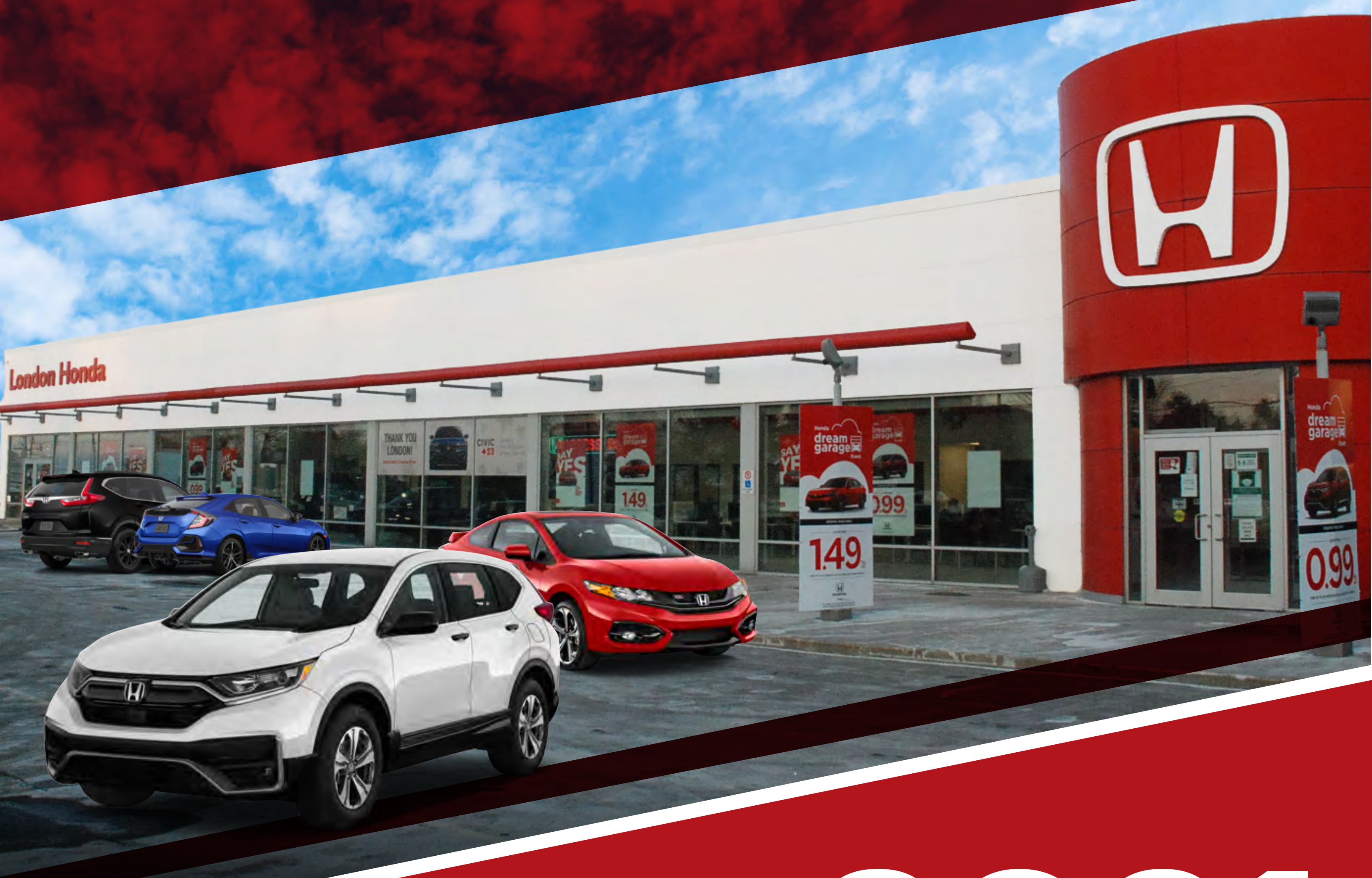

2021

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, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

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

- the consolidated statements of comprehensive income (loss) for the years ended December 31, 2021 and 2020;
- the consolidated statements of financial position as at December 31, 2021 and 2020;
- 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, 2021. 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 recoveries of intangible assets in the Canadian Operations segment *Refer to note 3 – Significant accounting policies, note 5 – Critical accounting estimates and note 21 – Goodwill and intangible assets to the consolidated financial statements.* The Company had intangible assets of $548,249 thousand as at December 31, 2021, of which a portion pertains to the Canadian Operations segment. Management performs an impairment test annually, or more frequently if events or changes in circumstances indicate that the carrying value 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). Impairment losses, other than those relating to goodwill, are evaluated for potential reversals of impairment when events or changes in circumstances warrant such consideration. 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, management considers projected operating margins, growth rates and EBITDA multiples 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	Our approach to addressing the matter included the following procedures, among others: ● Tested how management determined the recoverable amount for certain CGUs in the Canadian Operations segment for which events or changes in circumstances have been identified, which included the following: – Tested the appropriateness of the approaches used and the mathematical accuracy of FVLCD and VIU calculations. – Tested the reasonableness of the projected operating margins and growth rates applied by management in the applicable calculations 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 calculations. ● 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
recognized impairment recoveries of $39,846 thousand in the Canadian Operations segment allocated to intangible assets. We considered this a key audit matter due to (i) the significance of the 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.	
Valuation of indefinite-life intangible assets relating to franchise rights acquired in the Autopoint Group business acquisition *Refer to note 3 – Significant accounting policies, note 5 – Critical accounting estimates and note 13 – Business acquisitions to the consolidated financial statements.* On December 1, 2021, the Company completed the acquisition of substantially all of the assets of the Autopoint Group for a total purchase consideration of $132,404 thousand. The fair values of the identifiable assets acquired included $88,215 thousand in intangible assets relating to indefinite-life franchise rights associated with the respective dealerships. Management applied significant judgment in estimating the fair values of the intangible assets. Management estimated the fair values of the intangible assets relating to indefinite-life franchise rights based on the multi-period excess earnings method, using discounted cash flow models. The determinations of the estimated fair values involved significant assumptions regarding projected operating margins, terminal growth rates and discount rates. We considered this a key audit matter due to the significant judgment applied by management in	Our approach to addressing the matter included the following procedures, among others: ● Tested how management estimated the fair values of the indefinite-life intangible assets relating to franchise rights, which included the following: – Read the purchase agreements. – Tested the underlying data used by management in estimating the fair values of the indefinite-life intangible assets relating to franchise rights. – Evaluated the reasonableness of significant assumptions developed by management related to projected operating margins and terminal growth rates by comparing them to the acquisition plan approved by the Board, available third party economic and industry data and results historically achieved by the respective dealerships. – Professionals with specialized skill and knowledge in the field of valuation assisted in evaluating the appropriateness of the multi-period excess earnings method and the discounted cash flow models and in

Key audit matter	How our audit addressed the key audit matter
estimating the fair values of the intangible assets relating to indefinite-life franchise rights, including the development of significant assumptions. This, in turn, led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to the significant assumptions developed by management. The audit effort involved the use of professionals with specialized skill and knowledge in the field of valuation.	testing the reasonableness of the discount rates.

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 Richard Probert.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Edmonton, Alberta
March 2, 2022

Consolidated Financial Statements

For the year ended December 31, 2021

AutoCanada Inc.

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

	December 31, 2021 $	December 31, 2020 $
Revenue (Note 6)	4,653,415	3,329,494
Cost of sales (Note 7)	(3,819,232)	(2,782,168)
Gross profit	834,183	547,326
Operating expenses (Note 8)	(612,609)	(461,663)
Operating profit before other income (expense)	221,574	85,663
Lease and other income, net (Note 10)	9,035	7,386
(Loss) gain on disposal of assets, net (Note 10)	(387)	1,370
Recoveries (impairment) of non-financial assets (Note 21)	39,846	(24,207)
Operating profit	270,068	70,212
Finance costs (Note 11)	(35,189)	(72,505)
Finance income (Note 11)	810	808
(Loss) gain on redemption liabilities (Note 15)	(14,116)	762
Other losses	(353)	(482)
Net income (loss) for the year before tax	221,220	(1,205)
Income taxes (Note 12)	54,021	5,418
Net income (loss) for the year	167,199	(6,623)
Other comprehensive gains and (losses)		
Items that may be reclassified to profit or loss		
Foreign operations currency translation	(2,069)	(2,089)
Change in fair value of cash flow hedge (Note 26)	8,880	(10,938)
Income tax relating to these items	(2,392)	2,836
Other comprehensive income (loss) for the year, net of tax	4,419	(10,191)
Comprehensive income (loss) for the year	171,618	(16,814)
Net income (loss) for the year attributable to:		
AutoCanada shareholders	164,207	(7,455)
Non-controlling interests	2,992	832
	167,199	(6,623)
Comprehensive income (loss) for the year attributable to:		
AutoCanada shareholders	168,626	(17,646)
Non-controlling interests	2,992	832
	171,618	(16,814)
Net income (loss) per share attributable to AutoCanada shareholders:		
Basic	5.98	(0.27)
Diluted	5.60	(0.27)
Weighted average shares		
Basic (Note 31)	27,474,106	27,313,140
Diluted (Note 31)	29,305,292	27,313,140

