

2021



2021 Third Quarter Financial Results





Condensed Interim Consolidated Financial Statements (Unaudited)

■ September 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		Nine-month period ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
	\$	\$	\$	\$
Revenue (Note 5)	1,206,754	1,017,100	3,457,633	2,453,373
Cost of sales (Note 6)	(986,562)	(837,688)	(2,851,964)	(2,058,784)
Gross profit	220,192	179,412	605,669	394,589
Operating expenses (Note 7)	(159,880)	(125,785)	(442,601)	(342,221)
Operating profit before other income	60,312	53,627	163,068	52,368
Lease and other income, net	3,439	1,182	8,422	4,720
(Loss) gain on disposal of assets, net	(910)	2,075	(832)	1,915
Impairment of non-financial assets	—	—	—	(35,455)
Operating profit	62,841	56,884	170,658	23,548
Finance costs (Note 8)	(16,158)	(15,435)	(43,702)	(55,556)
Finance income (Note 8)	223	107	628	510
Loss on settlement of redemption liabilities	—	(1,346)	—	(1,346)
Other gains (losses)	269	576	(225)	(711)
Net income (loss) for the period before taxation	47,175	40,786	127,359	(33,555)
Income tax expense (recovery) (Note 9)	8,406	4,824	29,558	(2,612)
Net income (loss) for the period	38,769	35,962	97,801	(30,943)
Other comprehensive income (loss)				
<i>Items that may be reclassified to profit or loss</i>				
Foreign operations currency translation	(470)	(381)	47	(3,443)
Change in fair value of cash flow hedge (Note 18)	1,845	1,527	6,271	(12,600)
Income tax relating to these items	(468)	(394)	(1,729)	3,196
Other comprehensive income (loss) for the period	907	752	4,589	(12,847)
Comprehensive income (loss) for the period	39,676	36,714	102,390	(43,790)
Net income (loss) for the period attributable to:				
AutoCanada shareholders	37,521	35,134	94,400	(31,240)
Non-controlling interest	1,248	828	3,401	297
	38,769	35,962	97,801	(30,943)
Comprehensive income (loss) for the period attributable to:				
AutoCanada shareholders	38,428	35,886	98,989	(44,087)
Non-controlling interest	1,248	828	3,401	297
	39,676	36,714	102,390	(43,790)
Net income (loss) per share attributable to AutoCanada shareholders:				
Basic	1.37	1.29	3.46	(1.14)
Diluted	1.27	1.23	3.22	(1.14)
Weighted average shares				
Basic (Note 20)	27,483,596	27,226,372	27,248,073	27,342,163
Diluted (Note 20)	29,599,494	28,483,801	29,280,572	27,342,163

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)

