in cash. However, several of the cheques written by drivers have not cleared the bank due to insufficient funds. Additionally, Ruby's accountant does not have time to follow up on outstanding amounts. As a result, there have been several instances in which remittances have been late, or have not been made prior to a driver leaving Ruby, necessitating writing off the royalty receivable.

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APPENDIX VII (continued)
ASSURANCE – ADDITIONAL INFORMATION

Calgary Airport Contract

At the end of the first year of the contract, each successful bidder must submit to the Calgary Airport Authority an audit-level *CSAE 3530 Attestation Engagement to Report on Compliance* report, from an independent auditor, attesting to the company's compliance with the following performance measures:

- A minimum of 20 taxis from the company are present at the airport between 6:00 am and midnight.
- The company charges passengers the agreed-upon fare.
- All vehicles are insured, against property and casualty losses, with liability coverage for passenger injuries of no less than $5 million per occurrence.
- All vehicles pass a 100-point safety inspection on a quarterly basis.
- No more than 5% of trips result in passenger complaints regarding the vehicle's condition, the way it is driven or the driver's conduct toward their passengers.

Structure and Work of the QC Team

The QC team's main responsibility is to identify processes and procedures within ECI where improvements can be made; however, there is no formal document outlining its role in ECI or the team's reporting structure. The team tests both financial and non-financial processes. Jason uses his professional judgment to decide what to review, and chooses the next project once the current one is complete. The controller approves the team's budget, responds to the team's recommendations and approves the team's new hires.

François has indicated an interest in enrolling in an internal audit program but has not yet done so. His work is not always reviewed in a timely manner. Although all of his work and reports are reviewed eventually, the controller sometimes receives audit reports before they have been reviewed and before deficiencies in the work performed have been addressed.

During the year ended December 31, 2019, the team audited the internal controls intended to mitigate significant risks to ECI's operations, and did not report any deficiencies.

The team has not yet had an opportunity to audit Ruby's internal controls, although preliminary discussions with Ruby's former owner suggests it has strong controls in most areas. Jen has asked Jason not to question Ruby's management when the team does begin to perform such audits. Because it is important that the relationship with Ruby's management is strong prior to completing Step 3, Jen does not want them to feel they are being criticized.

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FINANCE ROLE
ADDITIONAL INFORMATION

(CONTINUED ON PAGE 27)

APPENDIX VII
FINANCE – ADDITIONAL INFORMATION

Capital Budgeting Policy

To ensure that it is prioritizing projects that provide the best return, ECI recently developed a capital budgeting policy. To assess projects, ECI requires a rate of return equal to its weighted-average cost of capital plus a premium of 5%.

Market information

Here are some public companies that could be somewhat comparable to ECI:

Company	Description	Unlevered Beta	Debt to Total Capital
Diamond Cabs Inc.	Largest taxi operator in Ontario; drivers own their taxis and licences	0.8	50%
Medallion Financial Inc.	Acquires taxi licences in various provinces and rents the licences to taxi drivers	1.1	10%
We Drive Ltd.	Second-largest taxi operator in Ontario; drivers own their taxis but rent licences from the company	1.0	60%
CarShare Inc.	The only publicly traded car-sharing company; operates in the United States	0.4	80%

Rates:

Risk-free rate	3.0%
Cost of debt	5.5%
Market rate of return	8.5%
Size premium	6.0%
Tax rate	26.0%

(CONTINUED ON PAGE 28)

APPENDIX VII (continued)
FINANCE – ADDITIONAL INFORMATION

Ryde Green – Ride-sharing Opportunity

In 2017, Ryde began operating a ride-sharing service in Calgary. Ryde has marketed itself as a reliable and safe ride-sharing service, with over 500,000 registered users. Ryde's business model is to take a 20% royalty on each fare.

Ryde has approached ECI to add a premium, environmentally friendly, option to Ryde's smartphone app, which will be named "Ryde Green." A number of electric vehicle drivers already participate in Ryde's existing ride-sharing service; Ryde expects there will be substantial driver and passenger demand for this premium service. Ryde and ECI would enter into a 10-year agreement to operate the program. All upfront costs and ongoing revenues and expenses will be shared equally.

Ryde estimates that adding this option to its app will cost $500,000. To promote the option, the first 5,000 passengers to select the Ryde Green option will be given their first trip for free. For these trips, drivers will be paid the fares they would otherwise have received from the passengers.

