AutoCanada

Annual Information Form

Dated: March 31, 2022

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General Disclosure Matters

Certain References and Glossary

In this Annual Information Form ("AIF"), unless the context otherwise requires, references to "AutoCanada", "ACI", the "Company", "we", "us", "our" or similar terms refer to AutoCanada Inc. together with its subsidiaries.

The "Glossary of Terms" attached as Schedule A to this AIF contains definitions of terms used in this AIF.

Date of Information

The information in this AIF is presented as of December 31, 2021, unless otherwise indicated.

Forward Looking Information

Certain statements contained in this AIF are forward-looking information (collectively "forward-looking statements", including "with respect to", "among other things", "future performance", "expense reductions" and the "Go Forward Plan"), within the meaning of applicable Canadian securities legislation. We hereby provide cautionary statements identifying important factors that could cause our actual results to differ materially from those projected in these forward-looking statements. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "will likely result", "are expected to", "will continue", "is anticipated", "projection", "vision", "goals", "objective", "target", "schedules", "outlook", "anticipate", "expect", "estimate", "could", "should", "plan", "seek", "may", "intend", "likely", "will", "believe", "shall" and similar expressions) are not historical facts and are forward-looking and may involve estimates and assumptions and are subject to risks, uncertainties and other factors some of which are beyond our control and difficult to predict.

Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. Therefore, any such forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this document.

In particular, material forward-looking statements in this AIF include, but are not limited to, statements on the following:

- intentions for future growth and its effect on financial operations;
- expectations regarding the future of the Canadian and U.S. automotive retail industry and consumer habits;
- expectations that an extended manufacturer's warranty will increase our potential to retain pre-owned vehicle purchasers as future parts and service customers;
- expectations regarding the accuracy of information from internal research, independent industry publications, government publications and reports by market research firms or other published independent sources;
- intentions to improve our used vehicle trade-in valuation process;
- expectations to improve used vehicle inventory turnover;
- intentions surrounding our incentive and compensation plans;
- future focus of marketing efforts;
- expectations of the effect of credit conditions on our future operations;
- expectations that a higher percentage of all repair work will be performed at dealerships;
- expectations on the retention of long-term customers;
- anticipation that lease options will be exercised for dealership land and buildings;
- statements regarding the acquisition of franchises in which we currently do not have a relationship;
- statements regarding the amount of time it takes for acquisitions and open points to achieve normalized performance;
- statements regarding our competitive strengths and their effect on operations in the future;
- expectations that our supply of vehicles will meet the demand in our markets;
- statements regarding acquisition opportunities and AutoCanada's acquisition plans;
- statements regarding the timing, cost, and structure of dealership acquisitions;
- statements regarding the timing of open point franchises commencing operations, estimated construction costs, and sales targets;
- the impact of and estimates related to dealership real estate relocations and purchases and its impact on liquidity, financial performance and the Company's capital requirements;
- guidance with respect to the number of future acquisitions and open point opportunities;
- targets for inventory turnover and inventory management;

- targets for used vehicle sales and the used-to-new retail ratio under the Project 50 initiative and expectations with respect to the benefit of used vehicle sales;
- targets relating to our net debt leverage ratio;
- potential future impact of provisions in our credit agreements;
- the future impact of internet and e-commerce on the Company;
- anticipated compliance with governmental regulations and assumptions with respect to changes in regulations;
- statements we have made regarding future dividends of the Company including the effect of acquisitions on earnings of the Company and the payment of dividends;
- expectations regarding macroeconomic factors including fuel prices and interest rates;
- the impact of currency fluctuations on dealerships' performance;
- the trend of more expansive and stricter environmental legislation and regulations being likely to continue;
- statements regarding future environmental liabilities;
- expectations regarding seasonal variations in revenues;
- statements regarding S&P issuer credit ratings;
- expectations to incur additional administrative and legal costs as the Company adds additional dealerships;
- the impact of working capital requirements and its impact on future liquidity;
- the Company's Go Forward Plan, including the initiatives that form part of the Go Forward Plan, the anticipated benefits of these initiatives for the Company and the impact of these initiatives on the Company's results of operations;
- expectations relating to the strategy, development and milestones of the Company's Used Digital Retail Division, Special Finance (RightRide), Service Bay Occupancy and Business Development Centre, Parts, Service and Collision Repair department, including the Direct Repair Program, collision centres and the Company's wholesale initiative;
- intentions regarding optimization of the Company's finance and insurance segment;
- expectations regarding the impact of actions taken in response to the novel coronavirus ("COVID-19") pandemic; and
- expectations regarding the impact of the Ukrainian conflict on vehicle production and parts shortages.

Although AutoCanada believes that the expectations reflected by the forward-looking statements presented in this AIF are reasonable, the forward-looking statements have been based on assumptions and factors concerning future events that may prove to be inaccurate. Those assumptions and factors are based on information currently available to management about the Company and the businesses in which it operates. Information used in developing forward-looking statements has been acquired from various sources including third-party consultants, suppliers, regulators, and other sources. In some instances, material assumptions are disclosed elsewhere in this AIF in respect of forward-looking statements. The following list of assumptions is not exhaustive. The material factors and assumptions used to develop the forward-looking statements include, but are not limited to, the following:

- no significant adverse changes to the automotive market, competitive conditions, the supply and demand of vehicles, parts and service, and finance and insurance products;
- no significant construction delays that may adversely affect the timing of dealership relocations and renovations;
- no significant disruption of our operations such as may result from harsh weather, natural disaster, accident, civil unrest, epidemic, pandemic or other calamitous event;
- no significant unexpected technological events or commercial difficulties that adversely affect our operations;
- the market's ability to continue to adapt to the impacts of the COVID-19 pandemic;
- the development of the Company's Used Digital Retail initiative and the future operating results of the Company's Used Digital Retail Division;
- continuing availability of economical capital resources;
- demand for our products and our cost of operations;
- stability of general domestic economic, market, and business conditions;
- our ability to maintain our credit rating and achieve our performance targets; and
- assumptions regarding platform agreements with automobile manufacturers.

Because actual results or outcomes could differ materially from those expressed in any forward-looking statements, investors should not place undue reliance on any such forward-looking statements. By their nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, which contribute to the possibility that the predicted outcomes will not occur. The risks, uncertainties and other factors, many of which are beyond our control, that could influence actual results include, but are not limited to:

- the impact of the COVID-19 pandemic, including any impacts on the supply of vehicles, general economic conditions and local operations at the Company's dealerships or offices;
- the impact of the conflict in Ukraine on, among others, vehicle production and part shortages;
- rapid appreciation or depreciation of the Canadian dollar relative to the U.S. dollar;
- the ability to import vehicles and parts that are manufactured outside of Canada;
- a sustained downturn in consumer demand and economic conditions in key geographic markets;
- adverse conditions affecting one or more automobile manufacturers, including but not limited to bankruptcies/insolvency proceedings, recalls or class actions;
- the ability of consumers to access automotive loans and leases;
- competitive actions of other companies and generally within the automotive industry;
- our dependence on sales of new vehicles to achieve sustained profitability;
- levels of unemployment in our markets and other macroeconomic factors;
- our OEMs ability to provide a desirable mix of popular new vehicles;
- the ability to continue financing inventory under similar interest rates;
- our OEMs ability to continue to provide manufacturer incentive programs;
- the loss of key personnel and limited management and personnel resources;
- the ability to refinance or renew credit agreements in the future;
- changes in applicable environmental, taxation and other laws and regulations as well as how such laws and regulations are interpreted and enforced;
- fluctuations in foreign exchange rates and tax rates;
- fluctuating general economic cycles, consumer confidence, discretionary spending, fuel prices, interest rates and credit availability;
- risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations;
- the impact of autonomous vehicles and ride-sharing services;
- the ability to obtain OEM approvals for acquisitions, and the uncertainty related to the successful integration of such acquisitions; and
- the other risk factors set forth herein under the heading "Risk Factors" and elsewhere in this AIF and the documents incorporated by reference herein.

Further, any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by applicable law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all of such factors and to assess in advance the impact of each such factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

Documents Incorporated by Reference

Information has been incorporated by reference in this AIF from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the General Counsel of the Company at 200-15511 – 123 Avenue NW, Edmonton, Alberta T5V 0C3, telephone: (780) 732-3135. In addition, copies of documents incorporated by reference may be obtained from the securities commissions or similar authorities in Canada through the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com.

The following documents of AutoCanada are specifically incorporated by reference in this AIF:

(1) the Company's audited consolidated financial statements and the notes thereto as at and for the years ended December 31, 2021 and 2020, and the auditor's report thereon (the "Annual Financial Statements"); and

(2) the management's discussion and analysis of the financial condition and results of operations of the Company for the year ended December 31, 2021 (the "Annual MD&A").

Documents referenced in any of the documents incorporated by reference in this AIF but not expressly incorporated by reference therein or herein are not incorporated by reference in this AIF.

Non-GAAP and Other Financial Measures

Cautionary Note Regarding Non-GAAP Measures

Adjusted EBITDA is not an earnings measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP. Investors are cautioned that this non-GAAP measure should not replace net earnings or loss (as determined in accordance with GAAP) as an indicator of the Company's performance, of its cash flows from operating, investing and financing activities, or as a measure of its liquidity and cash flows. The Company's methods of calculating the referenced non-GAAP measure may differ from the methods used by other issuers. Therefore, this measure may not be comparable to similar measures presented by other issuers. This measure is identified and described under section "15. NON-GAAP AND OTHER FINANCIAL MEASURES" of the Annual MD&A. Refer to section "16. NON-GAAP AND OTHER FINANCIAL MEASURE RECONCILIATIONS" of the Annual MD&A for reconciliations of non-GAAP and other financial measures.

Supplementary Financial Measures

This AIF contains "SUPPLEMENTARY FINANCIAL MEASURES". See Section 15 (NON-GAAP AND OTHER FINANCIAL MEASURES) of the Annual MD&A for further information regarding these measures.

Reader Advisory

This AIF typically refers to the operating results for the year ended December 31, 2021 of the Company and compares these to the operating results of the Company for previous years.

Corporate Structure

AutoCanada Inc. was incorporated under the *Canada Business Corporations Act* ("CBCA") on October 29, 2009. ACI amalgamated with its wholly-owned subsidiary, AutoCanada GP Inc., on January 1, 2011 and continued under the name AutoCanada Inc.

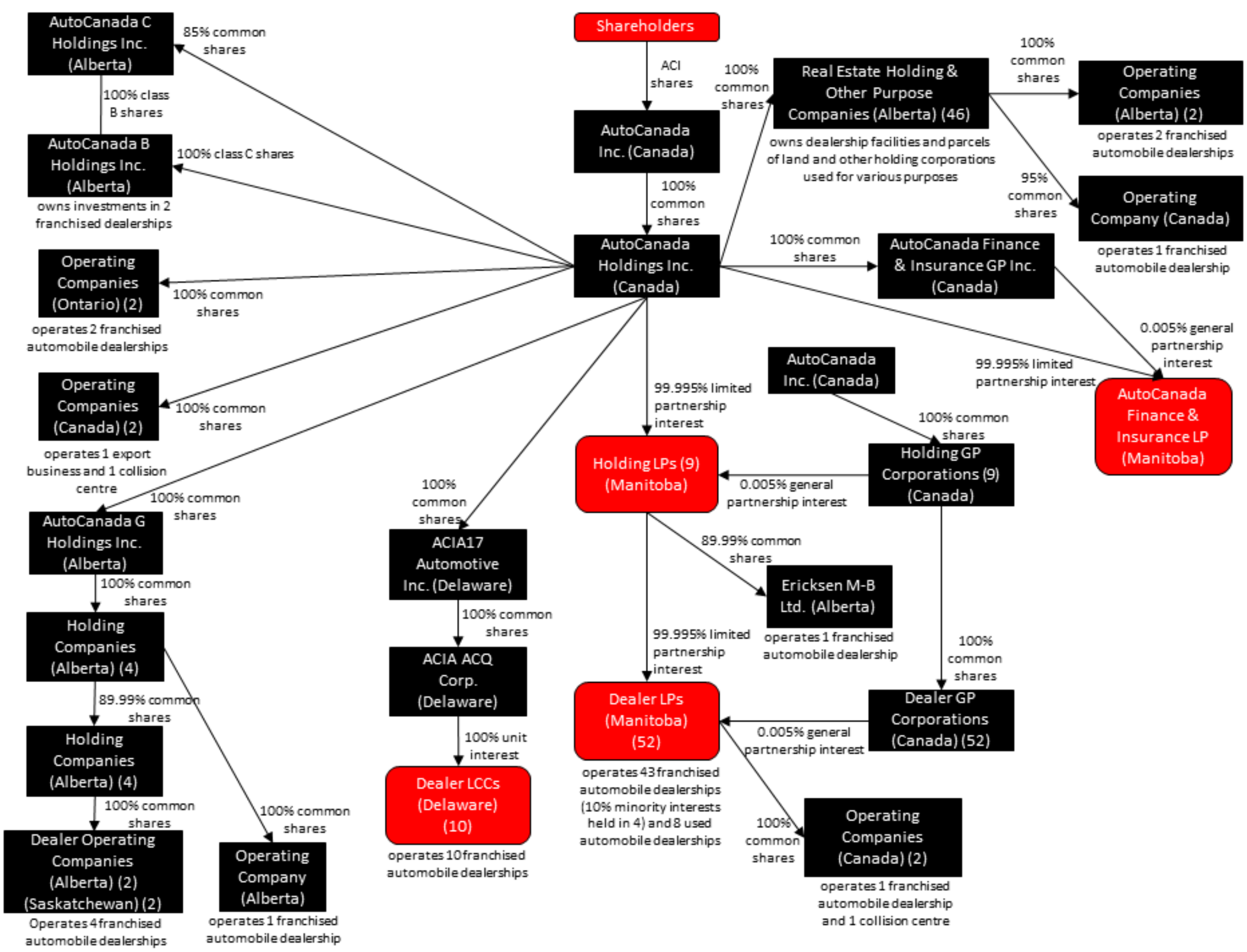
The principal and head office of ACI is located at 200 – 15511 – 123 Avenue NW, Edmonton, Alberta T5V 0C3. The registered office of ACI is located at 1900, 520 – 3rd Avenue S.W., Calgary, Alberta T2P 0R3.

Intercorporate Relationships

The significant subsidiaries of ACI are AutoCanada Holdings Inc., a wholly-owned subsidiary incorporated under the CBCA, and each of the Holding LPs and Dealer LPs. AutoCanada Holdings Inc. was incorporated under the CBCA on October 29, 2009.

Each of the Holding LPs and Dealer LPs is a limited partnership formed under the laws of the Province of Manitoba. Each Dealer LP had been formed to acquire the assets and undertaking relating to one of the franchised automobile dealerships. Each of the Holdings GPs and the Dealer GPs were incorporated under the CBCA.

The following chart illustrates our corporate structure as at December 31, 2021:



Development of Our Business

In 2001, the Company's predecessor entity (the "Fund") began to implement a strategy of becoming a national multi-location automobile dealership group in Canada, a strategy that had been successfully executed by that time by owners of several franchised automobile dealers in the United States. In 2006, the Fund completed an IPO on the TSX and continued to execute its business strategy.

Three-Year History

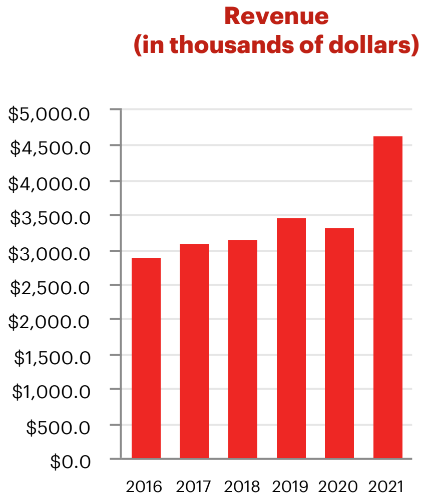
The following is a three-year business history of the Company's significant events, including acquisitions, dispositions, Open Points, and debt and equity offerings:

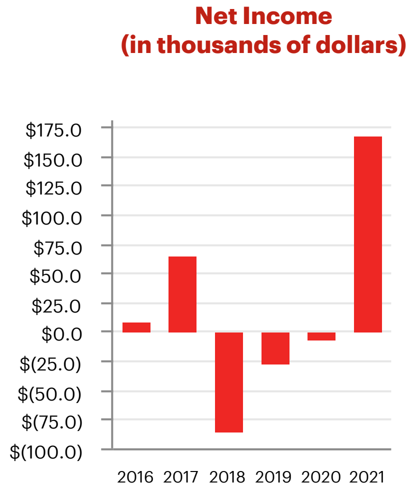
- February 2019 - Commenced litigation against Patrick Priestner and Canada One Auto Group claiming, among other things, that during Mr. Priestner's tenure with the Company, he breached his fiduciary and other duties to the Company by appropriating corporate opportunities of the Company to acquire dealerships privately through Canada One Auto Group
- February 2019 - Tamara Darvish joined as the President, U.S. Operations
- March 2019 - Completed the disposition of the operating and fixed assets of Toronto Chrysler (Toronto, Ontario)
- March 2019 - Raj Juneja resigned as Chief Financial Officer
- June 2019 - Completed the disposition of the operating and fixed assets of Victoria Hyundai (Victoria, British Columbia)
- June 2019 - Completed a sale-leaseback of three properties for proceeds of approximately $30 million. Funds from this sale were used to pay down our credit facility
- July 2019 - Completed the disposition of the operating and fixed assets of Calgary Hyundai (Calgary, Alberta)
- August 2019 - Mike Borys accepted the role of Chief Financial Officer
- August 2019 - Completed a sale-leaseback of three properties for proceeds of approximately $20 million. Funds from this sale were used to pay down our credit facility
- November 2019 - Ceased operations of two U.S. franchises
- February 2020 - Completed an offering of $125 million aggregate principal amount of 8.75% senior unsecured notes due February 11, 2025 (the "2025 Notes") and concurrently entered into an amended and restated credit agreement (the "First Amended and Restated Credit Facility"). The First Amended and Restated Credit Facility amended and extended AutoCanada's existing credit facility for three years, and included a $175 million revolving credit facility, a $750 million wholesale floorplan financing facility and a $25 million wholesale leasing facility, for total aggregate bank facilities of $950 million. The proceeds from the 2025 Notes, together with borrowings under the First Amended and Restated Credit Facility, were used to fund the cash purchase of all 5.625% senior notes due May 25, 2021 (the "2021 Notes") that were validly tendered pursuant to the Company's cash tender offer and the redemption of the 2021 Notes that were outstanding following the expiry of the cash tender offer
- April 2020 - Amended the First Amended and Restated Credit Facility to provide additional covenant headroom for Total and Senior Net Funded Debt to Bank EBITDA and Fixed Charged Coverage Ratios with staged covenant thresholds through to June 30, 2021
- July 2020 - Completed the disposition of the operating assets of 417 Infiniti (Ottawa, Ontario)
- September 2020 - Lee Matheson was appointed to the Board of Directors
- October 2020 - Amended the First Amended and Restated Credit Facility to permit certain subsidiaries that operate franchised dealerships excluded from financing motor vehicles, parts and accessories under the First Amended and Restated Credit Facility to obtain financing from franchise financiers
- October 2020 - Acquired 75% of the issued capital of Auto Bugatti Inc., a collision centre specializing in luxury vehicle repairs (Dorval, Quebec)
- October 2020 - Completed the acquisition of the assets of Autohaus of Peoria, a luxury dealership with franchise rights for Porsche, Audi, Mercedes-Benz and Volkswagen (Peoria, Illinois)
- December 2020 - Established the Used Digital Retail Division
- December 2020 - Acquired a 100% equity interest in Haldimand Motors Ltd., a used car dealership (Cayuga, Ontario)

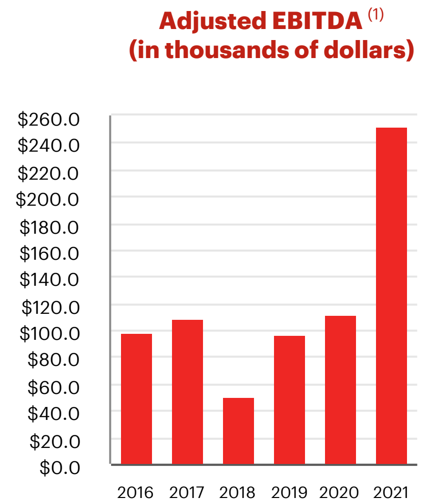
- December 2020 - Amended the First Amended and Restated Credit Facility to adjust the terms and limits on borrowing related to the wholesale flooring facility
- April 2021 **-** S&P Global Ratings ("S&P") issued a research update whereby it revised the Company's outlook to stable, raised the issuer credit rating to 'B', and raised the rating of the Company's senior unsecured notes to 'B'
- April 2021 - Completed an offering of an additional $125 million add-on to the 2025 Notes at a premium to par, resulting in a yield of 5.595% (the "Add-On Notes")
- April 2021 - Entered into an amended and restated credit agreement that matures on April 14, 2024 (the "Second Amended and Restated Credit Facility"), which amends and restates the First Amended and Restated Credit Facility, as amended. The Second Amended and Restated Credit Facility increased the revolving credit facility by $50 million to $225 million and included a $1.06 billion revolving wholesale floorplan financing facility and a $15 million revolving wholesale leasing facility, for total aggregate bank facilities of $1.3 billion.
- April 2021 - Acquired 100% of the shares in PG Klassic AutoBody, a collision centre (Prince George, British Columbia)
- April 2021 - Tamara Darvish departed as President, U.S. Operations
- August 2021 - Acquired 100% of the shares in Mark Wilson's Better Used Cars, an independent used vehicle dealership (Guelph, Ontario)
- September 2021 - Acquired 100% of the shares in Autolux MB Collision, a luxury-brand focused collision centre (Montreal, Quebec)
- October 2021 - Acquired 100% of the shares in Airdrie Autobody Ltd., a collision repair facility (Airdrie, Alberta)
- November 2021 - Acquired substantially all of the fixed and operating assets of Crystal Lake Chrysler Dodge Jeep Ram, Inc., a Stellantis dealership (Crystal Lake, Illinois)
- December 2021 - Entered into an amended and restated credit agreement (the "Third Amended and Restated Credit Facility"), which amends and restates the Second Amended and Restated Credit Facility. The Third and Amended and Restated Credit Facility was entered into to allow for administrative and other structural changes made to support the acquisition of the Autopoint Group and planned future growth, which matures on April 14, 2025
- December 2021 - Acquired substantially all of the assets of eleven dealerships from the Autopoint Group (Ontario)
- December 2021 - Acquired a property in Maple Ridge, British Columbia that was previously divested in a sales-leaseback transaction, with the associated lease concurrently terminated
- January 2022 - S&P issued a research update and raised both the issuer credit rating and the Company's senior unsecured notes to 'B+'
- February 2022 - Entered into the first amending agreement which amends the Third Amended and Restated Credit Facility. The maturity of the Third Amended and Restated Credit Facility was extended to April 14, 2025. A copy of the Third Amended and Restated Credit Facility and the first amending agreement are available on SEDAR at www.sedar.com.
- February 2022 - Issued $350 million of Senior Unsecured Notes at 5.75%, due February 7, 2029, with the proceeds used to fund the redemption of the 2025 Notes and the Add-On Notes, to reduce the outstanding balance under the syndicated credit facility and for general corporate purposes including acquisitions
- March 2022 - Michael Rawluk departed from AutoCanada for personal reasons

Please refer to "Description of the AutoCanada Business – Acquisitions, Divestitures, and Relocations" for further information on the above acquisitions and divestitures and "Description of the AutoCanada Business – Financing".

The following charts illustrate Revenue, Net income, and Adjusted EBITDA[1] since the 2016 fiscal year.

