

2020



2020 Second Quarter
Financial Results



Condensed Interim Consolidated Financial Statements (Unaudited)

■ June 30, 2020



AutoCanada Inc.

Condensed Interim Consolidated Statements of Comprehensive Loss

(Unaudited)

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

	Three-month period ended		Six-month period ended	
	June 30, 2020	June 30, 2019 Restated (Note 2)	June 30, 2020	June 30, 2019 Restated (Note 2)
	\$	\$	\$	\$
Revenue (Note 5)	727,447	945,767	1,436,273	1,685,138
Cost of sales (Note 6)	(629,568)	(792,401)	(1,221,096)	(1,405,073)
Gross profit	97,879	153,366	215,177	280,065
Operating expenses (Note 7)	(99,736)	(128,190)	(216,436)	(249,856)
Operating (loss) profit before other (loss) income	(1,857)	25,176	(1,259)	30,209
Lease and other income, net	1,568	2,692	3,538	4,324
(Loss) gain on disposal of assets, net	(189)	3,612	(160)	10,417
Impairment of non-financial assets (Note 15)	(3,910)	(12,574)	(35,455)	(12,574)
Operating (loss) profit	(4,388)	18,906	(33,336)	32,376
Finance costs (Note 8)	(17,801)	(17,834)	(40,121)	(33,760)
Finance income (Note 8)	284	380	403	618
Other (losses) gains	(2,446)	—	(1,287)	19
Net (loss) income for the period before taxation	(24,351)	1,452	(74,341)	(747)
Income taxes (recovery) expense (Note 9)	(4,299)	4,964	(7,436)	5,436
Net loss for the period	(20,052)	(3,512)	(66,905)	(6,183)
Other comprehensive loss				
<i>Items that may be reclassified to profit or loss</i>				
Foreign operations currency translation	(1,573)	(2,403)	(3,062)	(3,073)
Change in fair value of cash flow hedge (Note 20)	263	(1,285)	(14,127)	(7,250)
Income tax relating to these items	(180)	494	3,590	2,104
Other comprehensive loss for the period	(1,490)	(3,194)	(13,599)	(8,219)
Comprehensive loss for the period	(21,542)	(6,706)	(80,504)	(14,402)
Net loss for the period attributable to:				
AutoCanada shareholders	(19,689)	(4,214)	(66,374)	(7,027)
Non-controlling interest	(363)	702	(531)	844
	(20,052)	(3,512)	(66,905)	(6,183)
Comprehensive (loss) income for the period attributable to:				
AutoCanada shareholders	(21,179)	(7,408)	(79,973)	(15,246)
Non-controlling interest	(363)	702	(531)	844
	(21,542)	(6,706)	(80,504)	(14,402)
Net loss per share attributable to AutoCanada shareholders:				
Basic and Diluted	(0.72)	(0.15)	(2.42)	(0.26)
Weighted average shares				
Basic and Diluted (Note 21)	27,370,013	27,419,789	27,400,695	27,418,997

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)

