2020

AutoCanada

Annual Financial Results

Independent auditor's report

To the Shareholders of AutoCanada Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of AutoCanada Inc. and its subsidiaries (together, the Company) as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of comprehensive loss for the years ended December 31, 2020 and 2019;
- the consolidated statements of financial position as at December 31, 2020 and 2019;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were

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addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill and intangible assets *Refer to note 3 – Significant Accounting Policies and note 21 – Impairment of non-financial assets to the consolidated financial statements.* The Company had goodwill of $25,734 thousand and intangible assets of $399,633 thousand as at December 31, 2020. Management performs an impairment test annually, or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment assessment is conducted at the level of a cash generating unit (CGU), which is the lowest level for which there are separately identifiable cash flows. An impairment loss is recognized if the carrying amount of a CGU exceeds its recoverable amount. The recoverable amount of each CGU is based on the greater of fair value less costs to dispose (FVLCD) and value in use (VIU). Under the FVLCD approach, fair value is calculated based on an applicable multiple applied to projected earnings before interest, taxes, depreciation and amortization (EBITDA). In arriving at the FVLCD, the Company considers projected operating margins, EBITDA multiples and growth rates as significant assumptions. Under the VIU approach, the discounted cash flow (DCF) method is used, which involves projecting cash flows and converting them into a present value equivalent through discounting. Significant assumptions used in the VIU approach include projected operating margins, growth rates and discount rates. Based on the impairment assessment, management recognized an impairment charge of $20,285 thousand, which	Our approach to addressing the matter included the following procedures, among others: • Tested how management determined the recoverable amount for scoped in CGUs, which included the following: – Tested the appropriateness of the methods used and the mathematical accuracy of FVLCD and VIU calculations. – Tested the projected operating margins and growth rates applied by management in the applicable model by comparing them to the budget, management's strategic plans approved by the Board, available third party published economic data and the results historically achieved by the respective CGUs. – Professionals with specialized skill and knowledge in the field of valuation assisted in testing the reasonableness of the discount rates applied by management based on available data of comparable companies and in testing the reasonableness of the EBITDA multiples by comparing to market data, as well as assessing the valuation methodologies used. – Tested the accuracy and completeness of underlying data used in the FVLCD and VIU models. • Tested the disclosures made in the consolidated financial statements, including the sensitivity of the significant assumptions used.

Key audit matter	How our audit addressed the key audit matter
consists of $5,230 thousand allocated to goodwill and $15,055 thousand allocated to intangible assets. We considered this a key audit matter due to (i) the significance of the goodwill and intangible asset balances and (ii) the significant judgment made by management in determining the recoverable amounts of the CGUs, including the use of significant assumptions. This has resulted in a high degree of subjectivity and audit effort in performing audit procedures to test the significant assumptions. Professionals with specialized skill and knowledge in the field of valuation assisted us in performing our procedures.	

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Steven Hollinger.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Edmonton, Alberta
March 2, 2021

Consolidated Financial Statements

For the year ended December 31, 2020

AutoCanada Inc.

Consolidated Statements of Comprehensive Loss
For the Years Ended
(in thousands of Canadian dollars except for share and per share amounts)

	December 31, 2020 $	December 31, 2019 $
Revenue (Note 6)	3,329,494	3,476,111
Cost of sales (Note 7)	(2,782,168)	(2,905,616)
Gross profit	547,326	570,495
Operating expenses (Note 8)	(461,663)	(499,768)
Operating profit before other income (expense)	85,663	70,727
Lease and other income, net (Note 10)	7,386	10,701
Gain on disposal of assets, net (Note 10)	1,370	11,014
Impairment of non-financial assets (Note 21)	(24,207)	(36,575)
Restructuring charges (Note 35)	—	(13,393)
Operating profit (loss)	70,212	42,474
Finance costs (Note 11)	(72,505)	(68,784)
Finance income (Note 11)	808	912
Gain (loss) on redemption liabilities (Note 15)	762	(550)
Other losses	(482)	(350)
Net loss for the year before tax	(1,205)	(26,298)
Income taxes (Note 12)	5,418	775
Net loss for the year	(6,623)	(27,073)
Other comprehensive loss		
Items that may be reclassified to profit or loss		
Foreign operations currency translation	(2,089)	(7,083)
Change in fair value of cash flow hedge (Note 35)	(10,938)	(2,424)
Income tax relating to cash flow hedges	2,836	635
Other comprehensive loss for the year, net of tax	(10,191)	(8,872)
Comprehensive loss for the year	(16,814)	(35,945)
Net loss for the year attributable to:		
AutoCanada shareholders	(7,455)	(28,353)
Non-controlling interests	832	1,280
	(6,623)	(27,073)
Comprehensive loss for the year attributable to:		
AutoCanada shareholders	(17,646)	(37,225)
Non-controlling interests	832	1,280
	(16,814)	(35,945)
Net loss per share attributable to AutoCanada shareholders:		
Basic	(0.27)	(1.03)
Diluted	(0.27)	(1.03)
Weighted average shares		
Basic (Note 30)	27,313,140	27,420,483
Diluted (Note 30)	27,313,140	27,420,483

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

Approved on behalf of the Company

Paul W. Antony, Director

Barry L. James, Director

AutoCanada Inc.

Consolidated Statements of Financial Position
(in thousands of Canadian dollars)

	December 31, 2020 $	December 31, 2019 $
ASSETS		
Current assets		
Cash and cash equivalents (Note 16)	107,704	55,555
Trade and other receivables (Note 17)	118,650	132,625
Inventories (Note 18)	699,200	821,455
Current tax recoverable	—	4,162
Other current assets (Note 22)	8,931	8,502
Assets held for sale (Note 19)	1,039	14,193
	935,524	1,036,492
Property and equipment (Note 20)	203,525	197,410
Right-of-use assets (Note 25)	308,897	303,536
Other long-term assets (Note 22)	14,337	5,042
Deferred income tax (Note 12)	12,732	13,029
Intangible assets (Note 21)	399,633	410,293
Goodwill (Note 21)	25,734	24,115
	1,900,382	1,989,917
LIABILITIES		
Current liabilities		
Trade and other payables (Note 23)	137,510	134,971
Revolving floorplan facilities (Note 24)	761,943	832,158
Current tax payable	5,030	—
Vehicle repurchase obligations (Note 27)	4,526	7,802
Indebtedness (Note 24)	65	127
Redemption liabilities (Note 15)	7,557	15,498
Lease liabilities (Note 25)	24,079	21,208
Other liabilities	2,176	1,240
	942,886	1,013,004
Long-term indebtedness (Note 24)	197,166	213,305
Long-term lease liabilities (Note 25)	363,850	359,255
Long-term redemption liabilities (Note 15)	435	—
Derivative financial instruments (Note 35)	22,146	6,186
Other long-term liabilities (Note 35)	8,428	9,767
Deferred income tax (Note 12)	2,651	20,301
	1,537,562	1,621,818
EQUITY		
Attributable to AutoCanada shareholders	341,874	353,607
Attributable to non-controlling interests	20,946	14,492
	362,820	368,099
	1,900,382	1,989,917

Commitments and contingencies (Note 28)

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

AutoCanada Inc.

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

	Attributable to AutoCanada shareholders							
	Share capital $	Contributed surplus $	Cumulative translation adjustment $	OCI - hedge reserve $	Accumulated deficit $	Total $	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) income	—	—	—	—	(7,455)	(7,455)	832	(6,623)
Other comprehensive loss	—	—	(2,089)	(8,102)	—	(10,191)	—	(10,191)
Dividends declared on common shares (Note 30)	—	—	—	—	(2,743)	(2,743)	—	(2,743)
Reorganization of non-controlling interests (Note 15)	—	—	—	—	—	—	12,524	12,524
Non-controlling interests arising on acquisition (Note 13)	—	—	—	—	—	—	1,071	1,071
Acquisition of non-controlling interest (Note 15)	—	—	—	—	7,973	7,973	(7,973)	—
Recognition of redemption liability granted to non-controlling interests (Note 15)	—	—	—	—	(1,071)	(1,071)	—	(1,071)
Treasury shares acquired (Note 30)	(2,081)	—	—	—	—	(2,081)	—	(2,081)
Dividends reinvested (Note 30)	(3)	—	—	—	—	(3)	—	(3)
Settlement of share-based awards (Note 29)	—	(191)	—	—	—	(191)	—	(191)
Shares settled from treasury (Note 30)	306	(306)	—	—	—	—	—	—
Share-based compensation (Note 29)	—	4,029	—	—	—	4,029	—	4,029
Balance, December 31, 2020	**508,112**	**9,995**	**(3,036)**	**(12,637)**	**(160,560)**	**341,874**	**20,946**	**362,820**

	Attributable to AutoCanada shareholders							
	Share capital $	Contributed surplus $	Cumulative translation adjustment $	OCI - hedge reserve $	Accumulated deficit $	Total $	Non-controlling interests $	Total equity $
Balance, 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	—	—	—	—	(8,014)	(8,014)	—	(8,014)
Change in accounting policy	—	—	—	—	(20,460)	(20,460)	—	(20,460)
Balance, January 1, 2019	**509,538**	**5,109**	**6,136**	**(2,746)**	**(117,943)**	**400,094**	**18,739**	**418,833**
Net (loss) income	—	—	—	—	(28,353)	(28,353)	1,280	(27,073)
Other comprehensive income	—	—	(7,083)	(1,789)	—	(8,872)	—	(8,872)
Dividends declared on common shares (Note 30)	—	—	—	—	(10,968)	(10,968)	—	(10,968)
Dividends declared by subsidiaries to non-controlling interests (Note 15)	—	—	—	—	—	—	(1,350)	(1,350)
Acquisition of non-controlling interest	—	—	—	—	—	—	(4,177)	(4,177)
Forward share purchase (Note 35)	—	(3,466)	—	—	—	(3,466)	—	(3,466)
Dividends reinvested (Note 30)	(17)	—	—	—	—	(17)	—	(17)
Shares settled from treasury (Note 30)	369	15	—	—	—	384	—	384
Share-based compensation (Note 29)	—	4,805	—	—	—	4,805	—	4,805
Balance, December 31, 2019	**509,890**	**6,463**	**(947)**	**(4,535)**	**(157,264)**	**353,607**	**14,492**	**368,099**

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

AutoCanada Inc.

Consolidated Statements of Cash Flows
For the Years Ended
(in thousands of Canadian dollars)

	December 31, 2020 $	December 31, 2019 $
Cash provided by (used in):		
Operating activities		
Net loss for the year	(6,623)	(27,073)
Adjustments for:		
Income taxes	5,418	775
Amortization of deferred financing costs	1,300	760
Depreciation of property and equipment	17,372	19,823
Depreciation of right-of-use assets	24,759	23,404
Amortization of terminated hedges (Note 35)	2,308	—
Gain on disposal of assets	(1,370)	(11,014)
Share-based compensation - equity-settled	4,029	4,805
Share-based compensation - Used Digital Retail Division (Note 29)	435	—
Loss on extinguishment of debt (Note 11)	4,002	—
Unrealized fair value changes on interest rate swaps	3,175	—
Unrealized fair value changes on foreign exchange forward contracts (Note 35)	(366)	—
Revaluation of redemption liabilities (Note 15)	(2,108)	550
Loss on settlement of redemption liabilities (Note 15)	1,346	—
Income taxes (paid) recovered	(10,984)	5,018
Impairment of non-financial assets	24,207	36,575
Restructuring charges	—	13,393
Net change in non-cash working capital (Note 33)	70,965	36,906
	137,865	103,922
Investing activities		
Business acquisition, net of cash acquired (Note 13)	(18,445)	—
Purchases of property and equipment	(20,966)	(30,634)
Net change in non-cash investing working capital	(5,378)	3,167
Proceeds on sale of property and equipment	8,986	88,129
Proceeds on divestiture of dealerships	683	14,297
	(35,120)	74,959
Financing activities		
Proceeds from indebtedness	226,882	45,052
Repayment of indebtedness	(245,505)	(161,032)
Common shares settled, net	(1,778)	352
Dividends paid on common shares	(2,743)	(10,968)
Distributions paid to non-controlling interests by subsidiaries	—	(1,350)
Acquisition of non-controlling interests without a change in control (Note 15)	(8,250)	—
Acquisition of non-controlling interests from business acquisition (Note 13)	1,071	—
Principal elements of lease payments	(20,692)	(20,288)
	(51,015)	(148,234)
Effect of exchange rate changes on cash and cash equivalents	419	(416)
Net increase in cash and cash equivalents	52,149	30,231
Cash and cash equivalents at beginning of year (Note 16)	55,555	25,324
Cash and cash equivalents at end of year (Note 16)	107,704	55,555

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

1 General information

AutoCanada Inc. ("AutoCanada" or the "Company") is incorporated in Alberta, Canada with common shares listed on the Toronto Stock Exchange ("TSX") under the symbol of "ACQ". The business of AutoCanada, held in its subsidiaries, is the operation of franchised automobile dealerships and related businesses 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 vehicle purchases by its customers through third party finance and insurance sources. The address of its registered office is 200, 15511 123 Avenue NW, Edmonton, Alberta, Canada, T5V 0C3.