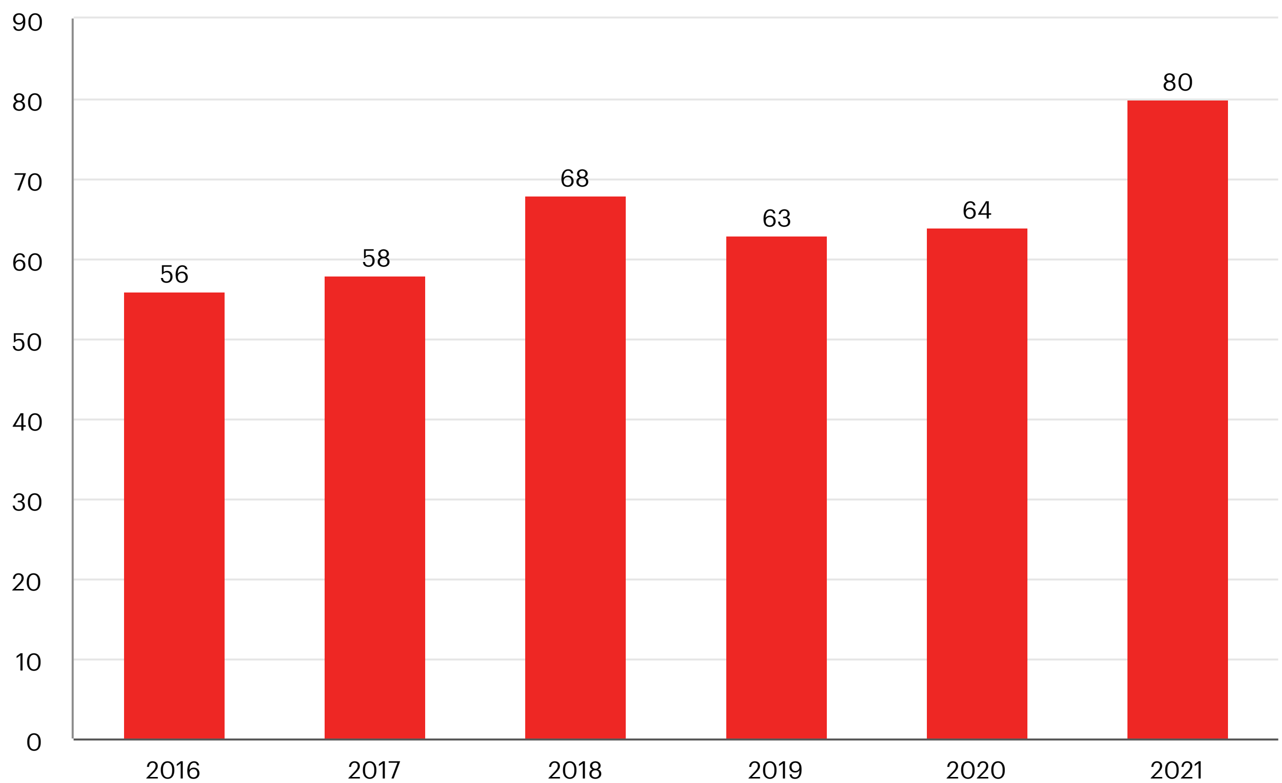






	2016	2017	2018	2019	2020	2021
Revenue	$ 2,891.6	$ 3,101.6	$ 3,150.8	$ 3,476.1	$ 3,329.5	$ 4,653.4
Net income	$ 8.6	$ 65.8	$ (85.4)	$ (27.1)	$ (6.6)	$ 167.2
Adjusted EBITDA[1] [2]	$ 98.2	$ 109.7	$ 50.7	$ 97.2	$ 112.1	$ 251.9

Number of Dealerships Operated at Year-End



(1) See "Non-GAAP and Other Financial Measures" for further information regarding this non-GAAP financial measure.
(2) In Q2 2019, the Company updated its definition for this Non-GAAP financial measure with a refinement to the definition of charges outside the normal course of business. As a result, the figures for all periods presented have been adjusted, as applicable.

Significant Acquisitions

The Company made no acquisitions during the most recently completed fiscal year that required filing of a business acquisition report.

DESCRIPTION OF THE AUTOCANADA BUSINESS

Overview

AutoCanada is a leading North American multi-location automobile dealership group currently operating 78 franchised dealerships, comprised of 28 brands, and 2 non-franchised used dealerships. The Company has operations in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick and Nova Scotia, as well as Illinois, USA. In 2021, our dealerships sold approximately 86,000 vehicles and processed over 800,000 service and collision repair orders in our 1,303 service bays with AutoCanada generating revenue in excess of $4 billion.

See the table in "Description of the AutoCanada Business – Locations" for a list of the franchised automobile dealerships owned by us as at December 31, 2021 and the year such dealerships were opened or acquired.

We are currently authorized to sell through our dealerships the following new vehicle brands: Chrysler, Dodge, Jeep, Ram, FIAT, Alfa Romeo, Chevrolet, GMC, Buick, Cadillac, Ford, Infiniti, Nissan, Hyundai, Subaru, Audi, Volkswagen, Kia, Mazda, Mercedes-Benz, BMW, MINI, Volvo, Toyota, Lincoln, Honda, Acura and Porsche. In addition, we sell a broad range of used vehicles. We also offer a full range of parts, service and collision repair services and facilitate the sale of third party finance and insurance products, extended warranties and replacement and after-market automotive products.

Our current multi-location model of dealerships enables us to serve a diversified geographic customer base and enjoy benefits and advantages not available to single location dealerships. Our Canadian operations span across eight provinces, and are also diversified within these provinces serving numerous communities and regions. In the U.S., we expanded our footprint into the Chicago metropolitan area and in August 2019, we rebranded our U.S. operations as the Leader Automotive Group. As a result of our geographical footprint, we are able to gain the advantages associated with a "platform" of dealerships in a geographic area, including centralized administrative functions, cost-sharing and communication of best practices specific to a local market.

We have more than doubled the number of dealerships owned since 2013 through both acquisitions and new open point locations, being those new franchised automobile dealerships opened, or to be opened, pursuant to the right to open a new franchised automobile dealership in a specific location granted to a dealer by an automobile manufacturer.

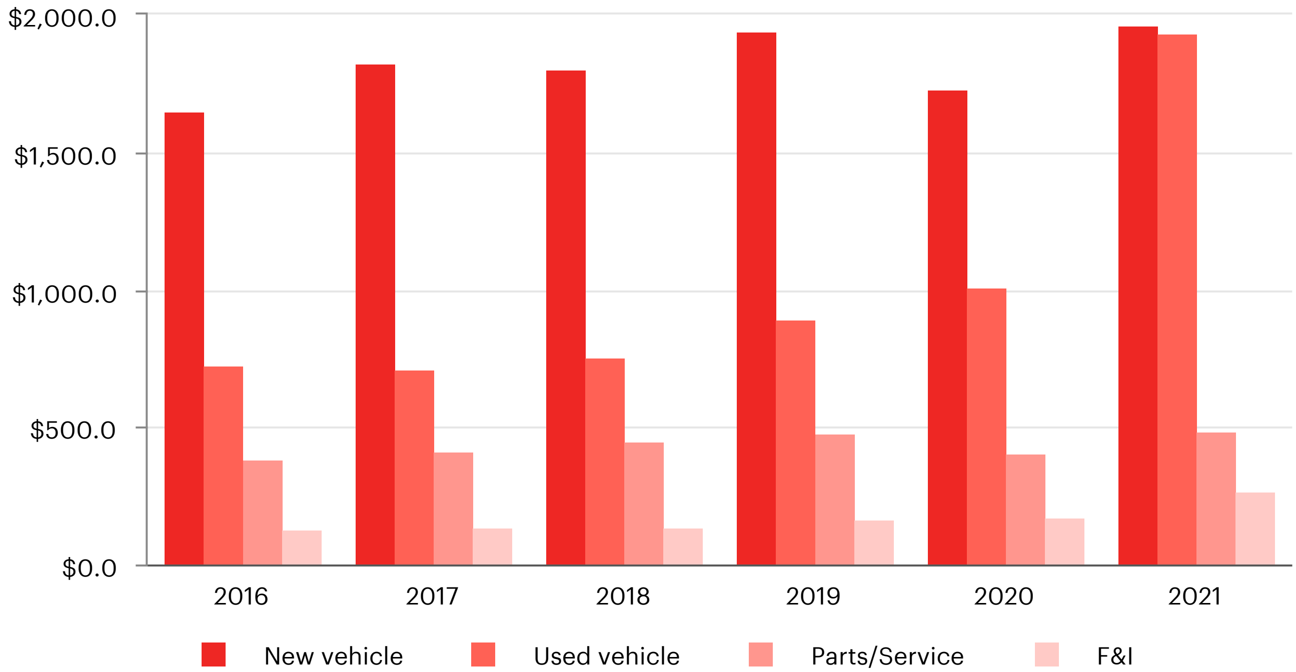
AutoCanada owns some of the top performing dealerships in Canada and strives to be a "dealer of choice" for its original equipment manufacturer partners. Our goals are to maximize the profit potential of every dealership and to generate additional long-term growth both organically and through strategic, accretive acquisitions. We believe there is a strong pipeline of potential acquisitions and we review opportunities on an ongoing basis; however, we take a conservative approach to potential acquisitions, focusing on opportunities that are accretive, conservative to our balance sheet and allow for portfolio diversification and/or other strategic benefits to the Company.

Our franchised automobile dealerships are operated as distinct profit centres in which the dealer principals are given significant autonomy within overall operating guidelines. This autonomy, combined with the dealer principals' understanding of their local markets, enables the dealer principals to effectively run day-to-day operations, market to customers and recruit new employees. Our dealer principals are required to take an active, hands-on approach to operating their respective dealerships. Each dealer principal is supported by a complete management team that provides oversight and management of the business. The financial controllers report directly to the head office finance group. Our reporting structure is designed to facilitate the sharing of ideas and market intelligence in an efficient and effective manner.

Sources of Revenue and Gross Profit

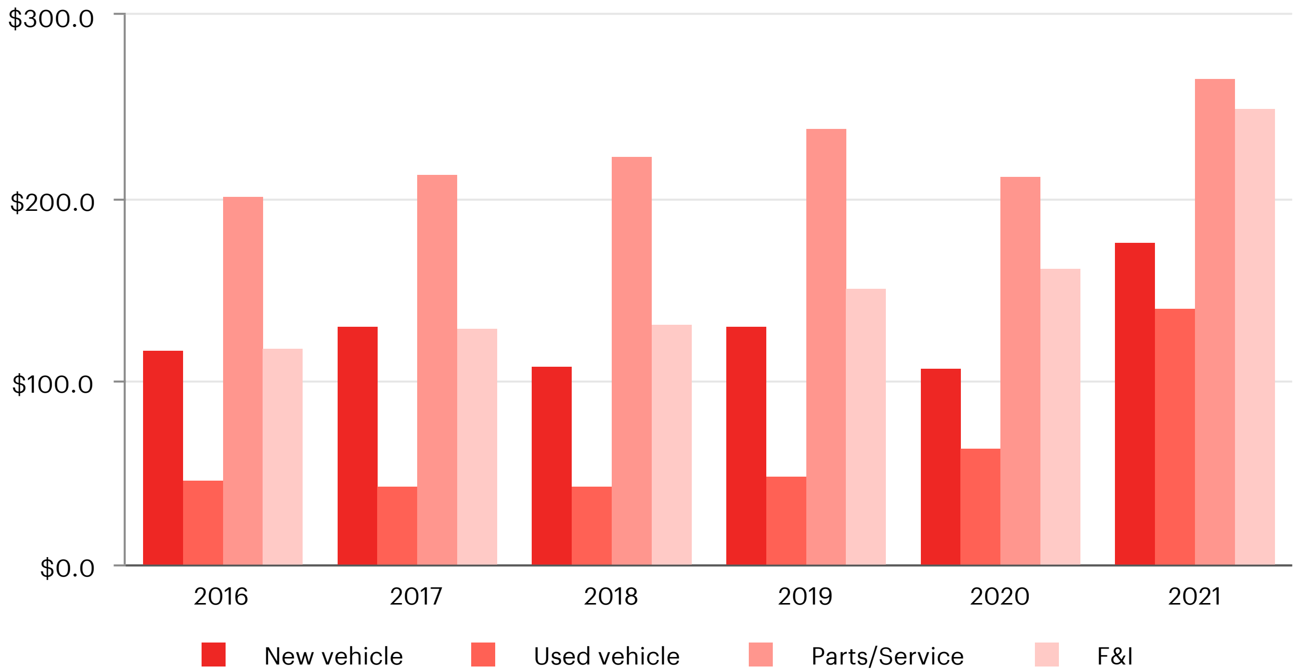
We generate revenues and gross profit from four inter-related business operations: new vehicle sales; used vehicle sales; parts, service and collision repair; and finance and insurance. The following two charts show our revenues and gross profit from the four business operations over the past six years.

Revenue by Business Operation
(in millions of dollars)



		2016		2017		2018		2019		2020		2021
New vehicle	$	1,652.8	$	1,827.6	$	1,802.2	$	1,939.6	$	1,733.9	$	1,963.9
Used vehicle	$	725.4	$	716.0	$	756.2	$	891.2	$	1,010.9	$	1,937.5
Parts/Service	$	382.9	$	416.7	$	451.8	$	479.7	$	410.0	$	484.6
F&I	$	130.4	$	141.3	$	140.7	$	165.5	$	174.8	$	267.4

Gross Profit by Business Operation
(in millions of dollars)



	2016	2017	2018	2019	2020	2021
New vehicle	$ 118.3	$ 131.0	$ 109.1	$ 130.5	$ 108.3	$ 176.4
Used vehicle	$ 47.2	$ 43.7	$ 43.3	$ 49.5	$ 64.0	$ 141.3
Parts/Service	$ 201.3	$ 214.3	$ 224.0	$ 238.7	$ 213.0	$ 266.7
F&I	$ 119.4	$ 129.6	$ 131.5	$ 151.9	$ 162.0	$ 249.9

New Vehicle Sales

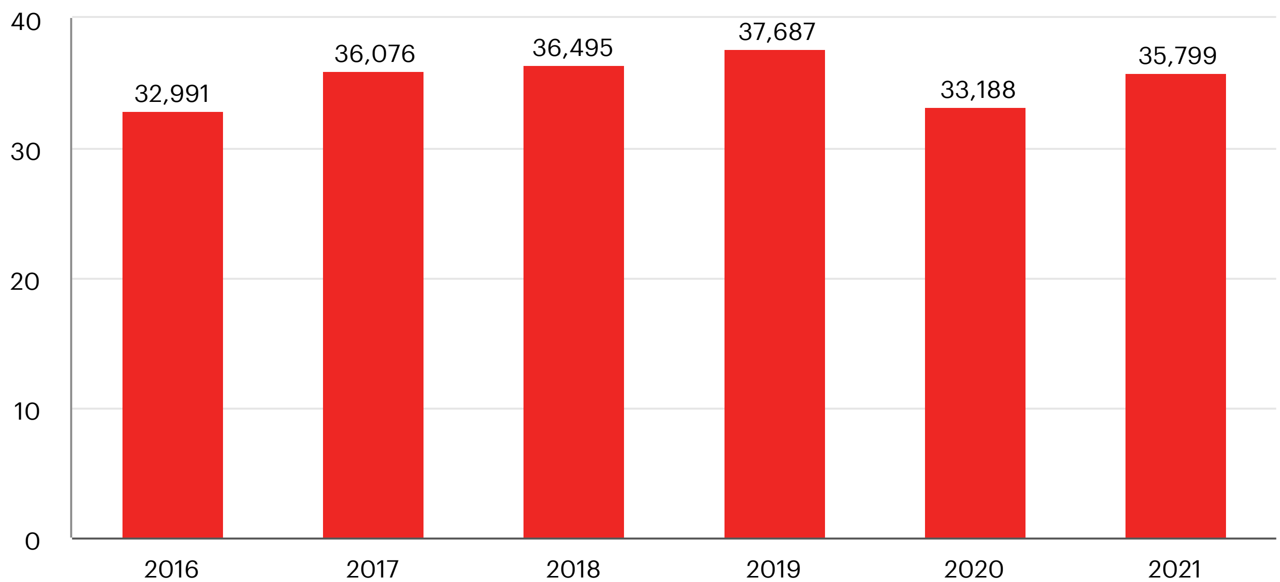
Our retail new vehicle sales include new vehicle sales and other similar agreements, which are made by our franchised automobile dealerships. In addition to the profit from the sale itself, a typical new vehicle sale or lease transaction creates key profit opportunities for our dealerships from the resale of any trade-in vehicle purchased by the dealer, sale of third party finance or lease transactions and vehicle service and insurance contracts in connection with the retail sale, and service and repair of the vehicle during and after the warranty period.

New vehicle leases, which are generally provided by third parties, typically have shorter terms, resulting in customers returning to a dealership more frequently than in the case of financed purchases.

In addition, leases provide us with a source of late-model, off-lease vehicles for our used vehicle inventory. Generally, leased vehicles remain under factory warranty for the term of the lease, allowing franchised automobile dealers to provide repairs and service to the customer throughout the lease term.

The chart below shows our historical retail new vehicle sales over the past six years:

New Retail Vehicle[1] Sales by AutoCanada



We acquire our new vehicle inventory from automobile manufacturers. Automobile manufacturers allocate products among their dealerships based primarily on historical sales volume and planned future sales. We monitor dealership ordering process (including quantity by model and trim level), inventory stocking levels for in-transit and landed units, inventory turnover and projected days' supply. We believe that our new vehicle analysts provide a valued service to our dealers to prevent ordering which may result in excess supply of vehicles as a result of improper models and trim levels.

We finance our inventory purchases through floorplan financing provided by The Bank of Nova Scotia ("Scotiabank"), Canadian Imperial Bank of Commerce ("CIBC"), Royal Bank of Canada ("RBC"), VW Credit Canada Inc. ("VCCI"), BMW Financial Services Canada ("BMW Financial"), Mercedes-Benz Financial ("Mercedes-Benz Facilities), General Motors Financial of Canada ("GM Financial"), and Ally Financial. Subject to floorplan limitations imposed by our lenders and our internally imposed days of supply guidelines, inventory selection and management occurs at the franchised automobile dealer level. Where appropriate, inventory selection and management would be co-ordinated amongst dealers of the same region.

[1] See "Non-GAAP and Other Financial Measures" for further information regarding this supplementary financial measure.

Used Vehicle Sales

Our new vehicle operations (excluding our Used Digital Retail Division) provide a large supply of high quality trade-ins and some off-lease vehicles, both of which are sources of attractive used vehicle inventory. Our dealers supplement their used vehicle inventory with purchases at auctions and from approved wholesalers.

Used vehicle sales give us an opportunity to further increase our revenues by aggressively pursuing customer trade-in vehicles, increase service contract sales, provide parts and services required in the maintenance of a used vehicle, perform reconditioning work on trade-ins and provide financing to used vehicle purchasers. Used vehicles are sold either as retail sales through our franchised dealerships, or as wholesale sales through auction, used vehicle dealerships or vehicle wholesalers. Vehicles that are acquired through trade-in are assessed for certain criteria to determine if they meet our requirements to be sold as a used retail unit. Vehicles that do not meet our criteria are sold at auction, or in limited circumstances, via wholesale. We actively manage the quality and age of our used vehicle inventory and monitor our used inventory appraisal values, reconditioning costs, pricing, online marketing, stocking levels, turnover, and return on investment. We believe that monitoring these various processes results in greater sales volumes, higher turnover, and ultimately greater return on investment.

Various manufacturers provide franchised automobile dealers the opportunity to sell certified pre-owned vehicles by participating in automobile manufacturer certification programs. These vehicles are often eligible for new vehicle benefits such as preferred vehicle finance rates, better automobile warranties and an extension of the manufacturer's warranty. Manufacturer certified pre-owned vehicles typically sell at a premium compared to other used vehicles and are available only at franchised automobile dealerships. We believe that an extended manufacturer's warranty increases our potential to retain the pre-owned vehicle purchaser as a future parts and service customer since certified pre-owned warranty work can only be performed at franchised automobile dealerships.

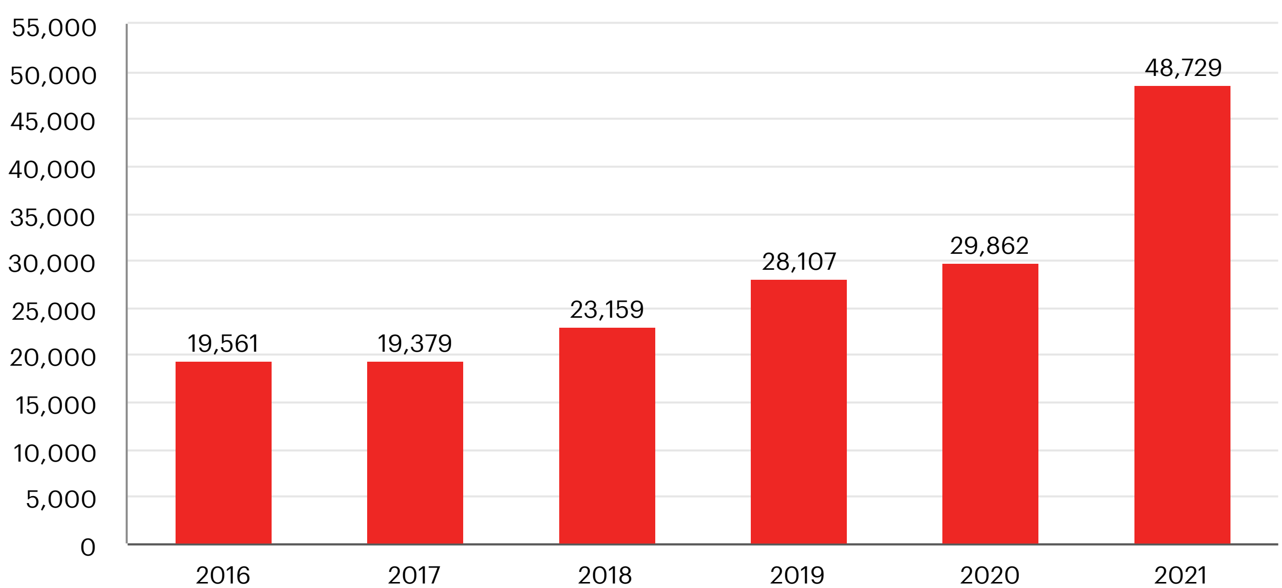
Depending on the selling and economic cycle, used vehicle margins can exceed those for new vehicles. More significantly and more consistently, the downstream benefits associated with growing used retail vehicle sales drive higher returns and profitability as used retail vehicles represent an opportunity for our higher margin F&I (as defined below) and PS&CR segments (as defined below) while also adding stability to the business model.

Used vehicle sales have been a significant focus of the Company as we strive for a 1:1 used-to-new retail ratio under the Project 50 initiative. The objective of Project 50 is to increase the average number of used vehicles sold at our dealerships to 50 per dealership per month. Used vehicle sales are typically less exposed to the cyclicality of the auto industry, as compared to new vehicle sales. Increasing our ratio of used-to-new vehicle sales is expected to diversify our revenue profile, as well as drive ancillary revenues in the higher margin PS&CR and F&I divisions.

The disciplined protocols around used retailing established by Project 50 have enabled us to make significant strides toward achieving and sustaining our long-term target of a 1:1 used-to-new retail unit sales ratio[1].

The chart below shows our historical retail used vehicle sales over the past six years (excluding our Used Digital Retail Division):

Used Retail Vehicle[1] Sales by AutoCanada



[1] See "Non-GAAP and Other Financial Measures" for further information regarding this supplementary financial measure.

Used vehicles are generally offered at our dealerships for an average of approximately 45 days. At the end of 90 days, vehicles which have not been sold to a retail buyer are generally offered at auction, or in limited circumstances, sold to a wholesaler. Certain used vehicles acquired by us as “trade-ins” may not be suitable for sale in our used vehicle business because of their age, mileage or physical condition. Rather than reconditioning these vehicles for resale by us, we typically sell these vehicles immediately in the auction market, or in limited circumstances, sell them to a wholesaler. We do not regularly transfer used vehicles among our dealerships, except to provide balanced inventories of used vehicles at each of our dealerships. We have a team of used inventory analysts that monitor our dealerships’ used inventory appraisal values, reconditioning costs, pricing, online marketing, stocking levels, turnover, and return on investment. The used vehicle analysts also monitor the amount of time it takes from purchasing the vehicle at auction or trade-in until the unit is marketed to the public. We believe that monitoring these various processes will result in greater sales volumes, higher turnover, and ultimately greater return on investment.