	June 30, 2020	December 31, 2019
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents (Note 11)	77,909	55,555
Trade and other receivables (Note 12)	165,770	132,625
Inventories (Note 13)	668,716	821,455
Current tax recoverable	—	4,162
Other current assets	6,337	8,502
Assets held for sale (Note 10)	12,489	14,193
	931,221	1,036,492
Property and equipment (Note 14)	190,513	197,410
Right-of-use assets (Note 19)	313,425	303,536
Other long-term assets	6,546	5,042
Deferred income tax	13,628	13,029
Intangible assets (Note 15)	385,746	410,293
Goodwill (Note 15)	19,175	24,115
	1,860,254	1,989,917
LIABILITIES		
Current liabilities		
Trade and other payables (Note 17)	190,072	134,971
Revolving floorplan facilities (Note 18)	727,711	832,158
Current tax payable	2,982	—
Vehicle repurchase obligations	2,594	7,802
Indebtedness (Note 18)	94	127
Lease liabilities (Note 19)	23,688	21,208
Other liabilities	1,301	1,240
Redemption liabilities	15,498	15,498
	963,940	1,013,004
Long-term indebtedness (Note 18)	202,014	213,305
Long-term lease liabilities (Note 19)	370,264	359,255
Derivative financial instruments (Note 20)	24,396	6,186
Other long-term liabilities	9,056	9,767
Deferred income tax	5,546	20,301
	1,575,216	1,621,818
EQUITY		
Attributable to AutoCanada shareholders	271,077	353,607
Attributable to Non-controlling interests	13,961	14,492
	285,038	368,099
	1,860,254	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						Non-controlling interests	Total equity
	Share capital	Contributed surplus	Cumulative translation adjustment	OCI hedge reserve	Accumulated deficit	Total capital		
	\$	\$	\$	\$	\$	\$	\$	
Balance, January 1, 2020	509,890	6,463	(947)	(4,535)	(157,264)	353,607	14,492	368,099
Net loss	—	—	—	—	(66,374)	(66,374)	(531)	(66,905)
Other comprehensive loss	—	—	(3,062)	(10,537)	—	(13,599)	—	(13,599)
Dividends declared on common shares (Note 21)	—	—	—	—	(2,743)	(2,743)	—	(2,743)
Treasury shares acquired (Note 21)	(1,576)	—	—	—	—	(1,576)	—	(1,576)
Dividends reinvested (Note 21)	(3)	—	—	—	—	(3)	—	(3)
Shares settled from treasury (Note 21)	214	(214)	—	—	—	—	—	—
Share-based compensation	—	1,765	—	—	—	1,765	—	1,765
Balance, June 30, 2020	508,525	8,014	(4,009)	(15,072)	(226,381)	271,077	13,961	285,038
	Attributable to AutoCanada shareholders						Non-controlling interests	Total equity
	Share capital	Contributed surplus	Cumulative translation adjustment	OCI hedge reserve	Accumulated deficit	Total capital		
	\$	\$	\$	\$	\$	\$	\$	
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)
Restated Balance, January 1, 2019	509,538	5,109	6,136	(2,746)	(117,943)	400,094	18,739	418,833
Net (loss) income	—	—	—	—	(7,027)	(7,027)	844	(6,183)
Other comprehensive loss	—	—	(3,073)	(5,146)	—	(8,219)	—	(8,219)
Dividends declared on common shares (Note 21)	—	—	—	—	(5,484)	(5,484)	—	(5,484)
Acquisition of non-controlling interests	—	—	—	—	—	—	(1,202)	(1,202)
Forward share purchase	—	(3,446)	—	—	—	(3,446)	—	(3,446)
Dividends reinvested (Note 21)	(24)	—	—	—	—	(24)	—	(24)
Shares settled from treasury (Note 21)	65	(65)	—	—	—	—	—	—
Share-based compensation	—	2,075	—	—	—	2,075	—	2,075
Balance, June 30, 2019	509,579	3,673	3,063	(7,892)	(130,454)	377,969	18,381	396,350