2 Basis of presentation

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

The preparation of consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. The areas where assumptions and estimates are significant to the consolidated financial statements are described in Note 5.

These consolidated financial statements were approved by the Board of Directors on March 2, 2021.

3 Significant accounting policies

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

Basis of measurement

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

Principles of consolidation

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

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity. Intercompany transactions, balances, income and expenses, and gains or losses on transactions are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the accounting policies adopted by the Company.

Business combinations

Business combinations are accounted for using the acquisition method of accounting when the acquired set of activities and assets meet the definition of a business and control is transferred to the Company. This involves recognizing identifiable assets (including intangible assets not previously recognized by the acquiree) and liabilities (including contingent liabilities) of acquired businesses at fair value at the acquisition date. The excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill. If the acquisition cost is less than the fair value of the net assets acquired, the fair value of the net assets is re-assessed and any remaining difference is recognized directly in the Consolidated Statements of Comprehensive Loss. Transaction costs are expensed as incurred. Any subsequent change to the fair value of contingent consideration liabilities is recognized in the Consolidated Statements of Comprehensive Loss.

Non-controlling interests

Non-controlling interests are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Certain arrangements contain a vesting component where the non-controlling interest vests over a specified period. Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Revenue recognition

(a) New and Used Vehicles

The Company sells new and used vehicles at its franchised dealerships and related businesses. The transaction price for a vehicle sale is determined with the customer at the time of sale. Customers often trade in their own vehicle and apply the value against the purchase price of a new or used vehicle. The trade-in vehicle is considered non-cash consideration and is measured at fair value, based on external and internal market data, and applied toward the contract price for the purchased vehicle.

When a vehicle is sold, control is transferred at a point in time upon delivery of the vehicle to the customer, which is generally at time of sale. The Company does not directly finance customers' vehicle purchases or leases, however, in many cases, third party financing is arranged for the sale or lease of vehicles to its customers in exchange for a fee paid to the Company by the third party financial institution. The Company receives payment directly from the customer at the time of sale or from the third party financial institution (referred to as contracts-in-transit or vehicle receivables, which are part of the Company's receivables from contracts with customers) within a short period of time following the sale.

(b) Parts, service and collision repair

The Company sells parts and services related to customer-paid repairs and maintenance, repairs and maintenance under manufacturer warranties and extended service contracts, and collision-related repairs.

Each automotive repair and maintenance service is a single performance obligation that includes both the parts and labour associated with the service. Payment for automotive service work is typically due upon completion of the service, which is generally completed within a short period of time from contract inception. The transaction price for automotive repair and maintenance services is based on the parts used, the number of labour hours applied, and standardized hourly labour rates. The Company satisfies its performance obligations, transfers control, and recognizes revenue over time for repair and maintenance services because it is creating an asset with no alternative use and has an enforceable right to payment for performance completed to date.

The transaction price for retail counter parts sales is determined at the time of sale based on the quantity and price of each product purchased. Payment is typically due at the time of sale, or within a short period of time following the sale. Control is generally considered to transfer at the point of sale or when the products are shipped, which typically occurs the same day as or within a few days of the sale.

(c) Finance and insurance

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

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

For the majority of finance and insurance product sales, the Company's performance obligation is to arrange for the provision of goods or services by another party. This performance obligation is satisfied when the finance and insurance product is delivered to the end-customer, generally at the time of the vehicle sale. As an agent, revenue is recognized as the net amount retained after paying the third party provider for the goods or services that party is responsible for fulfilling.

Taxation

(a) Deferred tax

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

Deferred tax liabilities:

- are generally recognized for all taxable temporary differences; and
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets:

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

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

(b) Current tax

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

Manufacturer incentives and other rebates

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

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

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

Financial instruments

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

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

The Company's financial assets, including cash and cash equivalents and trade and other receivables, are measured at amortized cost. The contractual cash flows received from the financial assets are solely payments of principal and interest and are held within a business model whose objective is to collect contractual cash flows. The financial assets are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method.

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand, highly liquid investment grade short-term investments with maturities of three months or less and other liquid deposits held with financial institutions.

Trade and other receivables

Trade and other receivables are amounts due from customers, financial institutions and suppliers that arise from providing services or sale of goods in the ordinary course of business. Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. The Company applies the simplified approach to measuring expected credit losses, which uses a lifetime expected credit loss allowance for all trade receivables. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the Consolidated Statements of Comprehensive Loss within operating expenses.

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

Inventories

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

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

Assets held for sale

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

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

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

Property and equipment

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

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

Buildings are depreciated on a straight-line basis over the estimated useful lives of the buildings ranging from 10 to 45 years. Useful lives are determined based on independent appraisals.

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

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

Intangible assets and goodwill

(a) Intangible assets

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

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

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

(b) Goodwill

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

Impairment

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

(a) Non-financial assets

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

(b) Intangible assets and goodwill

The carrying values of all intangible assets with indefinite lives and goodwill are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable.

Additionally, the carrying values of identifiable intangible assets with indefinite lives and goodwill are tested annually for impairment. Specifically:

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

Trade and other payables

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

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

Leases

(a) The Company as a lessee

The Company leases various properties. Lease agreements range from 1 to 20 years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

The Company recognizes a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that are based on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease if the lease term reflects the lessee exercising that option. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Company’s incremental borrowing rate.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability and any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs, and restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and office furniture.

(b) The Company as a lessor

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

(i) Finance leases

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

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

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

(ii) Operating leases

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

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

Redemption liabilities

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

Share capital

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

Dividends

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

Earnings per share

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

Share-based payments

The Company operates a number of share-based compensation plans for the benefit of certain employees and Company directors, as described in Note 29.

The accounting for a share-based payment plan is based on whether the arrangement is classified as equity-settled or cash-settled. Equity-settled arrangements are those in which the Company receives services as consideration for its own equity instruments. Cash-settled arrangements arise where the Company pays the employee cash amounts based on the value of the Company’s shares.

The fair value of equity-settled awards is recognized as an expense over the vesting period with a corresponding increase in equity or redemption liabilities. The total amount to be expensed is determined by reference to the fair value of the options at the grant date.

Foreign currency translation

The financial results of the dealerships that operate in the United States (U.S.) are translated from the functional currency (USD) into the reporting currency (CAD) upon consolidation. Assets and liabilities have been translated to the reporting currency (CAD) using the exchange rates in effect on the Consolidated Statements of Financial Position dates. Revenue and expense accounts are translated using the average exchange rate during the period. The cumulative translation adjustments associated with the net assets of foreign subsidiaries are recorded in accumulated other comprehensive income in the Consolidated Statements of Changes in Equity.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Derivative financial instruments

Derivatives are recognized initially at fair value on the date of contract inception and are subsequently re-measured to current fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the instrument is designated as a hedging instrument and, if so, the nature of the item being hedged. The Company currently designates certain derivatives as hedges of the interest rate cash flow risk associated with the cash flows of variable rate loans, and does not hold any derivatives for trading or speculative purposes.

At the inception of the hedge relationship, the Company documents the economic relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedge transactions. The effective portion of changes in the fair value of qualifying hedging derivatives is recognized as a reserve within equity. The gain or loss relating to any ineffective portion is recognized immediately in profit or loss. The periodic net settlement of the interest rate swap is recognized in profit or loss within finance costs at the same time as the interest expense on the hedged borrowings.

Upon the expiry, sale, or termination of a hedging instrument, any cumulative deferred gain or loss and deferred costs of hedging remain in equity until the the original hedged transactions occur.

Further information on the Company’s risk management and hedge accounting is presented in Note 35.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognized immediately in profit or loss and are included in other gains/(losses), as disclosed in Note 35.

The full fair value of a derivative instrument is classified as a non-current asset or liability when the remaining maturity of the hedged item is greater than one year.

Segment reporting

Operating segments are components of an entity that engage in business activities from which they earn revenues and incur expenses, the operations for which can be clearly distinguished and for which the operating results are regularly reviewed by a chief operating decision maker to make resource allocation decisions and to assess performance.

The Company’s Chief Operating Decision Maker (CODM) is identified as the Chief Executive Officer (CEO) and will serve as the function of the CODM. The CEO is responsible for allocating resources and assessing the performance of each dealership. In the absence of the CEO, the Executive Chairman will serve the function of the CODM. Supporting the CODM will be the President, Canadian Operations and the President, U.S. Operations, both of whom report to the CODM. As each of these individuals, with support from their respective management teams, report to the CODM, the Company will report segmented information by Canadian Operations and U.S. Operations. Each reportable operating segment is comprised of retail automobile dealerships, which have been aggregated based on their economic similarities.

The Company's CODM measures the performance of each operating segment based on operating profit, which is defined as income before income taxes, net finance costs and other income (expense). The segmented information is set out in Note 36.

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 in which the expenses are recognized, as further described in Note 8. Government assistance received by the Company in the form of a loan is recognized as indebtedness until the criteria for forgiveness are met (Note 24).

4 New and amended accounting standards adopted in 2020

Amendments to IFRS 16 Leases

In May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent a concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concession in the same way as they would if they were not lease modifications. This practical expedient is applied to leases with similar characteristics and circumstances with changes in lease payments recognized in the Consolidated Statements of Comprehensive Loss. Leases that do not meet the criteria for the optional exemption are treated as a lease modification (Note 25).

Amendments to IFRS 3 Business Combinations

The Company adopted amendments to IFRS 3, *Definition of a Business,* to business combinations, which clarifies the definition of a business and provides additional guidance in the assessment of an acquisition. This amendment applies to transactions with acquisition dates are on or after January 1, 2020. There was no impact from this amendment in the current period.

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39, IFRS 7, and IFRS 16)

The Company has elected to early adopt amendments to IFRS 9, IAS 39, IFRS 7, and IFRS 16 Interest Rate Benchmark Reform - Phase 2, as issued in August 2020. In accordance with the transition provisions, the amendments have been adopted retrospectively to hedging relationships and financial instruments.

Comparative amounts have not been restated, and there was no impact on the current period opening reserves amounts on adoption.

Hedge relationships

The ‘Phase 2’ amendments address issues arising during interest rate benchmark reform, including specifying when the ‘Phase 1’ amendments will cease to apply, when hedge designations and documentation should be updated, and when hedges of the alternative benchmark rate as the hedged risk are permitted.

The ‘Phase 1’ amendments provided temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by Interbank Offered Rate (IBOR) reform. The reliefs had the effect that IBOR reform should not generally cause hedge accounting to terminate prior to contracts being amended. However, any hedge ineffectiveness continued to be recorded in the Consolidated Statements of Comprehensive Loss. Furthermore, the amendments set out triggers for when the reliefs would end, which included the uncertainty arising from interest rate benchmark reform no longer being present.

In summary, the reliefs provided by the amendments that apply are:

- When considering the ‘highly probable’ requirement, the Company has assumed that the Canadian Dollar Offered Rate (CDOR) interest rate on which its hedged debts are based does not change as a result of the IBOR reform.
- In assessing whether the hedge is expected to be highly effective on a forward-looking basis, the Company has assumed that the CDOR interest rate on which the cash flows of the hedged debt and the interest rate swap that hedges it are based is not altered by the IBOR reform.
- The Company will not discontinue hedge accounting during the period of IBOR-related uncertainty solely because the retrospective effectiveness falls outside the required 80-125% range.
- When considering the ‘highly probable’ requirement, the Company has assumed that the CDOR) interest rate on which its hedged debts are based does not change as a result of the IBOR reform.The Company has not recycled the cash flow hedge reserve relating to the period after the reforms take effect.

For the year ended December 31, 2020, the Company has adopted the following hedge accounting reliefs provided by 'Phase 2' of the amendments:

- *Hedge designation:* When the Phase 1 amendments cease to apply, the Company will amend its hedge designation to reflect changes which are required by IBOR reform, but only to make one or more of these changes:
  - designating an alternative benchmark rate (contractually or non-contractually specified) as a hedged risk;
  - amending the description of the hedged item, including the description of the designated portion of the cash flows or fair value being hedged; or
  - amending the description of the hedging instrument.