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, 2021 $	December 31, 2020 $
ASSETS		
Current assets		
Cash and cash equivalents (Note 16)	102,480	107,704
Trade and other receivables (Note 17)	132,913	118,650
Inventories (Note 18)	737,299	699,200
Other current assets (Note 22)	9,572	8,931
Assets held for sale (Note 19)	—	1,039
	982,264	935,524
Property and equipment (Note 20)	248,109	203,525
Right-of-use assets (Note 25)	370,998	308,897
Other long-term assets (Note 22)	17,211	14,337
Deferred income tax (Note 12)	40,881	29,713
Intangible assets (Note 21)	548,249	399,633
Goodwill (Note 21)	50,961	25,734
	2,258,673	1,917,363
LIABILITIES		
Current liabilities		
Trade and other payables (Note 23)	189,731	137,510
Revolving floorplan facilities (Note 24)	708,561	761,943
Current tax payable	3,119	5,030
Vehicle repurchase obligations (Note 27)	3,584	4,526
Indebtedness (Note 24)	—	65
Redemption liabilities (Note 15)	21,673	7,557
Lease liabilities (Note 25)	25,602	24,079
Other liabilities (Note 28)	1,167	2,176
	953,437	942,886
Long-term indebtedness (Note 24)	285,908	197,166
Long-term lease liabilities (Note 25)	427,215	363,850
Long-term redemption liabilities (Note 15)	659	435
Derivative financial instruments (Note 26)	8,299	22,146
Other long-term liabilities (Note 28)	9,932	8,428
Deferred income tax (Note 12)	53,814	19,632
	1,739,264	1,554,543
EQUITY		
Attributable to AutoCanada shareholders	493,411	341,874
Attributable to non-controlling interests	25,998	20,946
	519,409	362,820
	2,258,673	1,917,363

Commitments and contingencies (Note 29)

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 $	Treasury shares $	Contributed surplus $	Cumulative translation adjustment $	OCI hedge reserve $	Retained earnings $	Total capital $	Non-controlling interests $	Total equity $
Balance, January 1, 2021	**510,606**	**(2,494)**	**9,995**	**(3,036)**	**(12,637)**	**(160,560)**	**341,874**	**20,946**	**362,820**
Net income	—	—	—	—	—	164,207	164,207	2,992	167,199
Other comprehensive (loss) income	—	—	—	(2,069)	6,488	—	4,419	—	4,419
Dividends declared by subsidiaries to non-controlling interests (Note 15)	—	—	—	—	—	—	—	(79)	(79)
Reorganization of non-controlling interests (Note 15)	—	—	—	—	—	(538)	(538)	2,139	1,601
Forward share purchase (Note 28)	—	(3,631)	(2,570)	—	—	—	(6,201)	—	(6,201)
Settlement of share-based awards (Note 30)	213	—	(18,422)	—	—	—	(18,209)	—	(18,209)
Issuance of executive and employee advances (Note 30)	—	—	(4,570)	—	—	—	(4,570)	—	(4,570)
Deferred tax on share-based payments	—	—	9,084	—	—	—	9,084	—	9,084
Shares settled from treasury (Note 31)	—	3,685	(3,685)	—	—	—	—	—	—
Share-based compensation (Note 30)	—	—	3,345	—	—	—	3,345	—	3,345
Balance, December 31, 2021	**510,819**	**(2,440)**	**(6,823)**	**(5,105)**	**(6,149)**	**3,109**	**493,411**	**25,998**	**519,409**

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 $	**Treasury shares $**	**Contributed surplus $**	**Cumulative translation adjustment $**	**OCI hedge reserve $**	**Accumulated deficit $**	**Total capital $**	**Non-controlling interests $**	**Total equity $**
Balance, January 1, 2020	**510,606**	**(716)**	**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 31)	—	—	—	—	—	(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 31)	—	(2,081)	—	—	—	—	(2,081)	—	(2,081)
Dividends reinvested (Note 31)	—	(3)	—	—	—	—	(3)	—	(3)
Settlement of share-based awards (Note 30)	—	—	(191)	—	—	—	(191)	—	(191)
Shares settled from treasury (Note 31)	—	306	(306)	—	—	—	—	—	—
Share-based compensation (Note 30)	—	—	4,029	—	—	—	4,029	—	4,029
Balance, December 31, 2020	**510,606**	**(2,494)**	**9,995**	**(3,036)**	**(12,637)**	**(160,560)**	**341,874**	**20,946**	**362,820**

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, 2021 $	December 31, 2020 $
Cash provided by (used in):		
Operating activities		
Net income (loss) for the year	167,199	(6,623)
Adjustments for:		
Income taxes (Note 12)	54,021	5,418
Amortization of deferred financing costs	1,896	1,300
Amortization of note premium	(1,253)	—
Depreciation of property and equipment (Note 20)	17,272	17,372
Depreciation of right-of-use assets (Note 25)	26,420	24,759
Amortization of terminated hedges (Note 26)	3,268	2,308
Loss (gain) on disposal of assets, net (Note 10)	387	(1,370)
Share-based compensation - equity-settled (Note 30)	3,345	4,029
Share-based compensation - Used Digital Retail Division (Note 30)	224	435
Loss on extinguishment of debt (Note 11)	1,128	4,002
Loan forgiveness (Note 24)	(6,728)	—
Unrealized fair value changes on interest rate swaps (Note 26)	(8,412)	3,175
Unrealized fair value changes on foreign exchange forward contracts (Note 26)	539	(366)
Unrealized fair value changes on embedded derivative (Note 11)	(29,306)	—
Revaluation of redemption liabilities (Note 15)	14,116	(2,108)
Loss on settlement of redemption liabilities (Note 15)	—	1,346
Income taxes (paid) recovered	(25,276)	(10,984)
(Recoveries) impairment of non-financial assets (Note 21)	(39,846)	24,207
Settlement of share based awards (Note 30)	(18,075)	—
Issuance of executive and employee advances (Note 30)	(4,570)	—
Net change in non-cash working capital (Note 36)	(43,407)	70,965
	112,942	137,865
Investing activities		
Business acquisitions, net of cash acquired (Note 13)	(183,197)	(18,445)
Purchases of property and equipment	(34,576)	(26,344)
Proceeds on sale of property and equipment	2,399	8,986
Proceeds on divestiture of dealerships	—	683
	(215,374)	(35,120)
Financing activities		
Proceeds from indebtedness	353,957	226,882
Repayment of indebtedness	(231,180)	(245,505)
Treasury shares settled, net (Note 31)	3,685	(1,778)
Settlement of share based awards (Note 30)	173	—
Forward share purchase (Note 28)	(3,631)	—
Dividends paid on common shares	—	(2,743)
Dividends paid to non-controlling interests	(79)	—
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	(25,922)	(20,692)
	97,003	(51,015)
Effect of exchange rate changes on cash and cash equivalents	205	419
Net (decrease) increase in cash and cash equivalents	(5,224)	52,149
Cash and cash equivalents at beginning of year (Note 16)	107,704	55,555
Cash and cash equivalents at end of year (Note 16)	102,480	107,704

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, 2022.

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. The Company uses judgment in determining the entities that it controls and therefore consolidates. Judgment is applied in determining whether the Company controls the entities in which it does not have full ownership rights. Most often, judgment involves reviewing contractual rights to determine if rights are participating (giving power over one entity) or protective rights (protecting the Company’s interest without giving it power). 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 Income (Loss). Transaction costs are expensed as incurred.

Contingent consideration is classified as either equity or a financial liability. Any subsequent change to the fair value of contingent consideration is recognized in the Consolidated Statements of Comprehensive Income (Loss).

Non-controlling interests

Non-controlling interests are measured initially at their proportionate share of the acquiree's or entity's identifiable net assets at the date of acquisition or date the interest was granted. 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.

Non-controlling interests are issued in subsidiaries of the Company at their proportionate share at the date of issuance. Subsequent measurement of the carrying value of the non-controlling interests is the value at acquisition plus the non-controlling interest portion of profit and loss, as governed by the individual agreements.

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 commissions and fees

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.

Finance income

Finance income comprises of finance lease income and interest income on short term deposits. Finance income is recognized in profit or loss as they accrue using the effective interest method.

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.

Deferred tax assets and liabilities are not recognized in respect of temporary differences between the carrying amount and tax bases of investments in subsidiaries where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

(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 Income (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 these 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. Transaction costs associated with the establishment of indebtedness or amendment of loan facilities are recorded against proceeds and recognized in the Consolidated Statements of Comprehensive Income (Loss) over the term of the borrowings using the effective interest rate.

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 ("ECL"), 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 Income (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 Income (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. The fair value is determined based on the the multi-period excess earnings method, using the discounted cash flow model. 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 are to be settled in cash or a variable number of shares. 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 Income (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 30.

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 26.

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 Revenue and Finance costs, as disclosed in Note 26.

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 37.

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 2021

COVID-19 Related Rent Concession beyond 30 June 2021 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 Income (Loss)

The amendment was intended to apply until June 30, 2021, but as the impact of the COVID-19 pandemic is continuing, on March 31, 2021, the IASB extended the period of application of the practical expedient to June 30, 2022. The amendment applies to annual reporting periods beginning on or after April 1, 2021.

Leases that do not meet the criteria for the optional exemption are treated as a lease modification (Note 25).

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

For the year ended December 31, 2021, the Company adopted the 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 opening reserves in the comparative period upon 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 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, which has been announced but not approved, as of December 31, 2021). 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 26 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 the Ally Prime Rate. For the year ended December 31, 2021, 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. Management applies significant judgement in estimating the fair value of the intangible assets. These determinations involve significant estimates and assumptions regarding projected operating margins, terminal growth rates and discount rates.

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).

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial on instruments. See Note 26 for further disclosure.

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 Income (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

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. Although certain jurisdictions have been removing most restrictions, these measures continue to cause disruptions to businesses and capital markets globally, resulting in an uncertain economic environment.

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).

Although the various recommendations and emergency measures introduced by government authorities have a potential to cause disruption in the Company's results, the extent to which COVID-19 will or may impact the Company is uncertain and these factors are beyond the Company’s control. The Company continues to monitor the developments regarding the COVID-19 pandemic and respond accordingly, however, there are many developing factors such as the availability of testing and vaccines, along with emerging variants that continue to make the potential ongoing impacts unable to be predicted with any certainty. Management expects COVID-19 related disruptions to continue, however, believes that long-term estimates and assumptions do not require significant revisions for the year ended December 31, 2021.

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).