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-month period ended		Six-month period ended	
	June 30, 2020	June 30, 2019 Restated (Note 2)	June 30, 2020	June 30, 2019 Restated (Note 2)
	\$	\$	\$	\$
Cash provided by (used in):				
Operating activities				
Net loss for the period	(20,052)	(3,512)	(66,905)	(6,183)
Income taxes (recovery) (Note 9)	(4,299)	4,964	(7,436)	5,436
Depreciation of property and equipment (Note 7)	4,051	4,998	8,438	9,912
Depreciation of right-of-use assets (Note 7)	6,318	5,772	12,526	11,153
Loss (gain) on disposal of assets	189	(2,753)	160	(9,559)
Share-based compensation - equity-settled	922	2,814	1,765	2,010
Loss on extinguishment of debt (Note 8)	—	—	4,002	—
Amortization of deferred financing costs	309	—	534	—
Unrealized fair value changes on interest swaps (Note 8)	1,940	—	3,409	—
Income taxes paid	(3,918)	(11,203)	(3,984)	(5,598)
Impairment of non-financial assets (Note 15)	3,910	12,574	35,455	12,574
Net change in non-cash working capital (Note 22)	64,744	(33,966)	75,116	(36,530)
	54,114	(20,312)	63,080	(16,785)
Investing activities				
Purchases of property and equipment (Note 14)	(4,451)	(8,237)	(12,220)	(12,679)
Net change in non-cash investing working capital	(672)	183	(2,541)	(642)
Proceeds on sale of property and equipment	307	30,480	1,596	54,672
Proceeds on divestiture of dealerships	—	9,915	—	22,748
	(4,816)	32,341	(13,165)	64,099
Financing activities				
Proceeds from indebtedness	17,352	45,000	199,895	45,000
Repayment of indebtedness	(25,033)	(59,239)	(215,423)	(84,032)
Common shares settled, net (Note 21)	(1,350)	3	(1,365)	41
Dividends paid on common shares (Note 21)	—	(2,742)	(2,743)	(5,484)
Principal portion of lease payments, net	(1,852)	(4,758)	(8,458)	(10,168)
	(10,883)	(21,736)	(28,094)	(54,643)
Effect of exchange rate changes on cash and cash equivalents	(650)	2,248	533	463
Net increase (decrease) in cash and cash equivalents	37,765	(7,459)	22,354	(6,866)
Cash and cash equivalents at beginning of period	40,144	25,917	55,555	25,324
Cash and cash equivalents at end of period (Note 11)	77,909	18,458	77,909	18,458

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

AutoCanada Inc.

Notes to the Condensed Interim Consolidated Financial Statements For the Period Ended June 30, 2020

(Unaudited)

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

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 August 11, 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.

	As originally presented \$	Adjustment \$	Restated \$
For the three-month period ended June 30, 2019			
Operating expenses	(129,192)	1,002	(128,190)
Finance costs	(17,841)	7	(17,834)
For the six-month period ended June 30, 2019			
Operating expenses	(252,018)	2,162	(249,856)
Finance costs	(33,920)	160	(33,760)
Right-of-use assets	292,339	2,162	294,501
Long term lease liabilities	321,384	(160)	321,224
Equity attributable to AutoCanada shareholders	376,079	2,322	378,401

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.

Amendment to IFRS 16

In May 2020, the IASB issued Covid-19-Related Rent Concessions, an amendment to IFRS 16 that provides an optional exemption from assessing rent concessions related to COVID-19 as a lease modification. This practical expedient is applied to leases with similar characteristics and circumstances with changes in lease payments recognized in the Consolidated Statement of Comprehensive Loss. Leases that do not meet the criteria for the optional exemption are treated as a lease modification (Note 19).

Government Assistance

Government assistance received by the Company for the purpose of subsidizing specific expenses is recognized in profit or loss on a systematic basis in the periods which the expenses are recognized, as further described in Note 7. Government assistance received by the Company in the form of a loan is recognized as indebtedness until the criteria for forgiveness is met (Note 18).

4 Critical accounting estimates, judgments & measurement uncertainty

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. The Company has received funds under the Canada Emergency Wage Subsidy (CEWS) in Canada (Note 7) and the Small Business Association Paycheck Protection Program (SBA PPP) in the U.S. (Note 18).

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. Management has recorded an estimate of the impact of these factors on Trade receivables (Note 12), Inventories (Note 13), and Property, plant, and equipment (Note 14).

The Company has addressed these risks through an extensive review of assets, which culminated in the adjustments to the balances noted above, employee reductions, an amendment to the credit facility (Note 18), and successfully negotiated rent concessions (Note 19).

Based on the current economic conditions, the Company determined there were indicators of impairment of long lived assets 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.

For the three-month period ended June 30, 2020, management reviewed the indicators of impairment previously identified and determined there were no changes in circumstances or conditions that would indicate any additional impairment of intangible assets and goodwill.

