

2021




2021 Second Quarter Financial Results





Condensed Interim Consolidated Financial Statements (Unaudited)

■ June 30, 2021



AutoCanada Inc.

Condensed Interim Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

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

	Three-month period ended		Six-month period ended	
	June 30, 2021 \$	June 30, 2020 \$	June 30, 2021 \$	June 30, 2020 \$
Revenue (Note 5)	1,281,055	727,447	2,250,879	1,436,273
Cost of sales (Note 6)	(1,063,214)	(629,568)	(1,865,402)	(1,221,096)
Gross profit	217,841	97,879	385,477	215,177
Operating expenses (Note 7)	(154,773)	(99,736)	(282,721)	(216,436)
Operating profit (loss) before other income (expense)	63,068	(1,857)	102,756	(1,259)
Lease and other income, net	3,065	1,568	4,983	3,538
Gain (loss) on disposal of assets, net	20	(189)	78	(160)
Impairment of non-financial assets	—	(3,910)	—	(35,455)
Operating profit (loss)	66,153	(4,388)	107,817	(33,336)
Finance costs (Note 8)	(14,266)	(17,801)	(27,544)	(40,121)
Finance income (Note 8)	180	284	405	403
Other losses	(437)	(2,446)	(494)	(1,287)
Net income (loss) for the period before taxation	51,630	(24,351)	80,184	(74,341)
Income tax expense (recovery) (Note 9)	13,932	(4,299)	21,152	(7,436)
Net income (loss) for the period	37,698	(20,052)	59,032	(66,905)
Other comprehensive income (loss)				
<i>Items that may be reclassified to profit or loss</i>				
Foreign operations currency translation	3,037	(1,573)	517	(3,062)
Change in fair value of cash flow hedge (Note 17)	2,049	263	4,426	(14,127)
Income tax relating to these items	(580)	(180)	(1,261)	3,590
Other comprehensive income (loss) for the period	4,506	(1,490)	3,682	(13,599)
Comprehensive income (loss) for the period	42,204	(21,542)	62,714	(80,504)
Net income (loss) for the period attributable to:				
AutoCanada shareholders	36,045	(19,689)	56,879	(66,374)
Non-controlling interest	1,653	(363)	2,153	(531)
	37,698	(20,052)	59,032	(66,905)
Comprehensive income (loss) for the period attributable to:				
AutoCanada shareholders	40,551	(21,179)	60,561	(79,973)
Non-controlling interest	1,653	(363)	2,153	(531)
	42,204	(21,542)	62,714	(80,504)
Net income (loss) per share attributable to AutoCanada shareholders:				
Basic	1.33	(0.72)	2.10	(2.42)
Diluted	1.23	(0.72)	1.95	(2.42)
Weighted average shares				
Basic (Note 18)	27,030,413	27,370,013	27,128,360	27,400,695
Diluted (Note 18)	29,224,342	27,370,013	29,216,368	27,400,695

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

AutoCanada Inc.

Condensed Interim Consolidated Statements of Financial Position

(In thousands of Canadian dollars)

	June 30, 2021	December 31, 2020
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents (Note 11)	230,103	107,704
Trade and other receivables (Note 12)	131,997	118,650
Inventories (Note 13)	656,668	699,200
Other assets	12,269	8,931
Assets held for sale	—	1,039
	1,031,037	935,524
Property and equipment (Note 14)	212,096	203,525
Right-of-use assets	302,479	308,897
Other long-term assets	15,283	14,337
Deferred income tax	12,394	12,732
Intangible assets	399,029	399,633
Goodwill	25,663	25,734
	1,997,981	1,900,382
LIABILITIES		
Current liabilities		
Trade and other payables (Note 15)	188,189	137,510
Revolving floorplan facilities (Note 16)	705,656	761,943
Current tax payable	5,549	5,030
Vehicle repurchase obligations	3,970	4,526
Indebtedness (Note 16)	53	65
Lease liabilities	23,580	24,079
Other liabilities	4,061	2,176
Redemption liabilities	7,557	7,557
	938,615	942,886
Long-term indebtedness (Note 16)	246,976	197,166
Long-term lease liabilities	357,442	363,850
Long-term redemption liabilities	435	435
Derivative financial instruments (Note 17)	14,202	22,146
Other long-term liabilities	4,239	8,428
Deferred income tax	7,959	2,651
	1,569,868	1,537,562
EQUITY		
Attributable to AutoCanada shareholders	402,954	341,874
Attributable to Non-controlling interests	25,159	20,946
	428,113	362,820
	1,997,981	1,900,382

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

AutoCanada Inc.