	September 30, 2021	December 31, 2020
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents (Note 12)	220,857	107,704
Trade and other receivables (Note 13)	147,404	118,650
Inventories (Note 14)	521,064	699,200
Other assets	10,693	8,931
Assets held for sale	—	1,039
	900,018	935,524
Property and equipment (Note 15)	210,150	203,525
Right-of-use assets	308,635	308,897
Other long-term assets	15,149	14,337
Deferred income tax	12,741	12,732
Intangible assets	403,505	399,633
Goodwill	36,991	25,734
	1,887,189	1,900,382
LIABILITIES		
Current liabilities		
Trade and other payables (Note 16)	183,915	137,510
Revolving floorplan facilities (Note 17)	569,924	761,943
Current tax payable	1,222	5,030
Vehicle repurchase obligations	3,148	4,526
Indebtedness (Note 17)	—	65
Lease liabilities	24,457	24,079
Other liabilities	2,607	2,176
Redemption liabilities	7,557	7,557
	792,830	942,886
Long-term indebtedness (Note 17)	246,140	197,166
Long-term lease liabilities	366,213	363,850
Long-term redemption liabilities	435	435
Derivative financial instruments (Note 18)	12,510	22,146
Other long-term liabilities	4,053	8,428
Deferred income tax	16,454	2,651
	1,438,635	1,537,562
EQUITY		
Attributable to AutoCanada shareholders	422,147	341,874
Attributable to Non-controlling interests	26,407	20,946
	448,554	362,820
	1,887,189	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	Treasury shares	Contributed surplus	Cumulative translation adjustment	OCI hedge reserve	Accumulated deficit			
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance, January 1, 2021	510,606	(2,494)	9,995	(3,036)	(12,637)	(160,560)	341,874	20,946	362,820
Net income	—	—	—	—	—	94,400	94,400	3,401	97,801
Other comprehensive income	—	—	—	47	4,542	—	4,589	—	4,589
Dividends declared by subsidiaries to non-controlling interests	—	—	—	—	—	—	—	(79)	(79)
Reorganization of non-controlling interests (Note 11)	—	—	—	—	—	(538)	(538)	2,139	1,601
Forward share purchase (Note 18)	—	(3,631)	3,631	—	—	—	—	—	—
Settlement of share based awards (Note 19)	213	—	(16,194)	—	—	—	(15,981)	—	(15,981)
Issuance of employee advances (Note 19)	—	—	(4,570)	—	—	—	(4,570)	—	(4,570)
Shares settled from treasury (Note 20)	—	3,432	(3,432)	—	—	—	—	—	—
Share-based compensation	—	—	2,373	—	—	—	2,373	—	2,373
Balance, September 30, 2021	510,819	(2,693)	(8,197)	(2,989)	(8,095)	(66,698)	422,147	26,407	448,554

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	Treasury shares	Contributed surplus	Cumulative translation adjustment	OCI hedge reserve	Accumulated deficit		
	\$	\$	\$	\$	\$	\$	\$	\$
Balance, January 1, 2020	510,606	(716)	6,463	(947)	(4,535)	(157,264)	14,492	368,099
Net (loss) income	—	—	—	—	—	(31,240)	297	(30,943)
Derecognition of non-controlling interests	—	—	—	—	—	7,973	(7,973)	—
Other comprehensive loss	—	—	—	(3,443)	(9,404)	—	—	(12,847)
Dividends declared on common shares	—	—	—	—	—	(2,743)	—	(2,743)
Settlement of share based awards (Note 19)	—	—	(191)	—	—	—	—	(191)
Treasury shares acquired (Note 20)	—	(2,081)	—	—	—	—	—	(2,081)
Dividends reinvested (Note 20)	—	(3)	—	—	—	—	—	(3)
Shares settled from treasury (Note 20)	—	306	(306)	—	—	—	—	—
Share-based compensation	—	—	3,184	—	—	—	—	3,184
Balance, September 30, 2020	510,606	(2,494)	9,150	(4,390)	(13,939)	(183,274)	6,816	322,475