Used Digital Retail Division

In December 2020, ACI announced the formation of the Used Digital Retail Division as part of our digital retail initiative. The Used Digital Retail Division is expected to drive Canadian used vehicle sales across all channels, including both standalone brick and mortar used dealerships, as well as completely online, by creating a seamless omni-channel buying experience for customers that supports their in-store and online requirements for used vehicles. This includes the development of a national network of used vehicle dealers through both organic development and acquisitions, as well as an online platform, and will represent Canada's first national used vehicle platform.

The Used Digital Retail Division strategy is complementary to our existing complete business model and will:

- allow for an attractive market entry with low capital intensity;
- drive meaningful improvement beyond the Company's existing 1:1 used-to-new retail unit ratio target in Canada;
- drive incremental revenues in existing high margin business segments, including finance, insurance and other parts, service and collision repair;
- attract customers earlier in the car buying lifecycle and serve them across all channels as a preferred provider; and
- leverage ACI's scale, domain expertise, and existing industry relationships across Canada.

The Used Digital Retail Division is held by a newly established limited partnership (the "Partnership") and fully controlled by ACI as general partner. ACI holds a preferred interest in the Partnership representing our capital contributions, including for funding acquisitions and operations along with funding the build, implementation, and marketing of an online platform, plus a specified rate of return. Limited Partner interests represent the remaining common equity in the Partnership after satisfaction of ACI’s preferred interest.

In connection with the additional responsibility of overseeing the Used Digital Retail Division, Paul Antony, the Executive Chair, was granted incentive compensation in the form of a Limited Partner interest representing 15% of the common equity interests of the Partnership.

In addition to the Executive Chair's 15% interest, there are the following two pools for vendor interests and employee options:

- "Option Pool": representing up to 10% of the Limited Partner interests of the Partnership; established for the purposes of granting options to employees or service providers of the Partnership; and
- "Vendor Pool”: representing up to 14% of the Limited Partner interests of the Partnership; established for the purpose of issuing Limited Partner interests in connection with the acquisition of used vehicle dealerships or other businesses or assets by the Partnership. The Vendor Pool depends on the mix of purchased dealerships versus organic development and may not be fully allocated based upon the mix of organic development and purchased dealerships.

ACI will hold the balance of the Limited Partner interests after Mr. Antony’s interest and the equity issued through the Vendor and Options Pools. There are no required annual payouts associated with Limited Partner interests.

ACI's Board of Directors has full oversight over the Used Digital Retail Division and must review and approve all material decisions of the Used Digital Retail Division, including acquisitions; and transactions between the division and other divisions of ACI (which are to be on arm's length terms), including the allocation of ACI's capital and resources to the division.

Parts, Service and Collision Repair ("PS&CR")

Parts, service and collision repair revenues consist of warranty and non-warranty vehicle maintenance and repairs. Additionally, this includes the sale of factory approved parts that are used in repairs made in the service department, sold at retail to customers, or sold at the wholesale level to independent repair shops and other dealerships. Certain dealerships have agreements with the automobile manufacturers that provide pricing to support wholesale operations. Our dealers employ parts managers who oversee parts inventories and sales. Given our large network of dealers, we are also able to frequently share parts with each other, thereby increasing efficiencies. We continually monitor our parts inventories and make necessary adjustments to optimize operations.

Historically, the automotive repair industry has been highly fragmented, consisting of numerous small, independently owned service and repair garages, including service and repair facilities as a part of gasoline service stations. However, management believes that the advanced technology used in vehicles has made it difficult for independent repair shops to have the expertise required to perform higher margin repairs. Most of the service and repair facilities at gasoline service stations have closed as retail gasoline operators have largely abandoned this business. Additionally, automobile manufacturers generally require warranty work to be performed at their franchised automobile dealerships. We believe that an increasing percentage of all repair work will be performed at dealerships that have the sophisticated equipment and skilled personnel necessary to perform repairs and warranty work on today's complex vehicles. To maintain the necessary knowledge and skills required to service vehicles, we provide regular manufacturer-specific training to our new and existing technicians.

Our profitability in parts, service and collision repair can be attributed to our comprehensive management system, including the use of variable rate pricing structures, cultivation of strong customer relationships through an emphasis on preventive maintenance, and the efficient management of parts inventory.

We use variable rate structures in both the compensation paid to our service employees and the rates charged to our customers that are designed to reflect the difficulty and sophistication of different types of repairs. The percentage mark-ups on parts are also variably priced based on market conditions for different parts.

Our franchised automobile dealers' parts departments support their sales and service departments, selling factory-approved parts for the vehicle makes and models sold by a particular franchised automobile dealer. Parts are either used in repairs made in the service department, sold at retail to customers, or sold at wholesale to independent repair shops and other dealerships.

Certain dealerships have agreements with the automobile manufacturers that provide pricing to support wholesale operations. Our dealers employ parts managers who oversee parts inventories and sales. Our dealers also frequently share parts with each other. We continually monitor our parts inventories and make necessary adjustments frequently.

One of our major goals is to retain each vehicle purchaser as a long-term customer of our PS&CR department. To achieve this, our dealerships offer pre-paid maintenance packages at the time the vehicle is purchased. Through targeted marketing, we provide our customers with timely reminders to return for maintenance and servicing work. Additionally, some of our dealerships also offer loyalty programs. As a result of our efforts, a substantial number of our customers return to our dealerships for services.

In early 2019, we entered into a strategic partnership with DealerMine CRM with respect to the establishment of a dedicated business development centre ("BDC") for the service departments of the Company's Canadian dealerships. This strategic partnership reduces decision-making at the individual dealer level and allows for the BDC to act as a centralized booking point for PS&CR appointments to ensure operational efficiency of our respective facilities to drive increased profitability for AutoCanada.

Finance and Insurance ("F&I")

Each sale of a vehicle provides us with the opportunity to sell third-party purchase and lease financing, extended warranty and insurance products, service contracts and other products. We have the ability to offer financing solutions to customers across a broad range of credit profiles, including more credit-challenged individuals who normally only qualify for near-prime or sub-prime vehicle financing.

In return for arranging third-party purchase and lease financing for our customers, we receive a fee from the third-party lender upon completion of the financing. These third-party lenders include the automobile manufacturers' captive finance companies and warranty divisions, selected commercial banks and a variety of other third-party lenders, including credit unions and regional auto finance lenders. We do not own a finance company and do not retain credit risk after a customer has received financing.

In addition to finance commissions, each vehicle sale creates opportunities to sell other profitable products, such as optional life, dismemberment and disability insurance, extended warranties and various other products for the customer. Our size and volume capabilities enable us to acquire these products at reduced fees compared to the industry average, which results in competitive advantages as well as acquisition related revenue opportunities.

Our key product portfolio is comprised of: financing reserve fees, warranties, insurance claim gap coverage, vehicle protection products (e.g. rust proofing), appearance, wear and tear, creditor insurance and vehicle maintenance plans.

Locations

ACI reviews, in the case of each location, whether it wishes to own or lease the land and building. ACI presently leases 63 of its dealership properties and stand-alone collision centres from third parties, and owns the remaining dealership properties. The leases expire between July 2021 and November 2041 and the Company holds multiple options to renew a majority of these leases with terms of five to twenty years. Management believes it has strong relationships with the landlords of these properties.

The following table shows the location of our dealerships as at December 31, 2021.

Automobile Dealership or Collision Centre (Name, Location)	Franchise Represented	Year Established	Year Acquired by ACI
BRITISH COLUMBIA			
Abbotsford Volkswagen, Abbotsford	Volkswagen	1986	2011
Chilliwack Volkswagen, Chilliwack	Volkswagen	2002	2011
Okanagan Chrysler Dodge Jeep Ram, Kelowna	Stellantis	1985	2003
Maple Ridge Chrysler Dodge Jeep Ram & Fraser Valley Alfa Romeo, Maple Ridge	Stellantis	1975	2005
Maple Ridge Volkswagen, Maple Ridge	Volkswagen	1999	2008
Northland Chrysler Dodge Jeep Ram, Prince George	Stellantis	1990	2002
Northland Hyundai, Prince George	Hyundai	1990	2005
Northland Nissan, Prince George	Nissan	2007	2007
Island Chevrolet Buick GMC, Duncan	General Motors	1971	2013
PG Klassic Autobody, Prince George	Various (Certified)	1971	2021
ALBERTA			
Airdrie Chrysler Dodge Jeep Ram, Airdrie	Stellantis	1975	2015
Courtesy Chrysler Dodge Jeep Ram, Calgary	Stellantis	1987	2013
Crowfoot Hyundai, Calgary	Hyundai	2005	2014
Northland Volkswagen, Calgary	Volkswagen	1972	2014
Fish Creek Nissan, Calgary	Nissan	2003	2014
Hyatt Infiniti, Calgary	Infiniti	2001	2014
Tower Chrysler Dodge Jeep Ram, Calgary	Stellantis	1976	2014
Crosstown Chrysler Dodge Jeep Ram, Edmonton	Stellantis	1951	1994
Capital Chrysler Dodge Jeep Ram, Edmonton	Stellantis	1978	2003
Mercedes Benz Heritage Valley, Edmonton	Mercedes Benz	2007	2018
Grande Prairie Chrysler Dodge Jeep Ram, Grande Prairie	Stellantis	1986	1998
Grande Prairie Hyundai, Grande Prairie	Hyundai	2005	2005
Grande Prairie Nissan, Grande Prairie	Nissan	1969	2007
Grande Prairie Subaru, Grande Prairie	Subaru	1995	1998
Grande Prairie Volkswagen, Grande Prairie	Volkswagen	1975	2013
Ponoka Chrysler Dodge Jeep Ram, Ponoka	Stellantis	1975	1998
Sherwood Park Hyundai, Sherwood Park	Hyundai	2006	2006
Sherwood Park Volkswagen, Sherwood Park	Volkswagen	2017	2017
Parkland Chrysler Dodge Jeep Ram, Spruce Grove	Stellantis	2015	2015
Airdrie Autobody Ltd, Airdrie	Various (Certified)	1996	2021
SASKATCHEWAN			
Dodge City Chrysler Dodge Jeep Ram, Saskatoon	Stellantis	1969	2014
Mann-Northway Auto Source, Prince Albert	General Motors	1914	2014
Bridges Chevrolet Buick GMC, North Battleford	General Motors	1976	2014
Saskatoon Motor Products, Saskatoon	General Motors	1973	2014
MANITOBA			
Eastern Chrysler Dodge Jeep Ram, Winnipeg	Stellantis	1946	2013
McNaught Cadillac Buick GMC, Winnipeg	General Motors	1976	2014
Audi Winnipeg, Winnipeg	Audi	1972	2013
St. James Volkswagen, Winnipeg	Volkswagen	1972	2013
ONTARIO			
Brantford Honda, Brantford	Honda	1987	2021
Guelph Kia, Guelph	Kia	1999	2021
Acura of Hamilton, Hamilton	Acura	2004	2021
Kia of Hamilton, Hamilton	Kia	1999	2021
Plaza Nissan, Hamilton	Nissan	2015	2021
Subaru of Hamilton, Hamilton	Subaru	2002	2021
London Honda, London	Honda	1976	2021
London Kia, London	Kia	2003	2021

Automobile Dealership or Collision Centre (Name, Location)	Franchise Represented	Year Established	Year Acquired by ACI
South London Nissan, London	Nissan	1997	2021
London Infiniti, London	Infiniti	1997	2021
Waterloo Honda, Waterloo	Honda	2019	2021
401 Dixie Hyundai, Mississauga	Hyundai	1996	2010
Wellington Motors, Guelph	Stellantis	1940	2016
Guelph Hyundai, Guelph	Hyundai	1984	2016
417 Nissan, Ottawa	Nissan	2015	2015
Cambridge Hyundai, Cambridge	Hyundai	1996	2008
Hunt Club Nissan, Ottawa	Nissan	2015	2015
Rose City Ford, Windsor	Ford	1981	2018
Haldimand Motors, Cayuga	Used Vehicles	1984	2020
Mark Wilson's Better Used Cars, Guelph	Used Vehicles	2015	2021
QUEBEC			
BMW Montreal Centre and MINI Montreal Centre, Montreal	BMW/MINI	1970	2014
BMW Laval and MINI Laval, Laval	BMW/MINI	1973	2014
Mercedes-Benz Rive Sud, Greenfield Park	Mercedes-Benz	1965	2017
Planète Mazda, Mirabel	Mazda	1987	2017
Auto Bugatti Inc., Dorval	Various (Certified)	1989	2020
Autolux MB Collision, Montreal	Various (Certified)	1989	2021
NEW BRUNSWICK			
Moncton Chrysler Dodge Jeep Ram, Moncton	Stellantis	1986	2001
NOVA SCOTIA			
Dartmouth Chrysler Dodge Jeep Ram, Dartmouth	Stellantis	1970	2006
ILLINOIS			
Toyota of Lincoln Park, Chicago	Toyota	1928	2018
North City Honda, Chicago	Honda	1928	2018
Hyundai of Lincolnwood, Lincolnwood	Hyundai	1928	2018
Kia of Lincolnwood, Lincolnwood	Kia	1928	2018
Toyota of Lincolnwood, Lincolnwood	Toyota	1928	2018
Bloomington/Normal Auto Mall, Bloomington/Normal	Volvo, Mercedes Benz, Audi, Subaru, Volkswagen, Lincoln	1928	2018
Hyundai of Palatine, Palatine	Hyundai	1928	2018
Chevrolet of Palatine, Palatine	General Motors	1928	2018
Autohaus of Peoria, Peoria	Porsche, Audi, Mercedes-Benz, Volkswagen	2009	2020
Crystal Lake Chrysler Dodge Jeep Ram, Crystal Lake	Stellantis	1976	2021

Acquisitions, Divestitures, Investments and Relocations

The Company currently operates 80 automotive dealerships. At the time of AutoCanada's initial public offering in May of 2006, AutoCanada owned 14 automotive dealerships. Since that time the Company has acquired, opened or invested in 77 additional dealerships and has sold 11 of its dealerships. The following is a summary of acquisitions and divestitures during the year ended December 31, 2021.

PG Klassic Autobody

On April 1, 2021, the Company acquired 100% of the shares in PG Klassic AutoBody, a collision centre located in Prince George, British Columbia. The acquisition supports management's strategic objectives 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, 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.

Autolux MB Collision

On September 9, 2021, the Company acquired 100% of the shares in Autolux MB Collision, a luxury-brand focused collision centre located in Montreal, Quebec. The acquisition supports management's strategic objectives of expanding the Company's collision centre capacity.

Airdrie Autobody

On October 1, 2021, the Company acquired 100% of the shares in Airdrie Autobody, a collision centre located 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

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, a Stellantis dealership located in Crystal Lake, Illinois, and the related dealership real estate. 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 acquired substantially all of the assets of the Autopoint Group. The acquisition provides geographic diversification by more than doubling AutoCanada's Ontario footprint. Moreover, the acquisition provides brand diversification by adding three brands to AutoCanada's Canadian platform.

Prior year business acquisitions and divestitures

417 Infiniti - Ottawa, Ontario

On July 31, 2020, the Company sold the operating assets of 417 Infiniti located in Ottawa, Ontario, for cash consideration.

Auto Bugatti - Dorval, Quebec

On October 6, 2020, the Company acquired 75% of the issued capital of Auto Bugatti, a collision centre specializing in luxury vehicles located in Dorval, Quebec. The acquired collision repair facility is BMW/MINI certified and will provide support to AutoCanada's two BMW/MINI dealership in Montreal.

Autohaus of Peoria - Peoria, Illinois

On October 29, 2020, the Company purchased the net assets of Autohaus of Peoria, a luxury dealership located in Peoria, Illinois with the franchise rights for Porsche, Audi, Mercedes-Benz, and Volkswagen.

Haldimand Motors - Cayuga, Ontario

On December 1, 2020, the Company completed the acquisition of all issued capital of Haldimand Motors, a used car dealership in Cayuga, Ontario. The acquisition forms a part of management's strategic objective of developing the Used Digital Retail Division.

Dealership Open Points

The retail automotive industry is a mature industry and rights to open new franchised automobile dealerships are rarely awarded by the automobile manufacturers. However, from time to time automobile manufacturers may seek to establish new dealerships in attractive markets. The right to open a new franchised automobile dealership in a specific location granted by an automobile manufacturer to a dealer is referred to in the industry as an Open Point. Generally a new franchised automobile dealership is fully performing within one to three years depending on the manufacturer and location.

ACI will review on a case-by-case basis whether to own or lease a particular dealership facility. In either case, ACI would incur the costs of equipping and furnishing these facilities, including the costs relating to the integration of our management information systems into the new dealerships. These costs vary by dealership depending upon size and location.

Chevrolet Buick GMC - Maple Ridge, British Columbia

On December 21, 2018, the Company announced that it had been awarded the right to a General Motors open point featuring the Chevrolet, Buick and GMC brands in Maple Ridge, British Columbia. On December 17, 2021, the Company acquired the dealership real estate under development in Maple Ridge, British Columbia. The Company commenced construction in Q1 2022 and expects construction to be completed in 2023.

Capital Commitments

At December 31, 2021, the Company is committed to capital expenditure obligations in the amount of approximately $3.0 million related to dealership relocations, dealership re-imagings and dealership Open Points with expected completion of these commitments in 2022. The Company is always in discussions with OEMs to adjust spending and/or capital commitments as is deemed appropriate for changing conditions.

Dealership relocations and re-imagings are usually associated with manufacturer standards and requirements, and many manufacturers provide assistance in the form of additional incentives or contribute funding if facilities meet specified standards and requirements. We expect that certain facility upgrades and re-imaging will generate additional manufacturer incentive payments. It is also expected that certain of these capital commitments will be reimbursed by the landlords that own or will own the land.

We manage our liquidity to ensure access to sufficient funding at acceptable costs to fund our ongoing operating requirements and future capital expenditures. We expect to pay for our future capital commitments out of existing cash balances and financing through borrowings on our credit facility.

Organic Growth Opportunities

We continue to focus on those areas of our business that enable us to increase the profitability of our operations. Key areas include:

Optimization of Finance & Insurance

As a result of our operational review, we recognized an opportunity to increase sales in our F&I segment to increase overall profitability of the Company.

We first established a team dedicated to our F&I business line. We further evolved this business line to narrow our third-party product providers to drive increased economies of scale, expanded our portfolio of F&I offerings available for sale to customers, and standardized our offerings across our dealerships to create a common product portfolio.

In addition, an opportunity existed for further training at the dealership level to educate sales professionals on best practices for selling F&I products. We established a robust, in-house F&I training program and team to educate our dealership network on our standardized product portfolio. Our training program is focused on education related to our newly developed product portfolio across the platform, as well as recognition of sales opportunities at various customer touchpoints throughout the sale process.

We also began monitoring F&I performance at our dealerships more closely. This initiative provides us with valuable feedback on the effectiveness of our uniform F&I training program as well as insight into our customers' product preferences. We believe this also provides us further opportunities for improvement in this high margin segment.

While we continue to enhance and strengthen our efforts, positive results have been evident since implementation. The sustainable success of this division is the result of leveraging industry-leading data analytics paired with in-house national training and development focused on products per deal and gross margin.

Service Bay Occupancy & Business Development Centre (BDC)

Our PS&CR segment is also highly profitable driven by various initiatives to improve margin retention. Despite the segment's historical performance and steady margin contribution, we recognized additional opportunities for our dedicated operational leaders to further drive stability in revenues and increase sales in PS&CR. We identified tangible opportunities to grow revenues by increasing service bay occupancy. In addition, we recognized that as a result of significant transaction volume in our network, we had an opportunity to analyze our customer data to provide more timely customer service at each location through more proactive outreach.

We continue to see an opportunity to increase our service bay occupancy across our dealership network to drive stability of revenues and strengthen gross margins.

Special Finance (RightRide)

Our Special Finance division partners with third-party credit providers to offer attractive financing products to more credit-challenged customers, which has the potential to capture significant growth opportunities within used vehicles. This initiative helps drive revenue stability and adds to the counter-cyclicality of our overall business.

We established a Special Finance division and partnered with third-party financing providers to develop attractive financing products for more credit-challenged customers. No credit risk is retained by AutoCanada when these forms of financing are entered into by customers, as AutoCanada simply receives a fee upon completion of the financing. In addition, we implemented a comprehensive training program across our Canadian dealership network (which was completed in 2019), where there is now a homogenous process across our network to ensure referrals are being appropriately directed to our Special Finance division. An online platform, RightRide.ca, was developed to market our available vehicles and financing offerings to these more credit-challenged customers across Canada.

Wholesale Initiative (Export)

We have identified potential to capture higher profit margin opportunities for used cars across our Canadian dealership network. These opportunities consist of relocating used or trade-in vehicles to optimal dealerships within our network, as well as relocating certain vehicles to the U.S. where they can draw the highest selling price and margin.

To capture this potential profit stream, we established a wholesale division in late 2018 to identify and execute on such opportunities and allow us to take advantage of arbitrage opportunities over the Canada-U.S. border. Given the position of the Canadian Dollar relative to the U.S. Dollar over the past few years, an opportunity exists to generate significant profit while also leveraging the used vehicle exporting business as a hedge by creating profit opportunities in market situations that negatively impact core vehicle operations. Although the Company exited foreign exchange forward contracts in conjunction with the drop in the Canadian Dollar relative to the U.S. Dollar with the onset of COVID-19 in March 2020, through the remainder of the year the foreign exchange impact of increasing market prices and demand in the U.S. exceeded the foreign exchange impact of the appreciation of the Canadian Dollar relative to the U.S. Dollar. Additionally, the wholesale division collaborates with our Canadian dealership network to source inventory for distribution across the group while also assisting with re-positioning units to specific locations to optimize profitability.

Project 50 (Used Retail Cars)

Project 50 is a key initiative focused on increasing our ratio of used-to-new vehicle sales (excluding the Used Digital Retail Division), with the purpose of diversifying our revenue profile, as well as driving higher margin ancillary revenues in our PS&CR and F&I divisions. Used vehicle sales are typically less exposed to the cyclicality of the auto industry as compared to new vehicle sales.

The objective of Project 50 is to increase the average number of used vehicles sold at our dealerships to 50 per dealership per month. We have a long-term strategic goal of selling one used retail vehicle for every new retail vehicle sold. Implementation of Project 50 includes reducing the number of auctioned vehicles from our dealerships while increasing used vehicle sales at our dealerships, better aligning compensation with used vehicle sales, and expanding the variety of used vehicles available for sale.

Collision Centres

OEMs have identified that certified collision repair improves brand loyalty, increases parts & vehicle sales and enhances profits. Unique in the marketplace, AutoCanada is aligning its collision consolidation strategy with the OEMs. By leveraging our relationship with the OEMs, our dealership distribution network and our existing customer base, we expect to be able to increase revenue and drive improved margins through collision consolidation.

We have consolidated our existing collision centres under one leadership team, which allows us to implement and optimize the use of a collision management system, drive supplier compliance and implement operational best practices. In the long term, we look to grow the operations through acquisition, focusing on stand-alone collision centres in areas where we have multiple dealerships to create a "hub and spoke" model. We will target collision centres that are strategic in geographic location and with OEM certifications and have made four acquisitions since implementation: Auto Bugatti (Q4 2020), PG Klassic Autobody (Q2 2021), Autolux MB Collision (Q3 2021) and Airdrie Autobody (Q4 2021). We are also actively pursuing company-wide direct repair program agreements with insurance providers to build out a network of preferred collision centres and leverage our cross-country network.

We currently operate four stand-alone collision centres within our group of 18 collision centres.

Competition

We operate in a highly competitive industry. In each of our geographic markets, consumers have a number of choices in deciding where to purchase a new or used vehicle or where to have a vehicle serviced. According to various industry sources, there are approximately 3,500 franchised automobile dealerships in the retail automotive industry in Canada. There are numerous independent used vehicle dealers in our geographic markets. In 2021, a U.S. publicly traded automotive retailer expanded into Canada and other U.S. publicly traded automotive retailers or other dealership groups may enter the Canadian market and compete with AutoCanada.