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		Six-month period ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
	\$	\$	\$	\$
New vehicles	381,427	554,686	723,008	953,669
Used vehicles	215,032	223,258	444,387	411,877
Parts, service and collision repair	90,417	125,822	192,870	242,724
Finance, insurance and other	40,571	42,001	76,008	76,868
Revenue	727,447	945,767	1,436,273	1,685,138

6 Cost of sales

	Three-month period ended		Six-month period ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
	\$	\$	\$	\$
New vehicles	370,793	518,041	688,107	889,496
Used vehicles	210,808	209,322	429,990	386,830
Parts, service and collision repair	44,581	61,304	97,065	122,462
Finance, insurance and other	3,386	3,734	5,934	6,285
Cost of sales	629,568	792,401	1,221,096	1,405,073

7 Operating expenses

	Three-month period ended		Six-month period ended	
	June 30, 2020	June 30, 2019 Restated (Note 2)	June 30, 2020	June 30, 2019 Restated (Note 2)
	\$	\$	\$	\$
Employee costs	72,296	76,305	138,790	145,739
Government assistance	(26,223)	—	(26,223)	—
Administrative costs	42,646	40,130	82,021	81,140
Facility lease and storage costs	648	985	884	1,912
Depreciation of right-of-use assets	6,318	5,772	12,526	11,153
Depreciation of property and equipment	4,051	4,998	8,438	9,912
Operating expenses	99,736	128,190	216,436	249,856

Government assistance of \$26,223 represents the Company's eligible claim for the Canada Emergency Wage Subsidy (CEWS) for the six months ended June 30, 2020, with \$13,000 recorded in Trade and other receivables (Note 12). There are no unfulfilled conditions or other contingencies attached to the subsidy recognized.

8 Finance costs and finance income

	Three-month period ended		Six-month period ended	
	June 30, 2020	June 30, 2019 Restated (Note 2)	June 30, 2020	June 30, 2019 Restated (Note 2)
	\$	\$	\$	\$
Finance costs:				
Interest on long-term indebtedness	4,220	4,631	7,893	9,342
Interest on lease liabilities	5,431	5,457	11,068	9,792
Loss on extinguishment of debt (Note 18)	—	—	4,002	—
Unrealized fair value changes on interest rate swaps (Note 20)	1,940	—	3,409	—
	11,591	10,088	26,372	19,134
Floorplan financing	4,095	5,893	10,662	11,745
Interest rate swap settlements (Note 20)	1,471	708	1,773	708
Other finance costs	644	1,145	1,314	2,173
	17,801	17,834	40,121	33,760
Finance income:				
Short-term bank deposits	284	380	403	618

Cash interest paid during the six-month period ended June 30, 2020 was \$24,676 (2019 - \$32,562), which includes \$11,068 (2019 - \$9,952) of cash interest paid related to interest on lease liabilities.

9 Taxation

Components of income tax were as follows:

	Three-month period ended		Six-month period ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
	\$	\$	\$	\$
Current tax	207	(2,619)	3,730	(12)
Deferred tax	(4,506)	7,583	(11,166)	5,448
Total income tax expense (recovery)	(4,299)	4,964	(7,436)	5,436

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 six-month period ended June 30, 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 six-month period ended June 30, 2020, the Company had the following transactions:

- During the three-month period ended March 31, 2020, the Company disposed of one property that was previously held for sale at December 31, 2019, for the proceeds of \$1,102, which resulted in a gain of \$33.
- During the three-month period ended June 30, 2020, the carrying amount of the land and buildings reclassified to held for sale exceeded the fair value less costs to sell. As a result, the Company recorded an impairment charge of \$619 related to two properties in the Canadian Operations segment.

As at June 30, 2020, assets held for sale in the Canadian Operations segment, including land and buildings of \$12,489 (2019 - \$14,193).

