2020

AutoCanada

2020 First Quarter
Financial Results

Condensed Interim Consolidated Financial Statements (Unaudited)

■ March 31, 2020

AutoCanada Inc.
Condensed Interim Consolidated Statements of Comprehensive Loss
(Unaudited)
(in thousands of Canadian dollars except for share and per share amounts)

	Three Months Ended March 31, 2020 $	Three Months Ended March 31, 2019 Restated (Note 2) $
Revenue (Note 5)	708,826	739,371
Cost of sales (Note 6)	(591,528)	(612,672)
Gross profit	117,298	126,699
Operating expenses (Note 7)	(116,700)	(121,666)
Operating profit before other (loss) income	598	5,033
Lease and other income, net	1,970	1,632
Gain on disposal of assets, net	29	6,806
Impairment of non-financial assets (Note 15)	(31,545)	—
Operating (loss) profit	(28,948)	13,471
Finance costs (Note 8)	(22,320)	(15,926)
Finance income (Note 8)	119	237
Other gains	1,159	19
Net loss for the period before taxation	(49,990)	(2,199)
Income taxes (Note 9)	(3,137)	472
Net loss for the period	(46,853)	(2,671)
Other comprehensive loss		
Items that may be reclassified to profit or loss		
Foreign operations currency translation	(1,448)	(670)
Change in fair value of cash flow hedge (Note 18)	(14,390)	(5,965)
Income tax relating to these items	3,770	1,610
Other comprehensive loss for the period	(12,068)	(5,025)
Comprehensive loss for the period	(58,921)	(7,696)
Net loss for the period attributable to:		
AutoCanada shareholders	(46,685)	(2,813)
Non-controlling interest	(168)	142
	(46,853)	(2,671)
Comprehensive loss for the period attributable to:		
AutoCanada shareholders	(58,753)	(7,838)
Non-controlling interest	(168)	142
	(58,921)	(7,696)
Net loss per share attributable to AutoCanada shareholders:		
Basic	(1.70)	(0.10)
Diluted	(1.70)	(0.10)
Weighted average shares		
Basic (Note 19)	27,431,377	27,418,197
Diluted (Note 19)	27,431,377	27,418,197

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

AutoCanada Inc.

Condensed Interim Consolidated Statements of Financial Position

(In thousands of Canadian dollars)

	March 31, 2020 (Unaudited) $	December 31, 2019 $
ASSETS		
Current assets		
Cash and cash equivalents (Note 11)	40,144	55,555
Trade and other receivables (Note 12)	93,213	132,625
Inventories (Note 13)	922,697	821,455
Current tax recoverable	1,274	4,162
Other current assets	8,715	8,502
Assets held for sale (Note 10)	13,108	14,193
	1,079,151	1,036,492
Property and equipment (Note 14)	198,663	197,410
Right-of-use assets	304,073	303,536
Other long-term assets	6,260	5,042
Deferred income tax	14,187	13,029
Intangible assets (Note 15)	387,440	410,293
Goodwill (Note 15)	19,423	24,115
	2,009,197	1,989,917
LIABILITIES		
Current liabilities		
Trade and other payables (Note 16)	106,217	134,971
Revolving floorplan facilities (Note 17)	936,214	832,158
Vehicle repurchase obligations	5,446	7,802
Indebtedness (Note 17)	119	127
Lease liabilities	22,330	21,208
Other liabilities	1,354	1,240
Redemption liabilities	15,498	15,498
	1,087,178	1,013,004
Long-term indebtedness (Note 17)	210,003	213,305
Long-term lease liabilities	363,030	359,255
Derivative financial instruments (Note 18)	22,044	6,186
Other long-term liabilities	9,817	9,767
Deferred income tax	9,871	20,301
	1,701,943	1,621,818
EQUITY		
Attributable to AutoCanada shareholders	292,930	353,607
Attributable to Non-controlling interests	14,324	14,492
	307,254	368,099
	2,009,197	1,989,917

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

AutoCanada Inc.