Condensed Interim Consolidated Statements of Changes in Equity

(Unaudited)

(in thousands of Canadian dollars)

	Attributable to AutoCanada shareholders						Non-controlling interests	Total equity
	Share capital	Contributed surplus	Cumulative translation adjustment	OCI hedge reserve	Accumulated deficit	Total capital		
	\$	\$	\$	\$	\$	\$	\$	\$
Balance, January 1, 2021	508,112	9,995	(3,036)	(12,637)	(160,560)	341,874	20,946	362,820
Net income	—	—	—	—	56,879	56,879	2,153	59,032
Other comprehensive income	—	—	517	3,165	—	3,682	—	3,682
Dividends declared by subsidiaries to non-controlling interests	—	—	—	—	—	—	(79)	(79)
Reorganization of non-controlling interests (Note 10)	—	—	—	—	(538)	(538)	2,139	1,601
Forward share purchase (Note 17)	(3,631)	3,466	—	—	—	(165)	—	(165)
Settlement of share based awards	—	(184)	—	—	—	(184)	—	(184)
Shares settled from treasury (Note 18)	265	(265)	—	—	—	—	—	—
Share-based compensation	—	1,406	—	—	—	1,406	—	1,406
Balance, June 30, 2021	504,746	14,418	(2,519)	(9,472)	(104,219)	402,954	25,159	428,113

	Attributable to AutoCanada shareholders						Non-controlling interests	Total equity
	Share capital	Contributed surplus	Cumulative translation adjustment	OCI hedge reserve	Accumulated deficit	Total capital		
	\$	\$	\$	\$	\$	\$	\$	\$
Balance, January 1, 2020	509,890	6,463	(947)	(4,535)	(157,264)	353,607	14,492	368,099
Net loss	—	—	—	—	(66,374)	(66,374)	(531)	(66,905)
Other comprehensive loss	—	—	(3,062)	(10,537)	—	(13,599)	—	(13,599)
Dividends declared on common shares	—	—	—	—	(2,743)	(2,743)	—	(2,743)
Treasury shares acquired (Note 18)	(1,576)	—	—	—	—	(1,576)	—	(1,576)
Dividends reinvested (Note 18)	(3)	—	—	—	—	(3)	—	(3)
Shares settled from treasury (Note 18)	214	(214)	—	—	—	—	—	—
Share-based compensation	—	1,765	—	—	—	1,765	—	1,765
Balance, June 30, 2020	508,525	8,014	(4,009)	(15,072)	(226,381)	271,077	13,961	285,038

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

AutoCanada Inc.

Condensed Interim Consolidated Statements of Cash Flows

(Unaudited)

(in thousands of Canadian dollars)