Ryde believes the premium service will generate an average fare of $1.50 per kilometre, and that a 20% royalty would still be appropriate for the premium service. Going forward, Ryde believes this premium service will attract 10,000 trips per week, with an average trip distance of eight kilometres. Further, if the government resolves the issues related to the ride-sharing services, Ryde expects demand for this service to double.

Ryde evaluates all new drivers, inspects their vehicles prior to approval and performs random vehicle inspections of its drivers. Annual costs related to driver evaluations and vehicle inspections are expected to total $200,000. Other annual operating costs are expected to equal 20% of Ryde Green's revenues.

If ECI does not team up with Ryde, Ryde will team up with a different company.

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APPENDIX VII (continued)
FINANCE – ADDITIONAL INFORMATION

EcoCab – Alternative Ride-sharing Opportunity

ECI is considering developing its own smartphone app, called “EcoCab.” This is expected to cost $2.5 million and will be led by Ethan, who developed an app in his spare time and is confident that he can lead this project. To develop a ride-sharing customer base, ECI believes it will need to offer its first 10,000 passengers a free trip.

EcoCab will charge its customers a fee of $1.50 per kilometre (like Ryde Green) and pay its drivers a flat fee of $1.20 per kilometre. Going forward, Ethan believes that EcoCab (like Ryde Green) will attract 10,000 trips per week. Further, if the government resolves the issues related to ride-sharing services, there is potential for the number of trips per week to double.

ECI would adopt the same driver enrolment, driver evaluation and vehicle inspection model as Ryde. ECI does not have experience with driver evaluations and vehicle inspections but believes it can subcontract to a third party for the same total cost as Ryde. Other annual operating costs, including the cost of hiring a manager to oversee this program, are expected to total 30% of ECI’s net revenues (after paying driver fees) from EcoCab.

If passenger demand exceeds supply, ECI will consider using ECI’s and Ruby’s drivers to supplement the driver pool.

(CONTINUED ON PAGE 30)

APPENDIX VII (continued)
FINANCE – ADDITIONAL INFORMATION

Car Financing Program

To attract drivers interested in buying an electric car and driving for the ride-sharing service, Ethan proposes that ECI offer a low-interest financing program.

Buyers will be able to finance the full purchase price of the car with no initial deposit and no credit check, which ECI believes will be attractive. Drivers must commit to driving at least 20,000 kilometres per year for the ride-sharing service.

To provide this financing, ECI will partner with SafeBank. Buyers will receive financing from two sources:

- Loan #1: Half of the purchase price will be financed by SafeBank at their typical car financing rates, repaid over Years 1 to 5.
- Loan #2: Half of the purchase price will be financed by ECI at a 0% interest rate. If a driver fails to meet the 20,000 kilometre-per-year requirement, the interest rate increases to 10%. The buyer will only make interest payments during the first five years and will then repay the principal by making equal annual payments, plus interest, during Years 6 to 10.

SafeBank will register a first security lien, and ECI will register a second security lien, on the car. ECI does not believe other security is necessary as either lender can repossess the car if payments are not made.

To provide ECI with the funds required to extend Loan #2 to the buyers, SafeBank has offered ECI an operating facility at a floating rate of prime plus 1%, secured by a general security agreement over ECI's assets. Prime is currently 3%.

ECI believes that, due to the interest rate penalties, all drivers will meet the minimum kilometre commitment and there will be no loan defaults.

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APPENDIX VII (continued)
FINANCE – ADDITIONAL INFORMATION

Ruby Financial Projection

	Projection **Year ended December 31** *(in thousands of Canadian dollars)*				
	2020	**2021**	**2022**	**2023**	**2024**
Royalty revenue	$ 18,700	$ 19,900	$ 21,200	$ 22,600	$ 24,000
EBITDA	$ 2,800	$ 3,280	$ 3,640	$ 4,050	$ 4,470
Depreciation and amortization					
Building	$ 100	$ 100	$ 100	$ 100	$ 100
Other assets	$ 850	$ 850	$ 850	$ 850	$ 850
Debt payments (Note 1)					
Interest	$ 55	$ 50	$ 44	$ 38	$ 33
Principal	$ 125	$ 130	$ 136	$ 142	$ 147

Note 1: It is assumed that the convertible debt outstanding with the Environmental Advantages Fund is converted into common shares of Ruby at the end of 2024.