Impairment

The impacts of COVID-19 were incorporated into the annual impairment assessment performed as at December 31, 2021. 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

	2021 $	2020 $
New vehicles	1,963,881	1,733,891
Used vehicles	1,937,541	1,010,881
Parts, service and collision repair	484,639	409,971
Finance, insurance and other	267,354	174,751
	4,653,415	3,329,494

7 Cost of sales

	2021 $	2020 $
New vehicles	1,787,466	1,625,561
Used vehicles	1,796,279	946,878
Parts, service and collision repair	217,985	197,001
Finance, insurance and other	17,502	12,728
	3,819,232	2,782,168

8 Operating expenses

	2021 $	2020 $
Employee costs (Note 9)	389,145	292,404
Government assistance [1, 2]	(11,769)	(35,464)
Administrative costs [3]	190,730	160,586
Facility lease costs	811	2,006
Depreciation of right-of-use assets (Note 25)	26,420	24,759
Depreciation of property and equipment (Note 20)	17,272	17,372
	612,609	461,663

1 *Government assistance represents the Company's eligible claim of $4,388 (2020 - $35,264) for the Canada Emergency Wage Subsidy (CEWS) and $653 (2020 - $200) claim for the Canada Emergency Rent Subsidy (CERS) for the year ended December 31, 2021, with $299 (2020 - $3,794) included in trade and other receivables. There are no unfulfilled conditions or other contingencies attached to the subsidy recognized.*

2 *During the year ended December 31, 2021, $6,728 (2020 - nil) of the loans from the Small Business Association Paycheck Protection Program (Note 24) were forgiven and included above as an offset to Operating expenses. There are no unfulfilled conditions or other contingencies attached to the forgiven loans.*

3 *Administrative costs include professional fees, consulting services, technology-related expenses, marketing, expected credit losses, and other general and administrative costs.*

9 Employee costs

Operating expenses incurred in respect of employees were as follows:

	2021 $	2020 $
Wages, salaries and commissions	344,819	251,665
Withholding taxes and insurance	19,839	14,908
Employee benefits	18,934	16,689
Share-based compensation (Note 30)	3,569	4,464
Other benefits	1,984	4,678
	389,145	292,404

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

	2021 $	2020 $
Lease and other income, net		
Lease and rental income	6,416	6,491
Other income	2,619	895
	9,035	7,386
(Loss) gain on disposal of assets, net		
Gain on dealership divestiture (Note 14)	—	135
Loss on lease terminations, net (Note 25)	(427)	—
Disposals of property and equipment, net	40	1,235
	(387)	1,370

11 Finance costs and finance income

	2021 $	2020 $
Finance costs:		
Interest on long-term indebtedness	21,900	16,200
Interest on lease liabilities (Note 25)	23,062	22,189
Loss on extinguishment of debt (Note 24)	1,128	4,002
Unrealized fair value changes on interest rate swaps (Note 26)	(8,412)	3,175
Amortization of terminated hedges (Note 26)	3,268	2,308
Unrealized fair value changes on embedded derivative (Note 24)	(29,306)	—
	11,640	47,874
Floorplan financing	11,910	17,586
Interest rate swap settlements (Note 26)	7,023	3,208
Other finance costs	4,616	3,837
	35,189	72,505
Finance income:		
Interest on net investment in lease (Note 25)	16	—
Short-term bank deposits	794	808
	810	808

Cash interest paid during the year ended December 31, 2021 is $63,625 (2020 - $56,153), which includes $23,062 (2020 - $22,189) of cash interest paid related to interest on lease liabilities.

12 Taxation

Reconciliation of effective income tax rate for the year ended December 31, 2021 is as follows:

	2021 $	2020 $
Net income (loss) for the year before tax	221,220	(1,205)
Net income (loss) for the year before tax multiplied by the blended rate of Canadian corporate tax of 25.4% (2020 - 25.8%)	56,190	(311)
Effects of:		
Tax losses and deductible temporary differences not recognized	(3,985)	2,225
Adjustment in respect of prior years	2,335	(72)
Impact of non-deductible and other permanent items	1,782	1,384
Impact of (recovery)/impairment of non-financial assets	(3,310)	930
Impact of change in substantively enacted rates	143	706
Foreign and other statutory income tax rate differentials	722	568
Other, net	144	(12)
Income tax expense	54,021	5,418
Effective income tax rate	24.4 %	(449.6)%

Segmented components of income tax:

	2021 $	2020 $
Canada	24,451	20,783
U.S.	319	(125)
Current income tax expense	24,770	20,658
Canada	29,251	(15,240)
U.S.	—	—
Deferred income tax expense (recovery)	29,251	(15,240)
Total income tax expense	54,021	5,418

Components of deferred income tax:

	2021 $	2020 $
Deferred tax asset	40,881	29,713
Deferred tax liability	(53,814)	(19,632)
Net deferred tax (liability) asset	(12,933)	10,081

In the comparative period the Canadian deferred tax balances were presented as a net deferred tax liability on the consolidated statement of financial position. As there is no right of offset at the balance sheet date, these balances have been presented on a gross basis in the current and prior year.

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 $	Share-based payments $	Other $	Total $
January 1, 2020	(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 subsidiaries (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
(Expense) benefit charged to income taxes	(11,743)	(1,073)	(8,922)	913	(8,565)	6,040	(4,547)	(1,354)	(29,251)
Amounts charged to other comprehensive income	—	—	—	—	(2,392)	—	—	—	(2,392)
Amounts charged to contributed surplus	—	—	—	—	—	—	9,084	—	9,084
Acquisition of subsidiaries (Note 13)	—	(38)	(369)	—	—	—	—	—	(407)
Other	—	—	(48)	—	—	—	—	—	(48)
December 31, 2021	(14,422)	668	(28,577)	10,887	(6,471)	16,810	4,537	3,635	(12,933)

Changes in the deferred income tax components are adjusted through deferred tax expense. Of the above components of the deferred income tax (liability) asset, ($14,422) (2020 - $(2,679)) is expected to be recovered within 12 months.

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

	2021 $	2020 $
Total U.S. deductible temporary differences	140,159	155,426
Less:		
U.S. unrecognized deductible temporary differences, other than tax losses	(46,764)	(53,350)
U.S. unrecognized tax losses	(45,608)	(54,085)
Total unrecognized deductible temporary differences	(92,372)	(107,435)
Total recognized deductible temporary differences relating to the U.S Operations	47,787	47,991
Recognized deferred tax asset	12,678	12,732

As at December 31, 2021, the Company has recognized the benefit of $47,787 (2020 - $47,991) of the deductible temporary differences, relating to the U.S. Operations, as a deferred tax asset. The Company has concluded that the recognized 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 $45,608 and $41,610, respectively (2020 - $54,085 and $52,886). 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 $72,295 (2020 - $45,372) available to reduce future taxable income, until their expiry between 2032 and 2041.

13 Business acquisitions

During the year ended December 31, 2021, the Company completed the following business acquisitions that have been accounted for using the acquisition method.

PG Klassic AutoBody

On April 1, 2021, the Company acquired 100% of the shares in PG Klassic AutoBody ("PG Klassic"), a collision repair facility in Prince George, British Columbia.

Autolux MB Collision

On September 9, 2021, the Company acquired 100% of the shares in Autolux MB Collision ("Autolux"), a luxury-brand focused collision repair facility in Montreal, Quebec.

The acquisitions of PG Klassic and Autolux support management's strategic objective of expanding the Company's collision centre capacity.

Mark Wilson's Better Used Cars

On August 9, 2021, the Company acquired 100% of the shares in Mark Wilson's Better Used Cars ("Mark Wilson's"), an independent used vehicle dealership in Guelph, Ontario. The acquisition forms part of management's strategic objective of developing a Used Digital Retail Division in the Canadian pre-owned vehicle market. The Company entered into a lease arrangement for the dealership facility with the former owner of Mark Wilson's. The lease arrangement contains a contingent consideration arrangement that requires the former owner of Mark Wilson's to pay the Company $2,000 if a certain performance target is not met for the three year's ending July 31, 2024. The estimated fair value of the contingent consideration arrangement is $nil as at the acquisition date and as at the year end December 31, 2021.

Airdrie Autobody Ltd.

On October 1, 2021, the Company acquired 100% of the shares in Airdrie Autobody Ltd. (“Airdrie Autobody”), a collision repair facility in Airdrie, Alberta. The acquisition supports management’s strategic objectives of expanding the Company’s collision centre capacity, and also allows the Company to leverage existing dealerships in Alberta.

Crystal Lake Chrysler Dodge Jeep Ram (CDJR) Inc.

On November 4, 2021, the Company acquired certain franchise rights, inventories and assets to be used in the operations of Crystal Lake Chrysler Dodge Jeep Ram (CDJR) Inc. ("Crystal Lake"), a new and used motor vehicle dealership in Crystal Lake, Illinois. The acquisition supports management's strategic objectives of further establishing the Company's presence in the Greater Chicago area.

Autopoint Group

On December 1, 2021, the Company completed the acquisition of substantially all of the assets of the Autopoint Group. The completed acquisition provides geographic diversification by more than doubling AutoCanada's Ontario footprint. Moreover, the acquisition provides brand diversification by adding three new brands to AutoCanada's Canadian platform.

Summary of acquisitions

The estimated provisional purchase price allocations, which are subject to the finalization of the valuation of the acquired assets and assumed liabilities, of business acquisitions completed during the year ended December 31, 2021 described above are summarized as follows:

	Autopoint Group $	Other Acquisitions [1] $	Total Acquisitions $
Current assets			
Cash and cash equivalents	—	4,574	4,574
Trade and other receivables	130	4,749	4,879
Current tax receivable	—	1,403	1,403
Inventories	23,996	20,151	44,147
Other current assets	154	71	225
	24,280	30,948	55,228
Property and equipment	10,203	8,751	18,954
Right-of-use assets	56,354	25,185	81,539
Intangible assets [2]	88,215	20,150	108,365
Deferred income tax asset	—	83	83
Total assets	179,052	85,117	264,169
Current liabilities			
Trade and other payables	729	2,347	3,076
Revolving floorplan facilities	—	15,528	15,528
Lease liabilities	1,057	590	1,647
Other liabilities	—	754	754
	1,786	19,219	21,005
Long-term indebtedness	—	264	264
Lease liabilities	55,297	24,595	79,892
Deferred income tax	—	490	490
Total liabilities	57,083	44,568	101,651
Net identifiable assets acquired	121,969	40,549	162,518
Goodwill	10,435	14,818	25,253
Total net assets acquired	132,404	55,367	187,771
Total purchase consideration	132,404	55,367	187,771

1 *Other acquisitions includes franchised and used dealerships, and collision centres*

2 *Intangible assets relate to indefinite-life franchise rights associated with the respective dealerships*

The net assets recognized in the December 31, 2021 financial statements were based on provisional balances as the final balances go through a review between the Company and the respective sellers which will impact the final purchase price.