Condensed Interim Consolidated Statements of Changes in Equity

(Unaudited)

(in thousands of Canadian dollars)

	Attributable to AutoCanada shareholders							
	Share capital $	Contributed surplus $	Cumulative translation adjustment $	OCI hedge reserve $	Accumulated deficit $	Total capital $	Non-controlling interests $	Total equity $
Balance, January 1, 2020	**509,890**	**6,463**	**(947)**	**(4,535)**	**(157,264)**	**353,607**	**14,492**	**368,099**
Net loss	—	—	—	—	(46,685)	(46,685)	(168)	(46,853)
Other comprehensive loss	—	—	(1,448)	(10,620)	—	(12,068)	—	(12,068)
Dividends declared on common shares (Note 19)	—	—	—	—	(2,743)	(2,743)	—	(2,743)
Dividends reinvested (Note 19)	(24)	—	—	—	—	(24)	—	(24)
Shares settled from treasury (Note 19)	9	(9)	—	—	—	—	—	—
Share-based compensation	—	843	—	—	—	843	—	843
Balance, March 31, 2020	**509,875**	**7,297**	**(2,395)**	**(15,155)**	**(206,692)**	**292,930**	**14,324**	**307,254**

	Attributable to AutoCanada shareholders							
	Share capital $	Contributed surplus $	Cumulative translation adjustment $	OCI Hedge Reserve	Accumulated deficit $	Total capital $	Non-controlling interests $	Total equity $
Balance at December 31, 2018 as originally presented	**509,538**	**5,109**	**6,136**	**(2,746)**	**(89,469)**	**428,568**	**18,739**	**447,307**
Measurement period adjustments, net of tax	—	—	—	—	(8,014)	(8,014)	—	(8,014)
Change in accounting policy, net of tax	—	—	—	—	(20,460)	(20,460)	—	(20,460)
Balance, January 1, 2019 Restated	**509,538**	**5,109**	**6,136**	**(2,746)**	**(117,943)**	**400,094**	**18,739**	**418,833**
Net loss	—	—	—	—	(2,813)	(2,813)	142	(2,671)
Other comprehensive loss	—	—	(670)	(4,355)	—	(5,025)	—	(5,025)
Dividends declared on common shares (Note 19)	—	—	—	—	(2,742)	(2,742)	—	(2,742)
Acquisition of non-controlling interests	—	—	—	—	—	—	(1,703)	(1,703)
Forward share purchase	—	(3,466)	—	—	—	(3,466)	—	(3,466)
Dividends reinvested (Note 19)	(27)	—	—	—	—	(27)	—	(27)
Shares settled from treasury (Note 19)	65	(65)	—	—	—	—	—	—
Share-based compensation	—	(739)	—	—	—	(739)	—	(739)
Balance, March 31, 2019 Restated	**509,576**	**839**	**5,466**	**(7,101)**	**(123,498)**	**385,282**	**17,178**	**402,460**

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

AutoCanada Inc.

Condensed Interim Consolidated Statements of Cash Flows

(Unaudited)

(in thousands of Canadian dollars)

	Three Months Ended March 31, 2020 $	Three Months Ended March 31, 2019 Restated (Note 2) $
Cash provided by (used in):		
Operating activities		
Net loss for the period	(46,853)	(2,671)
Income tax (recovery)/expense (Note 9)	(3,137)	472
Depreciation of property and equipment (Note 7)	4,387	4,914
Depreciation of right-of-use assets (Note 7)	6,208	5,381
Gain on disposal of assets	(29)	(6,806)
Share-based compensation - equity-settled	843	(804)
Amortization of deferred financing costs	225	—
Loss on extinguishment of debt (Note 8)	4,002	—
Income taxes (paid) recovered	(66)	5,605
Net change in non-cash working capital (Note 20)	8,756	(3,389)
Unrealized fair value changes on interest rate swaps (Note 18)	1,469	—
Impairment of non-financial assets (Note 15)	31,545	—
	7,350	2,702
Investing activities		
Purchases of property and equipment (Note 14)	(7,769)	(4,442)
Proceeds on sale of property and equipment	1,289	24,192
Proceeds on divestiture of dealership	—	12,833
	(6,480)	32,583
Financing activities		
Proceeds from indebtedness	182,543	—
Repayment of indebtedness	(190,390)	(24,793)
Common shares settled, net (Note 19)	(15)	38
Dividends paid on common shares (Note 19)	(2,743)	(2,742)
Principal portion of lease liabilities	(6,606)	(5,410)
	(17,211)	(32,907)
Effect of exchange rate changes on cash and cash equivalents	930	(1,785)
Net (decrease) increase in cash and cash equivalents	(15,411)	593
Cash and cash equivalents at beginning of period (Note 11)	55,555	25,324
Cash and cash equivalents at end of period (Note 11)	40,144	25,917