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APPENDIX VII (continued)
FINANCE – ADDITIONAL INFORMATION

Ethan – Proposed Investment

Ethan has proposed the following two investment options in ECI (including its investment in Ruby):

1. Class A Preferred Shares: Investment of $5 million in Class A preferred shares; or

2. Class B Preferred Shares: Investment of $5 million in Class B preferred shares, which convert into common shares at the end of 2024 at a conversion price equal to the fair value per common share at the time.

   The Class B preferred shares do not carry any dividends.

Upon Ethan's investment, a board will be created for ECI with at least five board members. Ethan will have the right to nominate 20% of the board members. Upon conversion, Ethan will be permitted to nominate a number of board members consistent with his percentage of ownership interest in ECI.

Jen believes that Ethan will be a great partner but wants to ensure that she retains control of ECI. Also, while Jen is interested in Ethan's proposals, she wants ECI to remain true to its purpose and believes that the traditional taxi model is still financially viable.

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PERFORMANCE MANAGEMENT ROLE
ADDITIONAL INFORMATION

(CONTINUED ON PAGE 35)

APPENDIX VII
PERFORMANCE MANAGEMENT – ADDITIONAL INFORMATION

Sustainable Economic Development Policy (Policy)

The recently adopted Policy contains two components: long-term social and environmental goals for the province; and a financial support plan to help businesses transition toward economic sustainability while meeting these goals.

The Policy outlines the following targets to be achieved by 2030:

- A 20% reduction in greenhouse gas emissions—mostly carbon dioxide
- A 30% reduction in kilometres driven for personal use
- A 40% reduction in gasoline consumption
- A 50% reduction in sales of fuel-consuming cars and trucks
- A 50% reduction in poverty

To help support achievement of these goals, the government is offering funding to businesses and organizations that meet the following criteria:

- The funding must be used for new investment in capital expenditures that contribute to the achievement of the Policy's social and environmental targets.
- Businesses must be either profitable or expect to become profitable in the near term.
- Businesses must provide their employees with working conditions, salaries, benefits and vacation that meet the industry's median.
- Businesses must be controlled ultimately by either a person or an entity located in Alberta.
- Priority will be given to not-for-profit entities, cooperatives, employee-owned entities and small- and medium-sized businesses.
- Priority will be given to high-pollution industries.

According to recent statistics, transportation accounts for approximately 30% of greenhouse gas emissions; road transportation accounts for about 75% of those emissions.

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APPENDIX VII (continued)
PERFORMANCE MANAGEMENT – ADDITIONAL INFORMATION

Financing Offer from EEEV

EEEV is the private-equity division of Integrated Oil Corporation (Integrated), one of North America's largest oil and gas firms. It has approached Jen with a proposal to provide up to $10 million in financing to ECI.

The proposal includes creating a new ECI board, with the following governance terms:

- As long as Jen owns at least 50% of ECI's equity, Jen will choose the chair from a list of three candidates submitted by EEEV.
- Excluding the chair, EEEV will appoint one less director than ECI.
- An executive committee of the board will be established. It will be comprised of three members: the chair, one appointed by Jen, and one appointed by EEEV.
- Any capital investment exceeding $20,000 must be approved by the executive committee.
- Dividends cannot be paid unless retained earnings exceed $2 million and ECI is current in its interest and capital repayments to EEEV.
- All other financing by ECI must be subordinate to EEEV.

ECI's board is currently comprised of Jen and three other members. To fulfill the first governance term above, EEEV is suggesting three individuals as potential board candidates. All three have extensive business experience and currently serve on several boards: Chris, a former vice-president of international operations at Integrated; Leslie, a geologist and Integrated's former vice-president of exploration; and Adrian, a chemical engineer and former president of a large pipeline company. For the chair, EEEV is presenting three additional possible candidates who are all currently members of EEEV's board.

(CONTINUED ON PAGE 37)

APPENDIX VII (continued)
PERFORMANCE MANAGEMENT – ADDITIONAL INFORMATION

Vehicle Maintenance

While electric cars are supposed to be low maintenance, Jen has noticed that ECI cars need servicing more than she expected, often for minor accidents or for accelerated wear of brakes.

There have been many very negative comments in social media about ECI drivers' appearance and behaviour. In contrast, car-sharing services such as Ryde often receive positive feedback about car cleanliness and timeliness.