	Three-month period ended		Six-month period ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
	\$	\$	\$	\$
Cash provided by (used in):				
Operating activities				
Net income (loss) for the period	37,698	(20,052)	59,032	(66,905)
Adjustments for:				
Income taxes (recovery) (Note 9)	13,932	(4,299)	21,152	(7,436)
Depreciation of property and equipment (Note 7)	4,267	4,051	8,321	8,438
Depreciation of right-of-use assets (Note 7)	6,147	6,318	12,491	12,526
Loss (gain) on disposal of assets	(20)	189	(78)	160
Share-based compensation - equity-settled	705	922	1,406	1,765
Loss on extinguishment of debt (Note 8)	1,128	—	1,128	4,002
Loan forgiveness (Note 16)	(1,330)	—	(6,728)	—
Amortization of deferred financing costs	1,422	309	1,908	534
Amortization of terminated hedges (Note 8)	817	674	1,634	674
Unrealized fair value changes on interest swaps (Note 8)	(936)	1,940	(4,215)	3,409
Unrealized fair value changes on foreign exchange forward contracts (Note 17)	986	—	1,346	—
Unrealized fair value changes on embedded derivative (Note 8)	(4,644)	—	(4,644)	—
Income taxes paid	(4,304)	(3,918)	(16,561)	(3,984)
Impairment of non-financial assets	—	3,910	—	35,455
Net change in non-cash working capital (Note 20)	12,736	64,070	12,876	74,442
	68,604	54,114	89,068	63,080
Investing activities				
Purchases of property and equipment (Note 14)	(9,306)	(4,451)	(12,276)	(12,220)
Net change in non-cash investing working capital	571	(672)	1,895	(2,541)
Proceeds on sale of property and equipment	122	307	1,276	1,596
	(8,613)	(4,816)	(9,105)	(13,165)
Financing activities				
Proceeds from indebtedness	149,393	17,352	179,393	199,895
Repayment of indebtedness	(90,198)	(25,033)	(120,225)	(215,423)
Common shares settled, net (Note 18)	(1,973)	(1,350)	(3,366)	(1,365)
Dividends paid on common shares	—	—	—	(2,743)
Dividends paid to non-controlling interests	—	—	(79)	—
Principal portion of lease payments, net	(6,519)	(1,852)	(12,891)	(8,458)
	50,703	(10,883)	42,832	(28,094)
Effect of exchange rate changes on cash and cash equivalents	(221)	(650)	(396)	533
Net increase in cash and cash equivalents	110,473	37,765	122,399	22,354
Cash and cash equivalents at beginning of period	119,630	40,144	107,704	55,555
Cash and cash equivalents at end of period (Note 11)	230,103	77,909	230,103	77,909

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

AutoCanada Inc.

Notes to the Condensed Interim Consolidated Financial Statements For the Period Ended June 30, 2021

(Unaudited)

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

1 General information

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

2 Basis of presentation

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"). These condensed interim consolidated financial statements do not include all of the disclosures normally provided in the annual consolidated financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2020, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB.

These financial statements were approved by the Board of Directors on August 11, 2021.

3 Significant accounting policies

The significant accounting policies used in the preparation of these condensed interim consolidated financial statements are the same accounting policies and method of computation as disclosed in the consolidated annual financial statements for the year ended December 31, 2020.

The Company has adopted amendments to various standards effective January 1, 2021, which did not have a significant impact to these financial statements.

4 Critical accounting estimates, judgments & measurement uncertainty

The critical accounting estimates, judgments, and measurement uncertainty used in the preparation of these condensed interim consolidated financial statements are the same as disclosed in the consolidated annual financial statements for the year ended December 31, 2020.

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) and Canadian Emergency Rent Subsidy (CERS) in Canada (Note 7) and the Small Business Association Paycheck Protection Program (SBA PPP) in the U.S. (Note 7 and 16).

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 developing 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 three-month and six-month periods ended June 30, 2021.

5 Revenue

	Three-month period ended		Six-month period ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
	\$	\$	\$	\$
New vehicles	534,152	381,427	976,600	723,008
Used vehicles	553,889	215,032	917,961	444,387
Parts, service and collision repair	122,222	90,417	230,445	192,870
Finance, insurance and other	70,792	40,571	125,873	76,008
Revenue	1,281,055	727,447	2,250,879	1,436,273

6 Cost of sales

	Three-month period ended		Six-month period ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
	\$	\$	\$	\$
New vehicles	493,331	370,793	902,191	688,107
Used vehicles	509,479	210,808	849,375	429,990
Parts, service and collision repair	53,608	44,581	103,504	97,065
Finance, insurance and other	6,796	3,386	10,332	5,934
Cost of sales	1,063,214	629,568	1,865,402	1,221,096