New Vehicles – In the new vehicle market, our dealerships compete with other franchised automobile dealerships in their markets. We believe the principal competitive factors in the retail new vehicle business are consumer brand and model preferences, location, quality of facility and service, and price. We are subject to competition from franchised automobile dealers that sell the same brands of new vehicles and other new vehicle brands. We do not have any cost advantage in purchasing new vehicles from the automobile manufacturers.

Used Vehicles – In the used vehicle market, our dealerships compete for the supply and resale of used vehicles with other franchised automobile dealerships, local independent used vehicle dealers, vehicle rental agencies and private sellers. We believe the principal competitive factors in the retail used vehicle business are location, quality of facility and service, the suitability of a franchise to the market in which it is located, price and selection. Improvements in online private sales technologies have enhanced the ability of private individuals to sell their vehicles outside of dealerships, increasing the competition the Company faces. We believe that auto dealerships have a distinct competitive advantage over private sellers due to our ability to provide multiple sources of financing, the ability to offer extended warranty and our direct access to dealer auctions which offer competitive pricing, and we intend to focus our marketing efforts on these advantages.

Parts, Service and Collision Repair – In the parts, service and collision repair market, our dealerships compete with other franchised automobile dealerships to perform warranty repairs and with franchised and independent service centre chains, and independent repair shops for non-warranty repair and maintenance business. We believe the principal competitive factors in the parts, service and collision repair business are location, quality of facility and service, the use of factory-approved replacement parts, familiarity with an automobile manufacturer's brands and models, convenience, competence of technicians and price.

Finance and Insurance – In the finance and insurance market, we face competition in arranging financing for our customers' vehicle purchases from a broad range of financial institutions. We believe the principal competitive factors in the finance and insurance business are convenience, interest rates and flexibility in contract length. We also face competition in the sale of third party warranty, insurance and other vehicle maintenance and protection products from independent businesses which sell similar products.

Acquisitions – We compete with owners of other franchised automobile dealerships and, in some cases, individual and corporate investors for acquisitions. An acquisition of an existing franchised automobile dealership requires the approval of the automobile manufacturer and the manufacturer may approve our competitors as a purchaser of the dealership rather than us.

Our Competitive Strengths

We believe our principal competitive strengths include the following:

Our Multi-Location Automobile Dealership Model

Economies of Scale – Our size and consolidated purchasing power provide both cost and revenue synergies. Cost synergies include achieving lower prices for items such as insurance, advertising, benefit plans, software, information systems, car rentals and other items and services used at our dealerships. Revenue synergies include being a preferred provider for retail service and warranty contracts and earning higher commissions on finance and insurance activities.

Decentralized Operations and Centralized Administrative and Strategic Functions – Our organizational structure allows us to provide market specific responses to sales, service, marketing and inventory requirements while benefiting from the resources provided by an experienced and knowledgeable head office executive team.

Best Practices – Our model enables us to benchmark the success of our dealership operations against each other and rapidly implement new and innovative ideas across our dealership group.

Geographic Diversification – Our diversified locations throughout Canada help to mitigate the potential effect of adverse economic conditions in any one region of Canada.

Inventory Management – Operating a number of franchised automobile dealerships allows us to share market information amongst our dealerships selling the same brands and quickly identify any changes in consumer buying patterns and to manage inventory purchases on a group basis with allocation between the individual dealerships on an optimized basis.

Ability to Attract and Retain Key Employees – Our size, performance, public company status, and geographic and manufacturer diversity allow the Company to attract and retain key employees both at the dealership level and at our head office.

Portfolio of Brands Suited to the Markets in which we Operate

We seek to supply new vehicles of the type and at the price points that we believe are or will be in demand in our markets. Following the transaction with the Autopoint Group, our OEM brands account for nine of the top 10 brands in Canada and represent over 82.6% of the Canadian new vehicle market based on units sold in 2021. We also have a strong portfolio of luxury brands, which typically experience more stable sales and generate higher margins relative to domestic and import brands. Following the transaction with the Autopoint Group, our luxury portfolio includes the four of the top five luxury brands in Canada based on unit sales in 2020.

Revenue Diversification

We operate 78 franchised dealerships across eight provinces in Canada and the U.S. state of Illinois, two used vehicle dealerships supporting the Used Digital Retail Division, and four stand-alone collision centres (within our group of 18 collision centres). Our current multi-location model of dealerships enables us to serve a diversified geographic customer base and enjoy benefits and advantages not available to single location dealerships.

We are also diversified across OEM brands, offering 28 brands of new vehicles. Management believes that AutoCanada's dealerships are well-positioned in each geographic location, offering brands that match preferences of that region. For example, in western Canada, where there is a high preference for SUVs and light trucks, we have a large presence of domestic brands such as Dodge, Chrysler and GM.

In addition to new vehicle sales, we derive a substantial portion of our revenue from our other inter-related business operations, including our Special Finance division and growing collision centre business. We are especially focused on our used vehicle sales segment as sales drive incremental revenue for our F&I and PS&CR segments, with a long term strategy to achieve and maintain a used-to-new retail unit sales ratio of 1:1.

Our same store used-to-new retail unit ratio[1] increased to 1.29 for Q4 2021 as compared to 0.93 in the same period in the prior year. On a TTM basis, Canadian used-to-new retail unit ratio for the year improved to 1.43 for the period ended December 31, 2021 as compared to 0.95 for the period ended December 31, 2020. According to DesRosiers Automotive Consultants, other Canadian dealerships averaged a used-to-new retail unit sales ratio of 0.60 in 2020.

Increased Resiliency Through Economic Cycles

The automotive retail industry represents a key component of the Canadian economy, generating in excess of approximately $244 billion in annual sales[2]. Both new and used vehicle sales in Canada and units in operation have steadily risen since 2000.

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[1] See "Non-GAAP and Other Financial Measures" for further information regarding this supplementary financial measure.
[2] Source: DesRosiers Automotive Consultants. New and used vehicle market as of 2020.

Our inter-related business segments reduce the impact of any potential slowdowns in economic activity. We offer a diverse portfolio of brands for new vehicles, and have a strong portfolio of luxury brands which are typically more stable in sales. Our Go Forward Plan initiatives also place additional focus on higher margin revenue streams, enhancing our economic resiliency. Our F&I initiatives enable us to increase sales within a high gross profit segment and increase profitability from each vehicle sold. We are focused on driving additional PS&CR revenue through our BDC strategy and collision centre operations, which provide more stable and recurring revenues. We also place additional emphasis on our used vehicle segment, which in addition to driving additional F&I and PS&CR revenues, is more countercyclical in nature. Finally, our Special Finance division serves more credit challenged customers,thereby presenting us with an opportunity to optimize profitability in an economic downturn.

Proven Ability to Outperform

AutoCanada has been able to outperform the Canadian new vehicle market for 11 of the last 12 quarters as of December 31, 2021. Contributing to the outperformance is a combination of time in position related to the establishment of our complete business model, an alignment of compensation structures with our OEM partners' balanced scorecard metrics, our ongoing communication with OEMs, and the ability to leverage our scale and data analytics to drive pace of sales.

Canadian Digital Retail Platform

In December 2020, we announced our Used Digital Retail Division as Canada's first national digital used vehicle platform. Our Used Digital Retail Division is expected to drive Canadian used vehicle sales across all channels, including both standalone and brick and mortar used dealerships as well as completely online, providing customers with an opportunity to experience a seamless omni-channel buying experience. The growth of the division includes the development of a national network of used vehicle dealerships through both organic development and acquisitions of used vehicle dealers as well as an online platform.

The Used Digital Retail Division strategy allows entry into a new market for AutoCanada, complementing and meaningfully improving beyond our 1.0 used-to-new retail unit ratio target in Canada. The strategy will additionally drive incremental revenues in existing high margin business segments, including finance and insurance and parts, and service and collision repair.

The Used Digital Retail Division strategy began and continues in the "Crawl" phase, focusing on retailing 20,000 to 30,000+ used vehicles per year mainly through used car dealerships over the first 18 months while building out the used car dealer network. Key management hires will be executed as well. During the next phase of our timeline, the "Walk" phase, over 12 – 24 months, the digital platform will be built out, call centre solutions will be established, and the multi-channel economic model will be refined. In the final "Run" phase, over 18 – 30 months, the focus will be on execution and building the brand.

A major differentiator of our strategy is that it is expected to be self-funding throughout all three phases, reducing the burden on the rest of the business and allowing us to continue executing on other strategic initiatives.

Experienced and Incentivized Senior Management

Our management team has extensive experience and expertise in the retail automotive industry, see "Directors and Officers".

The Company has established the ACI Stock Option Plan and a phantom stock option plan under which options or phantom stock options may be granted to our directors, officers, employees and consultants, in order to provide an opportunity for these individuals to increase their proprietary interest in our long-term success.

A significant portion of the compensation of our senior management is also based on an annual cash bonus, to provide appropriate short-term incentives, and equity based incentive awards, to provide appropriate long-term incentives.

Dealer principals are compensated, to a significant extent, on the basis of the financial performance of the franchised automobile dealership for which they are responsible. Our dealer principals participate in an incentive plan that provides for the payment to them of a percentage of the earnings before interest expense (other than interest expense on floorplan financing), income taxes, depreciation, and amortization ("EBITDA") or earnings of the dealer principal's franchised automobile dealership. The compensation of department managers and salespeople is similarly based upon departmental profitability and individual performance, respectively.

Inventories

Effective management of our inventory levels is critical to our business. Careful monitoring of inventories of new and used vehicles and parts by days of supply, both in units and dollar amount leads to increased profitability by minimizing interest expense incurred from financing our inventory, while maximizing our free cash flow[1] through prudent management of our working capital requirements.

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[1] See "Non-GAAP and Other Financial Measures" for further information regarding this supplementary financial measure.

New Vehicles

Automobile manufacturers allocate their budgeted production among franchised automobile dealerships largely based on historical selling patterns of the given dealership. Automobile manufacturers also take into account the dynamics of each marketplace and look to the number of new vehicle registrations by type to assess the automobile manufacturers' expected market share for each of their product offerings. Through their own analysis, automobile manufacturers determine a "minimum sales responsibility" for each of their dealers which is effectively a minimum selling volume.

Although automobile manufacturers determine a targeted volume of product that each dealer is expected to sell, the decision to purchase inventory is the dealer's, subject to meeting the minimum inventory levels required by the franchise or sales and service agreements with the automobile manufacturers. Our dealers prepare an annual plan at the start of each year, which is then revised and updated throughout the year with the filing of monthly plans.

In general, lead times for delivery of new vehicles are expected to be six to eight weeks from the time of placing our order. We generally expect to manage our new vehicle inventory to approximately a minimum of 100 days supply (which generally includes approximately 30 days of "in transit" time) although variations are common due to in-transit times to ship vehicles from factories in North America, Europe and Asia to our various locations across Canada. During certain times of the year, certain plants operated by our OEM's are shut down for maintenance due to declines in market demand or scheduled maintenance. As we become aware of plant closures, we occasionally increase inventory of the effected product lines.

We finance our inventory purchases (known in the industry as floorplan financing) through revolving floorplan facilities which we have arranged through various floorplan lenders, including Scotiabank, CIBC, RBC, HSBC, ATB, VCCI, GM Financial, Mercedes-Benz Facilities and BMW Financial. See "Financing – Floorplan Financing". The various floorplan lenders establish credit limits for each of our dealerships based on individual dealership needs.

We are able to mitigate interest expense from floorplan financing by effectively managing new vehicle inventories and turning our inventory regularly through continuing sales and smaller but more frequent orders, while complying with the minimum inventory requirements in our agreements with the automobile manufacturers.

Used Vehicles

Used vehicle inventory is typically acquired either through trade-ins on new or used vehicle sales, lease returns or auctions. In order to facilitate a new vehicle sale, we often take a customer's previously owned vehicle as partial consideration. If the used vehicle fits our criteria for used vehicle inventory, we recondition the vehicle in our service department before returning the vehicle to our sales lot. In evaluating used vehicles for our inventory, we consider age, brand, mileage and general fit within the respective marketplace. If a trade-in vehicle does not meet our criteria, we typically sell the vehicle through auction, or in limited circumstances, to a wholesaler.

We acquire a significant amount of our used vehicle inventory through trade-ins and use auctions to supplement this inventory. Most automobile manufacturers regularly conduct closed auctions exclusively for its franchised automobile dealers to purchase off-lease and fleet vehicles. These vehicles typically meet our inventory criteria.

We also acquire vehicles through several other auto auctions. Some of these auctions are limited to franchised automobile dealers, while others are open to all interested parties. The used vehicle inventory at each of our dealerships is monitored at both the dealership and at head office. Our target is to turn our used vehicle inventory every six weeks.

If vehicles are not receiving interest from potential customers, our dealers either reduce the suggested price or sell the vehicle through auction, or in limited circumstances, to a wholesaler.

Our used vehicle inventory is financed by a combination of working capital and our revolving floorplan facilities.

Parts Inventory

Each of our franchised automobile dealerships has a parts manager who is responsible for the procurement and management of our parts inventories. Each of our dealerships' parts managers monitors inventories for stale parts. Certain automobile manufacturers allow us to return up to six percent of our purchases each year for full refund. The effective identification of stale parts inventory allows us to reduce our working capital requirements. In addition, our parts managers monitor lost sales resulting from not having a customer's requested part in our inventory. Measuring these lost sales enables us to change our stocking patterns and minimize future lost sales while at the same time improving customer service. Our parts inventory is financed by our working capital.

Automobile Dealership Franchise Agreements

Each of our franchised automobile dealerships is operated by one of our subsidiaries pursuant to automobile dealership franchise or sales and service agreements between the applicable automobile manufacturer and the subsidiary. The typical dealership franchise or sales and service agreement specifies the location at which the subsidiary has both the right and obligation to sell the automobile manufacturer's vehicles and related parts and products and to perform certain approved services. The agreement grants the subsidiary the non- exclusive right to use and display the automobile manufacturer's trademarks, service marks and designs in the form and manner approved by the automobile manufacturer. The dealer principal must be an active participant in the business of the subsidiary and its dealership, and must be approved by the automobile manufacturer under the franchise or sales and service agreement for that dealership.

The allocation of new vehicles among franchised automobile dealers is subject to the discretion of the automobile manufacturer, which generally does not guarantee dealers exclusivity within a given territory. An OEM agreement may impose requirements on the franchised automobile dealer concerning such matters as the showrooms, the facilities and equipment for servicing vehicles, the maintenance of minimum levels of vehicles and parts inventories, the maintenance of minimum net working capital, the achievement of certain sales targets, minimum customer service and satisfaction standards and the training of personnel. Compliance with these requirements is closely monitored by the automobile manufacturer. In addition, most automobile manufacturers require each franchised automobile dealer to submit monthly and annual financial statements.

We are subject to additional provisions contained in supplemental agreements, framework agreements or franchise addenda. These agreements impose requirements similar to those discussed above, as well as limitations on changes in our ownership or management and limitations on our market share of total vehicles sold by a particular automobile manufacturer.

Termination or Non-renewal of Franchise Agreements

AutoCanada's OEM Agreements include provisions that permit the OEM to terminate the agreement or direct AutoCanada to divest the subject franchised automobile dealership if the franchised automobile dealership undergoes a change of control or if the dealer principal named in the agreement changes without the approval of the OEM. However, historically in the franchised automobile dealership industry, in the case of well managed and well capitalized dealerships, the OEM Agreements are rarely terminated involuntarily or not renewed by the manufacturer.

In the event of a breach by AutoCanada of the provisions of an OEM Agreement, AutoCanada may be required to sell franchised automobile dealerships operating under agreements with the OEMs to purchasers approved by the OEMs, or the agreement may be terminated by the manufacturer. The OEM Agreement may also provide the OEM with the right to purchase from AutoCanada any franchise that AutoCanada seeks to sell. Provisions such as these may provide OEMs with superior bargaining positions in the event that they seek to terminate franchise agreements or renegotiate the agreements on terms that are disadvantageous to AutoCanada. AutoCanada's results of operations may be materially and adversely affected to the extent that the franchise rights become compromised or operations restricted due to the terms of an OEM Agreement or if AutoCanada loses substantial franchises.

Provisions Affecting a Change of Control or Ownership

The Chrysler Approval Agreement was restated, effective December 31, 2009, and prohibits a change of control of ACI without the prior approval of Chrysler Canada unless ACI thereafter disposes of the Chrysler Dealer LPs within certain timelines. It also prohibits: (i) a change in control of the Chrysler Holding LP; (ii) the acquisition of more than 10% of Shares by an OEM, or (iii) the sale of all or substantially all of the assets of Chrysler Holding LP or of the shares of any of the general partners of the Chrysler Dealer LPs, except to an affiliate.

Under a supplemental agreement with Nissan Canada if any person or entity acquires more than 20% of ACI, or a group of persons or entities acquire more than 50% of ACI, and, in either case, Nissan Canada, acting reasonably, determines that such persons or entities do not have interests compatible with those of Nissan Canada, or are otherwise not qualified to have an ownership interest in a Nissan or Infiniti dealership, then Nissan Canada shall be entitled to require ACI to divest its ownership interest in those Nissan and Infiniti dealerships owned by ACI.

The GM PCMA was entered into on December 7, 2017 and it prohibits without the prior written consent of GM: (i) the acquisition of 20% of more of the voting securities of ACI or an acquisition which otherwise results in a change of control of ACI; (ii) the acquisition of Shares by an OEM for the purposes of changing the Management of ACI, (iii) the change of any Management of ACI; or (iv) certain other material events or circumstances which may impact ACI or its GM dealerships. In such circumstances, unless the prior approval of GM Canada is obtained, ACI may be required to dispose of its GM dealerships in certain timeframes. Some of these circumstances are generally outside of AutoCanada's control and may result in the termination of one or more franchises, which may have an adverse effect on ACI.

The Ford PTOA was entered into in November, 2018 and it prohibits without the prior written consent of Ford: (i) a person acquiring enough voting securities in ACI to exert a change of control of ACI; (ii) a sale or transfer of all or substantially all of the assets of ACI, (iii) a change in the composition of a majority of the board of ACI; or (iv) certain other material events or circumstances which may impact ACI or its Ford dealerships. In such circumstances, unless the prior approval of Ford is obtained, ACI may be required to dispose of its Ford dealerships in certain timeframes. Some of these circumstances are generally outside of AutoCanada's control and may result in the termination of one or more franchises, which may have an adverse effect on ACI.

The American Honda (AHM) framework agreement was entered into on January 24, 2018. The agreement permits certain remedies to AHM, which may require ACI to perform certain actions within certain timeframes. Some of these actions may not be able to be completed by ACI within such a timeframe, which may have an adverse effect on ACI. These remedies may be available to AHM if the following occur that are not cured within a certain period of time: (i) there is an acquisition of 20% or greater interest in ACI or control (meaning power to direct management and policies of ACI) by an OEM or a person who has a criminal record in connection with automobile manufacturers, distributors or dealerships or has been convicted of a felony or charged with any crime involving fraud or moral turpitude or (ii) ACI or a related party acquires an OEM or automobile manufacturer. AHM also has the right to deny consent to the acquisition of control of ACI, if such acquisition of control is reasonably determined to be detrimental to AHM's interests in any material respect.

Under a supplemental agreement with General Motors LLC (GM US), ACI's subsidiary that holds all of its US subsidiaries (ACI US) must notify GM US if there is an agreement or plans/proposals (i) to divest or acquire 20% or more of the voting securities of ACI US, (ii) a transaction that may involve the sale or transfer of a material amount of assets held by ACI US, (iii) any change to ACI US' management structure resulting in a material change in control, or (iii) the acquisition by an entity that produces or is under common control by an entity that produces motor vehicles or is a motor vehicle franchiser. If GM US determines the event described in any such notice may have a material adverse effect on GM US, then ACI US may be required to take remedial action to remedy the event to GM US's satisfaction. Under certain circumstances, ACI may not be able to take the remedial action required to meet GM US's satisfaction, in which case it may have an adverse effect on ACI.

The Toyota Motor Sales US (TMS) letter agreement was entered into in March 2018. Under the agreement, TMS is entitled to certain remedies, which may require ACI to perform certain actions within certain timeframes. Some of these actions may not be able to be completed by ACI within such a timeframe, which may have an adverse effect on ACI. The remedies may be available to TMS if one or more of the following occur: (i) there is a merger, consolidation, IPO or similar transaction that results in the shareholders of ACI and certain subsidiaries having less than majority voting power in a successor entity; (ii) any person or group of persons acquiring more than 20% of the voting power of ACI, unless it is a person or group of persons that is a motor vehicle manufacturer, distributor, or provider of automotive related products, in which the percentage shall be 5%; (iii) any person or group of persons acquires control of ACI within the continental United States owned or controlled by ACI; (iv) a material change in the board of directors of ACI or certain subsidiaries; or (v) there is a change in ownership or control of ACI and certain subsidiaries without TMS's approval.

We may be required to enter into similar agreements with the other automobile manufacturers, or those related to same, with whom we deal or wish to deal.

Our dealership franchise or sales and service agreements require the approval of the applicable automobile manufacturer to any change in the ownership of the franchised automobile dealership.

Actions by our Shareholders or prospective Shareholders that would violate certain of the above restrictions are generally outside of our control. For example, we cannot control a change of control of ACI or the acquisition by another automobile manufacturer of more than 10% of our outstanding Shares. In addition, these restrictions may also limit our ability to finance future acquisitions through the issue of additional Shares or other equity securities. If we are unable to renegotiate these restrictions, we may be inhibited in our ability to acquire additional franchised automobile dealerships. These restrictions also may impede our ability to raise required capital or to issue Shares, or securities exchangeable into Shares, as consideration for future acquisitions.

Although our franchise or sales and service agreements may not be renewed and may be terminated by the automobile manufacturer in certain circumstances, automobile manufacturers have rarely chosen to take such action in the case of well managed and well capitalized dealerships – See "Risk Factors". If any of our franchise or sales and service agreements are terminated, or if certain automobile manufacturers' rights under their agreements with us are triggered, our operations could be significantly compromised.

Indemnities and other Agreements

The Chrysler Approval Agreement, Hyundai Framework Agreement, GM PCMA and Ford PTOA also contain provisions which require us to indemnify the respective automobile manufacturer for breaches of the applicable agreement, for claims made against the automobile manufacturer arising out of the creation of ACI or in respect of the IPO and, in the case of Hyundai and GM, from any acts or omissions under any applicable securities laws, including any claim arising from any misrepresentation or public oral statement made by us.

In addition, these agreements may require us to obtain approval of management and directors of dealerships and in certain instances to issue equity interest to management. We are also required to maintain directors' and officers' and certain other types of insurance.

Automobile Manufacturers' Limitations on Acquisitions

We are required to obtain the consent of the applicable automobile manufacturer before we can acquire any additional franchised automobile dealerships that can sell the vehicles produced by that automobile manufacturer. Our automobile manufacturers impose limits on the number of franchised automobile dealerships we are permitted to own at the national, regional and metropolitan levels. These limits vary according to the agreements we have with each of the automobile manufacturers but are generally based on fixed numerical limits or on a fixed percentage of the aggregate sales of the automobile manufacturer.

The Chrysler Multi-Dealer Group Policy, which is applicable to all Chrysler dealers, currently limits the number of additional Chrysler Canada franchised automobile dealerships which can be acquired if it would result in the 36 month average sales of new Chrysler Canada vehicles from our dealerships to exceed the following percentages of 36 month average sales of new Chrysler Canada vehicles: 8% of sales in Canada (increased by Chrysler Canada from the original mandate of 5%); 15% of sales in any province; and 30% of sales in a major metropolitan market (as defined in the Multi-Dealer Group Policy), except as approved by Chrysler Canada.

Subject to Nissan's consent otherwise, the Nissan Multiple Market Ownership Agreement limits ACI's ownership, to that number of Nissan or Infiniti dealerships, which aggregated, do not have sales greater than:

(i) 5% of Nissan's national sales and Infiniti's national sales, respectively;

(ii) 5% of Nissan's total sales within a Region; and

(iii) 5% of all Nissan dealerships or 10% of all Infiniti dealerships.