Overall maintenance costs for electric cars are estimated as follows:

Fixed annual costs	$1,500
Incremental variable costs per kilometre driven	$ 0.15

These figures assume that cars on the road typically make 30 trips per day, averaging eight kilometres, and that each car is driven approximately 100,000 kilometres per year.

Jen received a proposal from Lassonde Brothers Inc. (Lassonde), which operates maintenance centres and body shops in Calgary and Edmonton. Lassonde is offering a three-year contract for the servicing of ECI's 150 cars. For the first year, the fixed-cost contract will be equivalent to ECI's current maintenance costs, less 5%. In the second and third years of the contract, the amount will be revised, based on the previous year's actual costs. The revised amount could be as much as 10% more or 5% less than in the previous year.

Jen is also considering performing all car maintenance in-house, using the building Ruby owns in Calgary. To provide enough space for the service centre, one of the existing tenants' leases would need to be broken, at a one-time cost of $20,000. The tenant currently pays $20,000 a year and six years remain on the lease. Also, the building would need to be expanded, at a cost of $3 million, comprised of $400,000 for the land, $1 million for the building and $1.6 million for the equipment. It is estimated that the building will have a 20-year useful life and the equipment a 10-year useful life, with both assets having negligible salvage values. Estimated annual costs will be $1.3 million for mechanics' wages and benefits, $250,000 for property taxes and other building costs, and $500,000 for supplies and parts. ECI's administrative manager will act as the service centre manager and will be paid $15,000 more than their current annual salary of $60,000 to take on this role. The manager is expected to divide their time equally between both roles.

(CONTINUED ON PAGE 38)

APPENDIX VII (continued)
PERFORMANCE MANAGEMENT – ADDITIONAL INFORMATION

Employment Terms for ECI Drivers

ECI drivers are currently paid an hourly wage plus benefits. DPP's human capital consulting group is suggesting three alternative compensation models for ECI drivers, and could eventually be used for Ruby drivers.

Option 1: Keep the current compensation structure and set up a profit-sharing plan, with 10% of any profit before income tax being distributed to all drivers, in proportion to their annual salary.

Option 2: Keep the current compensation structure and set up an incentive plan, with 2% of the fares earned by a driver being paid to the driver on a weekly basis.

Option 3: Replace the fixed salary with a commission of 20% of fares earned by the driver.

Jen recently read an article about the importance of establishing long-term relationships with specific passenger groups in order to increase revenue stability. Because of their recurring transportation needs, hotels, hospitals, health clinics, airlines and businesses with extensive international operations were mentioned as having the potential to generate long-term revenue streams. As ECI does not currently have any such relationships, Jen would like to ensure that drivers are incentivized to develop them.

(CONTINUED ON PAGE 39)

APPENDIX VII (continued)
PERFORMANCE MANAGEMENT – ADDITIONAL INFORMATION

High-speed Link

It is estimated that almost 90% of the individual, inter-city traffic between Edmonton and Calgary can be captured by a high-speed link. Most of that traffic is for business or government purposes, resulting in most individuals regularly commuting back and forth between the two cities.

A group of investors is proposing a high-speed link between Edmonton and Calgary, with terminals located in both cities' downtown districts. The system has been pilot tested and has received authorization to move to the experimentation phase. The link will use environmentally-friendly energy sources. The group has already invested $10 million in the venture, which will require an estimated total investment of $200 million. The group is offering ECI exclusive access to its two terminals in exchange for a one-time $1 million investment.

Thirty taxis would need to be assigned to each terminal. The group of investors is interested in ECI as they want the passengers' positive experience on the high-speed link to continue upon arrival at their destination, and for both modes of transportation to be environmentally friendly.

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TAXATION ROLE
ADDITIONAL INFORMATION

(CONTINUED ON PAGE 41)

APPENDIX VII
TAXATION – ADDITIONAL INFORMATION

Ruby Tax Information

For the 10 months ending October 31, 2019

The controller has prepared the tax return for the deemed year end at October 31, 2019. Other than using October 31 as the deemed year end, he has not considered any impacts of the acquisition of control.

At October 31, 2019, the draft return shows the following undepreciated capital cost (UCC) balances:

Class 1	$ 1,500,000
Class 8	$ 50,000
Class 14.1	$ 1,500
Class 50	$ 75,000

At October 31, 2019, the FMV of the office furniture was $25,000 and the computer equipment was valued at $175,000. The building had an FMV of $1,680,000, and Ruby had portfolio investments with both an adjusted cost base and FMV of $120,000.