  The Company will update its hedge documentation to reflect this change in designation by the end of the reporting period in which the changes are made. These amendments to the hedge documentation do not require the Company to discontinue its hedge relationships. The Company has not made any amendments to its hedge documentation in the reporting period relating to IBOR reform.
- *Amounts accumulated in the cash flow hedge reserve:* When the Company amends its hedge designation as described above, the accumulated amount outstanding in the cash flow hedge reserve is deemed to be based on the alternative benchmark rate (for example, when the Canadian Overnight Repo Rate Average (CORRA) replaces CDOR). For discontinued hedging relationships, when the interest rate benchmark on which the hedged future cash flows were based is changed as required by IBOR reform, the amount accumulated in the cash flow hedge reserve is also deemed to be based on the alternative benchmark rate for the purpose of assessing whether the hedged future cash flows are still expected to occur.
- *Risk components:* The Company is permitted to designate an alternative benchmark rate as a non-contractually specified risk component, even if it is not separately identifiable at the date when it is designated, provided that the Company reasonably expects that it will meet the requirements within 24 months of the first designation and the risk component is reliably measurable. The 24-month period applies separately to each alternative benchmark rate which the Company might designate. During the period, the Company has not designated any risk components of alternative benchmark rates in any hedge relationships during the period.

Note 35 provides the required disclosures of the uncertainty arising from the IBOR reform for hedging relationships for which the Company applied the reliefs.

Revolving floorplan and term facilities

'Phase 2' of the amendments requires that, for financial instruments measured using amortized cost measurement, changes to the basis for determining the contractual cash flows required by interest rate benchmark reform are reflected by adjusting their effective interest rate. No immediate gain or loss is recognized. The practical expedient is only applicable to changes that are required by interest rate benchmark reform, which is the case if, and only if, the change is necessary as a direct consequence of interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis (that is, the basis immediately preceding the change).

Where some or all of a change in the basis for determining the contractual cash flows of a financial liability does not meet the criteria above, the above practical expedient is first applied to the changes required by interest rate benchmark reform, including updating the instrument's effective interest rate. Any additional changes are accounted for in the normal way (that is, assessed for modification or derecognition, with the resulting modification gain/loss recognized immediately in profit or loss where the instrument is not derecognized).

Syndicate revolving floorplan and term facilities bear CDOR-based interest rates. Revolving floorplan facilities with Ally Financial bear interest rates based on USD London Interbank Offered Rate ('USD LIBOR'). For the year ended December 31, 2020, the Company has not applied the practical expedients provided under 'Phase 2' to amendments as the applicable interest rates are still in effect. Refer to Note 24 for further detail regarding the applicable interest rates on revolving floorplan and term facilities.

5 Critical accounting estimates

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

Actual results may differ from these estimates. Critical estimates and assumptions were used to determine the value of the following assets and liabilities.

Intangible assets and goodwill

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

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

The Company tests, at least annually or more frequently if events or changes in circumstances indicate that they may be impaired, in accordance with its accounting policies. The recoverable amounts of CGUs have been estimated based on the greater of fair value less costs to dispose and value in use calculations (Note 21).

Inventories

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

Redemption liabilities

Redemption liabilities arise during business combinations where non-controlling interest shareholders have the right to require the Company to redeem their equity interests in certain non-wholly owned subsidiaries (refer to Note 15). The redemption amounts are determined with reference to the future profitability generated by those subsidiaries and their operating businesses. The Company will initially recognize a financial liability at the present value of the estimated redemption amount and, at the end of each subsequent reporting period, the Company will revisit its estimates. If the Company revises its estimates, the Company will adjust the carrying amount of the financial liability to reflect revised estimated profitability and the adjustments will be recognized as income or expenses in the Consolidated Statements of Comprehensive Loss.

Leases

i. *Critical judgments in determining the lease term*

Extension and termination options are included in a number of property leases held by the Company. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Potential future cash outflows have not been included in the lease liability if it is not reasonably certain that the leases will be extended.

The assessment is reviewed if a significant event or a significant change in circumstances occurs that affects this assessment and that is within the control of the lessee.

ii. *Estimation uncertainty arising from variable lease payments*

Certain leases contain variable payment terms that are linked to the consumer price index.

Restructuring charges

The Company has assumed it will not be able to sublet or otherwise realize any economic benefit from specific vacated premises. Should these circumstances change, some or all of the provision pertaining to the committed premises costs could be reversed in a future period.

Deferred taxes

The extent to which deferred tax assets are recognized is based on estimates of future profitability. Management has concluded that the deferred tax assets are more likely than not to be recovered using estimated future taxable income, based on approved business plans and budgets for each segment. The estimates will be updated in future periods, which may result in increases or decreases in the amount of deferred tax assets recognized based on the amount judged more likely than not to be recoverable.

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 8) and the Small Business Association Paycheck Protection Program (SBA PPP) in the U.S. (Note 24).

Operations

Given the Company's customer-facing retail operations, the initial uncertainty associated with the COVID-19 pandemic had an impact on the financial results of the Company. Regular operations have been impacted by mandatory closures in certain provincial jurisdictions, unpredictable changes in customer demand, employee availability and safety for the provision of goods and services, supply chain disruptions, as well as altered credit and liquidity risk profiles. Management has incorporated the impact of these factors in its assessment of trade and other receivables (Note 17) and impairment of non-financial assets (Note 21).

The Company has addressed these risks through an extensive review of assets, which culminated in the adjustments to the balances noted above, an amendment to the credit facility (Note 24), and successfully negotiated rent concessions (Note 25).

Impairment

The impacts of COVID-19 were incorporated into the annual impairment assessment performed as at December 31, 2020. The recoverable amount of the Company's CGUs was compared against the 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 21 for the results of the impairment assessment.

6 Revenue

	2020 $	2019 $
New vehicles	1,733,891	1,939,614
Used vehicles	1,010,881	891,237
Parts, service and collision repair	409,971	479,727
Finance, insurance and other	174,751	165,533
	3,329,494	3,476,111

7 Cost of sales

	2020 $	2019 $
New vehicles	1,625,561	1,809,117
Used vehicles	946,878	841,782
Parts, service and collision repair	197,001	241,061
Finance, insurance and other	12,728	13,656
	2,782,168	2,905,616

8 Operating expenses

	2020 $	2019 $
Employee costs (Note 9)	292,404	291,315
Government assistance [1]	(35,464)	—
Administrative costs [2]	160,586	160,718
Facility lease and storage costs	2,006	4,508
Depreciation of right-of-use assets (Note 25)	24,759	23,404
Depreciation of property and equipment (Note 20)	17,372	19,823
	461,663	499,768

1 *Government assistance represents the Company's eligible claim of $35,264 for the Canada Emergency Wage Subsidy (CEWS) and $200 claim for the Canada Emergency Rent Subsidy (CERS) for the year ended December 31, 2020, with $3,794 included in trade and other receivables. There are no unfulfilled conditions or other contingencies attached to the subsidy recognized.*

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

9 Employee costs

Operating expenses incurred in respect of employees were as follows:

	2020 $	2019 $
Wages, salaries and commissions	251,665	249,112
Withholding taxes and insurance	14,908	16,571
Employee benefits	16,689	18,894
Share-based compensation (Note 29)	4,464	4,805
Other benefits	4,678	1,933
	292,404	291,315

10 Lease and other income and gain on disposal of assets, net

	2020 $	2019 $
Lease and other income, net		
Lease and rental income	6,491	6,418
Other income	895	4,283
	7,386	10,701
Gain (loss) on disposal of assets, net		
Gain on dealership divestiture (Note 14)	135	8,442
Sale and leaseback transactions	—	2,935
Disposals of property and equipment, net	1,235	(363)
	1,370	11,014

11 Finance costs and finance income

	2020 $	2019 $
Finance costs:		
Interest on long-term indebtedness	16,200	17,163
Interest on lease liabilities (Note 25)	22,189	21,673
Loss on extinguishment of debt (Note 24)	4,002	—
Unrealized fair value changes on interest rate swaps (Note 35)	3,175	—
Amortization of terminated hedges (Note 35)	2,308	—
	47,874	38,836
Floorplan financing	17,586	23,977
Interest rate swap settlements (Note 35)	3,208	1,153
Other finance costs	3,837	4,818
	72,505	68,784
Finance income:		
Short-term bank deposits	808	912

Cash interest paid during the year ended December 31, 2020 is $56,153 (2019 - $68,442), which includes $22,189 (2019 - $21,673) of cash interest paid related to interest on lease liabilities.

12 Taxation

Reconciliation of effective income tax rate for the year ended December 31, 2020 is as follows:

	2020 $	2019 $
Net loss for the year before tax	(1,205)	(26,298)
Net loss for the year before tax multiplied by the blended rate of Canadian corporate tax of 25.8% (2019 - 27.1%)	(311)	(7,127)
Effects of:		
Tax losses and deductible temporary differences not recognized	2,225	12,928
Adjustment in respect of prior years	(72)	(9,218)
Impact of non-deductible items	2,314	5,325
Impact of change in substantively enacted rates	706	(464)
Foreign and other statutory income tax rate differentials	568	389
Other, net	(12)	(1,058)
Income tax expense	5,418	775
Effective income tax rate	(449.6)%	(2.9)%

Segmented components of income tax:

	2020 $	2019 $
Canada	20,783	1,747
U.S.	(125)	—
Current income tax expense	20,658	1,747
Canada	(15,240)	(972)
U.S.	—	—
Deferred income tax recovery	(15,240)	(972)
Total income tax expense	5,418	775

Components of deferred income tax:

	2020 $	2019 $
Deferred tax asset	12,732	13,029
Deferred tax liability	(2,651)	(20,301)
Net deferred tax asset (liability)	10,081	(7,272)

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

Deferred tax assets (liabilities)	Deferred income from partnerships $	Property and equipment $	Goodwill and intangible assets $	Right-of-use assets net of lease liabilities $	Derivative financial instruments $	Non-capital losses $	Other $	Total $
January 1, 2019	5,558	1,776	(24,201)	5,197	1,015	216	2,108	(8,331)
(Expense) benefit charged to income taxes	(9,350)	554	1,598	3,607	—	6,327	(1,764)	972
Amounts charged to other comprehensive income	—	—	—	—	635	—	—	635
Held for sale (Note 19)	1	—	(620)	—	—	—	71	(548)
December 31, 2019	(3,791)	2,330	(23,223)	8,804	1,650	6,543	415	(7,272)
(Expense) benefit charged to income taxes	1,112	(464)	4,633	1,170	—	4,227	4,562	15,240
Amounts charged to other comprehensive income	—	—	—	—	2,836	—	—	2,836
Acquisition of subsidiary (Note 13)	—	(87)	(357)	—	—	—	—	(444)
Other	—	—	(291)	—	—	—	12	(279)
December 31, 2020	(2,679)	1,779	(19,238)	9,974	4,486	10,770	4,989	10,081

Changes in the deferred income tax components are adjusted through deferred tax expense. Of the above components of the deferred income tax (liability) asset, $(2,679) (2019 - $(3,791)) is expected to be recovered within 12 months.

The recognized and unrecognized deductible temporary differences relating to the U.S. Operations are as follows:

	2020 $	2019 $
Total U.S. deductible temporary differences	155,426	150,176
Less:		
U.S. unrecognized deductible temporary differences, other than tax losses	(53,350)	(58,341)
U.S. unrecognized tax losses	(54,085)	(42,879)
Total unrecognized deductible temporary differences	(107,435)	(101,220)
Total recognized deductible temporary differences relating to the U.S Operations	47,991	48,956
Recognized deferred tax asset	12,732	13,029

As at December 31, 2020, the Company has recognized the benefit of $47,991 (2019 - $48,956) of the deductible temporary differences, relating to the U.S. Operations, as a deferred tax asset. The deductible temporary differences arose primarily from impairment charges recorded against the goodwill and intangible assets of the Grossinger dealerships acquired in 2018. The Company has concluded that the deferred tax assets are more likely than not to be recovered using estimated future taxable income, based on approved business plans and budgets for the segment. This estimate will be updated in future periods, which may result in increases or decreases in the amount of deferred tax assets recognized based on the amount judged more likely than not to be recoverable.

The Company's U.S. Operations have federal and state net operating losses of $54,085 and $52,886, respectively (2019 - $42,879 and $42,879). The federal losses can be carried forward indefinitely, while the state losses expire between 2030 and 2032.

The Company also has Canadian non-capital losses of $45,372 (2019 - $25,258) available to reduce future taxable income, until their expiry between 2032 and 2040. The benefit of these losses has been recognized as an offset to Canadian taxable temporary differences.

13 Business acquisitions

During the year ended December 31, 2020, the Company completed three business acquisitions that have been accounted for using the acquisition method.

Auto Bugatti Inc.