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		Nine-month period ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
	\$	\$	\$	\$
Cash provided by (used in):				
Operating activities				
Net income (loss) for the period	38,769	35,962	97,801	(30,943)
Adjustments for:				
Income tax expense (recovery) (Note 9)	8,406	4,824	29,558	(2,612)
Depreciation of property and equipment (Note 7)	4,121	4,111	12,442	12,549
Depreciation of right-of-use assets (Note 7)	6,464	6,196	18,955	18,722
Loss (gain) on disposal of assets	910	(2,075)	832	(1,915)
Share-based compensation - equity-settled	967	1,419	2,373	3,184
Loss on extinguishment of debt (Note 8)	—	—	1,128	4,002
Loan forgiveness (Note 17)	—	—	(6,728)	—
Amortization of deferred financing costs	(236)	364	1,672	898
Amortization of terminated hedges (Note 8)	817	817	2,451	1,491
Unrealized fair value changes on interest rate swaps (Note 8)	(1,221)	66	(5,436)	3,475
Unrealized fair value changes on foreign exchange forward contracts (Note 18)	(930)	175	416	175
Unrealized fair value changes on embedded derivative (Note 8)	116	—	(4,528)	—
Income taxes paid	(4,323)	(4,795)	(20,884)	(8,779)
Loss on settlement of redemption liabilities	—	1,346	—	1,346
Impairment of non-financial assets	—	—	—	35,455
Settlement of share based awards (Note 19)	(15,817)	—	(15,817)	—
Issuance of employee advances (Note 19)	(4,570)	—	(4,570)	—
Net change in non-cash working capital (Note 22)	(19,752)	5,956	(6,876)	80,368
	13,721	54,366	102,789	117,416
Investing activities				
Purchases of property and equipment	(1,863)	(5,079)	(12,244)	(19,840)
Proceeds on sale of property and equipment	1,068	7,495	2,344	9,122
Proceeds on divestiture of dealership	—	683	—	683
Business acquisition, net of cash acquired (Note 10)	(18,241)	—	(18,241)	—
	(19,036)	3,099	(28,141)	(10,035)
Financing activities				
Proceeds from indebtedness	—	—	179,393	199,739
Repayment of indebtedness	(1,033)	(10,210)	(121,258)	(225,477)
Treasury shares settled, net (Note 20)	3,167	(413)	3,432	(1,778)
Settlement of share based awards	173	—	173	—
Forward share purchase (Note 18)	—	—	(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	—	(8,250)	—	(8,250)
Principal portion of lease payments, net	(6,649)	(4,961)	(19,540)	(13,419)
	(4,342)	(23,834)	38,490	(51,928)
Effect of exchange rate changes on cash and cash equivalents	411	(682)	15	(150)
Net (decrease) increase in cash and cash equivalents	(9,246)	32,949	113,153	55,303
Cash and cash equivalents at beginning of period	230,103	77,909	107,704	55,555
Cash and cash equivalents at end of period (Note 12)	220,857	110,858	220,857	110,858

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 September 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 November 9, 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 17).

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 nine-month periods ended September 30, 2021.

5 Revenue

	Three-month period ended		Nine-month period ended	
	September 30,	September 30,	September 30,	September 30,
	2021	2020	2021	2020
	\$	\$	\$	\$
New vehicles	489,192	544,415	1,465,792	1,267,423
Used vehicles	528,827	309,193	1,446,788	753,580
Parts, service and collision repair	116,724	111,739	347,169	304,609
Finance, insurance and other	72,011	51,753	197,884	127,761
Revenue	1,206,754	1,017,100	3,457,633	2,453,373

6 Cost of sales

	Three-month period ended		Nine-month period ended	
	September 30,	September 30,	September 30,	September 30,
	2021	2020	2021	2020
	\$	\$	\$	\$
New vehicles	445,037	502,185	1,347,228	1,190,292
Used vehicles	485,565	279,374	1,334,940	709,364
Parts, service and collision repair	51,498	52,683	155,002	149,748
Finance, insurance and other	4,462	3,446	14,794	9,380
Cost of sales	986,562	837,688	2,851,964	2,058,784

7 Operating expenses

	Three-month period ended		Nine-month period ended	
	September 30,	September 30,	September 30,	September 30,
	2021	2020	2021	2020
	\$	\$	\$	\$
Employee costs	102,397	81,100	285,049	219,890
Government assistance ^{1,2}	(317)	(6,252)	(11,769)	(32,475)
Administrative costs ³	47,110	40,253	137,304	122,274
Facility lease costs	105	377	620	1,261
Depreciation of right-of-use assets	6,464	6,196	18,955	18,722
Depreciation of property and equipment	4,121	4,111	12,442	12,549
Operating expenses	159,880	125,785	442,601	342,221