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

1 General information

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

2 Basis of presentation

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"). These condensed interim consolidated financial statements do not include all of the disclosures normally provided in the annual consolidated financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2019, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB.

These financial statements were approved by the Board of Directors on June 3, 2020.

Restated Comparatives

During the nine-month period ended September 30, 2019, management identified an immaterial error pertaining to the adoption of IFRS 16. Certain comparative balances have been revised in these financial statements to reflect the correct figures. For the three-month period ended March 31, 2019, operating expenses and finance costs were previously disclosed as $122,827 and $16,079, respectively. These costs have been revised to $121,666 and $15,926, respectively, in the current comparative figures.

Certain comparative figures have been reclassified to conform to the current presentation.

3 Significant accounting policies

The significant accounting policies used in the preparation of these condensed interim consolidated financial statements are the same accounting policies and method of computation as disclosed in the consolidated annual financial statements for the year ended December 31, 2019.

The Company has adopted amendments to various standards effective January 1, 2020, which did not have a significant impact to these financial statements.

4 Critical accounting estimates, judgments & measurement uncertainty

Except as otherwise noted, the critical accounting estimates, judgments, and measurement uncertainty used in the preparation of these condensed interim consolidated financial statements are the same as disclosed in the consolidated annual financial statements for the year ended December 31, 2019.

COVID-19 Impacts

On March 11, 2020, the World Health Organization declared the novel Coronavirus (COVID-19) as a global pandemic. In response to the COVID-19 pandemic, global government authorities introduced various recommendations and emergency measures to limit the spread of the pandemic, including non-essential business closures, quarantines, self-isolation, social and physical distancing, and shelter-in-place. These measures have caused disruptions to businesses and capital markets globally, resulting in an economic slowdown.

Governments have reacted with significant monetary and fiscal intervention, including federal stimulus packages such as the COVID-19 Economic Response Plan in Canada and the CARES Act in the United States.

Given the Company's customer-facing retail operations, the COVID-19 pandemic has had an impact on the financial results of the Company. Regular operations have been impacted by mandatory closures in certain provincial jurisdictions, a decline in customer demand, limited availability of employees for the provision of goods and services, supply chain disruptions, as well as increased credit and liquidity risk. The Company has addressed these risks through, among other action items, adjustments to the cost structure and negotiating an amendment to the credit facility, as further described in Note 24.

Based on the current economic conditions, the Company determined there were indicators of impairment for the three month period ended March 31, 2020. An assessment was performed comparing the recoverable amount of the Company's cash-generating units ("CGUs") against their carrying values, based on updated cash flow projections reflecting management's best estimates in light of current and anticipated market conditions. These projections are inherently uncertain due to the indeterminable future impacts of COVID-19. Refer to Note 15 for the results of the impairment assessment.

The ultimate duration and magnitude of the impact on the economy and Company are unknown at this time. Management continues to closely monitor the situation and the impact on operations.