The Right-of-use assets acquired as part of the Autopoint Group acquisition were based on a provisional assessment that the leases are at fair market value while the Company sought an independent appraiser to assess the lease rates. The appraisal had not been completed by the date the financial statements were approved for issue by the Board of Directors.

The goodwill is attributable to the workforce, synergies from combining operations of the acquirees and profitability of the acquired businesses. Goodwill of $11,026 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 the acquisition dates contributed $85,328 of revenue and $2,443 of net income to the Consolidated Statements of Comprehensive Income (Loss) for the year ended December 31, 2021. Had the acquisitions occurred at January 1, 2021, consolidated pro-forma revenue and net income for the year ended December 31, 2021 would have been $5,161,190 and $174,833, respectively.

These amounts have been calculated using the subsidiary's results and adjusting them for:

- Income tax expense (recovery)
- Interest on long-term indebtedness
- leasing arrangements as if they had been entered into on January 1, 2021

Transaction costs of $1,443 have been expensed and recorded in operating expenses.

Prior year business acquisitions

For the year ended December 31, 2021, the provisional amounts previously disclosed were finalized as follows:

- Cash consideration decreased by $200
- Trade and other receivables decreased by $9
- Inventory decreased by $68
- Property, plant, and equipment decreased by $64
- Goodwill increased by $4
- Trade and other payables increased by $43
- Bank indebtedness increased by $78
- Non-Controlling interest decreased by $60

Contingent consideration of $500 was earned and payable at December 31, 2021.

Management deemed these adjustments as immaterial and have adjusted them prospectively in the 2021 financial statements.

Acquisitions in 2020 prior to adjustments of provisional amounts

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 centre 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 30). 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, 2021, 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 35) 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 Income (Loss) (Note 30). 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 purpose 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, 2021, no options were issued under the Digital Option Plan.

Summary of acquisitions

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

	Total $
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
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 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 Income (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.

14 Dealership divestitures

There were no dealership divestitures for the year ended December 31, 2021.

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 (Loss) gain on disposal of assets, net (Note 10) in the Consolidated Statements of Comprehensive Income (Loss) for the year ended December 31, 2020, 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 2021 $	Dividends paid to non-controlling interests 2020 $
GI G Auto HoldCo Inc.	British Columbia	10 %	10 %	—	—
WBG Auto HoldCo Ltd.	Manitoba	10 %	10 %	—	—
NBFG Holdings Inc.	Saskatchewan	5 %	5 %	—	—
2282239 Alberta Ltd.	Saskatchewan	10 %	10 %	7	—
2282237 Alberta Ltd.	Saskatchewan	10 %	10 %	16	—
LMB Automobile Inc.	Quebec	15 %	15 %	—	—
Canbec Automobile Inc.	Quebec	15 %	15 %	45	—
156023 Canada Inc.	Quebec	5 %	5 %	—	—
Auto Bugatti Inc.	Quebec	25 %	25 %	—	—
Ericksen M-B Ltd.	Alberta	10 %	10 %	11	—
				79	—

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 (Note 22).

Transactions with non-controlling interests

During the year ended December 31, 2021, the Company reorganized capital in certain subsidiaries to bring in new non-controlling parties. The change in ownership did not result in a change of control. Equity attributable to AutoCanada shareholders was reduced by $538 as a result of the reorganization of non-controlling interests. The transactions resulted in new loans of $1,674 being issued to some of these parties to purchase a non-controlling interest in the subsidiaries for $2,139 (2020 - $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 dealerships 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 Income (Loss).

The fair value of the put options and associated redemption liabilities has been determined as $659 (2020 - $435) as at December 31, 2021, as a result of the preferred interest rights in the Partnership and the limited time of operation.

Redemption liabilities

Canbec Automobile Inc., LMB Automobile Inc., 156023 Canada 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:

	December 31, 2021 $	December 31, 2020 $
Beginning of period	**7,992**	**15,498**
Additions in the year (Note 30)	224	435
Derecognition on settlement	—	(8,250)
Recognition on acquisition (Note 13)	—	1,071
Loss on settlement [1]	—	1,346
Adjustment to fair value [1]	14,116	(2,108)
End of period	**22,332**	**7,992**
Current redemption liabilities	21,673	7,557
Long-term redemption liabilities	659	435

1 Net amount of $14,116 (2020 - ($762)) presented on the Consolidated Statements of Comprehensive Income (Loss)

16 Cash and cash equivalents

	December 31, 2021 $	December 31, 2020 $
Cash at bank and on hand	102,467	107,704
Short-term deposits	13	—
	102,480	107,704

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 33 for further detail regarding cash balances held with the financial institution.

17 Trade and other receivables

	December 31, 2021 $	December 31, 2020 $
Trade receivables	104,759	109,405
Other receivables	30,632	11,235
	135,391	120,640
Less: Expected loss allowance (Note 33)	(2,478)	(1,990)
	132,913	118,650

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, 2021 $	December 31, 2020 $
New vehicles	222,272	412,970
Demonstrator vehicles	34,282	36,911
Used vehicles	441,730	218,812
Parts and accessories	39,015	30,507
	737,299	699,200

Amounts recognized in the Consolidated Statements of Comprehensive Income (Loss):

	December 31, 2021 $	December 31, 2020 $
Inventory expensed as cost of sales	3,724,309	2,685,420
Writedowns on vehicles included in cost of sales	9,851	28,711
Demonstrator expenses included in administrative costs	7,907	8,092

19 Assets and liabilities held for sale

Land and buildings

During the year ended December 31, 2021, the Company disposed of one property that was previously held for sale for proceeds of $1,039, with no gain or loss on the transaction. No assets remain as held for sale.

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 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.

20 Property and equipment

	Company & lease vehicles $	Leasehold improvements $	Machinery & equipment $	Land & buildings[1] $	Furniture, fixtures & other $	Computer equipment $	Total $
Cost:							
January 1, 2020	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
Capital expenditures	—	8,030	3,705	—	987	1,459	14,181
Business combinations (Note 13)	2,174	3,954	2,958	8,123	1,203	542	18,954
Acquisition of real estate	—	—	—	20,990	—	—	20,990
Disposals	—	(145)	(310)	(11,988)	(103)	(203)	(12,749)
Transfers from inventory, net	6,576	—	—	—	—	—	6,576
Foreign currency translation	(21)	(9)	(8)	111	(8)	(4)	61
December 31, 2021	**36,988**	**70,694**	**37,099**	**161,463**	**17,070**	**12,024**	**335,338**
Accumulated depreciation:							
January 1, 2020	(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)
Depreciation	(3,925)	(2,945)	(3,163)	(3,934)	(1,459)	(1,846)	(17,272)
Disposals	—	888	220	9,592	94	189	10,983
Transfers to inventory, net	2,858	—	—	—	—	—	2,858
Foreign exchange	—	—	—	—	1	1	2
December 31, 2021	**(6,985)**	**(20,026)**	**(19,810)**	**(23,345)**	**(9,555)**	**(7,508)**	**(87,229)**
Carrying amount:							
December 31, 2020	**22,341**	**40,895**	**13,887**	**115,224**	**6,800**	**4,378**	**203,525**
December 31, 2021	**30,003**	**50,668**	**17,289**	**138,118**	**7,515**	**4,516**	**248,109**

1 As at December 31, 2021, the Company owns land of $66,266 (2020 - $45,487), which is not subject to depreciation.

Construction-in-progress additions of $6,865 (2020 - $6,514) 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 Income (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, 2021, management identified certain assets with no future value and recorded an impairment of $nil (2020 - $3,303) in disposals.

21 Goodwill and intangible 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 (recovery) charges were allocated to the assets of the respective CGU's as follows:

	2021 $	2020 $
Land and buildings (Notes 19, 20)	—	3,922
Intangible assets	(39,846)	15,055
Goodwill	—	5,230
	(39,846)	24,207

The changes in the book value of intangible assets and goodwill for the year ended December 31, 2021 were as follows:

	Intangible assets $	Goodwill $	Total $
Cost:			
January 1, 2020	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**
Acquisitions (Note 13)	108,365	25,253	133,618
Additions	403	17	420
Prior year business acquisitions (Note 13)	—	4	4
Effect of foreign currency translation	(14)	(387)	(401)
December 31, 2021	**592,698**	**154,363**	**747,061**
Accumulated impairment:			
January 1, 2020	69,645	100,566	170,211
Impairment	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**
Recoveries of impairment	(39,846)	—	(39,846)
Effect of foreign currency translation	(16)	(340)	(356)
December 31, 2021	**44,449**	**103,402**	**147,851**
Carrying amount:			
December 31, 2020	399,633	25,734	425,367
December 31, 2021	548,249	50,961	599,210

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

The recoveries of impairment for the year ended December 31, 2021 relates to the Company's reportable segments as follows:

	Canadian Operations $	U.S. Operations $	Total $
Intangible assets	(39,846)	—	(39,846)
	(39,846)	—	(39,846)