On October 6, 2020, the Company acquired 75% of the voting shares of Auto Bugatti Inc., a collision repair facility specializing in luxury vehicles in Montreal, Quebec. The acquisition supports management's strategic objectives of expanding the Company's collision center capacity, and also allows the Company to leverage existing dealerships in Quebec.

Autohaus of Peoria

On October 29, 2020, the Company acquired substantially all of the net assets of Autohaus of Peoria, a luxury dealership representing four franchises based in Illinois, USA. This was a strategic transaction which further bolstered the Company's presence in southern Illinois and is highly complementary to its existing operations in Bloomington, IL as both dealers are in close proximity of each other and serve similar luxury-brand communities.

Haldimand Motors Ltd.

On December 1, 2020, the Company completed the acquisition of all issued capital of Haldimand Motors Ltd. ("Haldimand"), a used car dealership in Cayuga, Ontario. The acquisition forms a part of management's strategic objective of developing a Used Digital Retail Division in the Canadian pre-owned vehicle market.

Used Digital Retail Division

On December 1, 2020, as a part of the development of the used digital retail strategy, AutoCanada UD LP ("the Partnership") was formed to hold the interest in Haldimand, as well as future dealerships that will be acquired as a part of the strategy. A wholly owned subsidiary of the Company is the general partner ("GP") of the Partnership while different classes of common units are issued to various stakeholders in the Partnership. The subsidiary also holds a preferred interest in the Partnership that is repaid over a ten-year period from contribution date, with a rate of return that reflects the Company's consolidated borrowing rate. Any distributions to other shareholders are subordinate to the preferred interest repayment.

Dealership management and the Executive Chairman hold common interests in the Partnership, which are subordinate to the GP and the preferred interest held by the Company. The Partnership agreement includes various put and call options, which are based on prescribed valuation of the Partnership at the date of exercise (Note 15).

A portion of the Partnership common interests is allocated to a pool for issuance to dealership management ("the Vendor Pool"), the aggregate of which cannot exceed 14% of total Partnership interests. Dealership management is granted an interest under an equity issuance plan (the "Digital Plan"), which vests based on the achievement of certain service conditions, which also form the vesting conditions of a share-based payment arrangement (Note 29). The put and call options associated with the common interests granted can only be exercised during certain periods in 2024 and 2026, respectively. For the year ended December 31, 2020, the vested Vendor Pool interests were nominal.

The related party interest represent a 15% interest in the Partnership granted to an entity controlled by the Executive Chairman (Note 32) and contains a share-based payment arrangement that vested immediately when granted on December 1, 2020. The expense associated with this arrangement was recorded in the Consolidated Statements of Comprehensive Loss (Note 29). The put option can only be exercised after the tenth anniversary of the grant date and does not contain a limitation on exercise period thereafter (Note 15).

Concurrent with the formation of the Partnership, a wholly owned special purchase entity ("SPE") was formed for the purpose of issuing stock options to employees or service providers of the Partnership (the "Digital Option Plan"). The portion of the common interests allocated to the pool for option issuances (the "Option Pool") cannot exceed 10% of total Partnership interests. The options represent a right to purchase non-voting shares in the SPE, which represent an accretive interest in the Partnership. For the year ended December 31, 2020, no options were issued under the Digital Option Plan.

Summary of acquisitions

The aggregate purchase consideration of the above noted acquisitions are as follows:

	$
Cash [1]	21,765
Contingent consideration	500
Total purchase consideration	22,265

1 *Net cash paid during the year ended December 31, 2020 is $18,445.*

In the event that certain post-close milestones related to supplier programs, software implementation, and staffing levels are achieved, additional consideration of up to $500 may be payable in cash by December 31, 2021.

The business acquisitions completed during the year ended December 31, 2020 described above are summarized as follows:

	Total $
Current assets	
Cash and cash equivalents	370
Trade and other receivables	518
Inventories	21,310
Other current assets	82
	22,280
Long-term assets	
Property and equipment	3,262
Right-of-use assets	19,316
Intangible assets	4,626
Other long-term assets	8
Total assets	49,492
Current liabilities	
Indebtedness	28
Trade and other payables	1,489
Revolving floorplan facilities	11,052
Other liabilities	246
	12,815
Long-term liabilities	
Long-term indebtedness	42
Lease liabilities	19,316
Deferred income tax	444
Total liabilities	32,617
Net identifiable assets acquired	16,875
Less: Non-controlling interests (Note 15) [1]	(1,071)
Goodwill	6,461
Total net assets acquired	22,265
Total consideration	22,265

1 *Non-controlling interest represents the interest in net assets not acquired by the Company, measured at fair value at the acquisition date.*

The goodwill is attributable to the workforce, synergies from combining operations of the acquirees and profitability of the acquired businesses. Goodwill of $2,426 is deductible for tax purposes.

The results of operations of the acquired entities are included in the Company's Consolidated Statements of Financial Position and Consolidated Statements of Changes in Equity from the date of acquisition. Such results of operations and the related assets and liabilities at the statement of financial position date are included in the Consolidated Statements of Financial Position. The results of operations of the acquired entities since acquisition date are nominal to the Consolidated Statements of Comprehensive Loss for the year ended December 31, 2020. Had the acquisitions occurred at January 1, 2020, the combined entity of the Company and the acquired entities would have had a nominal impact on the consolidated results currently presented.

All transaction costs have been expensed and recorded in operating expenses.

Prior year business acquisitions

During the year ended December 31, 2019, no business acquisition transactions were completed.

14 Dealership divestitures

On July 31, 2020, the Company sold substantially all of the operating assets of 417 Infiniti, located in Ottawa, Ontario, for cash consideration. Net proceeds of $683 resulted in a gain on divestiture of $135, included in Gain on disposal of assets, net (Note 10) in the Consolidated Statements of Comprehensive Loss, as summarized below.

	$
Inventories	2,752
Revolving floorplan facilities	(2,204)
Net assets disposed	548
Net proceeds on divestiture	683
Net gain on divestiture	135

15 Interest in subsidiaries

Certain subsidiaries of the Company have non-controlling interests ("NCI") held by other parties. The interests in these subsidiaries are summarized as follows:

Subsidiary	Principal place of business	Proportion of ownership interests held by non-controlling interests	Proportion of voting rights held by non-controlling interests	Dividends paid to non-controlling interests 2020 $	Dividends paid to non-controlling interests 2019 $
Green Isle G Auto Holdings Inc.	British Columbia	10 %	10 %	—	—
NBFG Holdings Inc.	Saskatchewan	5 %	5 %	—	—
2282239 Alberta Ltd. [1]	Saskatchewan	10 %	10 %	—	—
2282237 Alberta Ltd. [1]	Saskatchewan	10 %	10 %	—	—
Prairie Auto Holdings Ltd. [1]	Saskatchewan	— %	— %	—	900
AutoCanada B Holdings Inc. [2]	Quebec	— %	— %	—	450
AutoCanada C Holdings Inc. [2]	Quebec	15 %	15 %	—	—
Canbec Automobile Inc. [2]	Quebec	15 %	15 %	—	—
AutoCanada M Holdings Inc.	Quebec	10 %	10 %	—	—
Auto Bugatti Inc. [3]	Quebec	25 %	25 %	—	—
				—	1,350

1 *During the year ended December 31, 2020, the Company acquired the 15% interest of Prairie Auto Holdings Ltd. and completed a capital reorganization with new NCI parties.*

2 *The Company completed a capital reorganization of AutoCanada B Holdings Inc., which involved the exchange of shares for an interest in AutoCanada C Holdings Inc. and a new NCI interest in Canbec Automobile Inc.*

3 *The Company recognized non-controlling interests in the acquired entity at fair value of the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Refer to Note 13.*

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

The Company provides long-term loans to specific NCI parties and these are presented as other assets. Refer to Note 22.

Transactions with non-controlling interests

On July 6, 2020, the Company acquired a 100% ownership interest in the two operating dealerships of Prairie Auto Holdings Ltd. Consideration paid for the shares of $8,250 resulted in an extinguishment of the associated redemption liability and a loss on settlement of $1,346 that was recorded on the Consolidated Statements of Comprehensive Loss. Upon the acquisition of the non-controlling interest above, the Company recognized a decrease in non-controlling interests of $7,973, with a corresponding increase in equity attributable to owners of the parent.

During the year ended December 31, 2020, the Company reorganized capital in certain subsidiaries to bring in new non-controlling parties. The transactions resulted in new loans being issued to these parties to purchase a non-controlling interest in the subsidiaries for $12,524. These loans are recorded in Other long-term assets on the Consolidated Statements of Financial Position.

Used Digital Retail Division

A wholly owned subsidiary of the Company is the general partner of AutoCanada UD LP, a limited partnership ("the Partnership") that holds the interest in the dealership acquired as a part of the digital retail strategy (Note 13). The non-controlling unitholders hold put options where they can sell their shares back to the Partnership. These put options are recognized as redemption liabilities, measured at fair value at each reporting date, with subsequent changes recognized on the Consolidated Statements of Comprehensive Loss.

The fair value of the put options and associated redemption liabilities have been determined to carry a value of $435 for the year ended December 31, 2020, as a result of the preferred interest rights in the Partnership and the limited time of operation.

Redemption liabilities

AutoCanada C Holdings Inc., AutoCanada M Holdings Inc., and Auto Bugatti Inc. arrangements contain put options, whereby the non-controlling shareholders are able to sell their shares back to the Company. These put options are recognized as redemption liabilities, measured at their fair value on the Consolidated Statements of Financial Position.The fair value is determined based on the equity value of the related subsidiary (Note 34). Those options eligible to be executed in the next fiscal year are presented as current liabilities.

The continuity of the redemption liabilities is summarized as follows:

	Redemption liabilities $
January 1, 2019	**14,948**
Adjustment to fair value	550
December 31, 2019	**15,498**
Additions in the year (Note 29)	435
Derecognition on settlement	(8,250)
Recognition on acquisition (Note 13)	1,071
Loss on settlement [1]	1,346
Adjustment to fair value [1]	(2,108)
December 31, 2020	**7,992**
Current redemption liabilities	7,557
Long-term redemption liabilities	435

1 *Net amount of $762 presented on the Consolidated Statements of Comprehensive Loss*

16 Cash and cash equivalents

	December 31, 2020 $	December 31, 2019 $
Cash at bank and on hand	107,704	52,535
Short-term deposits	—	3,020
	107,704	55,555

Short-term deposits include cash held with a national Canadian financial institution. The Company's revolving floorplan facility agreements allow the Company to hold excess cash in accounts with the financial institution, which is used to offset its finance costs on revolving floorplan facilities. The Company has immediate access to this cash unless it is in default of its facilities, in which case the cash may be used by the financial institution in repayment of its facilities. Refer to Note 26 for further detail regarding cash balances held with the financial institution.

17 Trade and other receivables

	December 31, 2020 $	December 31, 2019 $
Trade receivables	109,405	129,733
Less: Expected loss allowance (Note 26)	(1,990)	(1,869)
	107,415	127,864
Other receivables	11,235	4,761
	118,650	132,625

The Company is exposed to normal credit risk with respect to its accounts receivable and maintains provisions for expected 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.

18 Inventories

	December 31, 2020 $	December 31, 2019 $
New vehicles	412,970	610,406
Demonstrator vehicles	36,911	41,051
Used vehicles	218,812	134,407
Parts and accessories	30,507	35,591
	699,200	821,455

Amounts recognized in the Consolidated Statements of Comprehensive Loss:

	December 31, 2020 $	December 31, 2019 $
Inventory expensed as cost of sales	2,685,420	2,769,581
Net writedowns on inventory included in cost of sales	28,711	1,489
Demonstrator expenses included in administrative costs	8,092	9,298

19 Assets and liabilities 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 Consolidated Statement of Financial Position date.

During the year ended December 31, 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 as 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.
- During the three-month period ended September 30, 2020, the Company disposed of two properties previously held for sale as at December 31, 2019, for net proceeds of $7,831, which resulted in a gain of $1,940.

As at December 31, 2020, certain land assets have been reclassified out of held for sale in the Canadian Operations segment as management is no longer actively marketing the asset. The remaining balance of assets held for sale is for land and buildings of $1,039 (2019 - $14,193).