7 Operating expenses

	Three-month period ended		Six-month period ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
	\$	\$	\$	\$
Employee costs	99,165	72,296	182,652	138,790
Government assistance ^{1,2}	(2,953)	(26,223)	(11,452)	(26,223)
Administrative costs ³	47,766	42,646	90,194	82,021
Facility lease costs	381	648	515	884
Depreciation of right-of-use assets	6,147	6,318	12,491	12,526
Depreciation of property and equipment	4,267	4,051	8,321	8,438
Operating expenses	154,773	99,736	282,721	216,436

1 Government assistance represents the Company's eligible claim of \$4,388 (2020 - \$26,223) for the Canada Emergency Wage Subsidy (CEWS) and \$336 (2020 - nil) claim for the Canada Emergency Rent Subsidy (CERS) for the six-month period ended June 30, 2021, with \$1,517 (2020 - \$13,000) included in Trade and other receivables (Note 12). There are no unfulfilled conditions or other contingencies attached to the subsidy recognized.

2 During the six-month period ended June 30, 2021, \$6,728 (2020 - nil) of the loans from the Small Business Association Paycheck Protection Program (Note 16) 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, insurance, and other general and administrative costs.

8 Finance costs and finance income

	Three-month period ended		Six-month period ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
	\$	\$	\$	\$
Finance costs				
Interest on long-term indebtedness	5,485	4,220	10,148	7,893
Interest on lease liabilities	5,333	5,431	11,055	11,068
Loss on extinguishment of debt (Note 16)	1,128	—	1,128	4,002
Unrealized fair value changes on interest rate swaps (Note 17)	(936)	1,940	(4,215)	3,409
Amortization of terminated hedges (Note 17)	817	674	1,634	674
Unrealized fair value changes on embedded derivative (Note 16)	(4,644)	—	(4,644)	—
	7,183	12,265	15,106	27,046
Floorplan financing	3,487	4,095	6,998	10,662
Interest rate swap settlements (Note 17)	2,449	797	3,388	1,099
Other finance costs	1,147	644	2,052	1,314
	14,266	17,801	27,544	40,121
Finance income				
Short-term bank deposits	180	284	405	403

Cash interest paid during the six-month period ended June 30, 2021 was \$24,584 (2020 - \$24,676), which includes \$11,055 (2020 - \$11,068) of imputed interest related to interest on lease liabilities.

9 Taxation

Components of income tax were as follows:

	Three-month period ended		Six-month period ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
	\$	\$	\$	\$
Current tax	12,287	207	17,103	3,730
Deferred tax	1,645	(4,506)	4,049	(11,166)
Total income tax expense (recovery)	13,932	(4,299)	21,152	(7,436)

Income tax expense (recovery) is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual statutory rate used for the six-month period ended June 30, 2021 was 25.4% (2020 - 26.2%).

10 Interest in subsidiaries

Transactions with Non-controlling interests

During the three-month period ended June 30, 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 the non-controlling parties to purchase a non-controlling interest in the subsidiaries for \$2,139. The loans are included in Other long-term assets on the Condensed Interim Consolidated Statements of Financial Position.

11 Cash and cash equivalents

	June 30, 2021 \$	December 31, 2020 \$
Cash at bank and on hand	230,090	107,704
Short-term deposits	13	—
Cash and cash equivalents	230,103	107,704

12 Trade and other receivables

	June 30, 2021 \$	December 31, 2020 \$
Trade receivables	124,784	109,405
Less: Expected credit loss allowance	(3,303)	(1,990)
Net trade receivables	121,481	107,415
Other receivables (Note 7)	10,516	11,235
Trade and other receivables	131,997	118,650

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

13 Inventories

	June 30, 2021 \$	December 31, 2020 \$
New vehicles	279,690	412,970
Demonstrator vehicles	37,561	36,911
Used vehicles	309,833	218,812
Parts and accessories	29,584	30,507
Inventories	656,668	699,200

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

	Three-month period ended		Six-month period ended	
	June 30, 2021 \$	June 30, 2020 \$	June 30, 2021 \$	June 30, 2020 \$
Inventory expensed as cost of sales	958,624	611,266	1,735,119	1,178,587
Writedowns on vehicles included in cost of sales	6,425	20,884	7,240	20,970
Demonstrator expenses included in administrative costs	2,151	1,838	4,077	4,210

14 Property and equipment

During the six-month period ended June 30, 2021, the Company purchased \$12,276 (2020 - \$12,220) of property and equipment including land and buildings additions of \$1,343 (2020 - \$3,869) to be used for dealership relocations, dealership re-imaging, and dealership open points.