11 Cash and cash equivalents

	June 30, 2020 \$	December 31, 2019 \$
Cash at bank and on hand	77,909	52,535
Short-term deposits	—	3,020
Cash and cash equivalents	77,909	55,555

12 Trade and other receivables

	June 30, 2020 \$	December 31, 2019 \$
Trade receivables	154,275	129,733
Less: Expected loss allowance	(4,181)	(1,869)
Net trade receivables	150,094	127,864
Other receivables (Note 7)	15,676	4,761
Trade and other receivables	165,770	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. For the three-month period ended June 30, 2020, management performed a comprehensive review of Trade receivables and identified certain aged customer balances with a higher risk of being uncollectible, due to the economic conditions attributable to COVID-19. The expected loss allowance has been increased to reflect these circumstances.

13 Inventories

	June 30, 2020 \$	December 31, 2019 \$
New vehicles	491,436	610,406
Demonstrator vehicles	34,504	41,051
Used vehicles	114,885	134,407
Parts and accessories	27,891	35,591
Inventories	668,716	821,455

Amounts recognized in the Consolidated Statements of Comprehensive Loss:

	Three-month period ended		Six-month period ended	
	June 30, 2020 \$	June 30, 2019 \$	June 30, 2020 \$	June 30, 2019 \$
Inventory expensed as cost of sales	611,266	754,093	1,178,587	1,347,156
Net writedowns (recovery) on inventory included in cost of sales	20,884	(12)	20,970	(187)
Change in inventory reserves recognized in cost of sales	(3,003)	(587)	(2,442)	(1,879)
Demonstrator expenses included in administrative costs	1,838	2,459	4,210	4,735

For the three-month period ended June 30, 2020, the Company performed a comprehensive assessment on the net realizable value of inventory as a result of the current economic uncertainty relating to COVID-19. All inventory was assessed using specific criteria regarding model and year of production. New vehicles were written down by \$11,854, representing additional costs to sell, while used vehicles were written down by \$5,167

based on current market data. These provisions represent management's best estimate at the time based on the nature of market pricing trends.

Parts and accessories were written down by \$3,863 as a result of management's application of a more stringent valuation process.

14 Property and equipment

During the six-month period ended June 30, 2020, the Company purchased \$12,220 (2019 - \$12,679) of property and equipment including land and buildings additions of \$3,869 (2019 - \$1,123) to be used for dealership relocations, dealership re-imaging, and dealership open points.

During the three-month period ended June 30, 2020, management identified certain assets with no future value and recorded an impairment of \$3,291.

15 Intangible assets and goodwill

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

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 performed an interim test for impairment as at March 31, 2020. There were no additional indicators or changes to previously identified indicators that required an additional interim test for the three-month period ended June 30, 2020.

Additional charges recorded for the three-month period ended June 30, 2020 relate to conditions at the asset level for long lived assets and were not the result of impairment indicators at the CGU level.

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

	Three-month period ended		Six-month period ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
	\$	\$	\$	\$
Land and buildings (Note 10, 14)	3,910	12,574	3,910	12,574
Intangible assets	—	—	26,315	—
Goodwill	—	—	5,230	—
	3,910	12,574	35,455	12,574

The changes in the book value of intangible assets and goodwill for the period ended June 30, 2020 were as follows:

	Intangible assets	Goodwill	Total
	\$	\$	\$
Cost:			
December 31, 2019	479,938	124,681	604,619
Effect of foreign currency translation	1,800	4,085	5,885
June 30, 2020	481,738	128,766	610,504
Accumulated impairment:			
December 31, 2019	(69,645)	(100,566)	(170,211)
Impairment	(26,315)	(5,230)	(31,545)
Effect of foreign currency translation	(32)	(3,795)	(3,827)
June 30, 2020	(95,992)	(109,591)	(205,583)
Carrying amount:			
December 31, 2019	410,293	24,115	434,408
June 30, 2020	385,746	19,175	404,921

The impairment for the period ended June 30, 2020 relates to the Company's reportable segments as follows:

	Canadian Operations \$	U.S. Operations \$	Total \$
Land and buildings	3,910	—	3,910
Intangible assets	22,650	3,665	26,315
Goodwill	—	5,230	5,230
	26,560	8,895	35,455

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. No additional impairment charges were recorded for the three months ended June 30, 2020.