5 Revenue

	Three-month period ended March 31, 2020 $	Three-month period ended March 31, 2019 $
New vehicles	341,582	398,983
Used vehicles	229,355	188,619
Parts, service and collision repair	102,453	116,902
Finance, insurance and other	35,436	34,867
Revenue	708,826	739,371

6 Cost of sales

	Three-month period ended March 31, 2020 $	Three-month period ended March 31, 2019 $
New vehicles	317,315	371,456
Used vehicles	219,182	177,507
Parts, service and collision repair	52,484	61,158
Finance, insurance and other	2,547	2,551
Cost of sales	591,528	612,672

7 Operating expenses

	Three-month period ended March 31, 2020 $	Three-month period ended March 31, 2019 Restated (Note 2) $
Employee costs	66,492	69,434
Administrative costs	39,376	41,010
Facility lease costs	237	927
Depreciation of right-of-use assets	6,208	5,381
Depreciation of property and equipment	4,387	4,914
Operating expenses	116,700	121,666

8 Finance costs and finance income

	Three-month period ended March 31, 2020 $	Three-month period ended March 31, 2019 Restated (Note 2) $
Finance costs:		
Interest on long-term indebtedness	(3,673)	(4,712)
Interest on lease liabilities	(5,637)	(4,335)
Loss on extinguishment of debt (Note 17)	(4,002)	—
Unrealized fair value changes on interest rate swaps (Note 18)	(1,469)	—
	(14,781)	(9,047)
Floorplan financing	(6,566)	(5,852)
Other finance costs	(973)	(1,027)
	(22,320)	(15,926)
Finance income:		
Short-term bank deposits	119	237

Cash interest paid during the three month period ended March 31, 2020 was $10,459 (2019 - $8,654), which includes $5,637 (2019 - $4,335) of cash interest paid related to interest on lease liabilities.

9 Taxation

Components of income tax were as follows:

	Three-month period ended March 31, 2020 $	Three-month period ended March 31, 2019 $
Current tax	3,523	2,607
Deferred tax	(6,660)	(2,135)
Total income tax (recovery)/expense	(3,137)	472

Income tax (recovery) expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual statutory rate used for the three month period ended March 31, 2020 was 26.2% (2019 - 27.0%).

10 Assets held for sale

Land and buildings

The Company has committed to a plan to sell land and buildings. The net assets have been reclassified as held for sale as at the Condensed Interim Consolidated Statement of Financial Position date.

During the three month period ended March 31, 2020, the Company disposed of one property that was previously held for sale as at December 31, 2019, for proceeds of $1,102, which resulted in a gain of $33 recognized in the current quarter.

As at March 31, 2020, assets held for sale in the Canadian Operations segment, included land and buildings of $13,108 (2019 - $14,193).

11 Cash and cash equivalents

	March 31, 2020 $	December 31, 2019 $
Cash at bank and on hand	40,131	52,535
Short-term deposits	13	3,020
Cash and cash equivalents	40,144	55,555

12 Trade and other receivables

	March 31, 2020 $	December 31, 2019 $
Trade receivables	91,787	129,733
Less: Expected loss allowance	(2,032)	(1,869)
Net trade receivables	89,755	127,864
Other receivables	3,458	4,761
Trade and other receivables	93,213	132,625

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

13 Inventories

	March 31, 2020 $	December 31, 2019 $
New vehicles	690,011	610,406
Demonstrator vehicles	42,467	41,051
Used vehicles	155,929	134,407
Parts and accessories	34,290	35,591
Inventories	922,697	821,455

Amounts recognized in the Consolidated Statements of Comprehensive Loss:

	Three-month period ended March 31, 2020 $	Three-month period ended March 31, 2019 $
Inventory expensed as cost of sales	567,321	593,063
Net writedowns on used vehicles included in cost of sales	87	175
Change in inventory reserves recognized in cost of sales	(561)	(1,292)
Demonstrator expenses included in administrative costs	2,371	2,276

14 Property and equipment

During the three month period ended March 31, 2020, the Company purchased $7,769 (2019 - $4,442) of property and equipment — including land and buildings additions of $3,093 (2019 - $270) to be used for dealership relocations, dealership re-imaging, and dealership open points.

15 Impairment of non-financial assets

Intangible assets consist of rights under franchise agreements with automobile manufacturers ("dealer agreements"). Intangible assets and goodwill are tested for impairment annually as at December 31 or more frequently, if events or changes in circumstances indicate that they may be impaired.