In addition, ACI shall not own or manage more than one Nissan or Infiniti dealership in a metropolitan market comprised of two to three dealerships of the same brand; more than two Nissan or Infiniti dealerships in a metropolitan market comprised of between four and ten dealerships of the same brand; or more than three Nissan or Infiniti dealerships in a metropolitan market comprised of eleven or more dealerships of the same brand, except as approved by Nissan Canada.

The GM PCMA provides that ACI shall not own or manage more than: i) one GM dealership in a metropolitan market area with two or three GM dealerships; ii) two GM dealerships in a metropolitan market area with four, five or six GM dealerships; and iii) three GM dealerships in a metropolitan market area with seven or more GM dealerships. In addition, ACI may not acquire a GM dealership in a single dealer area or province if ACI's GM and other dealerships have greater than: i) 50% of the current industry volume in the single dealer area; or ii) 30% of the current industry volume in a metropolitan area or province.

Management believes that all other automobile manufacturers have similar requirements. Unless we renegotiate these agreements or receive the consent of the automobile manufacturers, we may be prevented from making further acquisitions upon reaching the limits provided for in these agreements. We are near or in excess of the sales volume limits imposed by Chrysler Canada which may limit the acquisition of additional Chrysler dealerships in certain provinces and metropolitan areas. The sales volume limits imposed by Chrysler Canada are continuously under review and are subject to amendment. During the previous three fiscal years we were approved to acquire additional Chrysler dealerships despite being in excess of the stated limits of the Multi-Dealer Group Policy.

Financing

Floorplan Financing

Franchised automobile dealerships finance their new vehicle inventory (and in some instances a portion of their used vehicle inventory) by way of floorplan financing, which is offered by the automobile manufacturers' captive finance companies, banks and specialty lenders. Although the structures used in floorplan financing vary, a floorplan lender typically finances 100% of the purchase price of a new vehicle from the time of purchase by the dealership (which occurs when production of the new vehicle is completed).

On February 11, 2020, the Company entered into the $950 million First Amended and Restated Credit Facility with the Bank of Nova Scotia ("Scotiabank"), the Canadian Imperial Bank of Commerce ("CIBC"), the Royal Bank of Canada ("RBC"), HSBC Bank Canada ("HSBC"), Bank of Montreal ("BMO") and ATB Financial ("ATB"). The First Amended and Restated Credit Facility provided for specified-use tranches and provided the Company with revolving credit capacity for operational and growth purposes as well as floorplan financing to assist with the purchasing of inventory. The maturity of the First Amended and Restated Credit Facility was February 11, 2023.

On October 28, 2020 and on December 15, 2020, the Company executed the Second and Third Amendment respectively. Following the Second and Third Amendment, the Company was provided with a $525,000 facility for floorplan and lease financing of new vehicles, an unallocated new vehicle limit of $25,000 for the financing of future acquisitions, $175,000 facility for floorplan and lease financing of used vehicles, and no unallocated used vehicle facility limit for the financing of future acquisitions, a $25,000 facility for floorplan of used export vehicles, a $175,000 facility for general corporate purposes, and a $25,000 accordion feature.

On April 14, 2021, the Company entered into the Second Amended and Restated Credit Facility with Scotiabank, CIBC, RBC, HSBC, BMO and ATB. The Second Amended and Restated Credit Facility increased the revolving credit facility by $50 million to $225 million and included a $1.06 billion revolving wholesale floorplan financing facility and a $15 million revolving wholesale leasing facility, for total aggregate bank facilities of $1.3 billion. The maturity of the Second Amended and Restated Credit Facility was extended to April 14, 2024.

On December 1, 2021, the Company entered into the Third Amended and Restated Credit Facility with Scotiabank, CIBC, RBC, HSBC, BMO and ATB concurrent with the closing of the acquisition of the dealership assets from the Autopoint Group.

On February 7, 2022, the Company entered into the first amending agreement which amends the Third Amended and Restated Credit Facility. As part of the amendments, the Company added The Toronto-Dominion Bank to its existing syndicate of lenders and the maturity of the Third Amended and Restated Credit Facility was extended to April 14, 2025.

As of December 31, 2021, ACI's syndicated floorplan facility has been provided to 45 of the 80 dealerships in which AutoCanada operates. 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.

In addition, the Company maintains floorplan facilities with each of RBC, BMW Financial Services Canada, VW Credit Canada, Inc., and Mercedes-Benz Financial. On August 20, 2020, the Company finalized an arrangement with Ally Financial to replace previous U.S. floorplan financing for new, used, and demonstrator vehicles in the U.S. In addition, on October 29, 2020, the Company executed a new agreement with General Motors Financial of Canada to replace previous floorplan financing. In aggregate, the facilities provide a total of $1,606 million.

Our ability to finance our new, used and demonstrator inventory is a significant factor in the Company’s liquidity management. The Company is generally able to increase or decrease the number of vehicles it finances, subject to limits imposed by floorplan lenders, as part of its treasury management function. If floorplan limits are reduced, the Company may not be able to maintain its current level of inventories, which may negatively impact our future results. As at December 31, 2021, all financial covenants relating to all floorplan financing agreements had been met. The Company may not be able to maintain its current level of inventories, which may negatively impact our future results.

Capitalized terms not otherwise defined in this section have the meanings given to them in the Credit Agreements, copies of which, along the the associated Material Changes Reports, are available on SEDAR at www.sedar.com.

Revolving Credit Facilities

As previously indicated, the Credit Agreement provides for a $225 million revolving facility that may be used for ongoing working capital and general corporate purposes, including permitted acquisitions and permitted capital expenditures.

The total amount available for borrowing under the Credit Agreement is subject to a borrowing base restriction calculated by reference to, among other things, the value of collateralized real estate. The total amount available under the borrowing base as of December 31, 2021 is $250 million.

With respect to financial covenants, the Borrowers are required to maintain the following covenants on a consolidated basis:

(i) the Fixed Charge Coverage Ratio shall not be less than 1.20:1.00;

(ii) the Total Net Funded Debt to EBITDA Ratio shall not exceed 4.00:1.00; and

(iii) the Senior Net Funded Debt to EBITDA Ratio shall not exceed 2.50:1.00.

The Credit Agreement will also contain certain additional negative covenants and affirmative covenants and events of default.

“**Fixed Charge Coverage Ratio**” means, at any time of determination, on a Rolling Four Quarter Basis, the ratio of (A) EBITDA less (i) Unfunded Capital Expenditures of ACI on a consolidated basis, (ii) Cash Taxes paid by ACI on a consolidated basis, and (iii) Distributions by ACI on a consolidated basis, to (B) the sum of (i) Interest Expense, excluding any wholesale flooring interest expense, paid by ACI on a consolidated basis, and (ii) scheduled principal repayments (including Capital Lease payments) by ACI on a consolidated basis.

“**Total Net Funded Debt to EBITDA Ratio**” means, at any time of determination, on a Rolling Four Quarter Basis, the ratio of (A) Total Funded Debt including (i) Senior Funded Debt, (ii) interest bearing liabilities, indebtedness secured by PMSIs, (iii) Capital Lease Obligations, (iv) securities having attributes substantially similar to debt and (v) contingent obligations including letters of credit, (vi) any other indebtedness for borrowed money not considered by the Lenders to be equity, (vii) excluding Wholesale Flooring Debt and Wholesale Leasing Debt, (viii) netting of up to $30 million of cash and cash equivalents to (B) (i) EBITDA less (ii) interest payable under the Wholesale Flooring Debt and Wholesale Leasing Debt.

"**Senior Net Funded Debt to EBITDA Ratio**" means, at any time of determination, on a Rolling Four Quarter Basis, the ratio of: (A) Senior Funded Debt including (i) Obligations (excluding the Wholesale Flooring Debt and the Wholesale Leasing Debt), (ii) the Other Secured Obligations and (iii) all other Total Funded Debt of ACI on a consolidated basis, (iv) excluding any part of such Debt not ranking, or capable of ranking, senior to or pari passu with the Obligations or Other Secured Obligations, (v) netting of up to $30 million of cash and cash equivalents to (B) (i) EBITDA less (ii) interest payable under the Wholesale Flooring Debt and Wholesale Leasing Debt.

Capitalized terms not otherwise defined in this section have the meanings given to them in the Credit Agreement, a copy of which is available on SEDAR at www.sedar.com.

Mortgage Facilities

VCCI provided the Company with a mortgage (the "VCCI Mortgage") for one facility, 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.

Marketing

Our advertising and marketing efforts are focused at the local market level, with the aim of building the businesses of our dealerships with a broad base of repeat, referral and new customers. Our most prevalent advertising mediums are local newspapers, radio, direct mail, television, and digital.

Print and Media Advertising

The retail automotive industry has traditionally used locally produced, largely non-professional materials, often developed under the direction of each franchised automobile dealership's dealer principal. We have created common marketing materials for our brand names at some of our dealerships using our own expertise and professional advertising agencies.

Internet and e-Commerce

We believe that the Internet and e-commerce represents a substantial opportunity to build our franchised automobile dealerships' brands and expand the geographic borders of their markets. We use the scope and size of our operations to expand the use of the Internet in our sales of new and used vehicles, as we believe our customers are increasingly using the Internet as a key part of their product research.

Each of our franchised automobile dealerships has established a website that incorporates a professional design to reinforce the dealership's unique brand and advanced functionalities to ensure that the website can hold the attention of customers and perform the informational and interactive functions for which the internet is uniquely suited. Automobile manufacturer website links provide our dealerships with key sources of referrals. Many of our dealerships use the internet to communicate with customers both prior to vehicle purchase and after purchase to coordinate and market maintenance and repair services.

ACI has made significant investments in new technology and improving our websites to better accommodate our customers and improve our marketing and communication with potential customers. Our centralized marketing department has a number of initiatives underway to increase traffic to these sites and improve the functionality of the websites and user friendliness. Our centralized marketing department will continue to be a driving force in lead generation activities and search engine optimization for our dealerships.

ACI has also been working with our dealership teams to improve our internet sales processes and ensuring that phone, email and internet leads are being appropriately handled. Our executive team and dealers recognize the importance of our online presence and believe the virtual showroom will be a major contributor to sales in the future. Internet marketing represents a significant opportunity for our dealerships to improve customer relationships and increase sales in all areas of the business.

Management Information Systems

We consolidate financial, accounting and operational data received from our franchised automobile dealerships nationwide through an exclusive private communications network.

Our financial information, operational and accounting data and other related statistical information are consolidated, processed and maintained at our headquarters in Edmonton, Alberta on a network of server computers and work stations. There is also off-site storage maintained by CDK Global (formerly ADP Dealer Services). The flexible nature of our installed network allows for accumulation, processing and distribution of information using CDK and Reynolds and Reynolds computing programs. These two companies provide software for many companies in Canada, including franchised automobile dealerships. All sales and expense information, and other data related to the operations of each of our dealerships are entered at each location. This system allows our senior management to access detailed information on a “real time” basis from all of our dealerships regarding, for example, the makes and models of vehicles in our inventory, the mix of new and used vehicle sales, the number of vehicles being sold or leased, the percentage of vehicles for which we arranged financing or sold ancillary products and services, the profit margins achieved on sales and the relative performances of our dealerships to each other. This information is also available to each of our dealer principals. Reports can be generated that set forth and compare revenue and expense data by department and by dealership, allowing our management to quickly analyze the results of operations, identify trends in the business and focus on areas that require attention or improvement.

We believe that our management information system is a key factor in successfully incorporating newly acquired businesses. Following each acquisition, we install our management information system at the dealership location as soon as possible for the dealership, thereby quickly making financial, accounting and other operational data for that dealership easily accessible to our senior management. With access to this data, we can more efficiently incorporate our operating strategy at the newly acquired dealership. Because our management information system is scalable, we can integrate new acquisitions without significantly increasing the cost of operating the system.

Employees

As of December 31, 2021, we employed approximately 5,400 full time equivalent employees.

In Canada, our employees in parts, service and collision repair and sales activities at Moncton Chrysler Jeep Dodge, Maple Ridge Chrysler Jeep Dodge FIAT, Island GMC, Wellington Motors, Mercedes-Benz Rive-Sud and BMW Montreal Centre are represented by labour unions. The collective bargaining agreement with the union at Island GM was successfully renegotiated and will expire on December 31, 2022. The collective bargaining agreement with the parts and service employees at Mercedes-Benz Rive-Sud was successfully renegotiated in 2021 and expires July 15, 2027. The collective bargaining agreement with the sales consultants at Mercedes-Benz Rive-Sud was successfully renegotiated in 2021 and will expire on December 19, 2023. The collective bargaining agreement with the service advisor’s union at Mercedes-Benz Rive-Sud was successfully renegotiated and will expire on December 31, 2023. The collective bargaining agreement with the union at BMW Montreal Centre was successfully renegotiated in 2021 and will expire on August 1, 2025. The collective bargaining agreement with Wellington Motors was successfully renegotiated in 2019 and will expire on November 27, 2022. The collective bargaining agreement with the union at Maple Ridge Chrysler Jeep Dodge FIAT was successfully renegotiated and will expire on May 31, 2024. The collective bargaining agreement with the union at Moncton Chrysler Dodge Jeep Ram is entering renegotiations.

In the U.S., our employees in parts, service and collision repair activities at Hyundai of Lincolnwood, North City Honda, Chevrolet of Palatine, and Toyota of Lincoln Park are represented by the Automobile Mechanics' Local 701 pursuant to agreements which expire on August 31, 2021. Our employees in parts, service and collision repair activities at Hyundai of Lincolnwood, and Toyota of Lincoln Park are represented by the Teamsters Local 731 pursuant to agreements which expire on July 31, 2022.

We have never experienced a strike, lock-out or other labour disturbance.

Our Intellectual Property and Proprietary Rights

Registration of the trademark “AutoCanada” and the corresponding logo have been applied for in Canada by ACI. We also own other trademarks, trade names and various domain names, including autocan.ca.

Regulatory Matters and Policies

National Automobile Dealer Arbitration Program ("NADAP")

In addition to our dealership franchise or sales and service agreements, our relationships with automobile manufacturers are governed by NADAP. NADAP is a program organized by the Canadian Vehicle Manufacturers' Association, the Association of International Automobile Manufacturers of Canada and CADA that provides rules for dispute resolution between the automobile manufacturers and the franchised automobile dealers in the Canadian automobile industry.

The NADAP Rules provide for the mediation and arbitration of disputes between an automobile manufacturer and its franchised automobile dealers involving: the interpretation or application of the dealership agreement; the renewal or termination of the dealership agreement; the length of a cure period provided by the automobile manufacturer in light of any franchised automobile dealer deficiencies to be cured; the sale or transfer of the franchised automobile dealership; whether a dealer owes money to an automobile manufacturer (or vice versa); and the decision of an automobile manufacturer to appoint or relocate a dealership into the market of an existing dealer. The NADAP Rules provide that an existing franchised automobile dealer can challenge an automobile manufacturer's proposal to create a new dealership or relocate a dealership, with identical brands, in a location that is within eight kilometres (in metropolitan areas) of the existing dealership's location (20 kilometres if relocated more than two kilometres closer to the existing dealership in non- metropolitan areas). Some of our agreements with the automobile manufacturers contain waivers by us of certain NADAP Rules.

Code of Conduct

We have developed and implemented a code of conduct that reflects our commitment to conducting our business in accordance with the highest ethical standards. Our code of conduct is intended to provide guidance on recognizing and dealing with ethical issues, provide mechanisms to report unethical conduct, and help foster a culture of honesty, integrity and accountability. The code deals with, among other things, advertising standards, clarity of pricing, sales techniques and standards, customer relationships and other matters. The code of conduct applies to all of our directors, officers and employees and sets policies and standards that go beyond mere compliance with the minimum legal standards. A copy of the code of conduct may be obtained from our website at www.autocan.ca or from SEDAR at www.sedar.com.

Governmental Regulations

A number of federal, provincial, state and local regulations affect our marketing, selling, financing and servicing of vehicles.

Each of the jurisdictions in which we operate regulates the licensing of franchised automobile dealers. Our dealers and salespeople must be licensed, and must comply with ongoing regulations in order to maintain their licensed status. Dealerships are also generally prohibited under applicable laws from employing individuals in certain automobile repair positions unless the individuals are appropriately certified. In addition, our dealerships are subject to various consumer protection laws which regulate sales transactions, pricing and advertising. Dealerships that offer financing products must also comply with regulations concerning matters such as credit agreement provisions, cost of borrowing disclosure and advertising regarding the terms of credit. Other jurisdictions into which we may expand our operations in the future are likely to have similar requirements.

Certain of the provinces in which we operate as well as the State of Illinois have established regulatory bodies which are responsible for licensing automobile dealers and their sales and management personnel, as well as overseeing consumer protection legislation applicable to motor dealers, including standard setting and enforcement, compliance with advertising restrictions, complaint resolution and public industry education. Operating under delegated authority from their respective provincial governments, these bodies administer and enforce compliance with many of the laws which affect the day-to-day operations of automobile dealers.

The sale of third party financing products to our customers is subject to truth-in-lending, consumer leasing, financing regulations, installment finance laws and insurance laws.

We believe that we comply substantially with all laws and regulations affecting our business and do not have any material liabilities under such laws and regulations and that compliance with all such laws and regulations do not, individually or in the aggregate, have a material adverse effect on our capital expenditures, earnings or competitive position and we do not anticipate that such compliance will have a material effect on us in the future.

Environmental Matters

We are subject to a wide range of environmental laws and regulations, including those governing discharges into the air and water, the storage of petroleum substances and chemicals, the handling and disposal of wastes and the remediation of contamination is very complex and it has become difficult for businesses that routinely handle hazardous and non-hazardous wastes to achieve and maintain full compliance with all applicable environmental laws. Like any business involved in the repair and servicing of vehicles, from time to time we experience incidents and encounter conditions that are not in compliance with environmental laws and regulations. However, none of our dealerships have been subject to any material environmental liabilities in the past and we do not anticipate that any material environmental liabilities will be incurred in the future.

Environmental laws and regulations and their interpretation and enforcement are changed frequently and we believe that the trend of more expansive and stricter environmental legislation and regulations is likely to continue. Hence, there can be no assurance that compliance with environmental laws or regulations or the future discovery of unknown environmental conditions will not require additional expenditures by us, or that such expenditures would not be material. See "Risk Factors – Risks Related to Our Business – Governmental Regulations and Environmental Regulation Compliance Costs".

Risk Factors

The risks and uncertainties described below are not the only risks and uncertainties we face. Additional risks and uncertainties not currently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks actually occur, our business, results of operations and financial condition, as well cash flows, could suffer.

Risks Related to Our Business and the Industry in Which We Operate

Risks Related to the Retail Automotive Industry

Sensitivity to Economic Conditions

AutoCanada is subject to national and regional Canadian and U.S. economic conditions. These conditions include, but are not limited to, recession, inflation, interest rates, unemployment levels, the state of the housing market, gasoline prices, consumer credit availability, consumer credit delinquency and loss rates, personal discretionary spending levels, and consumer sentiment about the economy in general. These conditions and the economy in general could be affected by significant national or international events such as a global health crisis, like COVID-19, or the Ukrainian conflict. When these economic conditions worsen or stagnate, it can have a material adverse effect on consumer demand for vehicles generally, demand from particular consumer categories or demand for particular vehicle types. It can also negatively impact availability of credit to finance vehicle purchases for all or certain categories of consumers. This could result in lower sales, decreased margins on units sold, and decreased profits. Worsening or stagnating economic conditions can also have a material adverse effect on the supply of late-model used vehicles, as automotive manufacturers produce fewer new vehicles and consumers retain their current vehicles for longer periods of time. This could result in increased costs to acquire used vehicle inventory and decreased margins on units sold. Any significant change or deterioration in economic conditions could have a material adverse effect on AutoCanada's business, sales, results of operations and financial condition.

Impact of COVID-19 on Business Operations

The COVID-19 pandemic has resulted in governmental authorities implementing measures to reduce the spread of COVID-19, which have adversely affected workforces, customers, supply chains, consumer sentiment, economies, and financial markets, including in each of the jurisdictions and regions in which we operate dealerships and collision centres. We have modified certain business practices to conform to government restrictions, applied for and obtained support under government subsidy and deferral programs and implemented cost saving and risk mitigation measures to respond to the volatile environment. The scope and duration of these measures are uncertain and the continued potential for store closures may persist. Limited retail operations, including occupancy restrictions and store closures, and the uncertainty caused by COVID-19 resulted in periods of weakened consumer demand. These conditions could continue to have a significantly negative effect on all aspects of our business, including new and used vehicle sales operations, financing, extended warranty sales, inventory acquisition, and retail service. The extent to which the COVID-19 pandemic further impacts our industry, business, sales, results of operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to, the duration, spread and severity of COVID-19, the appearance and severity of any variants of the COVID-19 virus, the actions to contain the virus or treat its impact, including the availability and efficacy of vaccines, vaccination rates amongst the public and how quickly and to what extent normal economic and operating conditions can resume. There are no comparable recent events that provide guidance as to the long term effect COVID-19 may have on our business or the economy, and even if the COVID-19 pandemic subsides, we may continue to experience significant impacts to our business as a result of its economic impact and changes in consumer behavior.

Interest Rates

AutoCanada currently finances purchases of new and, to a lesser extent, used vehicle inventory under the floor plan facilities provided under the Existing Credit Facility and the Additional Floor Plan Facilities under which AutoCanada is charged interest at floating rates. AutoCanada may obtain capital for acquisitions and for some working capital purposes under a similar arrangement. As a result, AutoCanada's debt service expenses may rise with increases in interest rates. Rising interest rates may also have the effect of depressing demand in the interest rate sensitive aspects of AutoCanada's business, particularly new and used vehicle sales, because many customers finance their vehicle purchases. As a result, rising interest rates may have the effect of simultaneously increasing costs and reducing revenues.

As part of its financial risk management strategy, the Company has implemented an interest rate hedging policy as approved by its Board of Directors and has entered into interest rate swaps to hedge its interest rate exposure. In doing so, variable interest-rate exposure has been transformed into fixed-rate obligations to assist with protecting against further interest rate fluctuations.

OEM Incentive Programs

AutoCanada's franchised automobile dealerships depend on OEMs for certain sales incentives, warranties and other programs that are intended to promote and support new vehicle sales. Some key incentive programs will include customer rebates on new vehicles, franchised automobile dealership incentives on new vehicles, special financing or leasing terms, warranties on new and used vehicles and sponsorship of used vehicle sales by authorized new vehicle franchised automobile dealerships. A reduction or discontinuation of key OEMs' incentive programs may reduce AutoCanada's new vehicle sales volume resulting in decreased vehicle sales and related revenues.

OEM partners regularly audit AutoCanada's dealerships to ensure they are in compliance with incentive programs. If dealerships are found not to be compliant with specific requirements such as documentation and other requirements, dealerships can be charged back for the amounts claimed under incentive programs. Future chargebacks relating to incentive program claims may have an adverse effect on AutoCanada's future earnings.

Overall Consumer Demand

AutoCanada's business is heavily dependent on consumer demand and preferences. AutoCanada's revenues will be materially and adversely affected if there is a severe or sustained downturn in overall levels of consumer spending. Retail vehicle sales are cyclical and historically have experienced periodic downturns characterized by oversupply and weak demand. These cycles are often dependent on general economic conditions and consumer confidence, as well as the level of discretionary personal income and credit availability.

Substantial Competition in Vehicle Sales and Services

The retail automotive industry is highly competitive. Depending on the geographic market, AutoCanada is in competition with: franchised automobile dealerships in markets that sell the same or similar makes of new and used vehicles offered, in some cases at lower prices than AutoCanada, private market buyers and sellers of used vehicles, service centre chain stores, independent service and repair shops, and other providers of financing and insurance contracts.

AutoCanada is also in competition with regional and national vehicle rental companies that sell their used rental vehicles. AutoCanada may face significant competition while striving to gain market share. Some of AutoCanada's competitors may have greater financial, marketing and personnel resources and lower overhead and sales costs. AutoCanada does not have any cost advantage in purchasing new vehicles from OEMs and typically relies on advertising, merchandising, sales expertise, service reputation and dealership location in order to sell new vehicles.

AutoCanada's OEM Agreements do not grant AutoCanada the exclusive right to sell a manufacturer's product within a given geographic area. AutoCanada's revenues and profitability may be materially and adversely affected if competing dealerships expand their market share or are awarded additional franchises by manufacturers that supply AutoCanada's dealerships.