20 Property and equipment

	Company & lease vehicles $	Leasehold improvements $	Machinery & equipment $	Land & buildings[1] $	Furniture, fixtures & other $	Computer equipment $	Total $
Cost:							
January 1, 2019	22,861	40,779	34,124	194,428	19,458	12,252	323,902
Capital expenditures	—	13,987	3,850	8,975	526	3,296	30,634
Disposals	(68)	(931)	(2,072)	(71,014)	(973)	(660)	(75,718)
Transfers to assets held for sale	—	—	—	(1,800)	—	—	(1,800)
Transfer from assets held for sale	88	71	9	—	82	—	250
Transfers from inventory, net	10,975	—	—	—	—	—	10,975
Foreign currency translation	(36)	(269)	(176)	—	(108)	(43)	(632)
December 31, 2019	33,820	53,637	35,735	130,589	18,985	14,845	287,611
Capital expenditures	—	6,648	2,465	—	1,242	2,097	12,452
Business combinations (Note 13)	1,258	554	1,417	11	2	20	3,262
Acquisition of real estate	—	—	—	8,514	—	—	8,514
Disposals	(371)	(2,220)	(8,784)	(33)	(5,198)	(6,711)	(23,317)
Transfer from assets held for sale	—	—	—	5,432	—	—	5,432
Asset class reclassifications	—	286	—	(286)	—	—	—
Transfers to inventory, net	(6,353)	—	—	—	—	—	(6,353)
Foreign currency translation	(95)	(41)	(79)	—	(40)	(21)	(276)
December 31, 2020	**28,259**	**58,864**	**30,754**	**144,227**	**14,991**	**10,230**	**287,325**
Accumulated depreciation:							
January 1, 2019	(5,997)	(14,362)	(19,575)	(29,179)	(9,882)	(7,766)	(86,761)
Depreciation	(4,022)	(2,735)	(3,402)	(5,589)	(1,921)	(2,154)	(19,823)
Disposals	—	367	1,546	9,304	931	134	12,282
Impairment losses recognized	30	—	107	—	12	20	169
Transfers to assets held for sale	—	—	—	732	—	—	732
Transfer from assets held for sale	(22)	(58)	(1)	—	(66)	—	(147)
Transfers in from inventory, net	3,244	—	—	—	—	—	3,244
Foreign exchange	13	20	38	—	21	11	103
December 31, 2019	(6,754)	(16,768)	(21,287)	(24,732)	(10,905)	(9,755)	(90,201)
Depreciation	(3,483)	(2,824)	(3,074)	(4,417)	(1,678)	(1,896)	(17,372)
Disposals	243	1,760	7,441	—	4,365	5,781	19,590
Asset class reclassifications	—	(146)	—	146	—	—	—
Transfers in from inventory, net	4,056	—	—	—	—	—	4,056
Foreign exchange	20	9	53	—	27	18	127
December 31, 2020	**(5,918)**	**(17,969)**	**(16,867)**	**(29,003)**	**(8,191)**	**(5,852)**	**(83,800)**
Carrying amount:							
December 31, 2019	**27,066**	**36,869**	**14,448**	**105,857**	**8,080**	**5,090**	**197,410**
December 31, 2020	**22,341**	**40,895**	**13,887**	**115,224**	**6,800**	**4,378**	**203,525**

1 *As at December 31, 2020, the Company owns land of $45,487 (2019 - $39,515).*

Construction-in-progress additions of $6,514 (2019 - $15,102) are included in land and buildings, as well as leasehold improvements, and are not subject to depreciation until the assets are available for use.

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

Land and building additions are used for Open Point opportunities as well as dealership relocations, dealership re-imagings, and also include the purchase of a previously leased dealership property.

During the year-ended December 31, 2020, management identified certain assets with no future value and recorded an impairment of $3,303 in disposals.

21 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.

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

	2020 $	**2019 $**
Land and buildings (Notes 19, 20)	3,922	6,016
Intangible assets	15,055	(1,527)
Goodwill	5,230	32,086
	24,207	36,575

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

	Intangible assets $	**Goodwill $**	**Total $**
Cost:			
January 1, 2019	493,469	129,353	622,822
Divestitures	(11,431)	(783)	(12,214)
Effect of foreign currency translation	(2,100)	(3,889)	(5,989)
December 31, 2019	**479,938**	**124,681**	**604,619**
Acquisitions (Note 13)	4,626	6,461	11,087
Additions [1]	430	—	430
Effect of foreign currency translation	(1,050)	(1,666)	(2,716)
December 31, 2020	**483,944**	**129,476**	**613,420**
Accumulated impairment:			
January 1, 2019	81,116	70,921	152,037
Impairment (recovery)	(1,527)	32,086	30,559
Divestitures	(9,931)	(783)	(10,714)
Effect of foreign currency translation	(13)	(1,658)	(1,671)
December 31, 2019	**69,645**	**100,566**	**170,211**
Impairment (recovery)	15,055	5,230	20,285
Effect of foreign currency translation	(389)	(2,054)	(2,443)
December 31, 2020	**84,311**	**103,742**	**188,053**
Carrying amount:			
December 31, 2019	410,293	24,115	434,408
December 31, 2020	399,633	25,734	425,367

1 *Additions to intangible assets represent increases to franchise rights.*

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

	Canadian Operations $	U.S. Operations $	Total $
Land and buildings	3,922	—	3,922
Intangible assets	11,390	3,665	15,055
Goodwill	—	5,230	5,230
	15,312	8,895	24,207

CGUs have been determined to be individual dealerships. The following table shows the carrying amount of indefinite-lived identifiable intangible assets and goodwill by CGU:

	December 31, 2020 $			December 31, 2019 $		
Cash Generating Unit	**Intangible assets**	**Goodwill**	**Total**	**Intangible assets**	**Goodwill**	**Total**
W	27,807	6,135	33,942	27,807	6,135	33,942
N	21,250	3,951	25,201	21,250	3,951	25,201
S	24,494	506	25,000	24,494	506	25,000
Q	22,434	—	22,434	23,067	3,923	26,990
P	21,806	—	21,806	21,806	—	21,806
AI	18,044	3,724	21,768	18,044	3,724	21,768
J	21,687	—	21,687	21,687	—	21,687
D	16,448	—	16,448	18,198	—	18,198
K	15,152	—	15,152	17,641	—	17,641
Y	14,872	—	14,872	14,872	—	14,872
AB	14,496	—	14,496	11,656	—	11,656
T	12,496	941	13,437	12,496	941	13,437
AJ	12,612	—	12,612	16,040	644	16,684
F	12,488	—	12,488	13,908	—	13,908
O	10,950	—	10,950	12,930	—	12,930
X	9,263	950	10,213	9,263	950	10,213
AF	10,210	—	10,210	10,690	—	10,690
B	9,641	—	9,641	12,041	—	12,041
C	9,626	—	9,626	9,626	—	9,626
H	9,431	—	9,431	9,431	—	9,431
AA	8,495	—	8,495	8,495	—	8,495
AH	8,048	—	8,048	8,048	—	8,048
AL	6,590	—	6,590	5,790	—	5,790
Z	4,684	1,343	6,027	4,684	1,343	6,027
AK	5,489	—	5,489	5,799	—	5,799
AD	5,260	—	5,260	5,590	—	5,590
Other CGUs less than $5,000	45,860	8,184	54,044	44,940	1,998	46,938
Carrying amount	399,633	25,734	425,367	410,293	24,115	434,408

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

Canadian dealerships

For the year ended December 31, 2020, thirteen Canadian dealerships recorded impairment charges (recoveries) on indefinite-lived identifiable intangible assets (2019 - eighteen). The recoverable amounts for twelve dealerships were determined using the value in use ("VIU") method while the remaining dealership was determined using the fair value less costs to dispose ("FVLCD") method.

	December 31, 2020 $			December 31, 2019 $		
Cash Generating Unit	**Intangible assets**	**Goodwill**	**Total**	**Intangible assets**	**Goodwill**	**Total**
B	2,400	—	2,400	2,750	—	2,750
Y	—	—	—	(5,280)	—	(5,280)
AH	—	—	—	3,501	459	3,960
O	1,980	—	1,980	—	—	—
AK	310	—	310	(810)	—	(810)
AE	5,300	—	5,300	(6,060)	—	(6,060)
AF	480	—	480	4,710	—	4,710
K	2,490	—	2,490	957	1,303	2,260
F	1,420	—	1,420	(760)	—	(760)
P	—	—	—	(7,970)	—	(7,970)
AG	(1,720)	—	(1,720)	2,900	250	3,150
I	290	—	290	1,130	—	1,130
D	1,750	—	1,750	(6,700)	—	(6,700)
AA	—	—	—	(700)	—	(700)
AD	330	—	330	8,110	—	8,110
R [1]	—	—	—	674	—	674
E	—	—	—	1,970	—	1,970
AB	(2,840)	—	(2,840)	(1,140)	—	(1,140)
AL	(800)	—	(800)	801	409	1,210
Net impairment (recovery)	11,390	—	11,390	(1,917)	2,421	504

1 *The CGU was sold during the year ended December 31, 2019.*

U.S. dealerships

For the year ended December 31, 2020, three US dealerships recorded impairment charges on indefinite-lived identifiable intangible assets and goodwill (2019 - seven). The recoverable amounts for two dealerships were determined using the VIU method while the remaining dealership was determined using the FVLCD method.

	December 31, 2020 $			December 31, 2019 $		
Cash Generating Unit	**Intangible assets**	**Goodwill**	**Total**	**Intangible assets**	**Goodwill**	**Total**
Q	198	4,285	4,483	—	6,520	6,520
U	—	—	—	325	3,596	3,921
AJ	3,467	704	4,171	—	6,754	6,754
A	—	241	241	—	1,724	1,724
V	—	—	—	—	3,679	3,679
L	—	—	—	65	3,860	3,925
G	—	—	—	—	3,532	3,532
Net impairment	3,665	5,230	8,895	390	29,665	30,055

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

The following table shows the recoverable amounts of CGUs, with impairments or recoveries of impairments recorded in either the current year or prior year, that have not been fully impaired:

Canadian dealerships

Cash Generating Unit	**FVLCD or VIU**	**December 31, 2020 $**	**December 31, 2019 $**
B	VIU	10,285	13,309
Y	FVLCD	11,932	11,343
AH	FVLCD	7,260	6,945
O	VIU	13,288	14,910
AK	FVLCD [1]	5,250	15,600
AE	VIU	5,236	11,045
AF	VIU	12,430	12,903
K	VIU	17,118	19,612
F	VIU	12,413	15,176
P	VIU	26,910	28,763
AG	VIU	5,600	705
I	VIU	4,935	4,085
D	VIU	18,442	21,725
AA	VIU	16,810	19,001
AD	VIU	6,799	6,782
E	VIU	5,365	4,421
AB	VIU	17,493	15,395
AL	VIU	16,861	9,526

1 *The CGU was valued using the VIU technique in the prior year.*

U.S. dealerships

Cash Generating Unit	FVLCD or VIU	December 31, 2020 $	December 31, 2019 $
Q	VIU	23,903	29,111
AJ	VIU	14,575	23,891
A	FVLCD	—	231
V [1]	VIU	5,177	5,177
G [1]	VIU	4,008	4,008

1 *These CGUs did not show indicators of impairment during the year ended December 31, 2020 and were not tested for impairment during the period.*

Impairment test of indefinite life intangible assets

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

Valuation techniques

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

Value in use

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

Fair value less costs to dispose

Fair value less costs to dispose ("FVLCD") assumes that companies operating in the same industry will share similar characteristics and that 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 an applicable multiple applied to projected earnings before interest, taxes, depreciation and amortization (EBITDA). 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 VIU

Projected operating margins and growth rates

The assumptions used are based on the Company's internal budget, which is approved by the Board of Directors. The Company projects operating margins and cash flows for a period of one year, and applies growth rates for years thereafter commensurate with industry forecasts. In arriving at its forecasts, the Company considers past experience, economic trends and inflation as well as industry and market trends.

Discount rates

The Company applies a discount rate in order to calculate the present value of its projected cash flows. The discount rate represents the Company's internally computed weighted average cost of capital ("WACC") for each CGU with appropriate adjustments for the risks associated with the CGUs 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 11.05% and 12.25% in its projections (2019 - 10.14% and 11.72%).

Significant assumptions for FVLCD

Projected EBITDA

The Company's assumptions for projected EBITDA are based on the Company's internal budget, which is approved by the Board of Directors. In arriving at the projected EBITDA, the Company considers projected operating margins and growth rates as significant assumptions, past experience, economic trends and inflation as well as industry and market trends.

EBITDA multiples

EBITDA multiples are based on recent comparable transactions, market comparatives, and management estimates.