- 1 Government assistance represents the Company's eligible claim of \$4,388 (2020 - \$32,475) for the Canada Emergency Wage Subsidy (CEWS) and \$653 (2020 - nil) claim for the Canada Emergency Rent Subsidy (CERS) for the nine-month period ended September 30, 2021, with \$506 (2020 - \$2,448) included in Trade and other receivables (Note 13). There are no unfulfilled conditions or other contingencies attached to the subsidy recognized.
- 2 During the nine-month period ended September 30, 2021, \$6,728 (2020 - nil) of the loans from the Small Business Association Paycheck Protection Program (Note 17) 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		Nine-month period ended	
	September 30,	September 30,	September 30,	September 30,
	2021	2020	2021	2020
	\$	\$	\$	\$
Finance costs				
Interest on long-term indebtedness	5,591	4,343	15,739	12,236
Interest on lease liabilities	5,487	5,865	16,542	16,933
Loss on extinguishment of debt (Note 17)	—	—	1,128	4,002
Unrealized fair value changes on interest rate swaps (Note 18)	(1,221)	66	(5,436)	3,475
Amortization of terminated hedges (Note 18)	817	817	2,451	1,491
Unrealized fair value changes on embedded derivative (Note 17)	116	—	(4,528)	—
	10,790	11,091	25,896	38,137
Floorplan financing	2,552	2,111	9,550	12,773
Interest rate swap settlements (Note 18)	1,701	985	5,089	2,084
Other finance costs	1,115	1,248	3,167	2,562
	16,158	15,435	43,702	55,556
Finance income				
Short-term bank deposits	223	107	628	510

Cash interest paid during the nine-month period ended September 30, 2021 was \$49,106 (2020 - \$44,149), which includes \$16,542 (2020 - \$16,933) of imputed interest related to interest on lease liabilities.

9 Taxation

Components of income tax were as follows:

	Three-month period ended		Nine-month period ended	
	September 30,	September 30,	September 30,	September 30,
	2021	2020	2021	2020
	\$	\$	\$	\$
Current tax	864	8,260	17,967	11,990
Deferred tax	7,542	(3,436)	11,591	(14,602)
Total income tax expense (recovery)	8,406	4,824	29,558	(2,612)

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 nine-month period ended September 30, 2021 was 25.4% (2020 - 26.2%).

10 Business acquisitions

During the nine-month period ended September 30, 2021, the Company completed three 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 September 30, 2021.

Summary of Acquisitions

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

Cash	21,585
Contingent consideration arrangement	—
Total purchase consideration	21,585

The estimated provisional purchase price allocations, which are subject to the finalization of the valuation of acquired assets and assumed liabilities, of the business acquisitions completed during the nine-month period ended September 30, 2021 are summarized as follows:

	Total \$
Current assets	
Cash and cash equivalents	3,344
Trade and other receivables	1,868
Inventories	11,250
Current tax receivable	891
Other assets	72
	17,425
Property and equipment	1,083
Right-of-use assets	10,824
Intangible assets	3,441
Total assets	32,773
Current liabilities	
Trade and other payables	1,271
Revolving floorplan facilities	8,786
Indebtedness	131
Lease liabilities	453
Other liabilities	603
	11,244
Deferred income tax	488
Long-term indebtedness	323
Long-term lease liabilities	10,371
Total liabilities	22,426
Net identifiable assets acquired	10,347
Goodwill	11,238
Total net assets acquired	21,585
Total consideration	21,585

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

The results of the operations of the acquired entities are included in the Condensed Interim Consolidated Statements of Comprehensive Income (Loss) 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 Condensed Interim Consolidated Statements of Financial Position. The results of operations of the acquired entities since acquisition date are insignificant to the Condensed Interim Consolidated Statements of Comprehensive Income (Loss) for the period ended September 30, 2021. Had the acquisitions occurred at January 1, 2021, the combined entity of the Company and the acquired entities would have had an insignificant impact on the consolidated results for the period.

Transaction costs amounting to \$287 have been expensed and recorded in Operating expenses.

11 Interest in subsidiaries

Transactions with Non-controlling interests

During the nine-month period ended September 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.

12 Cash and cash equivalents

	September 30, 2021 \$	December 31, 2020 \$
Cash at bank and on hand	220,844	107,704
Short-term deposits	13	—
Cash and cash equivalents	220,857	107,704

13 Trade and other receivables

	September 30, 2021 \$	December 31, 2020 \$
Trade receivables	130,524	109,405
Less: Expected credit loss allowance	(3,214)	(1,990)
Net trade receivables	127,310	107,415
Other receivables (Note 7)	20,094	11,235
Trade and other receivables	147,404	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.