In addition to competition for vehicle sales, AutoCanada's franchised automobile dealerships compete with other franchised automobile dealerships to perform warranty repairs and with other franchised automobile dealerships, franchised and independent service centre chains and independent garages for non-warranty repair and routine maintenance business. AutoCanada's franchised automobile dealerships compete with other franchised automobile dealerships, service stores and automobile parts retailers in their parts operations. AutoCanada believes that the principal competitive factors in service and parts sales are the quality of customer service, the use of factory-approved replacement parts, familiarity with an OEM's brands and models, convenience, the competence of technicians, location, and price. A number of regional or national chains offer selected parts and services at prices that may be lower than AutoCanada's franchised automobile dealerships' prices. AutoCanada is also in competition with a broad range of financial institutions in arranging financing for customers' vehicle purchases.

Dependence upon Vehicle Sales

The success of AutoCanada's franchised automobile dealerships will depend in large part on the level of vehicle sales generally, and the level of demand for and sales of the brands of vehicles AutoCanada sells. New vehicle sales will generate the majority of AutoCanada's total revenue and lead to sales of higher-margin products, including the sales of used vehicles, parts, service and collision repair operations and finance products. If one or more of the brands that separately or collectively account for a significant percentage of AutoCanada's new vehicle sales suffer from decreasing consumer demand, or are no longer offered for sale by the manufacturers, AutoCanada's new vehicle sales and related revenues may be materially reduced.

Due to the COVID-19 pandemic and the increase in remote working, there has been a decrease in consumer mobility in some markets. This decrease in driving may lead to a decrease in demand for automotive services, which could affect our service revenues should this trend continue.

Expanded use of the Internet in Sales

The Internet has become a significant part of the sales process in the automotive industry. Customers are using the Internet for vehicle price comparisons and related finance and insurance services, which may further reduce margins for new and used vehicles and profits related to the finance and insurance services and products that AutoCanada provides. If AutoCanada is unable to optimize its online presence to attract customers to its own on-line channels, and, in turn, to its stores, its business, financial condition, results of operations and cash flows could be materially adversely affected.

Seasonality

The retail automotive industry is subject to seasonal variations in revenues. Demand for vehicles is generally lower during the first and fourth quarters of each year. Accordingly, AutoCanada's revenues and operating results will generally be lower in the first and fourth quarters than in the second and third quarters. Therefore, if circumstances arise during the second or third quarters that adversely affect vehicle sales, such as depressed economic conditions or similar adverse conditions, revenues for the year will be disproportionately adversely affected.

Currency Fluctuations

Rapid appreciation or depreciation of the Canadian dollar relative to the U.S. dollar impacts the relative price of used and new vehicles, as well as vehicle parts in Canada relative to the U.S., making the same either more attractive, in the case of a depreciation, or less attractive, in the case of appreciation, thus posing risks to some of AutoCanada's operations. In response to the rapid change in the value of the Canadian dollar when compared to the U.S. dollar, manufacturers may or may not adjust prices or incentives to accommodate such changes, and, if adjusted, manufacturers could amend or discontinue such adjustments or incentives at any time. In addition, such currency appreciation could have a negative impact on businesses that operate in the communities in which AutoCanada's dealerships are located which could in turn, negatively impact the dealerships' performance.

Import Product Restrictions and Foreign Trade Risks

A significant portion of AutoCanada's new vehicle business involves the sale of vehicles, parts or vehicles containing parts that are manufactured outside Canada. As a result, AutoCanada's operations are subject to customary risks of importing merchandise, including fluctuations in the relative values of currencies, import duties, exchange controls, trade restrictions, work stoppages and general political and socio-economic conditions in foreign countries. Canada, or the countries from which AutoCanada's products are imported may, from time to time, impose new quotas, duties, tariffs or other restrictions, or adjust presently prevailing quotas, duties or tariffs, which may affect operations and the ability to purchase imported vehicles and/or parts at reasonable prices. These risks could be significantly compounded by the resurgence of protectionist measures by the United States.

Capital Markets

Uncertainty in the global economy and in local markets, including a deterioration of global economic conditions, a lack of market liquidity, and increased volatility in the credit markets may increase costs associated with debt instruments due to the increased spreads over relevant interest rate benchmarks and affect AutoCanada's ability to access those markets. In addition, should there be volatility or uncertainty in the capital markets in the future, access to financing may be uncertain, or more costly, which may have an adverse effect on the retail automotive industry and our business operations, including future operating results.

Operational Risk

Operational risk is the risk that a direct or indirect loss may result from an inadequate or failed technology, from a human process or from external events. The impact of this loss may be financial loss, loss of reputation or legal and regulatory proceedings. Management endeavours to minimize losses in this area by ensuring that effective infrastructure and controls exist. These controls are regularly reviewed and, if deemed necessary, improvements are implemented.

Litigation Risks

In the normal course of AutoCanada's operations, whether directly or indirectly, it may become involved in, named as a party to or the subject of various legal proceedings, including regulatory proceedings, tax proceedings and legal actions relating to personal injuries, property damage, property taxes, land rights, the environment and contract disputes. The outcome with respect to outstanding, pending or future proceedings cannot be predicted with certainty and may be determined in a manner adverse to AutoCanada and, as a result, could have a material adverse effect on AutoCanada's assets, liabilities, business, financial condition and results of operations. Even if AutoCanada prevails in any such legal proceeding, the proceedings could be costly and time-consuming and may divert the attention of management and key personnel from AutoCanada's business operations, which could have a material adverse effect on AutoCanada's cash flows, financial condition or results of operations.

Mix of New Vehicles

AutoCanada depends on OEMs to provide a desirable mix of popular new vehicles. OEMs generally allocate their vehicles among their franchised automobile dealerships based on the sales history of each franchised automobile dealership. If AutoCanada's franchised automobile dealerships experience prolonged sales slumps, OEMs may cut back their allotments of popular vehicles to AutoCanada's franchised automobile dealerships and new vehicle sales and profits may decline.

Increased Competition with Companies Entering into the Transportation Industry

Large and well-capitalized technology-focused companies have continued to enter into the automotive space in recent years. Companies including, but not limited to, Amazon, Apple, Google, Lyft, Tesla and Uber may challenge the existing automotive manufacturing, retail sales, maintenance and repair, and transportation models. Our competitors may also develop and market new technologies that render our existing or future business model, products and services less competitive, unmarketable or obsolete. Technology is currently being developed to produce automated, driverless vehicles that could reduce the demand for, or replace, traditional vehicles including the vehicles that AutoCanada sells. Additionally, if our competitors develop business models, products or services with similar or superior functionality to our solutions, it may adversely impact our business.

In addition, these large technology-based companies may change consumers' view on how automobiles should be manufactured, equipped, retailed, maintained and utilized in the future. Because these companies have the ability to connect with each individual consumer easily through their existing or future technology platforms, AutoCanada may ultimately be at a competitive disadvantage in marketing, selling, financing and servicing vehicles. Certain automobile manufacturers have expressed interest in or begun selling directly to customers. The franchised dealer's participation in that potential future transaction type is unclear and AutoCanada's operations and financial results may be negatively impacted if the role of franchised dealers diminishes.

Risks Related to Our Business

New Business Strategies

AutoCanada has invested and expects to continue to invest in new business strategies, services and technologies, including its recently formed Used Digital Retail Division. Such endeavours may involve significant risks and uncertainties, including allocating management resources away from current operations, insufficient revenues to offset expenses associated with these new investments, inadequate return of capital on our investments and unidentified issues not discovered in our due diligence of such strategies and offerings. Because new ventures are inherently risky, no assurance can be given that such strategies and offerings will be successful and will not have a material adverse effect on our reputation, financial condition and operating results.

AutoCanada's Used Digital Retail Division is expected to drive used vehicle sales across all channels (omni-channel), including completely online. If the Company is inefficient in implementing this initiative or if it is unable to capture the benefits that it expects from the online platform, it could have a material adverse effect on AutoCanada's business, sales and results of operations. AutoCanada must anticipate and meet its customers' expectations in an evolving retail industry. The Company's business, sales and results of operations may be negatively affected if it fails to provide a high quality and consistent customer experience, regardless of sales channel, if AutoCanada's omni-channel experience does not meet customer expectations, or if it is unable to attract, retain and manage the personnel at various levels who have the necessary skills and experience needed to implement omni-channel initiatives.

AutoCanada's Used Digital Retail Division is also dependent upon access to vehicle inventory. A reduction in the availability of, or access to, sources of desirable used vehicle inventory could have a material adverse effect on the Company's business, sales and results of operations. Although the supply of desirable, high-quality used vehicle inventory has not historically been a material issue, there can be no assurance that this trend will continue in the markets in which the Company operates. In addition, used vehicle inventory is subject to depreciation risk. Accordingly, if AutoCanada develops excess inventory, the inability to liquidate such inventory at prices that allow the Company to meet desirable profit margins or to recover its costs could have a material adverse effect on its results of operations.

The Loss of Key Personnel and Limited Management and Personnel Resources

AutoCanada's success depends to a significant degree upon the continued contributions of the AutoCanada management team, particularly the senior management and service and sales personnel. Additionally, OEM franchise agreements may require the prior approval of the applicable OEM before any change is made in franchised automobile dealership general managers. Consequently, the loss of the services of one or more of these key employees may materially impair the efficiency and productivity of operations.

In addition, AutoCanada may need to hire additional managers during expansionary periods. The market for qualified employees in the industry and in the regions in which AutoCanada operates, particularly for general managers and sales and service personnel, is highly competitive and may lead to increased labour costs during periods of low unemployment. Further, managing our response to the ongoing COVID-19 pandemic as well as our strategic initiatives require management, employees and contractors to adapt and learn new skills and capabilities. The loss of the services of key employees or the inability to attract additional qualified managers or senior leadership team members may adversely affect the ability of AutoCanada's franchised automobile dealerships to conduct their operations in accordance with the standards set by the head office management.

Failure of Our Information Technology Systems

The Company's information technology systems are important to operating its business efficiently. AutoCanada relies on information systems to manage, among other things, sales, inventory, and service efforts, including through digital channels, and customer information, as well as to prepare the Company's consolidated financial and operating data. The failure of information technology systems to perform as anticipated or the failure to maintain and enhance or protect the integrity of these systems could disrupt AutoCanada's business operations, impact sales and results of operations, expose the Company to customer or third party claims, or result in adverse publicity. Additionally, AutoCanada collects, processes, and retains sensitive and confidential customer information in the normal course of its business.

The Company's information technology systems may be vulnerable to data protection breaches and cyber-attacks beyond our control and it may not have the resources or technical sophistication to anticipate or prevent rapidly evolving types of cyber-attacks. AutoCanada invests in security technology to protect its data and business processes against these risks. The Company also purchases insurance to mitigate the potential financial impact of these risks. Despite the security measures in place and any additional measures the Company may implement in the future, the Company's facilities and systems, and those of its third-party service providers, could experience security breaches, computer viruses, lost or misplaced data, programming errors, human errors, acts of vandalism, or other events. Any security breach or event resulting in the misappropriation, loss, or other unauthorized disclosure of confidential information, whether by AutoCanada directly or its third-party service providers, could damage AutoCanada's reputation, expose it to the risks of litigation and liability, disrupt the Company's business, or otherwise adversely affect AutoCanada's results of operations.

Unfavourable Conditions in Key Geographic Markets

AutoCanada's performance is subject to local economic, competitive and other conditions prevailing in the particular geographic areas of AutoCanada's franchised automobile dealerships. Because a significant portion of AutoCanada's dealerships are located in Alberta, British Columbia and Ontario , the Company's performance may be subject to local economic, competitive and other conditions prevailing in one or both of those provinces.

Ability to Refinance Credit Agreements in the Future

The Credit Agreement provides for total credit availability of $1.3 billion and has a maturity date of April 14, 2025 (subject to an annual extension of 364 days upon approval of the lenders). At the time the Credit Agreement will become due for repayment, if not extended by the lenders, AutoCanada will be obliged to repay the outstanding amount or seek refinancing which may not be available on favourable terms. If agreement on a new facility is not reached, it may have negative consequences such as:

- AutoCanada may be required to dedicate a substantial amount of its cash flow from operations to required payments on indebtedness, thereby reducing the availability of cash flow for working capital, capital expenditures, acquisitions, dividends, and other general activities;
- covenants relating to new credit agreements may limit the Company's ability to obtain financing for working capital, capital expenditures, acquisitions, dividends and other general activities; and
- covenants relating to new credit agreements may limit the Company's flexibility in planning for, or reacting to, changes in our business and the industry in which we operate.

AutoCanada is subject to liquidity risk if these loans are not refinanced at the end of their respective terms or if the loans cannot be refinanced under favourable terms.

As is standard with these types of facilities, AutoCanada's syndicated floorplan facility is a discretionary line of credit and may be modified, suspended, or terminated at any time, at the floorplan lenders' sole discretion. Any material modification, suspension or termination of the wholesale floorplan financing may have a material adverse effect on the Company's financial condition.

Credit Agreements

The degree to which AutoCanada and its subsidiaries are currently leveraged or may be leveraged in the future could have important consequences to AutoCanada, including:

- AutoCanada's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited;
- a significant portion of AutoCanada's cash flow from operations could become dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for future operations;
- certain borrowings are at variable rates of interest, which exposes AutoCanada to the risk of increased interest rates; and
- AutoCanada may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures.

AutoCanada needs significant amounts of cash in order to service and repay its indebtedness, including the Notes. AutoCanada's ability to generate cash in the future will be, to a certain extent, subject to general economic, financial, competitive and other factors that may be beyond its control. In addition, AutoCanada's ability to borrow funds in the future to service its debt, if necessary, will depend on covenants in the Indenture governing the Notes, the credit agreements governing the Secured Facilities and other debt agreements it enters into in the future. Future borrowings may not be available to AutoCanada under the Secured Facilities or from the capital markets in amounts sufficient to enable it to pay its obligations as they mature or to fund other liquidity needs. If AutoCanada is not able to obtain such borrowings or generate cash flow from operations in an amount sufficient to enable it to service and repay its indebtedness, it will need to refinance its indebtedness or be in default under the agreements governing its indebtedness and could be forced to reduce or delay investments and capital expenditures or to dispose of material assets or operations. Such refinancing or alternative measures may not be available on favourable terms or at all or, if available, may not allow AutoCanada to successfully meet its obligations under its indebtedness. The Secured Facilities and the Indenture restrict AutoCanada's ability to dispose of assets and use the proceeds from such disposition. AutoCanada may not be able to consummate such dispositions or obtain the proceeds that AutoCanada could realize from them, and any proceeds may not be adequate to meet any obligations then due under the indebtedness. The inability to service, repay and/or refinance its indebtedness could negatively impact AutoCanada's financial condition and results of operations.

Indebtedness contains Restrictive Covenants

The Credit Agreement and the Indenture impose significant operating and financial restrictions on AutoCanada. These restrictions limit AutoCanada's ability and that of its restricted subsidiaries to, among other things:

- pay dividends on, repurchase or make distributions in respect of its capital stock or make other restricted payments;
- incur additional indebtedness and issue preferred or disqualified stock;
- create liens;
- create or permit to exist restrictions on the ability of its restricted subsidiaries to make certain payments and distributions;
- engage in amalgamations, mergers or consolidations or sell or otherwise dispose of all or substantially all of its assets;
- make certain dispositions and transfers of assets;
- alter the businesses it conducts;
- engage in transactions with affiliates; and
- designate subsidiaries as unrestricted subsidiaries.

In addition, under the Secured Facilities, AutoCanada is and will be, required to satisfy and maintain certain financial ratio tests. AutoCanada's ability to meet such tests could be affected by events beyond its control, and it may not be able to meet such tests. These ratios may be changed by the lenders in certain circumstances.

A breach of any of these covenants could result in a default under the Credit Agreement and the Indenture. Upon the occurrence of an event of default under the Credit Agreement, the lenders could elect to declare all amounts outstanding under the Credit Agreement to be immediately due and payable and terminate all commitments to extend further credit. If AutoCanada is unable to repay those amounts, the lenders under the Credit Agreement could proceed to realize upon the collateral granted to them to secure that indebtedness. If the lenders under the Credit Agreement accelerate the repayment of borrowings, AutoCanada may not have sufficient assets to repay amounts due under the Credit Agreement as well as its unsecured indebtedness, including the Senior Unsecured Notes. The acceleration of AutoCanada's indebtedness under one agreement may permit acceleration of indebtedness under other agreements that contain cross default or cross acceleration provisions. If AutoCanada's indebtedness is accelerated, it may not be able to repay its indebtedness or borrow sufficient funds to refinance it. Even if AutoCanada is able to obtain new financing, it may not be on commercially reasonable terms or on terms that are acceptable to AutoCanada. The restrictions contained in the Credit Agreement or the Indenture may adversely affect its ability to finance its future operations and capital needs and to pursue available business opportunities. Moreover, any new indebtedness AutoCanada incurs may impose financial restrictions and other covenants on it that may be more restrictive than its Credit Agreement or the Indenture.

Senior Notes

We may be required to repay or refinance the remaining principal balances on the Senior Unsecured Notes (as described below) with lump-sum payments at or prior to the Notes' maturity date on February 7, 2029. The amounts to be repaid or refinanced at the date of redemption could be significant. The Company may not have sufficient liquidity to make such payments at the Notes' maturity dates. In the event we do not have sufficient liquidity to completely repay the remaining principal balances at maturity, we may not be able to refinance the Senior Unsecured Notes at interest rates that are acceptable to us or, depending on market conditions, refinance the Notes at all. Our inability to repay or refinance the Senior Unsecured Notes could have a material adverse effect on the Company's business, financial condition and results of operations.

Similarly, the Company may not be able to satisfy our debt obligations upon the occurrence of a change of control. Upon the occurrence of a change of control (as defined in the indenture governing the Senior Unsecured Notes), holders of the Senior Unsecured Notes will have the right to require us to purchase all or any part of such holders' notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any. The events that constitute a change of control under the indenture governing the Senior Unsecured Notes may also constitute a default under the Credit Agreement. The agreements or instruments governing any future debt that the Company may incur may contain similar provisions regarding repurchases in the event of a change of control triggering event. There can be no assurance that we would have sufficient resources available to satisfy all of our obligations under these debt instruments in the event of a change of control. In the event we were unable to satisfy these obligations, it could have a material adverse impact on our business and our shareholders.

Liquidity

If the Company is unable to generate sufficient operating cash flow, it may need to enter into certain extraordinary transactions in order to generate sufficient cash to sustain operations, which may include, but not be limited to selling certain dealerships or other assets and borrowing under existing credit facilities. There can be no assurance that, if necessary, the Company will be able to enter into any such transactions in a timely manner or on reasonable terms, if at all. Furthermore, in the event AutoCanada is required to sell dealership assets to enhance its liquidity, the sale of any material portion of such assets could have an adverse effect on the Company's revenue stream, the size of operations and certain corporate efficiencies. If AutoCanada is unable to generate sufficient cash flow or enter into any such transactions in a timely manner, its liquidity may be materially adversely affected.

Governmental Regulations and Environmental Regulation Compliance Costs

AutoCanada is subject to a wide range of federal, provincial and municipal laws and regulations, such as local licensing requirements, consumer protection laws and environmental requirements governing, among other things, discharges into the air and water, above ground and underground storage of petroleum substances and chemicals, handling and disposal of wastes and remediation of contamination arising from spills and releases. AutoCanada is also subject to rules imposed by self-regulatory authorities in various jurisdictions. If AutoCanada violates these laws and regulations, AutoCanada may be subject to civil and criminal penalties, or a cease and desist order may be issued against the operations that are not or are alleged not to be in compliance. AutoCanada's future acquisitions may also be subject to governmental regulation, including antitrust reviews. AutoCanada believes that all of its franchised automobile dealerships comply in all material respects with all applicable laws and regulations relating to AutoCanada's business, but future laws and regulations may be more stringent and require AutoCanada to incur significant additional costs. Furthermore, the Company expects further regulation of gas engines and vehicle emissions which may affect the types of vehicles it sells and services.

Intangible Assets

Intangible assets consist of rights under franchise agreements with automobile manufacturers and are subject to impairment assessments at least annually (or more frequently when events or circumstances indicate that an impairment may have occurred) by applying a fair-value based test. AutoCanada may be required to incur impairment charges in the future which may have a material effect on our results from operations and financial position.

Insurance Coverage

AutoCanada maintains insurance coverage in respect of various potential liabilities, including property losses, business interruption, cyber-attacks, public liability, automotive liability and crime, in amounts and on such terms as considered appropriate and prudent by the Company. However, there is no assurance that such coverage will be sufficient to cover all losses that AutoCanada may suffer, including because of risk retention by AutoCanada, the fact that not all losses are insurable and the fact that not all claims may be paid due to conditions and exclusions.

The impact of certain weather and other natural disasters may not be fully insurable, wholly or in part. When AutoCanada's current insurance policies expire, it may encounter difficulty in obtaining or renewing property or casualty insurance at the same levels of coverage and under similar terms. Such insurance may be more limited and, for catastrophic risks (e.g., earthquake, hurricane, flood and terrorism), may not be generally available to fully cover potential losses. If AutoCanada is unable to obtain adequate insurance for certain risks, it could result in an event of default under the existing leases and/or could cause AutoCanada to be in default under specific covenants on certain of its indebtedness or other contractual commitments that it has which require it to maintain adequate insurance on its properties to protect against the risk of loss. For example, over the last few years, the insurance market has faced significant losses as a result of hail storms and many insurers and reinsurers have abandoned hail coverage in some of the markets in which AutoCanada has dealerships. In light of this, AutoCanada has instituted a self-insurance program combined with excess insurance placement to manage its hail risk. However, there can be no assurance that such program will be sufficient to manage AutoCanada's hail risk. If AutoCanada were unable to obtain adequate insurance or to sufficiently manage the related risks, and its assets experienced damages that would otherwise have been covered by insurance, it could have a material adverse effect on AutoCanada's business, cash flows, financial condition or results of operations.

Furthermore, the cyber insurance landscape is evolving as the frequency and severity of cyber-attacks continues to increase, so incidents that were covered in the past may no longer be fully insurable. Capacity in the insurance market has been reduced as increased claims have forced insurers to limit their underwriting appetite or abandon cyber coverage altogether. When AutoCanada's current insurance policies expire, it can expect to encounter difficulty in obtaining cyber insurance at the same level of coverage and premium. AutoCanada has initiated a risk management program to adapt to the current insurance market conditions and proactively manage its cyber risk. If AutoCanada is unable to obtain adequate cyber insurance or sufficiently mitigate the related risks, it could have a material adverse effect on AutoCanada's business, cash flows, financial condition or results of operations.

Governmental Laws and Regulations

The automotive retailing industry is subject to a wide range of laws and regulations. With respect to motor vehicle sales, advertising, leasing, and the sale of finance, insurance, and other products at AutoCanada stores, AutoCanada is subject to various laws and regulations, the violation of which could subject it to lawsuits or government investigations and adverse publicity. The violation of laws and regulations may also jeopardize relationships with various stakeholders, which could result in inability to operate under the present conditions and would adversely affect operations.

Claims arising out of actual or alleged violations of laws and regulations may be asserted against the Company or any of its dealers by individuals, either individually or through class actions, or by governmental entities in civil or criminal investigations and proceedings. Such actions may expose AutoCanada to substantial monetary damages and legal defense costs, injunctive relief and criminal and civil fines and penalties.

Foreign Exchange Risk

AutoCanada's U.S. operations have revenue, expenses, assets and liabilities denominated in U.S. dollars. This means that currency exchange rates can affect the Company's income statement, balance sheet and statement of cash flow.

Translation into Canadian Dollars

When preparing the Company's consolidated financial statements, the Company translates the financial statements for U.S. operations into Canadian dollars. AutoCanada translates assets and liabilities at exchange rates in effect at the period end date. The Company translates revenues and expenses using average exchange rates for the month of the transaction. The Company initially recognizes gains or losses from these translation adjustments in other comprehensive income and reclassifies them from equity to net earnings on disposal or partial disposal of the foreign operation. Changes in currency exchange rates could materially increase or decrease AutoCanada's foreign currency-denominated net assets, which would increase or decrease shareholders' equity. Changes in currency exchange rates will affect the amount of revenues and expenses the Company records for its U.S. operations, which will increase or decrease net earnings. If the Canadian dollar strengthens against the U.S. dollar, the net earnings the Company records in Canadian dollars from its U.S. operations will be lower.