15 Trade and other payables

	June 30, 2021 \$	December 31, 2020 \$
Trade payables	88,452	65,806
Accruals and provisions	39,595	36,672
Sales tax payable	15,358	3,092
Wages and withholding taxes payable	44,784	31,940
Trade and other payables	188,189	137,510

16 Indebtedness

	June 30, 2021 \$	December 31, 2020 \$
Revolving floorplan facilities	705,656	761,943
Indebtedness		
Senior unsecured notes		
Senior unsecured notes	256,977	123,982
Embedded derivatives	(4,644)	—
Unamortized deferred financing costs	(5,448)	(3,266)
	246,885	120,716
Revolving term facilities		
Revolving term facilities	—	70,123
Unamortized deferred financing costs	(807)	(1,296)
	(807)	68,827
Other debt	951	7,688
Total indebtedness	247,029	197,231
Current indebtedness	53	65
Long-term indebtedness	246,976	197,166

Senior unsecured notes

On April 15, 2021, the Company issued an additional \$125 million principal amount of its existing 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 per \$1,000 principal amount of notes (106.625%). 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 contains 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 8). For the six-month period ended June 30, 2021, the Company recognized an embedded derivative asset of \$4,644 related to these redemption options.

Amended and restated credit facilities

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 8).

Government assistance

For the year ended December 31, 2020, the Company received a loan of \$6,728 (\$5,395 USD) under the Small Business Association Paycheck Protection Program (SBA PPP). For the six-month period ended June 30, 2021, the SBA PPP loan was forgiven and recognized as an offset to Operating expenses (Note 7).

17 Derivative financial instruments and other liabilities

Derivative financial instruments

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

Foreign exchange risk

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

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.

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

	Foreign Exchange Contracts	Interest Rate Swaps		Total
	Non-hedges	Cash flow hedges	Non- hedges	
June 30, 2021				
Other liabilities	980	1,398	—	2,378
Derivative financial instruments - liabilities	—	3,331	10,871	14,202
Notional values	37,200 USD	222,200 CAD	177,800 CAD	
Maturity	2021	2021 - 2024	2025	
December 31, 2020				
Other current assets	366	—	—	366
Other liabilities	—	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	

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

	Net income	Other comprehensive income	Total
For the three-month period ended June 30, 2021			
Change in fair value of hedging instruments	—	1,232	1,232
Change in fair value of non-hedging instruments (Note 8)	936	—	936
Amortization of terminated hedges (Note 8)	(817)	817	—
Interest rate swap settlements (Note 8)	(2,449)	—	(2,449)
Change in fair value of foreign exchange forward contracts	(986)	—	(986)
Realized gain on foreign exchange forward contracts	1,441	—	1,441
	(1,875)	2,049	174
For the six-month period ended June 30, 2021			
Change in fair value of hedging instruments	—	2,792	2,792
Fair value of terminated hedges	—	—	—
Change in fair value of non-hedging instruments (Note 8)	4,215	—	4,215
Amortization of terminated hedges (Note 8)	(1,634)	1,634	—
Interest rate swap settlements (Note 8)	(3,388)	—	(3,388)
Change in fair value of foreign exchange forward contracts	(1,346)	—	(1,346)
Realized gain on foreign exchange forward contracts	2,000	—	2,000
	(153)	4,426	4,273
For the three-month period ended June 30, 2020			
Change in fair value of hedging instruments	—	(411)	(411)
Change in fair value of non-hedging instruments (Note 8)	(1,940)	—	(1,940)
Amortization of terminated hedges (Note 8)	(674)	674	—
Interest rate swap settlements (Note 8)	(797)	—	(797)
	(3,411)	263	(3,148)
For the six-month period ended June 30, 2020			
Change in fair value of hedging instruments	—	(14,801)	(14,801)
Change in fair value of non-hedging instruments (Note 8)	(3,409)	—	(3,409)
Realized loss on foreign exchange forward contracts	(2,282)	—	(2,282)
Amortization of terminated hedges (Note 8)	(674)	674	—
Interest rate swap settlements (Note 8)	(1,099)	—	(1,099)
	(7,464)	(14,127)	(21,591)