U.S. Dealerships

For the three-month period ended March 31, 2020, three U.S. 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. No additional impairment charges were recorded for the three months ended June 30, 2020.

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.

EBITDA Multiples

EBITDA multiples are based on industry data that represent the most recent buy/sell activity and market trends. Actual multiples at the time of transaction may differ from the published multiples.

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	Recoverable amount	Carrying amount	Recoverable amount exceeds carrying amount
X	0.26 %	2.42 %	26,910	26,910	—
E	0.01 %	0.05 %	4,314	4,314	—
AL	0.01 %	0.01 %	4,555	4,555	—

CGU, 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 Financial instruments

Fair value of financial instruments

The Company's financial instruments at June 30, 2020 are represented by cash and cash equivalents, trade and other receivables, trade and other payables, revolving floorplan facilities, vehicle repurchase obligations, long-term indebtedness, bank indebtedness, redemption liabilities and derivative instruments.

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

The long-term indebtedness has a carrying value that approximates the fair value due to the floating rate nature of the debt. While there is a portion that has a fixed rate, the long-term indebtedness has a carrying value that is not materially different from its fair value.

Derivative instruments are made up of interest-rate swaps (Level 2). The fair value of interest-rate swaps are calculated as the present value of the future cash flows. Both contractually agreed payments and forward interest rates are used to calculate the cash flows, which are then discounted on the basis of a yield curve that is observable in the market.

Redemption liabilities (Level 3) are remeasured at fair value each reporting period with the gain or loss being recognized through profit or loss.

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

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

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

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

17 Trade and other payables

	June 30, 2020	December 31, 2019
	\$	\$
Trade payables	100,127	84,774
Accruals and provisions	41,034	22,165
Sales tax payable	19,580	5,743
Wages and withholding taxes payable	29,331	22,289
Trade and other payables	190,072	134,971

18 Indebtedness

	June 30, 2020 \$	December 31, 2019 \$
Revolving floorplan facilities	727,711	832,158
Indebtedness		
Senior unsecured notes	120,340	149,202
Revolving term facilities	73,542	63,281
Other debt	8,226	949
Carrying value	202,108	213,432
Current indebtedness	94	127
Long-term indebtedness	202,014	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).

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.

Government Assistance

In the U.S., the Company received a loan of \$7,352 (\$5,395 USD) under the Small Business Association Paycheck Protection Program (SBA PPP). The loan is meant to subsidize payroll and other operating costs and is forgiven if the funds are used to maintain employee and salary levels. Funds have been utilized for eligible costs but have not been recognized as an offset to operating expenses as management had not completed the application for forgiveness by June 30, 2020. The loan balance is reflected in Other debt.

19 Leases

The Company negotiated certain rent concessions on property leases primarily related to the deferral of rent payments for three months mainly during the second quarter in exchange for future repayment of the concessions or extensions to the respective lease terms. For the three-month period ended June 30, 2020, the cash outlay for facility lease and storage costs in the quarter was reduced by \$3,244. Overall negotiated cash deferral is \$4,169 to be repaid over various terms ending between 2020 and 2022, starting July 1, 2020.

The optional exemption for all eligible rent concessions has been applied for leases with similar characteristics and the financial impact was not material to the consolidated statements of comprehensive loss.

Certain leases did not meet the criteria for the optional exemption due to substantive lease term extensions. These leases were treated as lease modifications and resulted in the addition of \$16,080 to the right-of-use asset and lease liabilities for the six months ended June 30, 2020.

20 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. The Company did not enter into any new forward contracts for the three month period ended June 30, 2020.