Broad-scale Change to the Automotive Industry

Changes to the automotive industry and consumer views on car ownership could materially adversely affect our business, results of operations, financial condition and cash flows.

The automotive industry is predicted to experience rapid change in the years to come, including increases in ride-sharing services, advances in electric vehicle production and driverless technology. Ride-sharing services provide consumers with mobility options outside of the traditional car ownership and lease alternatives. The overall impact of these options on the automotive industry is uncertain, and may include lower levels of new vehicle sales. Manufacturers continue to invest in increasing production and quality of AEVs (all-electric vehicles), which generally require less maintenance than traditional cars and trucks. The effects of AEVs on the automotive industry are uncertain and may include reduced parts and service revenues, as well as changes in the level of sales of certain products such as extended warranty and lifetime lube, oil and filter contracts. Technological advances are also facilitating the development of driverless vehicles. The eventual timing of availability of driverless vehicles is uncertain due to regulatory requirements, technological hurdles, and uncertain consumer acceptance of these technologies. The effect of driverless vehicles on the automotive industry is uncertain and could include changes in the level of new and used vehicle sales, the price of new vehicles, and the role of franchised dealers, any of which could materially and adversely affect AutoCanada's business.

Risks Related to AutoCanada's Acquisition Strategy

Restrictions Imposed by OEMs on Acquisitions

AutoCanada is required to obtain the consent of the applicable OEM before acquiring any additional franchised automobile dealerships. The Company will consider acquisition opportunities if a favourable opportunity presents itself and if the acquisition would provide incremental value to the Company. Brands with which the Company does not currently have a relationship, or who are related to same, may be reluctant to entertain a relationship with AutoCanada. As a result, management offers no assurance that any manufacturer with whom it does not have a relationship, or who are related to same, will approve the Company as a franchisee. Obtaining OEM consent for acquisitions may also take a significant amount of time, which may negatively affect the ability to acquire an attractive target. In addition, under an applicable franchise agreement, an OEM may have a right of first refusal to acquire a franchised automobile dealership that AutoCanada seeks to acquire. Many OEMs place limits on the total number of franchises, or the market share of its vehicles, that any group of affiliated franchised automobile dealerships may obtain. The OEMs have also placed generic limits on the number of franchises (or share of total franchises or vehicle sales) maintained by an affiliated franchised automobile dealership group on a national, regional or local basis. OEMs may also tailor these types of restrictions to particular franchised automobile dealership groups. AutoCanada may have difficulty in obtaining additional franchises from OEMs once franchise limits have been reached.

As a condition to granting their consent to acquisitions, OEMs may impose additional restrictions. OEMs' restrictions typically prohibit changes of control or extraordinary corporate transactions such as mergers, sales of a substantial amount of assets or the removal of a dealer principal without the consent of the OEM and the use of franchised automobile dealership facilities to sell or service new vehicles of other OEMs.

Integration of Acquisitions

AutoCanada's growth depends in large part on the ability to acquire additional franchised automobile dealerships, manage expansion, control costs in operations and integrate acquired franchised automobile dealerships. In pursuing this strategy of acquiring other franchised automobile dealerships, AutoCanada faces risks commonly encountered with growth through acquisition strategies. These risks include, but are not limited to, incurring significantly higher capital expenditures and operating expenses, failing to integrate the operations and personnel of the acquired franchised automobile dealerships, entering new markets with which AutoCanada is unfamiliar, incurring undiscovered liabilities at acquired franchised automobile dealerships, disrupting ongoing business, diverting management resources, failing to maintain uniform standards, controls and policies, impairing relationships with employees, OEMs and customers as a result of changes in management, causing increased expenses for accounting and computer systems and incorrectly valuing acquired entities.

AutoCanada may not adequately anticipate all the demands that growth will impose on personnel, procedures and structures, including financial and reporting control systems, data processing systems and management structure. Moreover, failure to retain qualified management personnel at any acquired franchised automobile dealership may increase the risk associated with integrating the acquired franchised automobile dealership. If AutoCanada cannot adequately anticipate and respond to these demands, AutoCanada may fail to realize acquisition synergies and resources will be focused on incorporating new operations into AutoCanada's structure, rather than on areas that may be more profitable. In addition, although AutoCanada will conduct a prudent level of investigation regarding the operating condition of the businesses purchased, in light of the circumstances of each transaction, there is an unavoidable level of risk that remains regarding the actual operating condition of these businesses. Until AutoCanada assumes operating control of such business assets, AutoCanada may not be able to ascertain the actual financial and operating condition of the acquired business.

Open Point Locations

The success and profitability of AutoCanada's open point locations, being those new franchised automobile dealerships opened, or to be opened, pursuant to the right to open a new franchised automobile dealership in a specific location granted to a dealer by an automobile manufacturer ("Open Points"), depends on a number of factors, including consumer demographics, consumer shopping patterns, the condition of local property markets, availability of real estate financing, taxes, zoning and environmental issues. If AutoCanada fails to profitably operate such Open Points once they open, AutoCanada's financial performance could be adversely affected.

Financing Constraints and Limitations on Capital Resources

There is substantial indebtedness represented by the Floor Plan Facilities used to finance new and used vehicle inventories. This debt is repayable on demand and in the event that repayment is demanded, AutoCanada cannot provide assurances that AutoCanada could find an alternative floor plan lender.

AutoCanada has financed past acquisitions from a combination of the cash flow from its operations and borrowings under its Existing Credit Facility. If the financing of acquisitions through the use of cash flow from operations or borrowings is not available due to constraints, the Company may also finance through the issuance of common shares, preferred shares, convertible debt, private debt offerings or other sources of funds. The use of any of these sources of financing could have the effect of reducing earnings per share. The Company may not be able to obtain financing in the future due to limitations in its credit arrangements, the market price of its common shares and overall market conditions. Furthermore, using cash to complete acquisitions could substantially limit the Company's operating or financial flexibility. Substantially all of the assets of AutoCanada's dealerships are pledged to secure the indebtedness under the Secured Facilities. These pledges may limit the Company's ability to borrow from other sources in order to fund acquisitions.

Management cannot determine the costs of equity at a future point in time and if new equity cannot be issued at a favourable cost, AutoCanada may not be able to continue to grow through acquisitions or through opening new dealerships.

Competition with Other Franchised Automobile Dealerships

AutoCanada believes that the Canadian retail automotive market is fragmented and offers many potential acquisition candidates that meet acquisition target criteria. However, AutoCanada will compete with other publicly traded automotive retailers, privately owned franchised automobile dealerships and private investors to acquire other franchised automobile dealerships, and this competition for attractive acquisition targets may result in fewer acquisition opportunities and increased acquisition costs. AutoCanada will have to forego acquisition opportunities to the extent that acquisitions cannot be negotiated on acceptable terms.

Risks Related to Our Dependence on Automobile Manufacturers

Adverse Conditions Affecting One or More OEMs

The success of AutoCanada's franchised automobile dealerships depends to a great extent on OEMs' financial condition, marketing efforts, vehicle design, production capabilities, reputation, management, and labour relations. Adverse conditions such as recalls, class actions and regulatory compliance, affecting these and other important aspects of OEMs' operations and public relations may adversely affect the ability to market vehicles to the public and, as a result, significantly and detrimentally affect profitability. Similarly, the late delivery of vehicles from OEMs, which sometimes occurs during periods of new product introductions, can lead to reduced sales during those periods. AutoCanada has no control over labour disturbances at any OEMs, and labour disturbances at OEMs may restrict the supply of new vehicles, and therefore have an adverse effect upon operations.

Our ability to sell new vehicles is dependent on a vehicle manufacturer's ability to produce and allocate to our dealerships an attractive, high quality and desirable product mix at the right time in order to satisfy customer demand. Vehicle manufacturers may also be adversely impacted by economic downturns or recessions, significant declines in the sales of their new vehicles, increases in interest rates, adverse fluctuations in currency exchange rates, declines in their credit ratings, reductions in access to capital or credit, supply shortages, rising raw material costs, rising employee benefit costs, adverse publicity that may reduce consumer demand for their products, including due to bankruptcy, product defects, litigation, ability to keep up with technology and business model changes, poor product mix or unappealing vehicle design, governmental laws and regulations, natural disasters or other adverse events. In particular, all our OEMs are investing material amounts to develop AEVs and autonomous vehicles. These investments could cause financial strain on our OEMs or fail to deliver attractive vehicles for customers which could lead to adverse impacts on our business.

The OEMs are also impacted by the COVID-19 pandemic and the conflict in Ukraine and their impacts on the economy, factory production, parts shortages, and other disruptions. These and other risks could have a material adverse effect on the financial condition of any manufacturer and impact its ability to profitably design, market, produce or distribute new vehicles, which would likely have a significant and adverse impact on the industry as a whole, including us, particularly if the events impact any of the manufacturers whose franchises generate a significant percentage of AutoCanada's revenue.

Recently, many of our principal vehicle manufacturers have announced production disruptions caused by a shortage of microchips and other components. The microchip shortage is reported to be due to the overall demand for microchips in the global economy as well as production disruptions caused by staffing and other COVID-19 related issues. IHS Markit has predicted that automotive production globally will continue to be negatively impacted into 2022 due to the shortage. If new vehicle days' supply of inventory declines, it will impact our ability to satisfy customer demand. It is not possible to predict with certainty the duration of the microchip shortage. If our manufacturers' production remains at current reduced levels or continues to decline, diminishing our ability to meet the immediate needs of our customers, the microchip shortage could have a material and adverse impact on our financial and operating results. There may be further production disruptions caused by the conflict in Ukraine.

Manufacturers generally support their franchisees by providing direct financial assistance in various areas, including, among others, incentives, floorplan assistance and advertising assistance. A discontinuation or change in our manufacturers' warranty and incentive programs could adversely affect our dealerships.

Certain of our manufacturers have extensive global sales operations and from time to time may, in the case of certain models, face situations where global demand exceeds global supply thereby constraining the ability of the Canadian arm of the manufacturer from securing adequate supply of popular vehicles which may adversely impact the Company's financial performance.

New rules in place after the recent Brexit accord between the European Union and the United Kingdom could slow parts originating in the United Kingdom or Europe for distribution to our dealerships. COVID-19 has impacted and may continue to impact the supply of vehicles or parts to the Canadian market, and our business could be materially adversely affected. The supply chain required to manufacture and supply the parts for the vehicles we sell is highly complex and integrated. Any failure of that supply chain could materially and adversely affect our business.

Governmental Regulations Related to Fuel Economy Standards and Greenhouse Gases

Federal regulations in the United States relating to fuel economy standards and "greenhouse gas" emissions have continued to increase. New requirements may adversely affect any manufacturer's ability to profitably design, market, produce and distribute vehicles that comply with such regulations. AutoCanada could be adversely impacted in its ability to market and sell these vehicles at affordable prices and in its ability to finance these inventories. These regulations could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Ability of Automotive Manufacturers to Deliver High Quality, Defect-Free Vehicles

AutoCanada depends on its manufacturers to deliver high-quality, defect-free vehicles. If manufacturers experience future quality issues, the Company's financial performance may be adversely impacted. In addition, the discontinuance of a particular brand could negatively impact revenues and profitability.

AutoCanada Automobile Dealership Franchise Agreements

Each of AutoCanada's franchised automobile dealerships operates under the terms of a franchise agreement (an "OEM Agreement") with the OEM of each vehicle brand it carries. AutoCanada's franchised automobile dealerships may obtain new vehicles from OEMs, sell new vehicles and display OEMs' trademarks only to the extent permitted under these agreements. As a result of AutoCanada's dependence on the rights under these agreements, OEMs exercise a great deal of control over the day-to-day operations and the terms of an OEM Agreement implicate key aspects of operations, acquisition strategy and capital spending. Each of AutoCanada's OEM Agreements provides the OEM with the right to terminate the agreement under specified circumstances and, in certain agreements, to elect not to renew the agreement on an annual basis.

AutoCanada's OEM Agreements include provisions that permit the OEM to terminate the agreement or direct AutoCanada to divest the subject franchised automobile dealership if the franchised automobile dealership undergoes a change of control or if the dealer principal named in the agreement changes without the approval of the OEM. However, historically in the franchised automobile dealership industry, in the case of well managed and well capitalized dealerships, the OEM Agreements are rarely terminated involuntarily or not renewed by the manufacturer.

In the event of a breach by AutoCanada of the provisions of an OEM Agreement, AutoCanada may be required to sell franchised automobile dealerships operating under agreements with the OEMs to purchasers approved by the OEMs, or the agreement may be terminated by the manufacturer. The OEM Agreement may also provide the OEM with the right to purchase from AutoCanada any franchise that AutoCanada seeks to sell. Provisions such as these may provide OEMs with superior bargaining positions in the event that they seek to terminate franchise agreements or renegotiate the agreements on terms that are disadvantageous to AutoCanada. AutoCanada's results of operations may be materially and adversely affected to the extent that the franchise rights become compromised or operations restricted due to the terms of an OEM Agreement or if AutoCanada loses substantial franchises.

Relationships with Automobile Manufacturers

AutoCanada depends on the manufacturers to provide it with a desirable mix of new vehicles. The most popular vehicles usually produce the highest profit margins and are frequently in short supply. If a relationship with a manufacturer deteriorates, the Company may not be able to obtain sufficient quantities of popular models, therefore the Company's profitability could be materially affected.

Manufacturers exert significant control over AutoCanada stores through the terms and conditions of their franchise agreements. Such agreements contain provisions for termination or non-renewal for a variety of causes, including customer satisfaction scores and sales and financial performance. There is no assurance that AutoCanada stores will be able to fully comply with these provisions in the future; therefore it is possible that manufacturers could terminate or fail to renew franchise agreements for one or more of AutoCanada's stores. Any such action, although not experienced in the past, could result in a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

OEMs may direct AutoCanada to apply resources to capital projects that it may not otherwise have chosen to participate in. OEMs may direct AutoCanada to implement costly capital improvements to franchised automobile dealerships as a condition for maintaining existing franchise agreements with them. OEMs also typically require that their franchises meet specific standards of appearance. These factors, either alone or in combination, could cause AutoCanada to divert financial resources to capital projects from uses that management believes may be of higher long-term value.

Restrictions on Ownership Thresholds and the Sale of AutoCanada's Business

AutoCanada has entered into platform agreements with FCA Canada Inc. (Chrysler Canada), Hyundai Auto Canada Corp., Nissan Canada Inc., General Motors of Canada and Ford Motor Company of Canada. These agreements all place restrictions on a change of control of AutoCanada or certain of its dealerships and if AutoCanada is unable to obtain the requisite approval to a change of control or sale of the business in a timely manner AutoCanada may not be able to take advantage of a market opportunity. These restrictions may also prevent or deter prospective acquirers from acquiring control of AutoCanada and, therefore, may materially and adversely impact the value of AutoCanada Shares.

Maintenance of Minimum Working Capital

The OEM Agreements require AutoCanada to maintain a specified minimum amount of working capital at each of AutoCanada's franchised automobile dealerships. Compliance with these minimum working capital requirements may affect the amount of cash available for other corporate purposes.

Risks Related to ACI's Shares

Payment of Dividends

As a corporation, AutoCanada's dividend policy is at the discretion of the Board of Directors. Future dividends will depend on results of operations, cash requirements, financial condition, contractual restrictions, business opportunities, provisions of applicable law and other factors that the board of directors may deem relevant. Accordingly, the payment of dividends by AutoCanada and the level thereof will be uncertain.

The ability of the Dealer LPs and other subsidiaries to make advances and distributions to AutoCanada to enable AutoCanada to make dividend payments to Shareholders is subject to applicable laws and contractual restrictions contained in various agreements.

Unpredictability and Volatility of Shares

The market price of AutoCanada Shares could be subject to significant fluctuations in response to variations in quarterly operating results, dividends, and other factors. In addition, industry specific fluctuations in the stock market may adversely affect the market price of the AutoCanada Shares regardless of operating performance. There can be no assurance that the price of the AutoCanada Shares will remain at current levels. In addition, the securities markets have experienced significant price and volume fluctuations from time to time in recent years that often have been unrelated or disproportionate to the operating performance of particular issuers.

These broad fluctuations may adversely affect the market price of AutoCanada Shares.

Dilution

AutoCanada is authorized to issue an unlimited number of AutoCanada Shares and an unlimited number of preferred shares issuable in series for consideration and on terms and conditions as established by the Board of Directors of ACI without the approval of its shareholders. The Shareholders have no pre-emptive rights in connection with such further issues.

Substantial Interest of Shareholders and OEM Restrictions

A concentration of ownership in AutoCanada Shares which is outside of the control of AutoCanada, as well as various provisions contained in the OEM Agreements, could have the effect of discouraging, delaying or preventing a change in control of AutoCanada or unsolicited acquisition proposals that an AutoCanada shareholder might consider favourable. These provisions include ownership requirements and limits and approval rights with respect to the composition of the board of directors of the general partners of certain of the Dealer LPs along with the board of directors of other subsidiaries. Thus, the concentration of ownership and such provisions may materially and adversely impact the value of the AutoCanada Shares.

Capital Structure

AutoCanada Inc.

The authorized capital of ACI consists of an unlimited number of common shares and an unlimited number of preferred shares.

Common Shares

Holders of common shares are entitled to receive notice of and to attend and vote at all meetings of shareholders, except meetings at which only holders of a specified class of shares are entitled to vote. Holders of common shares are also entitled to receive any dividend declared by the Board of Directors of ACI on the common shares and, subject to the rights of any other class of shares of ACI, to receive the remaining property of ACI upon dissolution in equal rank with the holders of all other common shares.

Preferred Shares

The preferred shares may from time to time be issued in one or more series, and the Board of Directors may fix from time to time before such issue the number of preferred shares which is to comprise each series and the designation, rights, privileges, restrictions and conditions attached to each series of preferred shares including, without limiting the generality of the foregoing, any voting rights, the rate or amount of dividends or the method of calculating dividends, the dates of payment thereof, the terms and conditions of redemption, purchase and conversion if any, and any sinking fund or other provision. With respect to the payment of dividends and distribution of assets in the event of liquidation, dissolution or winding-up of ACI, whether voluntary or involuntary, the preferred shares are entitled to preference over the Shares and any other shares ranking junior to the preferred shares from time to time and may also be given such other preferences over the Shares and any other shares ranking junior to the preferred shares as may be determined at the time of creation of such series. There are currently no preferred shares issued.

Senior Unsecured Notes

On February 11, 2020, the Company completed a private placement of $125 million aggregate principal amount of 2025 Notes. The 2025 Notes bore interest at 8.75% per annum, payable semi-annually on February 11 and August 11 of each year, and were to mature on February 11, 2025. On April 14, 2021, the Company issued an additional $125 million aggregate principal amount of its existing 2025 Notes.

On February 7, 2022, the Company completed a private placement of $350 million aggregate principal amount of Senior Unsecured Notes. The Senior Unsecured Notes bear interest at 5.75% per annum, payable semi-annually on February 7 and August 7 of each year and mature on February 7, 2029. The Company used the net proceeds from the sale of the Senior Unsecured Notes to, *inter alia*, redeem all of the outstanding 2025 Notes.

If the Company undergoes certain changes of control, each holder of the Senior Unsecured Notes has the right to require the Company to offer to repurchase the Senior Unsecured Notes from such holders at a purchase price equal to 101% of the aggregate principal amount of the Senior Unsecured Notes so repurchased plus accrued and unpaid interest to, but not including, the date of repurchase.

The Senior Unsecured Notes are senior unsecured obligations of the Company and are guaranteed, jointly and severally, on a senior unsecured basis by the Company's current and future material subsidiaries that are or become guarantors under the Credit Agreement (the "Guarantors").

The Senior Unsecured Notes rank (i) equally in right of payment with all existing and future senior indebtedness of the Company and the Guarantors that is not expressly subordinated in right of payment to the Senior Unsecured Notes and (ii) senior in right of payment to all existing and future indebtedness of the Company that is expressly subordinated in right of payment to the Senior Unsecured Notes. The Senior Unsecured Notes are effectively subordinated to any secured debt and other secured obligations of the Company and the Guarantors, including under the Credit Agreement, to the extent of the value of the assets securing such secured debt or other obligations. The Senior Unsecured Notes are structurally subordinated to all existing and future obligations, including indebtedness and trade payables, of any of the Company's subsidiaries that are not Guarantors.

The Senior Unsecured Notes were issued pursuant to an indenture (the "Indenture") dated February 7, 2022. Subject to certain exceptions and qualifications set forth in the Indenture, the Senior Unsecured Notes limit the ability of the Company and certain of its subsidiaries that are considered to be "restricted subsidiaries" to, among other things (i) make restricted payments; (ii) incur additional indebtedness and issue disqualified or preferred stock; (iv) create or permit to exist liens; (v) create or permit to exist restrictions on the ability of the restricted subsidiaries to make certain payments and distributions; (vi) make certain dispositions and transfers of assets; (vii) engage in amalgamations, mergers or consolidations; and (viii) engage in certain transactions with affiliates.

Capitalized terms not otherwise defined in this section have the meaning given in the Indenture, a copy of which is available on SEDAR at www.sedar.com

Credit Ratings

The following information relating to the Company’s credit ratings is provided as it relates to the Company’s financing costs, liquidity and operations. Specifically, credit ratings affect the Company’s ability to obtain short-term and long-term financing and the cost of such financing. A reduction in the current rating on the Company’s debt by its rating agencies, particularly a downgrade below current ratings, or a negative change in the Company’s ratings outlook could adversely affect the Company’s cost of financing and its access to sources of liquidity and capital.

On April 14, 2021, Standard & Poor's Ratings Services ("S&P") issued a research update whereby it revised the Company’s outlook to stable, raised the issuer credit rating to 'B' from 'B-' and raised the rating of the Company's 2025 Notes to 'B' from 'CCC+'.

On January 12, 2022, S&P issued a research update whereby it affirmed the Company's outlook as stable, revised the issuer credit rating to "B+" from "B" and assigned a 'B+' rating to the Company's Senior Unsecured Notes.

An S&P issuer credit rating is a forward-looking opinion about an obligor’s overall creditworthiness in order to pay its financial obligations. S&P’s opinion focuses on the obligor’s capacity and willingness to meet its financial commitments as they come due. It does not apply to any specific financial obligation, as it does not take into account the nature of and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the obligation. A BB rating is the sixth highest of ten major rating categories used by S&P in its long-term issuer credit rating scale. Generally, these major rating categories may be modified by the addition of a “+” or “-” to show relative standing within the category, while the absence of either a “+” or “-” designation indicates the rating is in the middle of the category. Obligors rated BB, B, CCC, and CC are regarded as having significant speculative characteristics. BB indicates the least degree of speculation and CC the highest. While such obligors will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions. An obligor rated B currently has the capacity to meet its financial commitments, however, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions which could lead to the obligor’s inadequate capacity to meet its financial commitments. The Company’s long-term issuer credit rating has been assigned a positive outlook by S&P. An S&P rating outlook assesses the potential direction of a long-term credit rating over the intermediate term (typically six months to two years). In determining a rating outlook, consideration is given to any changes in the economic and/or fundamental business conditions. A positive outlook means that a rating may be raised in the intermediate term.