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, 2021 $			December 31, 2020 $		
Cash Generating Unit	**Intangible assets**	**Goodwill**	**Total**	**Intangible assets**	**Goodwill**	**Total**
AL	27,807	6,135	33,942	27,807	6,135	33,942
AZ	21,250	3,951	25,201	21,250	3,951	25,201
U	24,494	506	25,000	24,494	506	25,000
AD	22,300	2,587	24,887	—	—	—
AX	22,339	—	22,339	22,434	—	22,434
S	21,806	—	21,806	21,806	—	21,806
D	18,044	3,724	21,768	18,044	3,724	21,768
AO	21,687	—	21,687	21,687	—	21,687
T	18,599	—	18,599	15,152	—	15,152
Q	16,824	—	16,824	16,448	—	16,448
G	14,235	1,648	15,883	—	—	—
X	14,065	1,726	15,791	—	—	—
I	15,520	—	15,520	12,488	—	12,488
AK	15,306	—	15,306	10,950	—	10,950
P	15,078	—	15,078	14,872	—	14,872
AE	14,496	—	14,496	14,496	—	14,496
AP	12,496	941	13,437	12,496	941	13,437
AI	11,470	1,927	13,397	—	—	—
AH	13,180	—	13,180	10,210	—	10,210
K	12,559	—	12,559	12,612	—	12,612
AJ	11,781	—	11,781	9,641	—	9,641
M	11,549	—	11,549	8,048	—	8,048
A	10,384	—	10,384	5,260	—	5,260
AR	9,263	950	10,213	9,263	950	10,213
AS	9,033	602	9,635	—	—	—
AG	9,626	—	9,626	9,626	—	9,626
AA	9,431	—	9,431	9,431	—	9,431
F	9,253	—	9,253	3,398	—	3,398
AY	8,824	—	8,824	3,247	—	3,247
AN	7,839	909	8,748	—	—	—
AC	—	8,563	8,563	—	—	—
V	8,495	—	8,495	8,495	—	8,495
N	6,035	871	6,906	—	—	—
W	6,315	550	6,865	—	—	—
Y	6,590	—	6,590	6,590	—	6,590
B	4,684	1,343	6,027	4,684	1,343	6,027
AV	5,799	—	5,799	5,489	—	5,489
AQ	4,845	161	5,006	—	—	—
Other CGUs less than $5,000	54,948	13,867	68,815	39,215	8,184	47,399
Carrying amount	548,249	50,961	599,210	399,633	25,734	425,367

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

Canadian dealerships

For the year ended December 31, 2021, fifteen Canadian dealerships recorded impairment charges (recoveries) on indefinite-lived identifiable intangible assets (2020 - thirteen). The recoverable amounts for nine dealerships were determined using the value in use ("VIU") method while the remaining six dealerships were determined using the fair value less costs to dispose ("FVLCD") method.

			December 31, 2021 $			December 31, 2020 $
Cash Generating Unit	**Intangible assets**	**Goodwill**	**Total**	**Intangible assets**	**Goodwill**	**Total**
A	(5,124)	—	(5,124)	330	—	330
AK	(4,356)	—	(4,356)	1,980	—	1,980
Q	(376)	—	(376)	1,750	—	1,750
AE	—	—	—	(2,840)	—	(2,840)
T	(3,447)	—	(3,447)	2,490	—	2,490
AH	(2,970)	—	(2,970)	480	—	480
R	(1,420)	—	(1,420)	290	—	290
Y	—	—	—	(800)	—	(800)
AJ	(2,140)	—	(2,140)	2,400	—	2,400
AT	(352)	—	(352)	—	—	—
AV	(310)	—	(310)	310	—	310
P	(206)	—	(206)	—	—	—
F	(5,855)	—	(5,855)	5,300	—	5,300
O	(1,180)	—	(1,180)	(1,720)	—	(1,720)
M	(3,501)	—	(3,501)	—	—	—
AY	(5,577)	—	(5,577)	—	—	—
I	(3,032)	—	(3,032)	1,420	—	1,420
Net (recovery) impairment	(39,846)	—	(39,846)	11,390	—	11,390

U.S. dealerships

For the year ended December 31, 2021, no U.S. dealerships recorded impairment charges on indefinite-lived identifiable intangible assets and goodwill (2020 - three).

			December 31, 2021 $			December 31, 2020 $
Cash Generating Unit	**Intangible assets**	**Goodwill**	**Total**	**Intangible assets**	**Goodwill**	**Total**
AM	—	—	—	—	241	241
AX	—	—	—	198	4,285	4,483
K	—	—	—	3,467	704	4,171
Net impairment	—	—	—	3,665	5,230	8,895

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 tables show 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, 2021 $	December 31, 2020 $
A	VIU	11,565	6,799
AK	FVLCD [1]	13,869	13,288
Q	FVLCD [1]	15,982	18,442
AE	VIU	23,078	17,493
T	VIU	36,165	17,118
AH	VIU	16,827	12,430
R	VIU	10,369	4,935
Y	VIU	20,706	16,861
AJ	FVLCD [1]	11,781	10,285
AT	FVLCD [1]	4,197	—
AV	VIU [2]	13,574	5,250
P	FVLCD	53,165	11,932
F	VIU	12,658	5,236
O	VIU	11,565	5,600
M	VIU [2]	26,515	7,260
AY	FVLCD [1]	8,942	5,365
I	VIU	19,407	12,413

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

U.S. dealerships

Cash Generating Unit	FVLCD or VIU	December 31, 2021 $	December 31, 2020 $
AX [1]	VIU	23,903	23,903
K	VIU	23,825	14,575

1 *This CGU did not show indicators of impairment during the year ended December 31, 2021 and was 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 model 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 model, 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 7.88 times forecasted EBITDA (2020 - 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 in the cash flow forecast period 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 10.62% and 12.58% in its projections (2020 - 11.05% and 12.25%).

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 $
December 31, 2021				
K	0.21 %	0.97 %	14,575	—
December 31, 2020				
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 $
December 31, 2021				
Q	0.1	15,982	15,982	—
December 31, 2020				
AH	0.1	7,454	7,454	—

22 Other assets

	December 31, 2021 $		December 31, 2020 $	
	Current	**Long-term**	**Current**	**Long-term**
Prepaid expenses	9,528	309	8,536	143
Derivative financial instruments (Note 26)	—	—	366	—
Other assets [1]	—	15,868	29	14,194
Net investment in lease (Note 25)	44	1,034	—	—
	9,572	17,211	8,931	14,337

1 $15,868 (2020 - $14,194) relates to long-term loans receivable from the respective non-controlling interests (Note 15).

23 Trade and other payables

	December 31, 2021 $	December 31, 2020 $
Trade payables	94,001	65,806
Accruals and provisions	40,012	36,672
Sales tax payable	14,360	3,092
Wages and withholding taxes payable	41,358	31,940
	189,731	137,510

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

	Finance and insurance $	Legal and other $	Total $
January 1, 2020	**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**
Provisions made during the year	—	4,009	4,009
Amounts expired or disbursed	(71)	(2,526)	(2,597)
December 31, 2021	**—**	**8,556**	**8,556**

Legal and other

The balance represents the non-recurring legal and loss provision associated with certain wholesale transactions for the period ended December 31, 2018, management's best estimate of the most likely outcome of the Company's liability under ongoing legal claims, and estimated contract termination fees related to the integration of newly acquired entities.

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 33.

	December 31, 2021 $	December 31, 2020 $
Revolving floorplan facilities		
Revolving floorplan facilities - Syndicate (ii)	465,204	465,510
Revolving floorplan facilities - VW Credit Canada, Inc. (iii)	44,069	56,539
Revolving floorplan facilities - BMW Financial (iv)	43,024	64,327
Revolving floorplan facilities - RBC (v)	36,023	35,323
Revolving floorplan facilities - Mercedes-Benz Financial (vii)	18,893	24,402
Revolving floorplan facilities - GM Financial (vi)	18,617	25,752
Revolving floorplan facilities - Ally Financial (viii)	82,731	90,090
Carrying value	708,561	761,943
Indebtedness		
Senior unsecured notes		
Senior unsecured notes (i)	256,011	123,982
Embedded derivative	(29,306)	—
Unamortized deferred financing costs	(4,740)	(3,266)
	221,965	120,716
Revolving term facilities (ii)		
Revolving term facility	65,000	70,123
Unamortized deferred financing costs	(1,158)	(1,296)
	63,842	68,827
Other debt		
Mortgage *(ix)*	—	831
Other long-term debt	101	6,857
Total indebtedness	**285,908**	**197,231**
Current indebtedness	—	65
Long-term indebtedness	285,908	197,166

The following table shows the movement of indebtedness during the years ended December 31, 2021 and December 31, 2020:

	2021 $	2020 $
Balance, January 1	**197,231**	**213,432**
Amortization of deferred financing costs	1,896	1,300
Amortization of note premium	(1,253)	—
Recognition and revaluation of embedded derivative	(29,306)	—
Draws and additions	353,957	226,882
Repayments	(231,180)	(245,505)
Other	(5,437)	1,122
Balance, December 31	**285,908**	**197,231**

Terms and conditions of outstanding loans are as follows:

i. On April 15, 2021, the Company issued $125 million (2020 - $125 million) principal amount of its existing 8.75% (2020 - 8.75%) Senior Unsecured Notes due February 11, 2025 (the "New Notes", collectively the "Notes"). The New Notes were issued at a premium issue price of $1,066.25 (2020 - $990.11) per $1,000 principal amount of notes (106.625%) (2020 - 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 will be August 11, 2021.

   The Notes agreements contain certain redemption options whereby the Company can redeem all or part of the Notes at prices set forth in the agreement, following certain dates specified in the agreements. In addition, at any time prior to February 11, 2022, the Company may at its option redeem up to 35% of the aggregate principal amount of the Notes with net cash proceeds from equity offerings at a specified redemption price in the agreement. The Note holders also have the right to require the Company to redeem the Notes or a portion thereof, at the redemption prices set forth in the agreement in the event of a change in control. These redemption features constitute embedded derivatives that are required to be separated from the Notes and measured at fair value.

   The embedded derivative components of these compound financial instruments are measured at fair value at each reporting date with gains or losses in fair value recognized through profit or loss (Note 11). For the year ended December 31, 2021, the fair value of the embedded derivative was $29,306 with the offsetting gain recognized in Finance costs (Note 11).