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 six months ended June 30, 2020, certain cash flow hedges with a notional amount of \$177,800 were de-designated as a result of the termination of the interest rate swaps. This resulted in a pre-tax loss of \$11,911 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 \$177,800 to economically hedge variable rate debt. These instruments have a settlement period from April 2021 through to June 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		Total
	Cash flow hedges	Non-hedges	
June 30, 2020			
Derivative financial instruments - liabilities	9,076	15,320	24,396
Notional values (in thousands of Canadian dollars)	222,200	177,800	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
For the three-month period ended June 30, 2020			
Change in fair value of hedging instruments	—	(411)	(411)
Change in fair value of non-hedging instruments (Note 8)	(1,940)	—	(1,940)
Amortization of terminated hedges (Note 8)	(674)	674	—
For the six-month period ended June 30, 2020			
Change in fair value of hedging instruments	—	(14,801)	(14,801)
Change in fair value of non-hedging instruments (Note 8)	(3,409)	—	(3,409)
Realized loss on foreign exchange forward contracts	(2,282)	—	(2,282)
Amortization of terminated hedges (Note 8)	(674)	674	—
For the three-month period ended June 30, 2019			
Change in fair value of hedging instruments	—	(1,285)	(1,285)
For the six-month period ended June 30, 2019			
Change in fair value of hedging instruments	—	(7,250)	(7,250)

21 Share capital

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

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

	June 30, 2020 Number of common shares	June 30, 2020 \$	June 30, 2019 Number of common shares	June 30, 2019 \$
Outstanding, beginning of the period	27,430,909	509,890	27,417,062	509,538
Treasury shares acquired	(191,800)	(1,576)	—	—
Dividends reinvested	(438)	(3)	(676)	(24)
Treasury shares settled	4,823	214	3,184	65
Outstanding, end of the period	27,243,494	508,525	27,419,570	509,579
Shares held in trust for equity based awards	216,189	—	40,113	—
Issued, end of the period	27,459,683	508,525	27,459,683	509,579

Dividends

For the six month period ended June 30, 2020, eligible dividends of \$2,743 were paid (2019 - \$5,484). Effective April 20, 2020, the Company has suspended the eligible quarterly dividend per common share and no further payments are to be made until further notice.

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 all share based payment plans to calculate the diluted earnings per share.

Weighted average number of shares

During the three- and six- month periods ended June 30, 2020, basic and diluted weighted average number of shares were 27,370,013 and 27,400,695, respectively (2019 - 27,419,789 and 27,418,997).

For the three-month period ended June 30, 2020, potential common shares related to DSUs (84,255), RSUs (220,090), SARs (326,764) and stock options (884,059) were excluded from the computation of diluted earnings per share because they were anti-dilutive.

For the six-month period ended June 30, 2020, potential common shares related to DSUs (97,851), RSUs (191,418), SARs (145,797) and stock options (287,775) were excluded from the computation of diluted earnings per share because they were anti-dilutive.

22 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- and six- month periods ended:

	Three-month period ended		Six-month period ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
	\$	\$	\$	\$
Trade and other receivables	(73,446)	(336)	(32,126)	(27,976)
Inventories	254,257	(21,021)	164,689	(56,652)
Current tax recoverable/payable	8,006	2,343	7,425	(6,020)
Other current assets	1,913	(8,011)	866	(9,003)
Other liabilities	175	—	(881)	—
Trade and other payables	80,676	9,800	49,553	31,855
Vehicle repurchase obligations	(2,852)	791	(5,208)	670
Revolving floorplan facilities	(203,985)	(17,532)	(109,202)	30,596
	64,744	(33,966)	75,116	(36,530)

23 Related party transactions

During the six-month period ended June 30, 2020, there were transactions with companies 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, provides administrative, limited transportation, and other support services;
- A company which is controlled by a family member of the President of Canadian Operations, provides the sourcing of customer leads.