The draft return also shows:

- a non-capital loss carryforward of $35,000.
- non-eligible refundable dividend tax on hand (NERDTOH) of $34,000.
- eligible refundable dividend tax on hand (ERDTOH) of $65,000.
- a general rate income pool (GRIP) of $2 million.
- an allowable capital loss of $50,000 from the sale of some investments on October 15, 2019. There were no capital gains during this period.

During the 10 months ended October 31, 2019, Ruby did not declare any dividends.

(CONTINUED ON PAGE 42)

APPENDIX VII (continued)
TAXATION – ADDITIONAL INFORMATION

Ruby Tax Information (continued)

For the two months ending December 31, 2019

During November and December, Ruby made the following purchases and disposals of capital property:

- To better align its IT functions with ECI, Ruby spent $20,000 on new enterprise resource planning (ERP) software.
- A new computer was purchased for the accountant, for $2,500. The old computer originally cost $1,000 and was donated to a charitable organization, which issued a charitable donation receipt to Ruby for its FMV of $500.
- Some old desks were sold to drivers for personal use, at FMV, for a total of $700.

For November and December, total rental revenue of $30,000 was collected on the rental portion of the building. The building was constructed in 2011 and is comprised entirely of commercial office space.

For the two-month period ending December 31, 2019, expenses included the following:

- Accounting depreciation and amortization was $15,000.
- In an effort to retain drivers after the acquisition, Ruby spent $4,000 on meals and entertainment.
- Golf club dues of $3,000 were incurred.
- As required for the building mortgage, premiums of $100 per month were paid for life insurance on Jen's life.
- Mortgage interest for the two months was $11,000.
- Legal fees of $5,000 were incurred to refinance the mortgage on the building.

Ruby did not record any income tax expense for the two-month period and the controller has said he will do this, so you do not have to prepare the entries.

The December 31, 2019, a dividend was declared and paid as an eligible dividend. Ruby also received $6,000 in eligible dividends, which was included in its net income.

(CONTINUED ON PAGE 43)

APPENDIX VII (continued)
TAXATION – ADDITIONAL INFORMATION

Ruby Drivers Changing from Independent Contractors to Employees

Once the Ruby drivers become employees, ECI will be responsible for most of the cost of operating the taxis. However, the drivers will be responsible for:

- Car washes and cleaning the car.
- ECI-branded shirts, required to be worn while on duty.
- Bottled water and snacks to provide to passengers, which has become standard practice in the industry.

The drivers want to know if they can deduct these costs for tax purposes once they become employees.

Ruby drivers will either retain their original taxi, which is in Class 16 with a 40% rate, as a personal vehicle or sell it to another taxi driver. In either scenario, the drivers will keep the electronic meters to use in their ECI-owned electric vehicles.

One thing the drivers liked about being self-employed was the ability to claim input tax credits on their GST returns for GST paid on business expenses. Once they become employees, they hope they can still get input tax credits on their employment expenses.

Driver Benefits

The following benefits are being considered for the ECI drivers, and if Step 3 is completed, will eventually be also implemented for the Ruby drivers:

- ECI will provide private health and dental programs, with premium payments divided evenly between ECI and its drivers.
- The provider of the private health insurance has a family assistance program. Should they opt in, the drivers will pay 100% of these premiums.
- ECI will establish a long-term disability plan. ECI will pay the premiums, but Jen wonders if there are any tax advantages, should the drivers choose to include the premium in their income as a taxable benefit.
- ECI will pay for the full cost of drivers to maintain the correct driver's licence required to transport passengers and for any medical examinations required in the process.
- ECI will pay for a gym membership so drivers can get exercise, especially during the Alberta winters.
- ECI is considering a stock option plan, in which each driver is offered 100 shares with an exercise price of $12.50. The current FMV of ECI's shares is $5.00 and is expected to rise to $25.50 in the future.