14 Inventories

	September 30, 2021 \$	December 31, 2020 \$
New vehicles	172,484	412,970
Demonstrator vehicles	33,915	36,911
Used vehicles	281,707	218,812
Parts and accessories	32,958	30,507
Inventories	521,064	699,200

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

	Three-month period ended		Nine-month period ended	
	September 30, 2021 \$	September 30, 2020 \$	September 30, 2021 \$	September 30, 2020 \$
Inventory expensed as cost of sales	1,048,537	808,761	2,783,656	1,987,349
Writedowns on vehicles included in cost of sales	1,223	2,986	8,463	23,956
Demonstrator expenses included in administrative costs	1,919	1,899	5,996	6,109

15 Property and equipment

During the nine-month period ended September 30, 2021, the Company purchased \$12,244 (2020 - \$19,840) of property and equipment including land and buildings additions of \$7,729 (2020 - \$5,552) to be used for dealership relocations, dealership re-imaging, and dealership open points.

16 Trade and other payables

	September 30, 2021 \$	December 31, 2020 \$
Trade payables	83,083	65,806
Accruals and provisions	42,012	36,672
Sales tax payable	13,445	3,092
Wages and withholding taxes payable	45,375	31,940
Trade and other payables	183,915	137,510

17 Indebtedness

	September 30, 2021 \$	December 31, 2020 \$
Revolving floorplan facilities	569,924	761,943
Indebtedness		
Senior unsecured notes		
Senior unsecured notes	256,494	123,982
Embedded derivative	(4,528)	—
Unamortized deferred financing costs	(5,122)	(3,266)
	246,844	120,716
Revolving term facilities		
Revolving term facilities	—	70,123
Unamortized deferred financing costs	(886)	(1,296)
	(886)	68,827
Other debt	182	7,688
Total indebtedness	246,140	197,231
Current indebtedness	—	65
Long-term indebtedness	246,140	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 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 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. As at September 30, 2021, the fair value of the embedded derivative was \$4,528, and a loss of \$116 was recognized in Finance costs (Note 8).

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 nine-month period ended September 30, 2021, the SBA PPP loan was forgiven and recognized as an offset to Operating expenses (Note 7).

18 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 certain interest rate swaps not designated as hedging instruments for accounting purposes 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 Forward Contracts	Interest Rate Swaps		Total
	Non-hedges	Cash flow hedges	Non- hedges	
September 30, 2021				
Other liabilities	50	841	—	891
Derivative financial instruments - liabilities	—	2,860	9,650	12,510
Notional values	14,800 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 September 30, 2021			
Change in fair value of hedging instruments	—	1,028	1,028
Change in fair value of non-hedging instruments (Note 8)	1,221	—	1,221
Amortization of terminated hedges (Note 8)	(817)	817	—
Interest rate swap settlements (Note 8)	(1,701)	—	(1,701)
Change in fair value of foreign exchange forward contracts	930	—	930
Realized loss on foreign exchange forward contracts	(1,659)	—	(1,659)
	(2,026)	1,845	(181)
For the nine-month period ended September 30, 2021			
Change in fair value of hedging instruments	—	3,820	3,820
Change in fair value of non-hedging instruments (Note 8)	5,436	—	5,436
Amortization of terminated hedges (Note 8)	(2,451)	2,451	—
Interest rate swap settlements (Note 8)	(5,089)	—	(5,089)
Change in fair value of foreign exchange forward contracts	(416)	—	(416)
Realized gain on foreign exchange forward contracts	341	—	341
	(2,179)	6,271	4,092
For the three-month period ended September 30, 2020			
Change in fair value of hedging instruments	—	710	710
Change in fair value of non-hedging instruments (Note 8)	(66)	—	(66)
Amortization of terminated hedges (Note 8)	(817)	817	—
Interest rate swap settlements (Note 8)	(985)	—	(985)
Change in fair value of foreign exchange forward contracts	(175)	—	(175)
Realized gain on foreign exchange forward contracts	400	—	400
	(1,643)	1,527	(116)
For the nine-month period ended September 30, 2020			
Change in fair value of hedging instruments	—	(2,180)	(2,180)
Fair value of terminated hedges	—	(11,911)	(11,911)
Change in fair value of non-hedging instruments (Note 8)	(3,475)	—	(3,475)
Amortization of terminated hedges (Note 8)	(1,491)	1,491	—
Interest rate swap settlements (Note 8)	(2,084)	—	(2,084)
Change in fair value of foreign exchange forward contracts	(175)	—	(175)
Realized loss on foreign exchange forward contracts	(1,882)	—	(1,882)
	(9,107)	(12,600)	(21,707)