Other liabilities

Equity forward liability

The Company 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 six-month period ended June 30, 2021, the Company settled all of the 329,000 common shares pursuant to the equity forward agreement (Note 18). As at June 30, 2021, the Company has no remaining obligations under the equity forward agreement and the associated current liability is valued at \$nil (2020 - \$nil), with the long-term liability valued at \$nil (2020 - \$3,466).

18 Share capital

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

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

	June 30, 2021		June 30, 2020	
	Number of common shares	\$	Number of common shares	\$
Outstanding, beginning of the period	27,226,703	508,112	27,430,909	509,890
Treasury shares acquired	—	—	(191,800)	(1,576)
Dividends reinvested	—	—	(438)	(3)
Forward share purchase (Note 17)	(329,000)	(3,631)	—	—
Treasury shares settled	10,801	265	4,823	214
Outstanding, end of the period	26,908,504	504,746	27,243,494	508,525
Shares held in trust for equity based awards	551,179	—	216,189	—
Issued, end of the period	27,459,683	504,746	27,459,683	508,525

Earnings per share

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

The following table shows the weighted-average number of shares outstanding for the three-and six-month periods ended:

	Three-month period ended		Six-month period ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Basic	27,030,413	27,370,013	27,128,360	27,400,695
Effect of dilution from RSUs	88,578	—	83,925	—
Effect of dilution from SARs	225,482	—	221,415	—
Effect of dilution from stock options	1,879,869	—	1,782,668	—
Issued, end of the period	29,224,342	27,370,013	29,216,368	27,400,695

19 Financial instruments

Fair value of financial instruments

The Company's financial instruments at June 30, 2021 are represented by cash and cash equivalents, trade and other receivables, trade and other payables, revolving floorplan facilities, vehicle repurchase obligations, indebtedness, embedded derivatives, redemption liabilities and derivative financial instruments.

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

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

The embedded derivative (Level 2) included within indebtedness (Note 16) is carried at fair value using the Hull-White pricing model.

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

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

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

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

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

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

20 Net change in non-cash working capital

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

	Three-month period ended		Six-month period ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
	\$	\$	\$	\$
Trade and other receivables	26,433	(73,446)	(13,631)	(32,126)
Inventories	138,999	254,257	34,890	164,689
Current tax recoverable/payable	—	8,006	—	7,425
Other current assets	(1,066)	1,913	(2,562)	866
Other liabilities	(343)	175	937	(881)
Trade and other payables	34,854	80,002	46,988	48,879
Vehicle repurchase obligations	—	(2,852)	—	(5,208)
Revolving floorplan facilities	(186,141)	(203,985)	(53,746)	(109,202)
	12,736	64,070	12,876	74,442

21 Related party transactions

During the six-month period ended June 30, 2021, there were transactions with companies whose partners or senior officers are Directors of the Company or related to Directors of the Company. These counter parties are:

- A business associate of the Executive Chairman who provides 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;
- A company that is controlled by a family member of the President of Canadian Operations, which provides the sourcing of customer leads.