   For the year ended December 31, 2020, the Company extinguished $150 million of Senior Unsecured Notes and an extinguishment charge of $3,211 was recorded as a loss on extinguishment in Finance Costs (Note 11).

ii. On April 14, 2021, the Company amended and extended its existing credit facility for three years to 2024. The amended credit facility increases the revolving facility by $50 million to $225 million, and includes a $1,060 million wholesale floorplan financing facility and a $15 million wholesale leasing facility, for total aggregate bank facilities of $1.3 billion (the "New Credit Facilities"). New staged covenant thresholds were established as per the terms of the April 14, 2021 amended credit facility agreement. Previously deferred financing costs of $1,128 (2020 - $791) were included in the loss on extinguishment in Finance costs (Note 11).

   On December 1, 2021, the Company amended and restated the existing credit facility for three years to April 14, 2024. No changes were made to the facility limits or covenant thresholds.

   In the case of advances under the revolving facility, the margins above the prime rate, banker's acceptance rate, US base rate or LIBOR rate are subject to a pricing grid based on the then applicable ratio of senior net funded debt to EBITDA. As at December 31, 2021, the Company would have been in the first of five tiers of the pricing grid which provides for advances at the prime rate or US base rate plus 1.25% (3.70% at December 31, 2021) or at the banker's acceptance rate or LIBOR rate plus 2.25% (2.69% at December 31, 2021).The wholesale leasing facilities bear interest rates of Canadian Dollar Offered Rate ("CDOR") plus 2.25% for a total of 2.69% as at December 31, 2021. The wholesale floorplan facilities bear interest rates of Canadian Dollar Offered Rate ("CDOR") plus 1.05% for a total of 1.49% as at December 31, 2021 except for facility for floorplan of used export vehicles which bears interest rates of CDOR rate plus 1.30% for total of 1.74% as at December 31, 2021.

   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 and used vehicles for all of the Company's Volkswagen and Audi dealerships (the "VCCI facilities"). During the first quarter of 2021, amendments were made to the maximum amount of financing provided by the VCCI facilities to $98,545. As at December 31, 2021, the maximum amount of financing is $98,545 (2020 - $94,800). The VCCI facilities bear interest at Royal Bank of Canada ("RBC") prime rate plus 0.00% – 0.25% (2020 - 0.00%-0.25%). The RBC prime rate was 2.45% at December 31, 2021 (2020 - 2.45%). The combined total interest rates were 2.45%-2.70% (2020 - 2.45%-2.70%). 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 and used vehicles for all of the Company's BMW dealerships (the "BMW Facilities"). During the second quarter of 2021, amendments were made to the maximum advance limit to $109,550. As at December 31, 2021, the maximum advance limit is $109,550 (2020 - $102,255). The BMW Facilities bear a variable interest rate of prime minus 0.40% (2020 - 0.40%) per 360 day annum for a total of 2.05% at December 31, 2021 (2020 - 2.05%). 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"). As at December 31, 2021, the maximum advance limit is $50,000 (2020 - $50,000). The RBC Facilities bear interest rates of RBC's Cost of Funds Rate plus 0.25%-0.50% (2020 - 0.25%-0.50%). The RBC's Cost of Funds Rate was 1.21% as at December 31, 2021 (2020 - 1.24%). The combined total interest rates were 1.46%-1.71% as at December 31, 2021 (2020 - 1.49%-1.74%). 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. General Motors Financial of Canada (the "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. During the first quarter of 2021, amendments were made to the maximum amount of financing to $51,300. As at December 31, 2021, the prime rate was 2.45% (2020 - 2.45%) and the maximum amount of financing was $51,300 (2020 - $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, 2021, the maximum amount of financing was $59,500 (2020 - $58,000). The facilities bear interest rates of CDOR plus 1.75% per annum and 2.05% per annum (2020 - 1.80%) for new wholesale lines of credit and used wholesale lines of credit, respectively for totals of 2.19% and 2.49% (2020 - 2.47%). 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 dealerships financed by Mercedes-Benz Financial.

viii. Ally Financial provides U.S. floorplan financing for new, used, and demonstrator vehicles in the company's U.S dealerships (the "Ally facility"). During the fourth quarter of 2021, amendments were made to include an additional dealership to the floorplan financing and the interest rate was amended to the Ally prime rate. As at December 31, 2021, the facility limit was $127,500 USD (2020 – $108,500 USD). The Ally facility bears interest at the Ally Bank prime rate. As at December 31, 2021, the Ally prime rate was 3.25% while the rate for the period ended December 31, 2020 was 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 provided the Company with a mortgage (the "VCCI Mortgage"). The VCCI Mortgage bore interest at a floating rate of interest per annum equal to RBC's prime rate plus 0.15% (2020 - 0.15%). The RBC prime rate was 2.45% as at December 31, 2021 (2020 - 2.45%). The total interest rate was 2.60% as at December 31, 2021 (2020 - 2.60%). The VCCI Mortgage was repayable with blended monthly payments of $4 amortized over a 20-year period with the term expiring on July 15, 2021. The VCCI Mortgage had certain reporting requirements and financial covenants and was collateralized by a general security agreement consisting of a first fixed charge over the property. The VCCI Mortgage was repaid during the third quarter of 2021.

Government assistance

For the year ended December 31, 2021, the Small Business Association Paycheck Protection Program (SBA PPP) loan of $6,728 ($5,395 USD) received in the year ended December 31, 2020 was forgiven and recognized as an offset to Operating expenses (Note 8).

25 Leases

	December 31, 2021 $	December 31, 2020 $
Right-of-use asset balance, beginning of period	**308,897**	**303,536**
Additions	17,217	12,135
Sublease adjustment	(2,016)	—
Acquisitions (Note 13)	81,539	19,316
Depreciation (Note 8)	(26,420)	(24,759)
Disposals	(7,937)	(90)
Effect of foreign currency translation	(282)	(1,241)
Right-of-use asset balance, end of period	**370,998**	**308,897**

	December 31, 2021 $	December 31, 2020 $
Lease liability balance, beginning of period	**387,929**	**380,463**
Additions	17,047	13,111
Acquisitions (Note 13)	81,539	19,316
Repayments	(48,827)	(45,270)
Interest expense (Note 11)	23,062	22,189
Disposals	(8,429)	(95)
Effect of foreign currency translation	496	(1,785)
Lease liability balance, end of period	**452,817**	**387,929**
Current lease liabilities	25,602	24,079
Long-term lease liabilities	427,215	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, 2021, the Company did not receive any additional rent concessions and $109 (2020 - $2,389) remains of the overall negotiated cash deferral of $4,169, which is to be repaid over various terms ending in 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 Income (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:

	2021 $	2020 $
Expenses related to short-term leases (included in Operating expenses)	525	2,006
Expenses related to leases of low-value assets that are not shown above as short-term leases (included in Operating expenses)	76	95
Income from sub-leasing right-of-use assets (included in Lease and other income, net)	215	204

As at December 31, 2021, potential cash outflows of $596,394 (2020 - $508,933), (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 $98,225 (2020 - $54,873).

As at December 31, 2021, estimated commitments associated with low-value and short-term leases are insignificant.

For the year ended December 31, 2021, the Company recognized a loss of $919 on derecognition of the right-of-use asset and lease liabilities pertaining to the buildings and presented the loss as part of 'Gain (loss) on disposal of assets, net (Note 10).

Leases as lessor

Finance lease

For the year ended December 31, 2021, the Company has sub-leased one property that has been presented as a net investment in lease in Other assets (Note 22) and recognized interest income on lease receivables of $16 (2020 - $nil) (Note 11).

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after December 31, 2021:

	Total $
2022	108
2023	114
2024	117
2025	123
2026	127
Thereafter	945
Total undiscounted lease receivable	**1,534**
Unearned finance income	456
Net investment in the lease	**1,078**

Lease termination

During the year ended December 31, 2021, the Company repurchased the assets previously sold in a sale and leaseback transaction to Capital Automotive Real Estate Services Inc. for cash consideration of $13,900. The lease agreement was subsequently terminated and a gain of $492 was recognized on the derecognition of the right-of-use asset and lease liability (Note 10).

26 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.

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. These instruments have settlement periods 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.

During the year ended December 31, 2021, there were no changes to the designation of cash flow hedges.

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, 2021				
Other liabilities - current	173	284	—	457
Derivative financial instruments - liabilities	—	1,625	6,674	8,299
Notional values	48,200 USD	197,200 CAD	177,800 CAD	
Maturity	2022	2022 - 2024	2025	
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 - 2024	2025	

The weighted average hedge rate of cash flow hedges was 2.44% (2020 - 2.58%).

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, 2021			
Change in fair value of hedging instruments	—	5,612	5,612
Change in the fair value of terminated hedges	—	—	—
Unrealized change in fair value of non-hedging instruments (Note 11)	8,412	—	8,412
Amortization of terminated hedges (Note 11)	(3,268)	3,268	—
Interest rate swap settlements (Note 11)	(7,023)	—	(7,023)
Change in fair value of foreign exchange forward contracts	(539)	—	(539)
Realized gain on foreign exchange forward contracts	216	—	216
	(2,202)	8,880	6,678
For the year ended December 31, 2020			
Change in fair value of hedging instruments	—	(1,335)	(1,335)
Change in the fair value of terminated hedges	—	(11,911)	(11,911)
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)
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)

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, while CORRA has been officially announced, it has not been approved and 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. All of the Company's hedging instruments are currently based on CDOR.

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 $8,299 as at December 31, 2021 (2020 - $22,146). There was no ineffectiveness for the year ended December 31, 2021 and 2020.

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, 2021. As the CDOR rate associated with the derivative financial instrument was still in effect, there was no impact from the IBOR reform.

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 Other liabilities

	December 31, 2021 $		December 31, 2020 $	
	Current	Long-term	Current	Long-term
Equity forward	—	6,201	—	3,466
Restructuring charges	710	3,731	1,215	4,962
Contingent liability	—	—	500	—
Derivative financial instruments (Note 26)	457	—	461	—
	1,167	9,932	2,176	8,428

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 Restricted Share Units ("RSUs"), Deferred Share Units ("DSUs"), and Share Appreciation Rights ("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.