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

	Three-month period ended		Six-month period ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
	\$	\$	\$	\$
Consulting services	302	133	675	357
Administrative and other support fees	14	494	32	512
Total	316	627	707	869

24 Segmented reporting

During the six-month period ended June 30, 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 profit (loss). The segmented information is set out in the following tables:

	Three-month period ended June 30, 2020			Three-month period ended June 30, 2019		
	Canada ¹ \$	U.S. \$	Total \$	Canada ¹ \$	U.S. \$	Total \$
Revenues						
External revenues	656,381	71,066	727,447	854,153	116,039	970,192
Inter-segment revenue	—	—	—	(24,425)	—	(24,425)
Total revenues	656,381	71,066	727,447	829,728	116,039	945,767

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

	Six-month period ended June 30, 2020			Six-month period ended June 30, 2019		
	Canada ¹ \$	U.S. \$	Total \$	Canada ¹ \$	U.S. \$	Total \$
Revenues						
External revenues	1,286,659	153,278	1,439,937	1,489,590	219,973	1,709,563
Inter-segment revenue	(3,664)	—	(3,664)	(24,425)	—	(24,425)
Total revenues	1,282,995	153,278	1,436,273	1,465,165	219,973	1,685,138

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

	Three-month period ended June 30, 2020			Three-month period ended June 30, 2019 Restated (Note 2)		
	Canada ¹ \$	U.S. \$	Total \$	Canada ¹ \$	U.S. \$	Total \$
Operating (loss) profit before other income						
	2,611	(4,468)	(1,857)	26,253	(1,077)	25,176
Lease and other income, net	1,366	202	1,568	2,393	299	2,692
(Loss) gain on disposal of assets, net	(189)	—	(189)	3,612	—	3,612
Impairment of non-financial assets (Note 15)	(3,910)	—	(3,910)	(674)	(11,900)	(12,574)
Operating (loss) profit	(122)	(4,266)	(4,388)	31,584	(12,678)	18,906
Finance costs			(17,801)			(17,834)
Finance income			284			380
Other (losses) gains			(2,446)			—
Net (loss) income for the period before taxation			(24,351)			1,452

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

	Six-month period ended June 30, 2020			Six-month period ended June 30, 2019 Restated (Note 2)		
	Canada ¹	U.S.	Total	Canada ¹	U.S.	Total
	\$	\$	\$	\$	\$	\$
Operating (loss) profit before other income	7,074	(8,333)	(1,259)	37,528	(7,319)	30,209
Lease and other income, net	2,927	611	3,538	3,690	634	4,324
(Loss) gain on disposal of assets, net	(160)	—	(160)	10,417	—	10,417
Impairment of non-financial assets (Note 15)	(26,572)	(8,883)	(35,455)	(674)	(11,900)	(12,574)
Operating (loss) profit	(16,731)	(16,605)	(33,336)	50,961	(18,585)	32,376
Finance costs			(40,121)			(33,760)
Finance income			403			618
Other (losses) gains			(1,287)			19
Net loss for the period before taxation			(74,341)			(747)

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

	As at June 30, 2020			As at December 31, 2019		
	Canada ¹	U.S.	Total	Canada ¹	U.S.	Total
	\$	\$	\$	\$	\$	\$
Assets held for sale	12,489	—	12,489	14,193	—	14,193
Segment assets	1,625,340	234,914	1,860,254	1,752,151	237,766	1,989,917
Capital expenditures (Note 14)	12,129	91	12,220	29,882	752	30,634
Segment liabilities	1,460,885	114,331	1,575,216	1,371,460	250,358	1,621,818

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

25 Seasonal nature of the business

The Company's results from operations for the period ended June 30, 2020 are not necessarily indicative of the results that may be expected for the full fiscal year due to seasonal variations in sales levels and the impact of COVID-19 (Note 4). 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.

26 Subsequent events

417 Infiniti

On July 31, 2020, the Company sold substantially all of the operating assets of 417 Infiniti, located in Ottawa, ON, for net proceeds of \$817, resulting in a pre-tax gain on sale of \$193.

Assets held for sale

On July 15, 2020, the Company completed the sale of a property in Grande Prairie, Alberta, for proceeds of \$800. There was no gain or loss on this transaction as this property was written down by (\$200) to fair value less costs to sell for the three months ended June 30, 2020 (Note 10).

U.S. Credit Facility

Effective August 7, 2020, the Company has entered into an arrangement with Ally Financial to replace previous floorplan financing for new, used, and demonstrator vehicles in the U.S. The facility limit is \$108,500 USD.



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