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End of Exam

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CPA COMMON FINAL EXAMINATION REFERENCE SCHEDULE

1. PRESENT VALUE OF TAX SHIELD FOR AMORTIZABLE ASSETS

Present value of total tax shield from CCA for a new asset acquired before November 21, 2018

$$= \frac{CTd}{(d+k)}\left(\frac{2+k}{2(1+k)}\right) = \frac{CdT}{(d+k)}\left(\frac{1+0.5k}{1+k}\right)$$

Present value of total tax shield from CCA for a new asset acquired after November 20, 2018

$$= \frac{CdT}{(d+k)}\left(\frac{1+1.5k}{1+k}\right)$$

Notation for above formula:
C = net initial investment
T = corporate tax rate
k = discount rate or time value of money
d = maximum rate of capital cost allowance

2. SELECTED PRESCRIBED AUTOMOBILE AMOUNTS

	2019	**2020**
Maximum depreciable cost — Class 10.1	$30,000 + sales tax	$30,000 + sales tax
Maximum depreciable cost — Class 54	$55,000 + sales tax	$55,000 + sales tax
Maximum monthly deductible lease cost	$800 + sales tax	$800 + sales tax
Maximum monthly deductible interest cost	$300	$300
Operating cost benefit — employee	28¢ per km of personal use	28¢ per km of personal use
Non-taxable automobile allowance rates		
— first 5,000 kilometres	58¢ per km	59¢ per km
— balance	52¢ per km	53¢ per km

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3. INDIVIDUAL FEDERAL INCOME TAX RATES

For 2019

If taxable income is between			Tax on base amount	Tax on excess
$0	and	$47,630	$0	15%
$47,631	and	$95,259	$7,145	20.5%
$95,260	and	$147,667	$16,908	26%
$147,668	and	$210,371	$30,534	29%
$210,372	and	any amount	$48,718	33%

For 2020

If taxable income is between			Tax on base amount	Tax on excess
$0	and	$48,535	$0	15%
$48,536	and	$97,069	$7,280	20.5%
$97,070	and	$150,473	$17,230	26%
$150,474	and	$214,368	$31,115	29%
$214,369	and	any amount	$49,644	33%

4. SELECTED INDEXED AMOUNTS FOR PURPOSES OF COMPUTING INCOME TAX

Personal tax credits are a maximum of 15% of the following amounts:

	2019	**2020**
Basic personal amount	$12,069	$12,298
Spouse, common-law partner, or eligible dependant amount	12,069	12,298
Age amount if 65 or over in the year	7,494	7,637
Net income threshold for age amount	37,790	38,508
Canada employment amount	1,222	1,245
Disability amount	8,416	8,576
Canada caregiver amount for children under age 18	2,230	2,273
Canada caregiver amount for other infirm dependants age 18 or older (maximum amount)	7,140	7,276
Net income threshold for Canada caregiver amount	16,766	17,085
Adoption expense credit limit	16,255	16,563

Other indexed amounts are as follows:

	2019	**2020**
Medical expense tax credit — 3% of net income ceiling	$2,352	$2,397
Annual TFSA dollar limit	6,000	6,000
RRSP dollar limit	26,500	27,230
Lifetime capital gains exemption on qualified small business corporation shares	866,912	883,384

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5. PRESCRIBED INTEREST RATES (base rates)

Year	Jan. 1 – Mar. 31	Apr. 1 – June 30	July 1 – Sep. 30	Oct. 1 – Dec. 31
2020	2	2		
2019	2	2	2	2
2018	1	2	2	2

This is the rate used for taxable benefits for employees and shareholders, low-interest loans, and other related-party transactions. The rate is 4 percentage points higher for late or deficient income tax payments and unremitted withholdings. The rate is 2 percentage points higher for tax refunds to taxpayers, with the exception of corporations, for which the base rate is used.

6. MAXIMUM CAPITAL COST ALLOWANCE RATES FOR SELECTED CLASSES

Class 1……	4%	for all buildings except those below
Class 1……	6%	for buildings acquired for first use after March 18, 2007 and ≥ 90% of the square footage is used for non-residential activities
Class 1……	10%	for buildings acquired for first use after March 18, 2007 and ≥ 90% of the square footage is used for manufacturing and processing activities
Class 8……	20%	
Class 10……..	30%	
Class 10.1……...	30%	
Class 12……..	100%	
Class 13……..	Original lease period plus one renewal period (minimum 5 years and maximum 40 years)	
Class 14……..	Length of life of property	
Class 14.1……...	5%	For property acquired after December 31, 2016
Class 17……..	8%	
Class 29……..	50%	Straight-line
Class 43……..	30%	
Class 44……..	25%	
Class 45……..	45%	
Class 50……..	55%	
Class 53……..	50%	
Class 54……..	30%	

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