During the three-month period ended March 31, 2020, the Company determined there were indicators of impairment due to economic conditions resulting from COVID-19 (Note 4) and an interim test for impairment of certain cash generating units ("CGUs") was required.

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

	Three-month period ended March 31, 2020 $	**Three-month period ended March 31, 2019 $**
Intangible assets	26,315	—
Goodwill	5,230	—
	31,545	—

The changes in the book value of intangible assets and goodwill for the period ended March 31, 2020 were as follows:

	Intangible assets $	**Goodwill $**	**Total $**
Cost:			
December 31, 2019	479,938	124,681	604,619
Effect of foreign currency translation	3,522	7,648	11,170
March 31, 2020	**483,460**	**132,329**	**615,789**
Accumulated impairment:			
December 31, 2019	(69,645)	(100,566)	(170,211)
Impairment	(26,315)	(5,230)	(31,545)
Effect of foreign currency translation	(60)	(7,110)	(7,170)
March 31, 2020	**(96,020)**	**(112,906)**	**(208,926)**
Carrying amount:			
December 31, 2019	410,293	24,115	434,408
March 31, 2020	387,440	19,423	406,863

The impairment for the period ended March 31, 2020 relates to the Company's reportable segments as follows:

	Canadian Operations $	**U.S. Operations $**	**Total $**
Intangible assets	22,650	3,665	26,315
Goodwill	—	5,230	5,230
	22,650	8,895	31,545

Canadian Dealerships

For the three-month period ended March 31, 2020, thirteen Canadian dealerships recorded impairment charges on indefinite-lived identifiable intangible assets (2019 - nil). The recoverable amounts for ten dealerships were determined using the value in use ("VIU") method while the remaining three were determined using the fair value less costs to dispose ("FVLCD") method.

US Dealerships

For the three-month period ended March 31, 2020, three US dealerships recorded impairment charges on indefinite-lived identifiable intangible assets and goodwill (2019 - nil). The recoverable amount for all three dealerships were determined using the VIU method.

Impairment test of indefinite life intangible assets

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

Valuation Techniques

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

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

Value in Use

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

Fair value less costs to dispose

FVLCD assumes that companies operating in the same industry will share similar characteristics and that the Company's values will correlate to those characteristics. Therefore, a comparison of a CGU to similar companies may provide a reasonable basis to estimate fair value. Under this approach, fair value is calculated based on EBITDA ("Earnings before interest, taxes, depreciation and amortization") multiples comparable to the businesses in each CGU. Data for EBITDA multiples was based on recent comparable transactions and management estimates. Multiples used in the test for impairment for each CGU were in the range of 2.5 to 7.9 times forecasted EBITDA (2019 - 2.5 to 7.9 times).

Significant Assumptions for Value in Use

Growth

The assumptions used were based on Company's internal forecast which reflects management's best estimates, including a return to normal levels of profitability commencing in 2021, in light of current and anticipated market conditions, as well as the impact of the management's action plan to mitigate the impact of COVID-19. The Company projected revenue, gross margins and cash flows for a period of one year, and applied growth rates for years thereafter commensurate with industry forecasts. In arriving at its forecasts, the Company considered past experience, economic trends and inflation as well as industry and market trends.

Discount Rate

The Company applied a discount rate in order to calculate the present value of its projected cash flows. The discount rate represented the Company's internally computed weighted average cost of capital ("WACC") for each CGU with appropriate adjustments for the risks associated with the CGU's in which intangible assets are allocated. The WACC is an estimate of the overall required rate of return on an investment for both debt and equity owners and serves as the basis for developing an appropriate discount rate. Determination of the discount rate requires separate analysis of the cost of equity and debt, and considers a risk premium based on an assessment of risks related to the projected cash flows of each CGU. Management applied a discount rate between 11.14% and 12.72% in its projections (2019 - 10.14% and 11.72%).

Significant Assumptions for Fair Value Less Costs to Dispose

EBITDA

The Company's assumptions for EBITDA were based on the Company's internal forecast which reflects management's best estimates in light of current and anticipated market conditions. As noted above, data for EBITDA multiples was based on recent comparable transactions, market comparatives and management estimates.