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 $
AM	0.01 %	0.01 %	13,852	—

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 $
AH	0.1	7,454	7,454	—

22 Other assets

	December 31, 2020 $		December 31, 2019 $	
	Current	Long-term	Current	Long-term
Prepaid expenses	8,536	143	8,468	—
Derivative financial instruments	366	—	—	—
Other assets [1]	29	14,194	34	5,042
	8,931	14,337	8,502	5,042

1 *$14,194 (2019 - $1,670) relates to long-term loans receivable from the respective non-controlling interests (Note 15).*

23 Trade and other payables

	December 31, 2020 $	December 31, 2019 $
Trade payables	65,806	84,774
Accruals and provisions	36,672	22,165
Sales tax payable	3,092	5,743
Wages and withholding taxes payable	31,940	22,289
	137,510	134,971

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

	Finance and insurance [1] $	Legal and other $	Total $
January 1, 2019	**1,271**	**3,571**	**4,842**
Provisions made during the year	—	1,125	1,125
Amounts expired or disbursed	(1,200)	(942)	(2,142)
December 31, 2019	**71**	**3,754**	**3,825**
Provisions made during the year	—	6,441	6,441
Amounts expired or disbursed	—	(3,122)	(3,122)
December 31, 2020	**71**	**7,073**	**7,144**

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

24 Indebtedness

This note provides information about the contractual terms of the Company's interest bearing debt, which is measured at amortized cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, refer to Note 26.

	December 31, 2020 $	December 31, 2019 $
Revolving floorplan facilities		
Revolving floorplan facilities - Syndicate (ii)	465,510	480,662
Revolving floorplan facilities - Bank of America	—	91,903
Revolving floorplan facilities - VW Credit Canada, Inc. (iii)	56,539	65,864
Revolving floorplan facilities - BMW Financial (iv)	64,327	75,783
Revolving floorplan facilities - RBC (v)	35,323	28,355
Revolving floorplan facilities - Scotiabank	—	26,474
Revolving floorplan facilities - Toronto-Dominion Bank	—	18,396
Revolving floorplan facilities - Mercedes-Benz Financial (vii)	24,402	44,721
Revolving floorplan facilities - GM Financial (vi)	25,752	—
Revolving floorplan facilities - Ally Financial (viii)	90,090	—
Carrying value	761,943	832,158
Indebtedness		
Senior unsecured notes		
Senior unsecured notes (i)	123,982	149,739
Unamortized deferred financing costs	(3,266)	(537)
	120,716	149,202
Revolving term facilities (ii)		
Revolving term facility	70,123	64,875
Unamortized deferred financing costs	(1,296)	(1,594)
	68,827	63,281
Other debt		
Mortgage *(ix)*	831	858
Other long-term debt	6,857	91
Total indebtedness	**197,231**	**213,432**
Current indebtedness	65	127
Long-term indebtedness	197,166	213,305

The following table shows the movement of indebtedness during the years ended December 31, 2020 and December 31, 2019:

	2020 $	2019 $
Balance, January 1	**213,432**	**328,652**
Amortization of deferred financing costs	1,300	760
Draws and additions	226,882	45,052
Repayments	(245,505)	(161,032)
Other	1,122	—
Balance, December 31	**197,231**	**213,432**

Terms and conditions of outstanding loans are as follows:

i. 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 11).

   The New Notes hold a term of five years and mature on February 11, 2025. The New 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 New Notes are outstanding. The initial interest payment date for the New Notes was August 11, 2020.

ii. 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 11).

   Effective April 20, 2020, the Company amended the senior credit facility agreement to provide additional covenant headroom through to June 30, 2021, unless management chooses to amend. 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 June 30, 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 2021 and an extension of repayments with respect to export wholesale vehicles.

   On October 28, 2020 and on December 15, 2020, the Company respectively executed the Second and Third Amendment. The Company is now provided with a $525,000 facility for floorplan and lease financing of new vehicles, an unallocated new vehicle limit of $25,000 for the financing of future acquisitions, $175,000 facility for floorplan and lease financing of used vehicles, and no unallocated used vehicle facility limit for the financing of future acquisitions, a $25,000 facility for floorplan of used export vehicles, a $175,000 facility for general corporate purposes, and a $25,000 accordion feature. The floorplan facilities bear interest rates of Canadian Dollar Offered Rate ("CDOR") plus 1.05% per annum for a total of 1.510%.

   The agreement has certain reporting requirements and financial covenants. The floorplan facility is collateralized by each individual dealership's inventories that are directly financed by the facility. The revolving credit facility is collateralized by certain of the Company's real property and fixed assets, as well as certain current receivable and inventory assets not otherwise pledged as collateral.

iii. VW Credit Canada, Inc. ("VCCI") provides floorplan financing for new, used and demonstrator vehicles for all of the Company's Volkswagen and Audi dealerships (the "VCCI facilities"). During the first and third quarter of 2020, amendments were made to the maximum amount of financing provided by the VCCI facilities to $79,105 and $84,500, respectively. As at December 31, 2020, the maximum amount of financing is $94,800 (2019 - $81,835). The VCCI facilities bear interest at Royal Bank of Canada ("RBC") prime rate plus 0.00% – 0.25% (2019 - 0.00%-0.75%). The RBC prime rate was 2.45% at December 31, 2020 (2019 - 3.95%). The combined total interest rates were 2.45%-2.70% (2019 - 3.95%-4.70%). The VCCI facilities have certain reporting requirements and financial covenants and are collateralized by all of the dealerships' assets financed by VCCI. The individual notes payable of the VCCI facilities are due when the related vehicle is sold.

iv. BMW Financial Services Canada ("BMW Financial"), a division of BMW Canada Inc., provides floorplan financing for new, used and demonstrator vehicles for all of the Company's BMW dealerships (the "BMW Facilities"). During the second quarter of 2020, amendments were made to the maximum advance limit to $97,785. As at December 31, 2020, the maximum advance limit is $102,255 (2019 - 101,705). The BMW Facilities bear a variable interest rate of prime minus 0.40% (2019 - 0.40%) per 360 day annum for a total of 2.05% at December 31, 2020 (2019 - 3.55%). The BMW Facilities have certain reporting requirements and financial covenants and are collateralized by the dealerships' movable and immovable property.

v. RBC provides floorplan financing for new, used and demonstrator vehicles for three of the Company's dealerships (the "RBC Facilities"). During the second quarter of 2020, amendments were made to the maximum amount of financing to $50,000. As at December 31, 2020, the maximum advance limit is $50,000 (2019 - $47,800). The RBC Facilities bear interest rates of RBC's Cost of Funds Rate plus 0.25%-0.50% (2019 - 0.25%-0.50%). The RBC's Cost of Funds Rate was 1.24% as at December 31, 2020 (2019 - 2.84%). The combined total interest rates were 1.49%-1.74% as at December 31, 2020 (2019 - 3.09%-3.34%). The RBC Facilities have certain reporting requirements and financial covenants and are collateralized by the new, used, and demonstrator inventory financed by RBC and a general security agreement from the General Motors dealerships financed by RBC.

vi. The Company executed a new agreement on October 29, 2020 with General Motors Financial of Canada (the "GM Financial Facilities"). GM Financial Facilities provides floorplan financing for new, used, service loaner, and demonstrator vehicles for two of the Company's dealerships. GM Financial Facilities bear interest at a floating rate of interest per annum, which equals the prime rate. As at December 31, 2020, the prime rate was 2.45% and the maximum amount of financing was $50,300. The GM Financial Facilities have certain reporting requirements and are collateralized by the new, used, and demonstrator inventory financed by GM Financial and a general security agreement from the Company's two dealerships financed by GM Financial.

vii. Mercedes-Benz Financial provides floorplan financing for new, used and demonstrator vehicles for two of the Company's dealerships (the "Mercedes-Benz Facilities"). As at December 31, 2020, the maximum amount of financing was $58,000 (2019 - $58,000). The facilities bear interest rates of CDOR plus 1.80% (2019 - 1.80%) for a total of 2.47% (2019 - 3.88%). The Mercedes-Benz Facilities have certain reporting requirements and financial covenants and are collateralized by the new, used, and demonstrator inventory financed by Mercedes-Benz Financial and a general security agreement from the Company's dealership financed by Mercedes-Benz Financial.

viii. On August 20, 2020, the Company finalized an arrangement with Ally Financial to replace previous U.S. floorplan financing for new, used, and demonstrator vehicles in the U.S. The facility limit is $108,500 USD, bearing an interest rate of the one-month London Interbank Offered Rate (LIBOR) plus 3.45%. The floorplan facility has certain reporting requirements and financial covenants and is collateralized by each individual dealership's inventories that are directly financed by the facility.

ix. VCCI provides the Company with a mortgage (the "VCCI Mortgage"). Effective in the second quarter of 2020, mortgage principal payment deferral was provided for three months. The VCCI Mortgage bears interest at a floating rate of interest per annum equal to RBC's prime rate plus 0.15% (2019 - 0.15%). The RBC prime rate was 2.45% as at December 31, 2020 (2019 - 3.95%). The total interest rate was 2.60% as at December 31, 2020 (2019 - 4.10%). The VCCI Mortgage is repayable with blended monthly payments of $4 amortized over a 20-year period with the term expiring in 2021. The VCCI Mortgage has certain reporting requirements and financial covenants and is collateralized by a general security agreement consisting of a first fixed charge over the property. As at December 31, 2020, the carrying amount of the property was $818 (2019 - $1,278).

Government assistance

In the U.S., the Company received a loan of $6,857 ($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 December 31, 2020. The loan balance is reflected in other long-term debt.

25 Leases

	Total $
Right-of-use asset balance, January 1, 2019	**275,814**
Additions	56,068
Transfers from assets held for sale	545
Depreciation (Note 8)	(23,404)
Disposals	(3,832)
Effect of foreign currency translation	(1,655)
Right-of-use asset balance, December 31, 2019	**303,536**
Additions	12,135
Acquisitions (Note 13)	19,316
Depreciation (Note 8)	(24,759)
Disposals	(90)
Effect of foreign currency translation	(1,241)
Right-of-use asset balance, December 31, 2020	**308,897**

	Total $
Lease liability balance, January 1, 2019	**340,896**
Additions	66,096
Transfers from liabilities held for sale	599
Repayments	(41,961)
Interest expense (Note 11)	21,673
Disposals	(3,170)
Effect of foreign currency translation	(3,670)
Lease liability balance, December 31, 2019	**380,463**
Additions	13,111
Acquisitions (Note 13)	19,316
Repayments	(45,270)
Interest expense (Note 11)	22,189
Disposals	(95)
Effect of foreign currency translation	(1,785)
Lease liability balance, December 31, 2020	**387,929**
Current lease liabilities	24,079
Long-term lease liabilities	363,850

Rent Concessions

The Company negotiated certain rent concessions on property leases primarily related to the deferral of rent payments for a three-month period, predominantly during the second quarter of 2020 in exchange for future repayment of the concessions or extensions to the respective lease terms. For the year ended December 31, 2020, $2,389 remains of the overall negotiated cash deferral of $4,169, which is to be repaid over various terms ending between 2021 and 2022.

The optional exemption for all eligible rent concessions has been applied for leases with similar characteristics and the financial impact was nominal to the Consolidated Statements of Comprehensive Loss. Certain leases did not meet the criteria for the optional exemption due to substantive lease term extensions.

Other disclosures

Other than depreciation, the following amounts have been recognized in income:

	2020 $	2019 $
Expenses related to short-term leases (included in Operating expenses)	2,006	235
Expenses related to leases of low-value assets that are not shown above as short-term leases (included in Operating expenses)	95	119
Income from sub-leasing right-of-use assets (included in Lease and other income, net)	204	394

As at December 31, 2020, potential cash outflows of $508,933 (2019 - $474,475) (undiscounted) have not been included in the lease liability as it is not reasonably certain the extension options will be exercised. The financial effect of including reasonably certain extension options in leases liabilities and right-of-use assets is $54,873 (2019 - $56,124).

As at December 31, 2020, estimated commitments associated with low-value and short-term leases are insignificant.

26 Financial instruments

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset and financial liability, are disclosed in the accounting policies (Note 3). The Company's financial assets are measured at amortized cost. The Company's financial liabilities are measured at amortized cost except for redemption liabilities and non-hedged interest swaps, which are carried at fair value through profit or loss. The carrying values of financial instruments approximate their fair values, excluding the senior unsecured notes. The fair value of the senior unsecured notes is $123,764 (2019 - $149,580).

Financial risk management objectives

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

Market risk

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

Foreign currency risk

The Company has operations in Canada and the United States. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities denominated in a currency that is not the functional currency of the relevant entity. The Company is exposed to foreign exchange risk because its Canadian and U.S. operations engage in transactions denominated in a currency other than their respective functional currency. Risk arises as a result of specific transfers associated with working capital between Canadian and U.S. operations as well as wholesale used vehicle transactions where Canadian operations will participate in disciplined cross-border sales when arbitrage opportunities are present.