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 nine-month period ended September 30, 2021, the Company settled all of the 329,000 common shares pursuant to the equity forward agreement (Note 20). As at September 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).

19 Share-based payments

Stock Option Plan

During the nine-month period ended September 30, 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.

Executive Advance

During the three-month period ended September 30, 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 23). 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)

During the nine-month period ended September 30, 2021, the total number of SARs exercised and settled was 717,675 (2020 - 45,000), with a charge of \$16,154 (2020 - \$191) to Contributed surplus for exercised and settled SARs, of which \$15,817 was paid in cash for the settlement of related tax withholdings.

Employee Advances

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 for the period is insignificant.

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 for the period is insignificant.

The fair values of the SARs Modifications, Employee Advances, and Executive Advance granted during the three-month period ended September 30, 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.

20 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 nine-month periods ended:

	September 30, 2021		September 30, 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 19)	33,333	213	—	—
Issued, end of the period	27,493,016	510,819	27,459,683	510,606

Treasury shares

Shares are held in trust to mitigate the risk of future share price increases from the time equity-settled awards 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. The shares held in trust are accounted for as treasury shares and are recognized on a first-in-first-out basis upon issuance.

The following table shows the change in treasury shares held during the nine-month periods ended:

	September 30, 2021		September 30, 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 18)	(329,000)	(3,631)	—	—
Treasury shares settled	295,982	3,432	13,582	306
Outstanding, end of the period	(265,998)	(2,693)	(232,980)	(2,494)

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 nine-month periods ended:

	Three-month period ended		Nine-month period ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Basic	27,483,596	27,226,372	27,248,073	27,342,163
Effect of dilution from RSUs	70,234	114,829	67,022	—
Effect of dilution from SARs	145,979	365,524	143,226	—
Effect of dilution from stock options	1,899,685	777,076	1,822,251	—
Issued, end of the period	29,599,494	28,483,801	29,280,572	27,342,163

21 Financial instruments

Fair value of financial instruments

The Company's financial instruments at September 30, 2021 are represented by cash and cash equivalents, trade and other receivables, trade and other payables, revolving floorplan facilities, vehicle repurchase obligations, indebtedness, an embedded derivative, 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 17) 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.

22 Net change in non-cash working capital

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

	Three-month period ended		Nine-month period ended	
	September 30,	September 30,	September 30,	September 30,
	2021	2020	2021	2020
	\$	\$	\$	\$
Trade and other receivables	(12,145)	24,612	(25,776)	(7,514)
Inventories	148,538	105,577	183,428	270,266
Current tax payable	—	(7,425)	—	—
Other current assets	1,908	(2,823)	(654)	(1,957)
Other liabilities	(998)	(1,144)	(61)	(2,025)
Trade and other payables	(10,086)	(24,099)	36,902	24,750
Vehicle repurchase obligations	—	1,716	—	(3,492)
Revolving floorplan facilities	(146,969)	(90,458)	(200,715)	(199,660)
	(19,752)	5,956	(6,876)	80,368

23 Related party transactions

During the three- and nine-month periods ended September 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, 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		Nine-month period ended	
	September 30,	September 30,	September 30,	September 30,
	2021	2020	2021	2020
	\$	\$	\$	\$
Consulting services, administrative and other support and sourcing fees	487	364	1,458	1,070
Used vehicle inventory purchases	—	—	5,997	—
Total	487	364	7,455	1,070

Executive Advance

During the three-month period ended September 30, 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 19).