Costs to dispose

Management applied a percentage of 1.0% (2019 - 1.0%) of the estimated purchase price in developing an estimate of costs to dispose, based on historical transactions.

Sensitivity

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

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

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

Cash Generating Unit	**Change In discount rate**	**Change In growth rate**	**Carrying amount**	**Recoverable amount exceeds carrying amount**
X	0.26%	2.42%	26,910	—
E	0.01%	0.05%	4,314	—
AL	0.01%	0.01%	4,555	—

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

Cash Generating Unit	**Change In multiple**	**Recoverable amount**	**Carrying amount**	**Recoverable amount exceeds carrying amount**
Y	0.5	11,137	10,628	509
AH	0.2	7,419	7,419	—

16 Trade and other payables

	March 31, 2020 $	**December 31, 2019 $**
Trade payables	60,990	84,774
Accruals and provisions	24,302	22,165
Sales tax payable	3,063	5,743
Wages and withholding taxes payable	17,862	22,289
Trade and other payables	106,217	134,971

17 Indebtedness

	March 31, 2020 $	December 31, 2019 $
Revolving floorplan facilities	936,214	832,158
Indebtedness		
Senior unsecured notes	120,491	149,202
Revolving term facilities	88,720	63,281
Other debt	911	949
Carrying value	210,122	213,432
Current indebtedness	**119**	**127**
Long-term indebtedness	**210,003**	**213,305**

Senior Unsecured Notes

On February 11, 2020, the Company issued $125 million 8.75% Senior Unsecured Notes (the "New Notes") to fund the Tender Offer for all the outstanding $150 million Notes. Through the Tender Offer, the Company redeemed $124 million of the outstanding $150 million Notes on February 13, 2020. Subsequent to the settlement of the Tender Offer, the Company issued a call notice for the remaining $26 million outstanding Notes, which were then extinguished using proceeds from the New Credit Facility. An extinguishment charge of $3,211 was recorded as a loss on extinguishment in Finance Costs (Note 8).

The New Notes hold a term of five years and mature on February 11, 2025. The Notes were issued at a discounted issue price of $990.11 per $1,000 principal amount of notes (99.011%) for an issue yield of 9.00%. Interest is payable semi-annually on February 11 and August 11 of each year the Notes are outstanding. The initial interest payment date for the New Notes will be August 11, 2020.

Amended and Restated Credit Facilities

On February 11, 2020, the Company entered into an amended and restated $950 million syndicated credit agreement ("New Credit Facility"). The New Credit Facility has specified-use tranches and provides the Company with revolving credit capacity for operational and growth purposes as well as floorplan financing to assist with the purchasing of inventory. The maturity of the New Credit Facility is February 11, 2023. Previously deferred net financing costs of $791 were included in the loss on extinguishment in Finance Costs (Note 8).

18 Derivative financial instruments

Derivative financial instruments are held for the purpose of managing exposures to fluctuations in foreign exchange rates and interest rates.

Foreign exchange risk

The Company uses foreign exchange forward contracts to economically hedge foreign currency risk. These contracts are not designated as hedges for accounting purposes and changes in fair value are immediately recognized in net income.

For the three month period ended March 31, 2020, certain forward contracts were settled for a pre-tax loss of $2,282, presented in Revenue, as the loss was offset against the original source of foreign currency exposure.

Interest rate risk

The Company enters into interest rate swaps to hedge the variable-rates of the syndicated floorplan facility, transforming the variable rate exposure to fixed rate-obligations. Certain interest rate swaps are designated as cash flow hedges and periodically assessed for effectiveness. Where the hedging relationship is assessed as being effective, changes in fair value are recognized in other comprehensive income. Changes in fair value on derivative instruments not designated as hedging instruments are immediately recognized in net income.

For the three month period ended March 31, 2020, certain cash flow hedges with a notional amount of $127,800 were de-designated as a result of the termination of the interest rate swaps. This resulted in a pre-tax loss of $8,837 that was fully deferred in accumulated other comprehensive income, which will be reclassified to net income in future periods with the original associated finance costs.