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

	Three-month period ended		Six-month period ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
	\$	\$	\$	\$
Consulting services, administrative and other support fees	500	316	971	707
Used vehicle inventory purchases	5,997	—	5,997	—
Total	6,497	316	6,968	707

22 Segmented reporting

During the six-month period ended June 30, 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:

	Three-month period ended June 30, 2021			Three-month period ended June 30, 2020		
	Canada ¹ \$	U.S. \$	Total \$	Canada ¹ \$	U.S. \$	Total \$
Revenues						
External revenues	1,089,459	191,596	1,281,055	656,381	71,066	727,447
Inter-segment revenue	—	—	—	—	—	—
Total revenues	1,089,459	191,596	1,281,055	656,381	71,066	727,447

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

	Six-month period ended June 30, 2021			Six-month period ended June 30, 2020		
	Canada ¹ \$	U.S. \$	Total \$	Canada ¹ \$	U.S. \$	Total \$
Revenues						
External revenues	1,953,247	297,632	2,250,879	1,286,659	153,278	1,439,937
Inter-segment revenue	—	—	—	(3,664)	—	(3,664)
Total revenues	1,953,247	297,632	2,250,879	1,282,995	153,278	1,436,273

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

	Three-month period ended June 30, 2021			Three-month period ended June 30, 2020		
	Canada ¹ \$	U.S. \$	Total \$	Canada ¹ \$	U.S. \$	Total \$
Operating profit (loss) before other income	54,646	8,422	63,068	2,611	(4,468)	(1,857)
Lease and other income, net	2,714	351	3,065	1,366	202	1,568
Gain (loss) on disposal of assets, net	20	—	20	(189)	—	(189)
Impairment of non-financial assets	—	—	—	(3,910)	—	(3,910)
Operating profit (loss)	57,380	8,773	66,153	(122)	(4,266)	(4,388)
Finance costs (Note 8)			(14,266)			(17,801)
Finance income (Note 8)			180			284
Other losses			(437)			(2,446)
Net income (loss) for the period before taxation			51,630			(24,351)

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

	Six-month period ended June 30, 2021			Six-month period ended June 30, 2020		
	Canada ¹ \$	U.S. \$	Total \$	Canada ¹ \$	U.S. \$	Total \$
Operating profit (loss) before other income	90,681	12,075	102,756	7,074	(8,333)	(1,259)
Lease and other income, net	4,500	483	4,983	2,927	611	3,538
Gain (loss) on disposal of assets, net	78	—	78	(160)	—	(160)
Impairment of non-financial assets	—	—	—	(26,572)	(8,883)	(35,455)
Operating profit (loss)	95,259	12,558	107,817	(16,731)	(16,605)	(33,336)
Finance costs (Note 8)			(27,544)			(40,121)
Finance income (Note 8)			405			403
Other losses			(494)			(1,287)
Net income (loss) for the period before taxation			80,184			(74,341)

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

	As at June 30, 2021			As at December 31, 2020		
	Canada ¹ \$	U.S. \$	Total \$	Canada ¹ \$	U.S. \$	Total \$
Assets held for sale	—	—	—	1,039	—	1,039
Segment assets	1,736,927	261,054	1,997,981	1,667,960	232,422	1,900,382
Capital expenditures (Note 14)	12,046	230	12,276	20,667	299	20,966
Segment liabilities	1,256,291	313,577	1,569,868	1,235,119	302,443	1,537,562

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

23 Seasonal nature of the business

The Company's results from operations for the period ended June 30, 2021 are not necessarily indicative of the results that may be expected for the full fiscal year due to seasonal variations in sales levels. The results from operations of the Company have historically been lower in the first and fourth quarters of each year, largely due to consumer purchasing patterns during the holiday season, inclement weather and the number of business days during the period. The Company's financial performance is generally not as strong during the first and fourth quarters than during the other quarters of each fiscal year, although the COVID-19 pandemic has caused disruption to the seasonal nature of the Company's operations. The extent to which COVID-19 will or may impact the seasonal nature of the Company's operations is uncertain. The timing of acquisitions and divestitures may also cause substantial fluctuations in operating results from quarter to quarter.

24 Subsequent events

Acquisition of Mark Wilson's Better Used Cars

On August 9, 2021, the Company acquired a 100% interest of Mark Wilson's Better Used Cars, 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. Due to proximity of the transactions to the end of the quarter, the purchase accounting has not been completed.



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