Interest rate risk

The Company's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section herein, the indebtedness note (Note 24), and the hedge accounting note (Note 35). The sensitivity analysis below has been determined based on the exposure to interest rates at the reporting date and stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. The amounts below represent the absolute change to the reported account, an increase in the basis point would result in a positive amount and a decrease in the basis point would result in a negative amount. A 100 basis point change and 200 basis point change is used when reporting interest risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

	+/- 200 Basis Point		+/- 100 Basis Point	
	2020 $	2019 $	2020 $	2019 $
Finance costs	8,916	17,957	4,458	8,978
Finance income	16	19	8	9

Credit risk

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

The Company applies the simplified approach to measuring expected credit losses, which uses a lifetime expected credit loss allowance for all trade receivables. The expected loss rates are based on the payment profiles of sales over the 12-month periods prior to December 31, 2020 and December 31, 2019 and the corresponding historical credit losses experienced within these periods.

The loss allowance for trade receivables as at December 31, 2020 and December 31, 2019 was determined as follows:

	December 31, 2020			December 31, 2019		
	Expected loss rate %	Gross carrying amount - Trade receivables $	Expected loss allowance (Note 17) $	Expected loss rate %	Gross carrying amount - Trade receivables $	Expected loss allowance (Note 17) $
Current	0.05	84,470	40	0.01	86,921	12
31 - 60 days	2.05	9,840	202	1.15	18,777	216
61 - 90 days	4.56	6,388	292	3.71	9,365	348
91 - 120 days	7.23	1,495	108	5.37	4,414	237
> 120 days	7.31	18,447	1,348	7.01	15,062	1,056
Total		**120,640**	**1,990**		**134,539**	**1,869**

The closing loss allowance for trade receivables reconciles to the opening loss allowance as follows:

	2020 $	2019 $
Balance, January 1	**1,869**	**3,208**
Loan loss allowance recognized in profit or loss during the year	3,474	(611)
Receivables written off during the year	(2,640)	(1,134)
Additional amount recorded	(713)	406
Balance, December 31	**1,990**	**1,869**

The amounts disclosed on the Consolidated Statements of Financial Position for accounts receivable are net of the expected loss allowance, details of which are disclosed in Note 17. When a trade and other receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Consolidated Statements of Comprehensive Loss.

Concentration of cash and cash equivalents exist due to the significant amount of cash held with a Canadian financial institution (refer to Note 16 for further discussion of the Company's concentration of cash held on deposit with the financial institution). The syndicated revolving floorplan facility (Note 24) allows the Company's dealerships to hold excess cash (used to satisfy working capital requirements of the Company's various Original Equipment Manufacturer ("OEM") partners) in an account with the financial institution which bears interest at 1.519% at December 31, 2020 (2019 - 3.128%). These cash balances are fully accessible by the Company's dealerships at any time; however, in the event of a default by a dealership in its floorplan obligation; the cash may be used to offset unpaid balances under the facility. As a result, there is a concentration of cash balances risk to the Company in the event of a default under the facility.

Liquidity risk

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

The Company has renegotiated certain financial liabilities and put in place new facilities to manage liquidity risk in response to the COVID-19 pandemic. The steps taken by the Company to respond to possible future liquidity constraints arising from the COVID-19 pandemic and the impact of those steps on the consolidated financial statements are summarized in Note 24.

As at December 31, 2020, the Company has $104,877 (2019 - $185,125) in readily available liquidity from its revolving term facility. However, the Company's ability to borrow under this facility requires it to comply with its financial covenants.

The following tables detail the Company's remaining contractual maturity for its financial liabilities. The amounts below have been determined based on the undiscounted contractual maturities of the financial liabilities.

	2021 $	2022 $	2023 $	2024 $	Thereafter $	Total $
December 31, 2020						
Trade and other payables	137,510	—	—	—	—	137,510
Revolving floorplan facilities	761,943	—	—	—	—	761,943
Vehicle repurchase obligations	4,526	—	—	—	—	4,526
Indebtedness	53	6,921	70,176	53	125,661	202,864
Contractual interest payable	13,560	13,560	13,560	10,959	1,850	53,489
Lease liabilities	47,819	46,551	44,930	43,037	403,008	585,345
Derivative financial instruments	7,514	5,480	5,182	3,641	790	22,607
	972,925	72,512	133,848	57,690	531,309	1,768,284

	2020 $	2021 $	2022 $	2023 $	Thereafter $	Total $
December 31, 2019						
Trade and other payables	134,971	—	—	—	—	134,971
Revolving floorplan facilities	832,158	—	—	—	—	832,158
Vehicle repurchase obligations	7,802	—	—	—	—	7,802
Indebtedness	127	215,435	—	—	—	215,562
Contractual interest payable	11,433	4,512	—	—	—	15,945
Lease liabilities	45,529	45,587	44,720	43,241	425,674	604,751
Derivative financial instruments	1,709	1,702	1,443	1,325	7	6,186
	1,033,729	267,236	46,163	44,566	425,681	1,817,375

27 Vehicle repurchase obligations

The Company operates service loaner programs and provides vehicles to a third party vehicle rental company with individual terms not to exceed 12 months, at which time the Company has an obligation to repurchase each vehicle at a predetermined amount. As a result, the Company has recorded the contractual repurchase amounts as outstanding vehicle repurchase obligations and has classified the liability as current due to the short-term nature of the obligation.

28 Commitments and contingencies

Lawsuits and legal claims

The Company is engaged in various legal proceedings and claims that have arisen in the ordinary course of business. The outcome of all of the proceedings and claims against the Company is subject to future resolution, including the uncertainties of litigation. Based on information currently known to the Company and after consultation with outside legal counsel, management believes that the probable ultimate resolution of any such proceedings and claims, individually or in the aggregate, will not have a material adverse effect on the financial condition of the Company, taken as a whole. Note 23 includes provisions to account for information known to the Company and based on estimates of probable resolutions.

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

Letters of guarantee

The Company has outstanding letters of guarantee totaling $3,528 as at December 31, 2020 (2019 - $2,314) with various due dates.

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

Capital commitments

As at December 31, 2020, the Company is committed to capital expenditure obligations in the amount of $17,700 (2019 - $17,959) related to dealership relocations, dealership re-imagings, and dealership Open Points with expected completion of these commitments in 2022.

29 Share-based payments

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

Restricted Share Units (RSUs)

The Company grants RSUs to designated management employees. Effective in 2018, the RSU Plan was modified such that awards are intended to be settled in shares. The RSU Plan settles by way of common shares, based on the Company's share price at each vesting date. The RSUs are also entitled to earn additional units based on dividend payments made by the Company and the share price on date of payment. The RSUs granted are scheduled to vest at different intervals over three years — conditional upon continued employment with the Company.

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

	December 31, 2020		December 31, 2019	
	Number of RSUs	Amount $	Number of RSUs	Amount $
Outstanding, beginning of the year	127,657	1,406	54,789	622
Settled - equity	(4,823)	(34)	(6,071)	(65)
Granted	191,773	997	89,904	962
Forfeited units	–	–	(14,631)	(153)
Dividends reinvested	1,849	13	3,666	40
Outstanding, end of the year	316,456	2,382	127,657	1,406

During the year ended December 31, 2020, 61,286 RSUs were vested but not settled.

Deferred Share Units (DSUs)

Independent members of the Board of Directors are paid a portion of their annual retainer in the form of DSUs. They may also elect to receive up to 100% of their remaining cash remuneration in the form of DSUs. Effective in 2018, the DSU Plan was modified such that awards are intended to be settled in shares. The underlying security of DSUs are the Company's common shares and are valued based on the Company's average share price for the five business days prior to the date on which Directors' fees are granted. The DSUs are also entitled to earn additional units based on dividend payments made by the Company and the share price on date of payment.

The DSUs granted are scheduled to vest upon the termination date of the Director, at which time, the DSUs will be settled in common shares no earlier than the termination date and no later than December 15 of the calendar year following the Director's termination date.

The following table shows the change in the number and value of DSUs for the years ended December 31:

	December 31, 2020		December 31, 2019	
	Number of DSUs	Amount $	Number of DSUs	Amount $
Outstanding, beginning of the year	107,203	1,020	79,618	904
Settled	—	—	(24,063)	(429)
Granted	33,764	483	47,414	498
Dividends reinvested	1,674	12	4,234	47
Outstanding, end of the year	142,641	1,515	107,203	1,020

Stock Option Plan

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

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

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

	2020		2019	
	Average exercise price per share option $	**Share options #**	**Average exercise price per share option $**	**Share options #**
Outstanding, beginning of the year	10.26	2,400,000	10.72	2,743,332
Granted	5.20	100,000	11.11	470,000
Expired	—	—	18.68	(213,332)
Forfeited	—	—	10.05	(600,000)
Outstanding, end of the year	10.06	2,500,000	10.26	2,400,000
Vested and exercisable, end of the year	10.04	1,858,333	10.05	850,000

During the year ended December 31, 2020, no options were exercised.

The following table shows the expiry date and exercise price for the share options outstanding as at December 31, 2020:

Grant date	**Expiry date**	**Exercise price $**	**Share options #**
August 14, 2018	August 14, 2028	10.05	1,930,000
March 19, 2019	August 14, 2028	11.49	370,000
August 14, 2019	August 14, 2024	9.72	100,000
March 30, 2020	March 30, 2023	5.20	100,000
Total			2,500,000
Weighted average remaining contractual life of options outstanding, end of the period			7.33 years

The weighted average remaining contractual life for the share options outstanding as at December 31, 2019 was 8.46 years.

For the year ended December 31, 2020, the assessed weighted average fair value at grant date of options granted was $3.05 per option. The fair value at grant date is determined using an adjusted form of the Black-Scholes Model that takes into account probabilities using the Monte Carlo simulation, as well as the exercise price, the expected life of the option, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield of the underlying share and the risk-free interest rate for the term of the option.

The model inputs for options granted during the year ended December 31, 2020 include:

March 30, 2020 grant

- Options are granted for no consideration and vest evenly on each of the first, second and third anniversaries of the grant date. Vested options are exercisable until March 30, 2025.
- Exercise price: $5.20
- Grant date: March 30, 2020
- Life of option: 5 years
- Share price at grant date: $5.16
- Expected price volatility of the Company's shares: 53.93%
- Expected dividend yield: 7.75%
- Risk-free interest rate: 0.65%

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

The market price condition was factored into the fair value of the options granted using the Monte Carlo simulation to determine the probability that the options will vest based on the market price vesting condition.

During the year ended December 31, 2020, there were expenses of $1,822 (2019 - $3,413) and recoveries of $nil (2019 - $537).

Share Appreciation Rights (SARs)

The share appreciation rights are designed to enable those granted rights under the plan to participate in the growth and profitability of the Company. All of the rights are time-based and vest over a maximum period of three years. Vested rights are exercisable for a maximum period of five years after grant date.

Each share appreciation right that is exercised entitles the employee to receive a number of common shares that is equal to (i) the amount by which the fair market value of one common share exceeds the notional exercise price of the vested share appreciation right; divided by (ii) the fair market value of one common share.

The following table shows the change in the number of share appreciation rights for the year ended December 31, 2020:

	2020		2019	
	Weighted average exercise price per share appreciation right $	Share appreciation rights #	Weighted average exercise price per share appreciation right $	Share appreciation rights #
Outstanding, beginning of the year	10.86	1,159,450	11.18	1,043,950
Granted	10.05	158,000	10.60	250,500
Exercised	10.25	(63,000)	—	—
Forfeited	11.07	(127,500)	12.00	(135,000)
Outstanding, end of the year	10.27	1,126,950	10.86	1,159,450
Vested and exercisable, end of the year	12.17	66,000	11.38	51,000

During the year ended December 31, 2020, no share appreciation rights expired.

The weighted average contractual life remaining for these share appreciation rights as at December 31, 2020 is 2.31 years.

The assessed weighted average fair value at grant date of the share appreciation rights granted during the year ended December 31, 2020 was $0.28 per option. The fair value at grant date has been determined using the Black-Scholes Model.

The weighted average model inputs for the share appreciation rights granted during the year ended December 31, 2020 include:

- Exercise price: $7.13
- Expected life of option: 2.31 years
- Share price at grant date: $8.76
- Expected price volatility of the Company's shares: 22.72%
- Expected dividend yield: 2.71%
- Risk-free interest rate: 0.71%

Expected price volatility was determined at the time of grant using the AutoCanada share price on a historical basis, adjusted for any expected changes to future volatility due to publicly available information. It reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

During the year ended December 31, 2020, there was a charge of $191 (2019 - $nil) to contributed surplus for exercised and settled SARs.

Used Digital Retail Division

Common interests of the Partnership are granted to dealership management and the Executive Chairman (Note 32) under an equity issuance plan (the "Digital Plan"). This is designed to provide long-term incentives to dealership and related party management to develop and deliver long-term returns on the digital retail initiative (Note 13).