In the same period, the Company entered into new interest rate swaps with the notional amount of $127,800 to economically hedge variable rate debt. These instruments have a settlement period from April 2021 through to March 2025. Changes in the fair value of these instruments will be recorded in Finance costs as the Company has not elected to apply hedge accounting to these contracts.

The fair values and notional amounts of derivative financial instruments are as follows:

	Interest Rate Swaps		
	Cash flow hedges	**Non-hedges**	**Total**
March 31, 2020			
Derivative financial instruments - liabilities	11,738	10,306	22,044
Notional values (in thousands of Canadian dollars)	272,200	127,800	400,000
Maturity	2021 - 2023	2025	
December 31, 2019			
Derivative financial instruments - liabilities	6,186	—	6,186
Notional values (in thousands of Canadian dollars)	400,000	—	400,000
Maturity	2021 - 2023	—	

Unrealized and realized pre-tax gains and losses on derivative instruments recognized in net income and other comprehensive income on the Statement of Comprehensive Loss are:

	Net income	**Other comprehensive income**	**Total**
March 31, 2020			
Change in fair value of hedging instruments	—	(14,390)	(14,390)
Change in fair value of non-hedging instruments (Note 8)	(1,469)	—	(1,469)
Realized loss on foreign exchange forward contracts	(2,282)	—	(2,282)
March 31, 2019			
Change in fair value of hedging instruments	—	(5,965)	(5,965)

19 Share capital

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

The following table shows the change in shareholders' capital for the three month periods ended:

	March 31, 2020 Number of common shares	March 31, 2020 $	March 31, 2019 Number of common shares	March 31, 2019 $
Outstanding, beginning of the period	27,430,909	509,890	27,417,062	509,538
Dividends reinvested	(438)	(24)	(348)	(27)
Treasury shares settled	1,772	9	2,356	65
Outstanding, end of period	27,432,243	509,875	27,419,070	509,576
Shares held in trust for Restricted Share Unit Plan	27,440	—	40,613	—
Issued, end of the period	27,459,683	509,875	27,459,683	509,576

Dividends

Dividends are discretionary and are determined based on a number of factors. Dividends are subject to approval of the Board of Directors. During the three month period ended March 31, 2020, eligible dividends totaling $0.10 (2019 - $0.10) per common share were declared and paid, resulting in total payments of $2,743 (2019 - $2,742) (see Note 24).

Earnings per share

Basic earnings per share was calculated by dividing earnings attributable to common shares by the sum of the weighted-average number of shares outstanding during the period. Basic earnings per share are adjusted by the dilutive impact of the deferred share units ("DSUs"), restricted share units ("RSUs"), share appreciation rights ("SARs"), and stock options to calculate the diluted earnings per share.

Weighted average number of shares

During the three month period ended March 31, 2020, basic and diluted weighted average number of shares were 27,431,377 (2019 - 27,418,197).

For the three month period ended March 31, 2020, potential common shares related to DSUs (219,967), RSUs (269,495), SARs (325,617) and stock options (170,645) were excluded from the computation of diluted earnings per share because they were anti-dilutive.

20 Net change in non-cash working capital

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

	Three-month period ended March 31, 2020 $	Three-month period ended March 31, 2019 $
Trade and other receivables	41,320	(27,640)
Inventories	(89,568)	(35,631)
Current tax recoverable/payable	(581)	(8,363)
Other assets	(1,047)	(992)
Trade and other payables	(32,739)	21,500
Other liabilities	(1,056)	—
Vehicle repurchase obligations	(2,356)	(121)
Revolving floorplan facilities	94,783	48,128
Derivative financial instruments	—	(270)
Net change in non-cash working capital	8,756	(3,389)

21 Related party transactions

Transactions with companies controlled by Directors

During the three-month period ended March 31, 2020, there were transactions whose partners or senior officers are Directors of the Company or related to Directors of the Company. These counter parties are:

- Business associates of the Executive Chair who provide consulting services;
- A firm, whose controlling partner is the Executive Chair, that provides administrative, limited transportation, and other support services; and
- A company that is controlled by a family member of the President of Canadian Operations, which provides the sourcing of customer leads.