During the year ended December 31, 2021, the Company settled all of the 329,000 (2020 - 329,000) common shares pursuant to the previous equity forward agreement (Note 31) and entered into a new equity forward for 150,000 common shares. Transaction fees of $165 were incurred on the settlement of the equity forward liability resulting in a total amount of $3,631 recognized in equity for the purchase of treasury shares.

The following table shows the change in the equity forward liability for the years ended:

	December 31, 2021		December 31, 2020	
	Number of shares	$	Number of shares	$
Outstanding, beginning of the period	329,000	3,466	329,000	3,466
Acquired	150,000	6,201	—	—
Exercised	(329,000)	(3,466)	—	—
Forfeited	—	—	—	—
Outstanding, end of the period	150,000	6,201	329,000	3,466

Restructuring charges

Restructuring charges are related to the voluntary termination of two franchises in year ended December 31, 2019 and the operating costs of the related leased facility, with $1,736 being utilized and recognized in Operating expenses (Note 8) during the year ended December 31, 2021.

29 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 $4,402 as at December 31, 2021 (2020 - $3,528) 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, 2021, the Company is committed to capital expenditure obligations in the amount of $2,971 (2020 - $17,700) related to dealership relocations, dealership re-imagings, and dealership Open Points with expected completion of these commitments in 2022.

30 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 average share price for the seven days prior to the 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, 2021		December 31, 2020	
	Number of RSUs	Amount $	Number of RSUs	Amount $
Outstanding, beginning of the year	316,456	2,382	127,657	1,406
Settled - equity	(37,626)	(1,278)	(4,823)	(34)
Granted	33,549	1,036	191,773	997
Forfeited units	(3,692)	(39)	—	—
Dividends reinvested	—	—	1,849	13
Outstanding, end of the year	308,687	2,101	316,456	2,382

During the year ended December 31, 2021, 168,703 RSUs were vested but not settled. In addition, during the year ended December 31, 2021, the total number of RSUs exercised and settled was 37,626 (2020 - 4,823), with a charge of $459 (2020 - $nil) to Contributed surplus for exercised and settled RSUs, of which $603 was paid in cash for the settlement of related tax withholdings.

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, 2021		December 31, 2020	
	Number of DSUs	Amount $	Number of DSUs	Amount $
Outstanding, beginning of the year	142,641	1,515	107,203	1,020
Settled	—	—	—	—
Granted	15,629	638	33,764	483
Dividends reinvested	—	—	1,674	12
Outstanding, end of the year	158,270	2,153	142,641	1,515

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:

	2021		2020	
	Average exercise price per share option $	Share options #	Average exercise price per share option $	Share options #
Outstanding, beginning of the year	10.06	2,500,000	10.26	2,400,000
Granted	35.72	345,968	5.20	100,000
Exercised	5.20	(33,333)	—	—
Expired	—	—	—	—
Forfeited	5.20	(66,667)	—	—
Outstanding, end of the year	13.47	2,745,968	10.06	2,500,000
Vested and exercisable, end of the year	10.04	2,366,666	10.04	1,858,333

During the year ended December 31, 2021, 33,333 (2020 - nil) options under the Stock Option Plan (the "Plan") were exercised and settled, with a charge of $40 (2020 - nil) to Contributed surplus.

The following table shows the expiry date and exercise price for the share options outstanding as at December 31, 2021:

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
December 7, 2021	December 7, 2026	35.72	345,968
Total			2,745,968
Weighted average remaining contractual life of options outstanding, end of the period			6.27 years

The weighted average remaining contractual life for the share options outstanding as at December 31, 2020 was 7.33 years.

For the year ended December 31, 2021, the assessed weighted average fair value at grant date of options granted was $15.49 per option. The fair value at grant date is determined using the Black-Scholes Model that takes into account 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, 2021 include:

December 7, 2021 grant

- Options are granted for no consideration and all options granted vest on December 7, 2024. Vested options are exercisable until December 7, 2026.
- Exercise price: $35.72
- Grant date: December 7, 2021
- Life of option: 3 years
- Share price at grant date: $36.96
- Expected price volatility of the Company's shares: 64.18%
- Expected dividend yield: 1.08%
- Risk-free interest rate: 1.23%

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.

During the year ended December 31, 2021, there were expenses of $479 (2020 - $1,822) and nil recoveries (2020 - nil).

Executive Advance

During the year ended December 31, 2021, the Company advanced $2,000 to the President, collateralized by the President's outstanding stock options under the existing Plan (the "Executive Advance") (Note 35). The Executive Advance was considered to represent an advance against share-based compensation secured against the Company's own shares and is treated as an equity instrument rather than an asset of the Company. The Executive Advance was granted for no consideration, carries no dividend or voting rights, and was immediately exercisable upon grant.

The share price of the Executive Advance is based on the unrealized value of the President's outstanding options on the grant date, less the outstanding stock option exercise price, while the exercise price represents the amount advanced to the President. The fair value of the awards granted on August 31, 2021 and the share-based compensation expense for the period is insignificant.

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, 2021:

	2021		2020	
	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	10.27	1,126,950	10.86	1,159,450
Granted	31.45	143,000	10.05	158,000
Exercised	10.62	(839,675)	10.25	(63,000)
Forfeited	6.21	(41,275)	11.07	(127,500)
Outstanding, end of the year	18.11	389,000	10.27	1,126,950
Vested and exercisable, end of the year	12.17	66,000	12.17	66,000

During the year ended December 31, 2021, the total number of SARs exercised and settled was 839,675 (2020 - 63,000), with a charge of $17,923 (2020 - $191) to Contributed surplus for exercised and settled SARs, of which $18,772 was paid in cash for the settlement of related tax withholdings. No share appreciation rights expired.

The weighted average contractual life remaining for these share appreciation rights as at December 31, 2021 is 2.81 years.

The assessed weighted average fair value at grant date of the share appreciation rights granted during the year ended December 31, 2021 was $9.06 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, 2021 include:

- Exercise price: $31.45
- Expected life of option: 2.59 years
- Share price at grant date: $29.56
- Expected price volatility of the Company's shares: 54.72%
- Expected dividend yield: 1.43%
- Risk-free interest rate: 0.49%

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.

Employee Advances

During the year ended December 31, 2021, the Company advanced $2,570 to certain employees (the "Employee Advances"), collateralized by the employees' outstanding SARs. The Employee Advances are accounted for as equity-settled awards and are expected to vest 90 days from the grant date. The SARs held by these certain employees were modified concurrent with the grant of the Employee Advances (the "SARs Modifications").

The share price of the Employee Advances is based on the amount advanced to each employee, while the exercise price represents the amount advanced, including interest over the term of the advance. The fair value of the awards granted on August 20, 2021 and the share-based compensation expense was recognized in Operating expenses.

The SARs Modifications are accounted for as a new grant of SARs under the Company's existing SARs Plan and were granted for no consideration and carry no dividend or voting rights. The fair value of the awards granted on August 20, 2021 and the share-based compensation expense was recognized in Operations expenses.

The fair values of the SARs Modifications, Employee Advances, and Executive Advance granted during the year ended December 31, 2021 were determined using the Black Scholes Model. Expected price volatility was determined at the time of grant for the awards 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.

For the year ended December 31, 2021, the employee's outstanding SARs vested and the Employee Advances were partially settled by employee shares the settled out of the money with $1,271 recognized as a charge to Employee costs.

Used Digital Retail Division

Common interests of the Partnership are granted to dealership management and the Executive Chairman (Note 35) 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.

The Executive Chair holds a 15% interest, that contains a share-based payment arrangement that vested immediately upon grant, in the Partnership. Share-based compensation expense of $224 (2020 - $435) was recognized in the Consolidated Statements of Comprehensive Income (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:

	2021 $	2020 $
Stock options	479	1,822
Restricted share units	1,048	917
Deferred share units	638	494
Share appreciation rights	1,180	796
Share-based compensation	3,345	4,029
Used digital retail equity issuance (Note 15)	224	435
	3,569	4,464

31 Share capital

Common shares

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

The following table shows the change in common shares held during the years ended:

	December 31, 2021		December 31, 2020	
	Number of common shares	$	Number of common shares	$
Issued, beginning of the period	27,459,683	510,606	27,459,683	510,606
Exercised stock options (Note 30)	33,333	213	—	—
Issued, end of the period	27,493,016	510,819	27,459,683	510,606

Normal Course Issuer Bid

On December 20, 2021, the Company received approval from the TSX to commence a Normal Course Issuer Bid ("NCIB"). The NCIB commenced on December 23, 2021, and will terminate on the earlier of December 22, 2022 and the date on which the maximum number of common shares that can be acquired pursuant to the NCIB have been purchased. Under the NCIB, the Company is authorised to purchase, for cancellation, up to 1,730,321 common shares, representing approximately 6.3%, of the 27,493,016 issued and outstanding common shares of the Company as at December 20, 2021. The Company is limited under the NCIB to purchasing no more than 36,686 common shares on any given day, subject to the block purchase exemption under the TSX rules.

In connection with the NCIB, the Company has established an automatic repurchase plan with its designated broker to facilitate the purchase of shares under the NCIB at times when the Company would ordinarily not be permitted to purchase its shares due to regulatory restrictions or blackout periods.

No common shares have been repurchased and cancelled under the NCIB for the year ended December 31, 2021 (Note 38).

Treasury shares

Shares are held in trust to mitigate the risk of future share price increases from the time the equity-settled awards (Note 30) are granted to when they are fully vested and can be exercised. 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, 2021 on the shares held in trust of $nil (2020 - $3) are reinvested to purchase additional shares. The shares held in trust are accounted for as treasury shares and are recognized on a first-in-first-out basis upon issuance and presented separately in the Consolidated Statements of Changes in Equity.