Equity interests are issued under the Digital Plan for the fair value of the interests at grant date and carry no dividend or voting rights. The interests vest in accordance with the terms stated in the initial grant agreements. When exercisable, the consideration paid to the equity interest holders is based on the value of the Partnership on the date of exercise and will be settled in common shares.

For the year ended December 31, 2020, a 15% interest in the Partnership was granted to an entity controlled by the Executive Chair. This interest contained a share-based payment arrangement that vested immediately when granted on December 1, 2020, which resulted in share-based compensation expense of $435 recognized in the Consolidated Statements of Comprehensive Loss.

Share-Based Compensation Expense

Total expenses net of recoveries arising from share-based payment transactions recognized during the year included in employee costs are as follows:

	2020 **$**	**2019** **$**
Stock options	1,822	2,876
Restricted share units	917	663
Deferred share units	494	543
Share appreciation rights	796	723
Share-based compensation	4,029	4,805
Used digital retail equity issuance (Note 15)	435	—
	4,464	4,805

30 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.

Restricted Share Unit Trust

Shares are held in trust to mitigate the risk of future share price increases from the time the RSUs and DSUs (Note 29) are granted to when they are fully vested and can be exercised. The beneficiaries are members of the Executive and Senior Management Team, who participate in the long-term incentive compensation plan called the RSU Plan, and independent members of the Board of Directors, who participate in the DSU Plan. Under the Trust Agreement, the third party trustee will administer the distribution of shares to the beneficiaries upon vesting, as directed by the Company. Dividends earned during the year ended December 31, 2020 on the shares held in trust of $3 (2019 - $17) are reinvested to purchase additional shares. The shares held in trust are accounted for as treasury shares and have been deducted from the Company's consolidated equity as at December 31, 2020.

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

	December 31, 2020		December 31, 2019	
	Number of shares	$	Number of shares	$
Outstanding, beginning of the year	27,430,909	509,890	27,417,062	509,538
Treasury shares acquired	(217,350)	(2,081)	—	—
Dividends reinvested	(438)	(3)	(1,368)	(17)
Treasury shares settled	13,582	306	15,215	369
Outstanding, end of the year	27,226,703	508,112	27,430,909	509,890
Shares held in trust for equity based awards	232,980	—	28,774	—
Issued, end of year	27,459,683	508,112	27,459,683	509,890

Dividends

Dividends are discretionary and are determined based on a number of factors. Dividends are subject to approval of the Board of Directors. During the year ended December 31, 2020, eligible dividends totaling $0.10 (2019 - $0.40) per common share were declared and paid, resulting in total payments of $2,743 (2019 - $10,968).

On April 20, 2020, the Company suspended the eligible quarterly dividend per common share.

Earnings per share

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

	2020 $	2019 $
Net loss for the year attributable to common shares	(7,455)	(28,353)

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

	2020 $	2019 $
Basic	27,313,140	27,420,483
Effect of dilution from RSUs	—	—
Effect of dilution from stock options	—	—
Effect of dilution from SARs	—	—
Diluted	27,313,140	27,420,483

For the year ended December 31, 2020, potential common shares related to RSUs of (87,051), stock options of (729,253), and SARs of (376,670) were excluded from the computation of diluted earnings per share because they were anti-dilutive.

31 Capital disclosures

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

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

	December 31, 2020 $	December 31, 2019 $
Long-term indebtedness (Note 24)	197,166	213,305
Equity	362,820	368,099
	559,986	581,404

The Company manages its capital structure in accordance with changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may assume additional debt, refinance existing debt with different characteristics, sell assets to reduce debt, issue new shares or adjust the amount of dividends paid to its shareholders. The Company was in compliance with its debt covenants as at December 31, 2020.

32 Related party transactions

Transactions with companies controlled by Directors

During the year, there were transactions with companies whose partners or senior officers are Directors of the Company or related to Directors of the Company. These counterparties are:

- Business associates of the Executive Chairman who provide consulting services;
- A firm, whose controlling partner is the Executive Chairman, 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 is as follows:

	2020 $	2019 $
Consulting services	360	670
Administrative and other support fees	791	722
	1,151	1,392

Used Digital Retail Division

The firm controlled by the Executive Chairman was issued a 15% common interest in the Partnership created as a part of the digital retail strategy (Note 13), which vested at the time of grant (Note 29).

Key management personnel compensation

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

	2020 $	2019 $
Employee costs (including Directors)	4,029	6,183
Short-term employee benefits	108	61
Partnership interest paid	435	—
Share-based compensation	—	47
	4,572	6,291

33 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 years ended:

	December 31, 2020 $	December 31, 2019 $
Trade and other receivables	14,711	(2,495)
Inventories	137,036	(83,411)
Current tax recoverable/payable	(152)	(1,686)
Other current assets	(229)	(5,343)
Other liabilities	172	(3,942)
Trade and other payables	(8,130)	30,023
Vehicle repurchase obligations	—	148
Revolving floorplan facilities	(72,443)	103,612
	70,965	36,906

Factors that can affect these items include seasonal sales trends, strategic decisions regarding inventory levels, the addition of new dealerships, and the day of the week on which period-end cut-offs occur.

34 Fair value of financial instruments

The Company's financial instruments as at December 31, 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, contingent consideration, redemption liabilities, hedging derivatives, and non-hedge interest swaps.

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 financial 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 (Note 15).

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 on 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.

35 Derivative financial instruments and other liabilities

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.

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 has recommenced the economic hedging program of foreign currency risk.

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.

During the year ended December 31, 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.

Concurrently, 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:

	Foreign exchange contracts	**Interest rate swaps**		
	Non-hedges	**Cash flow hedges**	**Non-hedges**	**Total**
December 31, 2020				
Other current assets	366	—	—	366
Other liabilities - current	—	461	—	461
Derivative financial instruments - liabilities	—	7,060	15,086	22,146
Notional values	17,300 USD	222,200 CAD	177,800 CAD	
Maturity	2021	2021 - 2023	2025	
December 31, 2019				
Derivative financial instruments - liabilities	—	6,186	—	6,186
Notional values	—	400,000 CAD	—	
Maturity	—	2021 - 2023	—	

The weighted average hedge rate of cash flow hedges was 2.58% (2019 - 2.62%).

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

	Net income $	Other comprehensive income $	Total $
For the year ended December 31, 2020			
Change in fair value of hedging instruments	—	(1,335)	(1,335)
Fair value of terminated hedges	—	(11,911)	(11,911)
Unrealized change in fair value of non-hedging instruments (Note 11)	(3,175)	—	(3,175)
Amortization of terminated hedges (Note 11)	(2,308)	2,308	—
Interest rate swap settlements (Note 11)	(3,208)	—	(3,208)
Unrealized change in fair value of foreign exchange forward contracts	366	—	366
Realized loss on foreign exchange forward contracts	(1,754)	—	(1,754)
	(10,079)	(10,938)	(21,017)
For the year ended December 31, 2019			
Unrealized change in fair value of hedging instruments	—	(2,424)	(2,424)

Hedge ineffectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

The Company enters into interest rate swaps that have similar critical terms as the hedged item, such as interest rate, payment dates, maturities and notional amount. The group does not hedge 100% of its loans, therefore, the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps. As all critical terms matched during the year, the economic relationship was 100% effective.

Effect of IBOR reform

Following the financial crisis, the reform and replacement of benchmark interest rates such as CDOR and other interbank offered rates ("IBORs") has become a priority for global regulators (referred to as "IBOR reform"). The Canadian Alternative Reference Rate Working Group (CARR) was created to identify and seek to develop a new risk-free Canadian dollar interest rate benchmark. Although there are no plans to immediately discontinue CDOR rates, an enhanced Canadian Oversight Repo Rate Average (CORRA) has been designed to comply with recommendations of the Financial Stability Board as part of a global effort to reform benchmark interest rates. As a result, there is uncertainty about how the Canadian dollar benchmark rates will evolve and the speed at which CORRA will become a dominant benchmark for Canadian dollar borrowings.

The Company performs a qualitative assessment of hedge ineffectiveness for interest rate swaps, which may occur due to:

- the credit value/debit value adjustment on the interest rate swaps which is not matched by the loan;
- differences in critical terms between the interest rate swaps and loans; and
- the effects of the forthcoming reforms to CDOR because these may take effect at a different time and have a different impact on the hedged item (the floating-rate debt) and the hedging instrument (the interest rate swap used to hedge the debt).

The associated derivative financial instruments were valued at $22,146 as at December 31, 2020 (2019 - $6,186). There was no ineffectiveness during 2020 and in 2019.

The Company has evaluated the extent to which its cash flow hedging relationships are subject to uncertainty driven by IBOR reform as at December 31, 2020. As the CDOR rate associated with the derivative financial instrument was still in effect, there was no impact from the IBOR reform.

Other liabilities

Equity forward liability

The Company has entered into an equity forward purchase agreement with a major Canadian financial institution to reduce its cash and income exposure to fluctuations in its share price relating to the RSUs, DSUs, and SARs. Pursuant to the agreement, the Company receives the economic benefit of share price appreciation and suffers the economic loss of share price depreciation, while providing payments to the financial institution for the institution's cost of funds minus dividends. As the agreement requires settlement in shares, the liability has been recorded as the present value of the settlement and is not subject to remeasurement.

As at December 31, 2020, the equity forward agreement covered 329,000 (2019 - 329,000) common shares of the Company and the associated long-term liability was valued at $3,466 (2019 - $3,466).

Prior year restructuring charges

The Company recognized a non-cash restructuring charge of $13,393 in 2019 related to the voluntary termination of two franchises. The remaining provision of $6,177 as at December 31, 2020 pertains to committed operating costs of the related facility, of which $1,215 is included in other current liabilities and $4,962 is included in other long-term liabilities.

36 Segmented reporting

During the year ended December 31, 2020, the Executive Chairman served as the function of the Chief Operating Decision Maker (CODM). The Executive Chairman 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 and related businesses.

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

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

	Year ended December 31, 2020			Year ended December 31, 2019		
	Canada [1] $	U.S. $	Total $	Canada [1] $	U.S. $	Total $
Revenues						
External revenues	2,977,149	356,009	3,333,158	3,094,062	441,483	3,535,545
Inter-segment revenue	(3,664)	—	(3,664)	(59,434)	—	(59,434)
Total revenues	2,973,485	356,009	3,329,494	3,034,628	441,483	3,476,111

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

	Year ended December 31, 2020			Year ended December 31, 2019		
	Canada [1] $	U.S. $	Total $	Canada [1] $	U.S. $	Total $
Operating profit before other income (expense)	87,692	(2,029)	85,663	79,877	(9,150)	70,727
Lease and other income, net (Note 10)	6,744	642	7,386	8,866	1,835	10,701
Gain on disposal of assets, net (Note 10)	1,563	(193)	1,370	11,014	—	11,014
Impairment of non-financial assets (Note 21)	(15,312)	(8,895)	(24,207)	(6,520)	(30,055)	(36,575)
Restructuring charges (Note 35)	—	—	—	—	(13,393)	(13,393)
Operating profit (loss)	80,687	(10,475)	70,212	93,237	(50,763)	42,474
Finance costs (Note 11)			(72,505)			(68,784)
Finance income (Note 11)			808			912
Gain (loss) on redemption liabilities (Note 15)			762			(550)
Other losses			(482)			(350)
Net loss for the year before tax			(1,205)			(26,298)

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

	As at December 31, 2020			As at December 31, 2019		
	Canada [1] $	U.S. $	Total $	Canada [1] $	U.S. $	Total $
Assets held for sale (Note 19)	1,039	—	1,039	14,193	—	14,193
Segment assets	1,667,960	232,422	1,900,382	1,752,151	237,766	1,989,917
Capital expenditures (Note 20)	20,667	299	20,966	29,882	752	30,634
Segment liabilities	1,235,119	302,443	1,537,562	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.*

Disaggregation of revenue

The significant majority of the Company's revenue is from contracts with customers. Taxes assessed by governmental authorities that are directly imposed on revenue transactions are excluded from revenue. In the following table, revenue is disaggregated by major lines of goods and services and timing of transfer of goods and services. The Company has determined that these categories depict how the nature, amount, timing, and uncertainty of its revenue and cash flows are affected by economic factors. The table below also includes a reconciliation of the disaggregated revenue with the Company's reportable segments:

	Canada [1] $	U.S. $	Total $
New vehicles	1,528,915	204,976	1,733,891
Used vehicles	923,192	87,689	1,010,881
Parts, service and collision repair	361,472	48,499	409,971
Finance, insurance and other	159,906	14,845	174,751
Total revenue	2,973,485	356,009	3,329,494

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

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