All significant transactions between AutoCanada and companies related to Directors were approved by the Company's Board of Directors. A summary of these transactions are as follows:

	Three-month period ended March 31, 2020 $	**Three-month period ended March 31, 2019 $**
Consulting services	373	224
Administrative and other support fees	18	46
	391	270

22 Segmented reporting

During the three month period ended March 31, 2020, the Executive Chair served as the function of the Chief Operating Decision Maker (CODM). The Executive Chair is responsible for allocating resources and assessing the performance of the following segments: Canadian Operations and U.S. Operations.

Each reportable operating segment is comprised of retail automobile dealerships.

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

Our CODM measures the performance of each operating segment based on operating (loss) profit. The segmented information is set out in the following tables:

	Three-month period ended March 31, 2020			**Three-month period ended March 31, 2019**		
	Canada [1] $	**U.S. $**	**Total $**	**Canada [1] $**	**U.S. $**	**Total $**
Revenues						
External revenues	630,278	82,212	712,490	635,437	103,934	739,371
Inter-segment revenue	(3,664)	—	(3,664)	—	—	—
Total revenues	626,614	82,212	708,826	635,437	103,934	739,371

1 *AutoCanada's corporate office has been included with the Canadian operating segment, as it is located in Canada.*

	Three-month period ended March 31, 2020			Three-month period ended March 31, 2019 Restated (Note 2)		
	Canada [1] $	U.S. $	Total $	Canada [1] $	U.S. $	Total $
Operating profit (loss) before other income	4,463	(3,865)	598	11,276	(6,243)	5,033
Lease and other income, net	1,561	409	1,970	1,297	335	1,632
Gain on disposal assets, net	29	—	29	6,806	—	6,806
Impairment of non-financial assets	(22,650)	(8,895)	(31,545)	—	—	—
Operating profit (loss)	(16,597)	(12,351)	(28,948)	19,379	(5,908)	13,471
Finance costs			(22,320)			(15,926)
Finance income			119			237
Other gains			1,159			19
Net loss for the period before taxation			(49,990)			(2,199)

1 *AutoCanada's corporate office has been included with the Canadian operating segment, as it is located in Canada.*

	As at March 31, 2020			As at December 31, 2019		
	Canada [1] $	U.S. $	Total $	Canada [1] $	U.S. $	Total $
Assets held for sale	13,108	—	13,108	14,193	—	14,193
Segment assets	1,756,901	252,296	2,009,197	1,752,151	237,766	1,989,917
Capital expenditures	7,746	23	7,769	29,882	752	30,634
Segment liabilities	1,580,203	121,740	1,701,943	1,371,460	250,358	1,621,818

1 *AutoCanada's corporate office has been included with the Canadian operating segment, as it is located in Canada.*

23 Seasonal nature of the business

The Company’s results from operations for the three month period ended March 31, 2020 are not necessarily indicative of the results that may be expected for the full fiscal year due to seasonal variations in sales levels. The results from operations of the Company have historically been lower in the first and fourth quarters of each year, largely due to consumer purchasing patterns during the holiday season, inclement weather and the number of business days during the period. As a result, the Company’s financial performance is generally not as strong during the first and fourth quarters than during the other quarters of each fiscal year. The timing of acquisitions and divestitures may also cause substantial fluctuations in operating results from quarter to quarter.

24 Subsequent events

Subsequent amendment to senior credit facility agreement

Effective April 20, 2020, the Company amended the senior credit facility agreement to provide additional covenant headroom through to June 30, 2021. Covenant relief was received for the Total and Senior Net Funded Debt to Bank EBITDA and Fixed Charge Coverage Ratios, with staged covenant thresholds through to June 30, 2021. Effective July 1, 2021, all covenant thresholds revert to their prior levels.

The amendment also provides for a suspension of curtailment payments under the floorplan facility through the end of June 2020 and an extension of repayments with respect to export wholesale vehicles.

Suspension of Dividend

Effective April 20, 2020, the Company has suspended the quarterly dividend until further notice.

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