24 Segmented reporting

During the nine-month period ended September 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 September 30, 2021			Three-month period ended September 30, 2020		
	Canada ¹ \$	U.S. \$	Total \$	Canada ¹ \$	U.S. \$	Total \$
Revenues						
External revenues	1,018,444	188,310	1,206,754	921,136	105,050	1,026,186
Inter-segment revenue	—	—	—	(9,086)	—	(9,086)
Total revenues	1,018,444	188,310	1,206,754	912,050	105,050	1,017,100

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

	Nine-month period ended September 30, 2021			Nine-month period ended September 30, 2020		
	Canada ¹ \$	U.S. \$	Total \$	Canada ¹ \$	U.S. \$	Total \$
Revenues						
External revenues	2,971,691	485,942	3,457,633	2,207,795	258,328	2,466,123
Inter-segment revenue	—	—	—	(12,750)	—	(12,750)
Total revenues	2,971,691	485,942	3,457,633	2,195,045	258,328	2,453,373

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

	Three-month period ended September 30, 2021			Three-month period ended September 30, 2020		
	Canada ¹ \$	U.S. \$	Total \$	Canada ¹ \$	U.S. \$	Total \$
Operating profit before other income	53,717	6,595	60,312	49,024	4,603	53,627
Lease and other income, net	3,091	348	3,439	1,305	(123)	1,182
(Loss) gain on disposal of assets, net	(910)	—	(910)	2,075	—	2,075
Operating profit	55,898	6,943	62,841	52,404	4,480	56,884
Finance costs (Note 8)			(16,158)			(15,435)
Finance income (Note 8)			223			107
Loss on settlement of redemption liability			—			(1,346)
Other gains			269			576
Net income for the period before taxation			47,175			40,786

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

	Nine-month period ended September 30, 2021			Nine-month period ended September 30, 2020		
	Canada ¹ \$	U.S. \$	Total \$	Canada ¹ \$	U.S. \$	Total \$
Operating profit (loss) before other income	144,398	18,670	163,068	56,098	(3,730)	52,368
Lease and other income, net	7,591	831	8,422	4,232	488	4,720
(Loss) gain on disposal of assets, net	(832)	—	(832)	1,915	—	1,915
Impairment of non-financial assets	—	—	—	(26,560)	(8,895)	(35,455)
Operating profit (loss)	151,157	19,501	170,658	35,685	(12,137)	23,548
Finance costs (Note 8)			(43,702)			(55,556)
Finance income (Note 8)			628			510
Loss on settlement of redemption liability			—			(1,346)
Other losses			(225)			(711)
Net income (loss) for the period before taxation			127,359			(33,555)

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

	As at September 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	1,642,986	244,203	1,887,189	1,667,960	232,422	1,900,382
Capital expenditures	6,687	5,557	12,244	20,667	299	20,966
Segment liabilities	1,148,648	289,987	1,438,635	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.

25 Seasonal nature of the business

The Company's results from operations for the period ended September 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.

26 Subsequent events

Acquisition of Airdrie Autobody Ltd.

On October 1, 2021, the Company acquired 100% of the shares in Airdrie Autobody Ltd., a collision repair facility located in Airdrie, Alberta. The acquisition supports management's strategic objectives of expanding the Company's collision centre capacity.

Acquisition of Crystal Lake Chrysler Jeep Dodge Ram, Inc.

On November 4, 2021, the Company acquired substantially all of the fixed and operating assets of Crystal Lake Chrysler Jeep Dodge Ram, Inc., a Stellantis dealership located in Crystal Lake, Illinois. The acquisition supports management's strategic objectives of further establishing the Company's presence in the greater Chicago area.

Due to the proximity of the transactions to the end of the quarter, the purchase accounting has not been completed.



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