The following table shows the change in treasury shares held for the years ended:

	December 31, 2021		December 31, 2020	
	Number of treasury shares	$	Number of treasury shares	$
Outstanding, beginning of the period	(232,980)	(2,494)	(28,774)	(716)
Treasury shares acquired	—	—	(217,350)	(2,081)
Dividends reinvested	—	—	(438)	(3)
Forward share purchase (Note 28)	(329,000)	(3,631)	—	—
Treasury shares settled	318,674	3,685	13,582	306
Outstanding, end of the period	(243,306)	(2,440)	(232,980)	(2,494)

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, 2021, no eligible dividends (2020 - $0.10 per share) on common shares were declared or paid, resulting in total payments of $nil (2020 - $2,743).

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 AutoCanada shareholders by the sum of the weighted-average number of common shares outstanding during the period. Basic earnings per share are adjusted by the dilutive impact of all share based payment plans to calculate the diluted earnings per share.

	2021 **$**	**2020** **$**
Net income (loss) for the year attributable to AutoCanada shareholders	164,207	(7,455)

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

	2021 **$**	**2020** **$**
Basic	27,474,106	27,313,140
Effect of dilution from RSUs	184,738	—
Effect of dilution from stock options	1,541,696	—
Effect of dilution from SARs	104,752	—
Diluted	29,305,292	27,313,140

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.

32 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. 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, 2021 **$**	**December 31, 2020** **$**
Long-term indebtedness (Note 24)	285,908	197,166
Equity	519,409	362,820
	805,317	559,986

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, 2021.

Net indebtedness

Net indebtedness is a measure used by management to evaluate the liquidity of the Company. Net indebtedness is calculated as total indebtedness (as shown in the Consolidated Statements of Financial Position), adjusted to remove any associated embedded derivative impacts, less cash and cash equivalents, as follows:

	December 31, 2021 **$**	**December 31, 2020** **$**
Total indebtedness	285,908	197,231
Embedded derivative asset	29,306	—
Total indebtedness	**315,214**	**197,231**
Cash and cash equivalents	102,480	107,704
Net Indebtedness	**212,734**	**89,527**

33 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 significant 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 $266,563 (2020 - $123,764).

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 derivative financial instruments note (Note 26). 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	
	2021 $	2020 $	2021 $	2020 $
Finance costs	7,971	8,916	3,986	4,458
Finance income	16	16	8	8

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, 2021 and December 31, 2020 and the corresponding historical credit losses experienced within these periods.

The loss allowance for trade receivables as at December 31, 2021 and December 31, 2020 was determined as follows:

	December 31, 2021			December 31, 2020		
	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	97,407	52	0.05	84,470	40
31 - 60 days	2.13	12,471	266	2.05	9,840	202
61 - 90 days	4.82	8,215	395	4.56	6,388	292
91 - 120 days	9.91	2,062	204	7.23	1,495	108
> 120 days	10.25	15,236	1,561	7.31	18,447	1,348
Total		**135,391**	**2,478**		**120,640**	**1,990**

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

	2021 $	2020 $
Balance, January 1	**1,990**	**1,869**
Loan loss allowance recognized in profit or loss during the year	2,984	3,474
Receivables written off during the year	(2,475)	(2,640)
Additional amount recorded	(21)	(713)
Balance, December 31	**2,478**	**1,990**

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 Income (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 1.488% at December 31, 2021 (2020 - 1.519%). 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, 2021, the Company has $160,000 (2020 - $104,877) 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.

	2022 $	2023 $	2024 $	2025 $	Thereafter $	Total $
December 31, 2021						
Trade and other payables	189,731	—	—	—	—	189,731
Revolving floorplan facilities	708,561	—	—	—	—	708,561
Vehicle repurchase obligations	3,584	—	—	—	—	3,584
Indebtedness	—	101	65,000	250,000	—	315,101
Contractual interest payable	23,622	23,622	22,380	2,539	—	72,163
Lease liabilities	54,561	53,420	51,656	48,740	534,428	742,805
Derivative financial instruments	3,357	2,860	2,111	428	—	8,756
	983,416	80,003	141,147	301,707	534,428	2,040,701

	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

34 Fair value of financial instruments

The Company's financial instruments as at December 31, 2021 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, an embedded derivative, 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.

Long-term indebtedness has a fixed-rate portion but the carrying value is not materially different from its fair value.

The embedded derivative (Level 2) included within indebtedness (Note 24) is carried at fair value using the Hull White pricing model. The increase in the fair value of the embedded derivative is largely due to an improvement in the Company's credit spread.

Derivative financial instruments are made up of interest rate swaps and foreign exchange forward contracts (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 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 vehicle wholesale and export business, controlled by the Executive Chairman, that supplies used vehicle inventory to the Company;
- 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, 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 and are based on normal commercial terms and conditions. A summary of these transactions is as follows:

	2021 **$**	**2020** **$**
Consulting services, administrative and other support and sourcing fees	2,175	1,151
Used vehicle inventory purchases	5,997	—
	8,172	1,151

Executive Advance

During the year ended December 31, 2021, the Company issued a $2,000 Executive Advance to the President, collateralized by the President's outstanding stock options under the Company's existing Stock Option Plan (the "Plan"). The Executive Advance is repayable in full on the earlier of i) March 31, 2022, or ii) the exercise and settlement of the President's outstanding stock options under the Plan. Interest is payable annually at a rate of 1%. The Executive Advance was considered to represent an advance against share-based compensation secured against the Company's own shares and is treated as an equity instrument rather than an asset of the Company (Note 30).

Used Digital Retail Division

During the year ended December 31, 2020, 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 30). Changes in the value of the 15% interest are recorded in Operating expenses.

Key management personnel compensation

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

	2021 $	2020 $
Employee costs (including Directors)	5,290	4,029
Short-term employee benefits	67	108
Partnership interest	224	435
Share-based compensation	806	1,327
	6,387	5,899

36 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, 2021 $	December 31, 2020 $
Trade and other receivables	(7,810)	14,711
Inventories	(5,055)	137,036
Current tax recoverable/payable	—	(152)
Other current assets	(1,078)	(229)
Other liabilities	(1,589)	172
Trade and other payables	40,594	(8,130)
Revolving floorplan facilities	(68,469)	(72,443)
	(43,407)	70,965

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.

37 Segmented reporting

During the year ended December 31, 2021, 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, 2021			Year ended December 31, 2020		
	Canada [1] $	U.S. $	Total $	Canada [1] $	U.S. $	Total $
Revenues						
External revenues	3,970,517	682,898	4,653,415	2,977,149	356,009	3,333,158
Inter-segment revenue	—	—	—	(3,664)	—	(3,664)
Total revenues	3,970,517	682,898	4,653,415	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.*

	Year ended December 31, 2021			Year ended December 31, 2020		
	Canada [1] $	U.S. $	Total $	Canada [1] $	U.S. $	Total $
Operating profit before other income (expense)	192,838	28,736	221,574	87,692	(2,029)	85,663
Lease and other income, net (Note 10)	8,078	957	9,035	6,744	642	7,386
(Loss) gain on disposal of assets, net (Note 10)	(387)	—	(387)	1,563	(193)	1,370
Recoveries (impairment) of non-financial assets (Note 21)	39,846	—	39,846	(15,312)	(8,895)	(24,207)
Operating profit	240,375	29,693	270,068	80,687	(10,475)	70,212
Finance costs (Note 11)			(35,189)			(72,505)
Finance income (Note 11)			810			808
(Loss) gain on redemption liabilities (Note 15)			(14,116)			762
Other losses			(353)			(482)
Net income (loss) for the year before tax			221,220			(1,205)

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

	As at December 31, 2021			As at December 31, 2020		
	Canada [1] $	U.S. $	Total $	Canada [1] $	U.S. $	Total $
Assets held for sale (Note 19)	—	—	—	1,039	—	1,039
Segment assets	1,969,692	288,981	2,258,673	1,684,941	232,422	1,917,363
Capital expenditures and acquisition of real estate (Note 20)	28,763	6,408	35,171	20,667	299	20,966
Segment liabilities	1,276,430	462,834	1,739,264	1,252,100	302,443	1,554,543

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:

	As at December 31, 2021			As at December 31, 2020		
	Canada [1] $	U.S. $	Total $	Canada [1] $	U.S. $	Total $
New vehicles	1,639,894	323,987	1,963,881	1,528,915	204,976	1,733,891
Used vehicles	1,675,342	262,199	1,937,541	923,192	87,689	1,010,881
Parts, service and collision repair	426,927	57,712	484,639	361,472	48,499	409,971
Finance, insurance and other	228,354	39,000	267,354	159,906	14,845	174,751
Total revenue	3,970,517	682,898	4,653,415	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.*

38 Subsequent events

Amended and Extended Credit Facilities

On February 7, 2022, the Company amended the $1,300 million syndicated credit agreement with Scotiabank, CIBC, RBC, HSBC, ATB, BMO, and The Toronto-Dominion Bank ("TD"), while maintaining its existing specified-use tranches and facility limits. The amendment included changes to the interest rate structure, covenants, and other administrative and structural changes to add flexibility to meet the Company's operational needs on an ongoing basis. Concurrently, the amendment was also executed to support both the Issuance of the $350 million senior unsecured notes issued on February 7, 2022 and the repayment of the previous $250 million senior unsecured notes. The Credit Facility term was also extended to April 14, 2025.

Senior Unsecured Notes

On February 7, 2022, the Company issued Senior Unsecured Notes ("the New Issuance Notes") of $350 million aggregate principal amount at 5.75%. to fund a redemption of the then outstanding $250 million Notes (Note 24). The Company redeemed the full $250 million outstanding balance on February 10, 2022. The New Issuance Notes have a term of seven years and mature on February 7, 2029. Interest is payable semi-annually on February 7 and August 7 of each year the New Issuance Notes are outstanding. Concurrent with the redemption of the Notes, the associated embedded derivative was extinguished.

Normal Course Issuer Bid

As at March 2, 2022, the Company repurchased and cancelled 542,401 shares under the Normal Course Issuer Bid (“NCIB”) (Note 31) for $20 million.

AutoCanada Inc.

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