S&P's issue credit ratings are based, in varying degrees, on its analysis of the following considerations: i) likelihood of payment; ii) nature of and provisions of the obligation; and iii) protection afforded by, and relative position of, the obligation in the event of bankruptcy. S&P rates long-term debt instruments by rating categories ranging from a high of “AAA” to a low of “D”. Generally, these major rating categories may be modified by the addition of a “+” or “-” to show relative standing within the category, while the absence of either a “+” or “-” designation indicates the rating is in the middle of the category. According to S&P, an obligation rated “B” is more vulnerable to non-payment than higher-rated obligations, but the issuer currently has the capacity to meet its financial commitment on the obligation. However, exposure to adverse business, financial, or economic conditions, will likely impair the issuer’s capacity or willingness to meet its financial commitments on the obligation. S&P’s recovery ratings focus solely on expected recovery in the event of a payment default of a specific issue, and utilize a numerical scale that runs from 1 to 6. The recovery rating is not linked to, or limited by, the corporate credit rating or any other rating, and provides a specific opinion about the expected recovery. The '4' recovery rating, which has been assigned to the Senior Unsecured Notes, indicates S&P’s expectations of average (30%-50%; rounded estimate 40%) recovery in the event of default.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issuer of securities. The credit ratings accorded to the Senior Unsecured Notes are not recommendations to purchase, hold or sell such securities and are not a comment upon the market price of the Company’s securities or their suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant. A revision or withdrawal of a credit rating could have a material adverse effect on the pricing or liquidity of the Senior Unsecured Notes or the Shares in any secondary markets. The Company does not undertake any obligation to maintain the ratings or to advise holders of the Senior Unsecured Notes or Shares of any change in ratings.

The Company has made payments in the ordinary course to S&P in connection with the assignment of the rating on the Company and the Senior Unsecured Notes.

Dividends/Distributions

Dividend Policy

Management reviews ACI's financial results on a monthly basis. The Board of Directors of ACI reviews the financial results on a quarterly basis, or as requested by Management, and determine whether a dividend shall be declared and paid based on a number of factors.

The Board of Directors will review our dividend policy on a regular basis in the context of a number of factors. Our ability to pay dividends and the actual amount of such dividends will be dependent upon, among other things, our financial performance, our debt covenants and obligations, our ability to refinance our debt obligations on similar terms and at similar interest rates, our working capital requirements, our future tax obligations, our future capital requirements, and the Company's acquisition opportunities and growth prospects.

As per the terms of the Credit Agreement, we are restricted from declaring dividends if we are in breach of our financial covenants or our available margin and facility limits or if such dividend would result in a breach of our covenants or our available margin and facility limits. At this time, the Company is within its covenants. We are prohibited from declaring dividends while we are in covenant relief period through to end of June 30, 2021 unless approved by lenders.

In response to the effects COVID-19 was and is having on the business and the industry and considering current market risk factors, see "Risk Factors" for further details, and our capital allocation priorities, particularly our stated acquisition pipeline, the Board has decided to defer any reinstatement of a quarterly dividend until further notice.

Historical Distributions

The following table summarizes the dividends declared by ACI from January 1, 2019 to December 31, 2021 on Shares.

Record date	Payment date	Per share $	Total $
March 1, 2019	March 15, 2019	0.10	2,742,250
May 31, 2019	June 15, 2019	0.10	2,742,250
August 31, 2019	September 15, 2019	0.10	2,742,250
November 29, 2019	December 16, 2019	0.10	2,742,250
March 2, 2020	March 16, 2020	0.10	2,743,157

Market For Securities

Trading Price and Volume

Shares are listed and posted for trading on the Toronto Stock Exchange under the symbol "ACQ". The following table sets forth certain trading information for the Shares on the TSX for the most recently completed financial year based on information from the Historical Data Access section of the TSX website, believed to be reliable by ACI:

	Month	High ($)	Low ($)	Close ($)	Volume (shares)
2021	January	29.22	22.62	27.82	2,348,200
	February	32.21	26.37	30.49	2,643,000
	March	37.54	27.50	30.60	3,856,855
	April	51.85	29.12	47.36	5,022,000
	May	50.15	40.75	43.30	5,158,139
	June	52.37	40.00	49.94	4,918,900
	July	54.82	42.27	50.76	1,797,800
	August	59.26	45.50	48.01	2,124,200
	September	51.22	42.07	46.39	2,881,800
	October	48.94	41.77	44.59	2,189,200
	November	48.33	30.86	32.28	4,724,800
	December	42.90	32.82	41.66	3,249,300

Prior Sales

For information in respect of options to purchase common shares of the Company, common shares issued upon the exercise of options and other share based payments, see the Share-Based Payments note to the 2021 audited Consolidated Financial Statements, which is incorporated by reference into this AIF and available on SEDAR at www.sedar.com.

Directors and Officers

The following table sets forth the name, place of residence, positions for each of the directors and officers of ACI, together with their principal occupations during the last five years. The directors of ACI shall hold office until the next annual meeting of shareholders or until their respective successors have been duly elected or appointed.

Name and Province or State, and Country of Residence	Position	Principal Occupation
PAUL ANTONY Ontario, Canada	Executive Chair since August 9, 2018; Director since May 4, 2018	• President & CEO, MAP Investco, prior thereto Founder and Chair, Carproof Corporation
MICHAEL BORYS Alberta, Canada	Chief Financial Officer since August 12, 2019	• Prior to appointment with ACI, Executive VP and Chief Financial Officer, PTW Energy Services
DENNIS S. DESROSIERS(2) Ontario, Canada	Director since May 9, 2007	• President, DesRosiers Automotive Consultants Inc.
STEPHEN GREEN(2) New York, USA	Director since August 9, 2018	• Executive Vice President of Legal and Corporate Secretary, IHS Inc (now IHS Markit Ltd.) from April 2012 to 2016 prior thereto Chief Legal Officer of IHS Inc. since 1996 and Corporate Director
PETER HONG Ontario, Canada	Chief Strategy Officer & General Counsel since September 1, 2018	• Prior to appointment with ACI, Partner, Davies Ward Phillips & Vineberg LLP
BARRY L. JAMES(1) Alberta, Canada	Director since November 6, 2014	• President, Barry L James Advisory Services Ltd., prior thereto Partner, PricewaterhouseCoopers LLP and Corporate Director
MARYANN N. KELLER(1) (2) Connecticut, USA	Lead Director since August 9, 2018; Director since May 11, 2015	• Founder/Principal, Maryann Keller & Associates since 2000 Corporate Director
LEE MATHESON(2) Ontario, Canada	Director since September 28, 2020	• Partner at Edgepoint Investment Group; prior thereto Co-founder of Broadview Capital Management and portfolio manager of Broadview Dark Horse LP
ELIAS OLMETA(1) California, USA	Director since August 9, 2018	• Chief Financial Officer, Vistage Worldwide, Inc.; prior thereto Executive Vice President and Chief Financial Officer, Mitchell International Inc.
MICHAEL RAWLUK Alberta, Canada	President from June 27, 2018; Director from August 9, 2018 to March 2, 2022; Departed from AutoCanada for personal reasons on March 2, 2022	• Prior to appointment with ACI, Chief Operating Officer, Birchwood Automotive Group

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Notes:

(1) Member of the Audit Committee of ACI.

(2) Member of the Governance and Compensation Committee of ACI.

As of March 31, 2022, directors and executive officers of ACI, as a group, beneficially own or control or direct, directly or indirectly, an aggregate of 797,159 Shares, representing approximately 2.99% of the issued and outstanding Shares.

Corporate Cease Trade Orders or Bankruptcies

To the knowledge of the Company no director or executive officer of the Company is, or within the 10 years prior to the date hereof, has been, a trustee, director, chief executive officer or chief financial officer of any company that, while that person was acting in that capacity: (i) was the subject of a cease trade order or similar order, or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; or (ii) was subject to a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days that was issued after such person ceased to be a trustee, director, chief executive officer or chief financial officer and which resulted from an event that occurred while such person was acting in the capacity of a trustee, director, chief executive officer or chief financial officer.

To the knowledge of the Company, other than as disclosed herein, no director or executive officer of the Company, or a Shareholder holding a sufficient number of shares to affect materially the control of the Company, is, or within the 10 years prior to the date hereof, has been, a trustee, director or executive officer of any company that, while that person was acting in that capacity or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Penalties or Sanctions

To the knowledge of the Company, no director or executive officer of the Company or a Shareholder holding a sufficient number of Shares to affect materially the control of ACI has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities authority, or any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Personal Bankruptcies

To the knowledge of the Company, no director or executive officer of the Company or a Shareholder holding a sufficient number of Shares to affect materially the control of ACI has, within the 10 years prior to the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or became subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold such person's assets.

Conflicts of Interest

The officers and directors of ACI may also become officers and/or directors of other companies engaged in the automotive industry generally and which may own interests in automotive dealerships in which ACI holds or may in the future, hold an interest. As a result, situations may arise where the interests of such directors and officers conflict with their interests as directors and officers of other companies. In the case of the directors, the resolution of such conflicts is governed by applicable corporate laws which require that directors act honestly, in good faith and with a view to the best interests of ACI and, in respect of the *Canada Business Corporations Act*, ACI's governing statute, that directors declare, and refrain from voting on, any matter in which a director may have certain conflicts of interest.

AUDIT COMMITTEE INFORMATION

Charter of the Audit Committee

The Audit Committee charter of ACI is attached as Schedule B to this AIF.

Composition of the Audit Committee

The Audit Committee of ACI consists of Barry James (Chair), Maryann Keller and Elias Olmeta.

Each member of the Audit Committee of ACI is independent and financially literate; as such terms are defined in *National Instrument 52-110 – Audit Committees* ("NI 52-110").

Relevant Education and Experience

The education and experience of each member of the Audit Committee of ACI that is relevant to the performance of his responsibilities as an audit committee member is described below:

Barry James – Mr. James is the President of Barry L James Advisory Services Ltd. and was previously Managing Partner of the Edmonton office of PricewaterhouseCoopers LLP, a position he held for 10 years. He received a Bachelor of Commerce (with Distinction) degree from the University of Alberta in 1980, qualified as a Chartered Accountant in 1983 and became a Fellow of the Chartered Accountants in 2007. He joined PwC in 1977 and was admitted to the partnership in 1989. He was the Managing Partner of the Edmonton office from July 2001 to June 2011. Mr. James is currently a member of the Alberta Chapter of the Young Presidents' Organization. He also sits on the Boards of Corus Entertainment and ATB Financial, serving as Audit Committee Chair to both organizations and is the Board Vice Chair of ATB Financial. Mr. James was previously the Minister-appointed Chair of the Audit Committee of the Province of Alberta and the University of Alberta Board of Governors. Mr. James has been granted the ICD.D designation by the Institute of Corporate Directors. Mr. James's education and experience provide him with the necessary knowledge and ability to fulfill the requirements as the chair of the ACI Audit Committee.

Maryann Keller – Ms. Keller has over 40 years of experience in the automotive industry. She is a Board member of DriveTime Automotive Group, a national dealership group in the USA, and Lee Auto Malls, a regional dealership group in Maine, USA, and is the Principal of Maryann Keller & Associates LLC, an automotive consultancy company. Previously she served on the Board of Directors of Sonic Automotive and Lithia Motors, public dealership groups in the USA. She has a Bachelor of Science from Rutgers University and a Master of Business Administration from Baruch College. Ms. Keller's education and experience provide her with the necessary knowledge and ability to fulfill the requirements of a member of the ACI Audit Committee.

Elias Olmeta - Mr. Olmeta is Chief Financial Officer of Vistage Worldwide, Inc. Prior thereto he was Executive Vice President and Chief Financial Officer at Mitchell International, Inc. Mr. Olmeta also served as an executive consultant at CarProof, where he worked on strategy and operational initiatives. Prior to CarProof, Mr. Olmeta held positions at Solera Holdings; first as their Senior Vice President of Corporate Development where he was responsible for Mergers and Acquisitions on a worldwide basis, and subsequently as Chief Financial & Operating Officer of North America leading Finance, Sales, and HR. Earlier career experiences include positions at J.P. Morgan Chase & Co. and Arthur D. Little International as a member of their Strategy and Organization Practice. Mr. Olmeta holds an MBA in Finance and a Bachelor of Arts, Economics from the University of Rochester. In 2017, the San Diego Business Journal honored Elias by awarding him their CFO of the Year award which recognizes outstanding financial professionals in the San Diego area. Mr. Olmeta's education and experience provide him with the necessary knowledge and ability to fulfill the requirements of a member of the ACI Audit Committee.

Reliance on Exemptions

At no time since the commencement of the Company's most recently completed financial year has the Company relied upon an exemption, in whole or in part, from NI 52-110 other than the exemption in Section 2.4 (De-Minimus Non-audit Services) of NI 52-110.

Prior Approval of Policies and Procedures

The audit committee of ACI must pre-approve all non- audit services to be provided to ACI or its subsidiaries by ACI's external auditor, other than non-audit services where:

(a) the aggregate amount of all such non-audit services that were not pre-approved is reasonably expected to constitute no more than 5% of the total amount of fees paid by ACI and its subsidiaries to ACI's external auditor during the fiscal year in which the services are provided;

(b) ACI or its subsidiaries, as the case may be, did not recognize the services as non- audit services at the time of the engagement; and

(c) the services are promptly brought to the attention of the Audit Committee of ACI and approved, prior to the completion of the audit, by the Audit Committee of ACI or by one or more of its members to whom authority to grant such approvals had been delegated by the Audit Committee of ACI.

Audit Committee Oversight

At no time since the beginning of the Company's most recently completed financial year has a recommendation of the Audit Committee of ACI to nominate or compensate an external auditor not been adopted by the Board of Directors of ACI.

External Auditor Service Fees (by category)

The following table sets forth, by category, the fees billed by PricewaterhouseCoopers LLP, ACI's auditors, for the years ended December 31:

Fee category		2021		2020
Audit fees	$	570,000	$	565,000
Audit-related fees	$	308,200	$	309,300
Tax fees	$	82,190	$	105,800
All other fees	$	—	$	246,086
Total	$	960,390	$	1,226,186

"**Audit fees**" include all fees paid to PricewaterhouseCoopers LLP for the audit of the annual consolidated financial statements, system conversion and acquisition related testing.

"**Audit-related fees**" include all fees paid to PricewaterhouseCoopers LLP for the review of the interim financial statements, securities offerings, other assurance review engagements, accounting analysis over various matters and other services in connection with regulatory filings.

"**Tax fees**" consist of all fees paid to PricewaterhouseCoopers LLP for tax compliance and tax consulting services.

"**All other fees**" consist of all fees paid to PricewaterhouseCoopers LLP for consulting services.

Legal Proceedings and Regulatory Actions

From time to time, we are named in claims involving the manufacture of vehicles, contractual disputes and other matters arising in the ordinary course of our business. Currently, no legal proceedings are pending against us that, in management's opinion, could be expected to have a material adverse effect on our business, financial condition or results of operations.

In addition, we are not aware of any penalties or sanctions imposed against us by a court relating to securities legislation or by a securities regulatory authority during our financial year ended December 31, 2021 or any other penalties or sanctions imposed by a court or regulatory body against us that would likely be considered important to a reasonable investor in making an investment decision, and we have not entered into any settlement agreements with a court relating to securities legislation or with a securities regulatory authority during our financial year ended December 31, 2021.

Interest of Management and Others in Material Transactions

Other than as described in this AIF under the headings "Description of the AutoCanada Business – Acquisitions and Relocations", "Description of the AutoCanada Business – Locations" and "Description of the AutoCanada Business - Used Digital Retail Division", none of the Company's directors, executive officers or persons or companies that beneficially own or control or direct, directly or indirectly or a combination of both, more than 10% of the Shares, or their associates and affiliates, had any material interest, direct or indirect, in any transaction with the Company within the three most recently completed financial years or during the current financial year that has materially affected or would reasonably be expected to materially affect the Company.

Transfer Agent and Registrar

The transfer agent and registrar for the Shares is Computershare Trust Company at its principal offices in Calgary, Alberta and Toronto, Ontario.

Material Contracts

The only material contracts entered into by the Company within the most recently completed financial year, or before the most recently completed financial year, and which remain in effect, are as follows:

1. Credit Agreement described under "Financing – Credit Facilities"; and
2. Indenture relating to the Senior Unsecured Notes.

The contracts listed above are filed on SEDAR at www.sedar.com.

Interest of Experts

There is no person or company whose profession or business gives authority to a statement made by such person or company and who is named as having prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing, made under NI 51-102 by ACI during, or related to, its most recently completed financial year other than PricewaterhouseCoopers LLP, the external auditors of ACI. PricewaterhouseCoopers LLP has advised that they are independent with respect to ACI within the meaning of the Rules of Professional Conduct of the Institute of the Chartered Professional Accountants of Alberta.

Additional Information

Additional information relating to us may be found on SEDAR at www.sedar.com. Additional information, including directors' and officers' remuneration and indebtedness, principal holders of our securities and securities authorized for issuance under equity compensation plans, as applicable, will be contained in our information circular for the annual meeting of Shareholders to be held on May 5, 2022. Additional financial information is provided in our audited consolidated financial statements and management's discussion and analysis for our most recently completed financial year.

Schedule A – Glossary of Terms

"**ACI**" or the "**Company**" means AutoCanada Inc., a corporation incorporated under the CBCA;

"**ACI Stock Option Plan**" means the stock option plan of ACI;

"**affiliate**" has the meaning provided for in the CBCA;

"**AIF**" means this annual information form of the Company for the year ended December 31, 2021;

"**AutoCanada**" means AutoCanada Inc. and its subsidiaries, the Holding LPs, the Dealer LPs and any other franchised automobile dealership owned or operated by the foregoing parties;

"**AutoCanada GP**" means AutoCanada GP Inc., a corporation incorporated under the CBCA;

"**CADA**" means Canadian Automobile Dealers Association;

"**CBCA**" means the Canada Business Corporations Act and the regulations thereto, as amended;

"**CDK**" means CDK Dealer Services Ltd. (formerly ADP Dealer Services Ltd.);

"**Chrysler Approval Agreement**" means the approval agreement as restated, effective December 31, 2009, among Chrysler Canada, the Company, COAG, certain Dealer LP's and other parties;

"**Chrysler Canada**" means FCA Canada Inc. (formerly known as DaimlerChrysler Canada Inc.);

"**Credit Agreement**" means the third amended and restated credit agreement made as of December 1, 2021, as further amended on February 7, 2022, among, *inter alia*, ACI, AutoCanada Holdings Inc. and certain Subsidiaries as borrowers and/or guarantors, and a syndicate of Canadian chartered banks, including any related notes, guarantees, collateral and security documents, instruments and agreements executed in connection therewith, and, in each case, as amended, restated, modified, renewed, refunded, replaced (whether upon or after termination or otherwise) or refinanced, in whole or in part, from time to time;

"**Dealer GPs**" means a corporation incorporated under the CBCA to operate as a general partner of each Dealer LP;

"**Dealer LPs**" means the limited partnerships established under the laws of the Province of Manitoba to carry on the business of owning and operating one of AutoCanada LP's franchised automobile dealerships, as well as activities ancillary thereto;

"**Dealer Principal**" means an individual, approved by the automobile manufacturer, who is responsible for the day-to-day management and operations of a franchised automobile dealership;

"**floorplan financing**" is a type of asset-based financing used by franchised automobile dealerships to finance their new (and in some instances used) vehicle inventories. See "Financing – Floorplan Financing";

"**Ford**" means Ford Motor Company of Canada;

"**Ford PTOA**" means the Publicly Traded Owner Agreement entered into with Ford in November 2018

"**fully-diluted**" in respect to the number of securities of any person to be issued and outstanding at such time means the number of such securities of such person that would be issued and outstanding at such time if all rights to acquire or be issued such securities under all issued and outstanding rights of conversion, exchange, issue or purchase had been exercised at such time;

"**Fund**" means the former AutoCanada Income Fund, an unincorporated, open-ended trust established under the laws of the Province of Alberta;

"**GAAP**" means generally accepted accounting principles in Canada;

"**GM**" means General Motors of Canada;

"**Holding GPs**" means the corporations incorporated under the CBCA to operate as a general partner of each Holding LP;

"**Holding LPs**" means the limited partnerships established under the laws of the Province of Manitoba to carry on certain franchised automobile dealerships of AutoCanada, as well as activities ancillary thereto;

"**Holdings**" means AutoCanada Holdings Inc., a corporation incorporated under the CBCA;

"**Hyundai**" means Hyundai Auto Canada, a division of Hyundai Motor America, a California corporation;

"**Hyundai Framework Agreement**" means the framework agreement dated April 28, 2006, as amended on April 2, 2007, among Hyundai Auto Canada Corp. (by way of assignment from Hyundai Auto Canada), the Company, COAG and certain Dealer LP's;

"**IPO**" means the initial public offering of trust units issued and sold by the former Fund (including the over-allotment option);

"**Management**" mean the executive officers of ACI;

“**NADAP Rules**” means the rules adopted by the Canadian Vehicle Manufacturer’s Association, the Association of International Automobile Manufacturers of Canada and CADA that provide for dispute resolution between the automobile manufacturers and the franchised automobile dealerships in the Canadian automobile industry;

“**NI 51-102**” means National Instrument 51-102 – Continuous Disclosure Obligations issued by the Canadian Securities Administrators;

“**Nissan Multiple Market Ownership Agreement**” means the multiple market ownership agreement dated March 20, 2008, between Nissan Canada Inc. and ACI;

“**OEM**” means original equipment manufacturer;

“**OEM Agreements**” means the dealership franchise or sales and service agreements entered into by each of the Dealer LPs with the applicable OEM;

“**Open Point**” means a new franchised automobile dealership opened, or to be opened, pursuant to the right to open a new franchised automobile dealership in a specific location granted to a dealer by an automobile manufacturer;

“**PCMA**” means the Public Company Master Agreement entered into with GM Canada dated December 7, 2017;

“**Reynolds and Reynolds**” means the Reynolds and Reynolds Company;

“**Senior Unsecured Notes**” means the $350 million aggregate principal amount of 5.75% senior unsecured notes sold by the Company and due February 7, 2029;

“**Share**” means a common share in the capital of ACI;

“**Shareholders**” mean the holders of Shares;

“**Subaru**” means Subaru Canada Inc.;

“**Subsidiary**” has the meaning provided for in the CBCA, read as if the word “body corporate” includes a trust, partnership, limited liability company or other form of business organization;

“**Trust**” means the former AutoCanada Operating Trust, an unincorporated, open-ended trust established under the laws of the Province of Alberta;

“**TSX**” means the Toronto Stock Exchange;

“**VCCI Facilities**” means the agreement dated November 9, 2011, between AutoCanada and VW Credit Canada Inc.;

“**VW Canada**” means Volkswagen Canada Inc.; and

“**U.S.**” means the United States of America.

Schedule B – Audit Committee Charter

The Audit Committee (the "**Committee**") is a standing committee appointed by the Board of Directors (the "**Board**") of AutoCanada Inc. (the "**Company**") to assist the Board in fulfilling its oversight responsibilities with respect to the Company's financial reporting, including responsibility to:

- oversee the integrity of the Company's consolidated financial statements and financial reporting process, including the audit process and the Company's internal accounting controls and procedures and compliance with related legal and regulatory requirements;
- oversee the qualifications and independence of the Company's internal and external auditors;
- oversee the work of the Company's financial management and internal and external auditors in these areas; and
- provide an open avenue of communication between the Board and the officers of the Company ("Management") and the internal and external auditors of the Company.

In addition, the Committee will review and/or approve any other matter specifically delegated to the Committee by the Board.

AUTHORITY

The Audit Committee Charter (the "**Charter**") sets out the authority of the Committee to carry out the responsibilities established for it by the Board as articulated within the Charter.

In discharging its responsibilities, the Committee will have unrestricted access to members of Management, employees, and relevant information it considers necessary to discharge its duties. The Committee also will have unrestricted access to records, data, and reports. If access to requested documents is denied due to legal or confidentiality reasons, the Committee and/or director of internal audit will follow a prescribed, Board approved mechanism for resolution of the matter.

The Committee is entitled to receive any explanatory information that it deems necessary to discharge its responsibilities. The Company's Management and staff should cooperate with Committee requests.

The Committee is empowered to:

a) appoint, compensate, and oversee all audit and non-audit services performed by auditors, including the work of any registered public accounting firm employed by the Company;

b) resolve any disagreements between Management and the external auditor regarding financial reporting and other matters; and

c) pre-approve all auditing and non-audit services performed by auditors or other external assurance providers.

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's consolidated financial statements are complete and accurate or are in accordance with GAAP and applicable rules and regulations. These are the responsibilities of Management and the Company's external auditors. The Committee, its Chair and any Committee members identified as having accounting or related financial expertise are members of the Board, appointed to the Committee to provide broad oversight of the financial, risk and control related activities of the Company, and are specifically not accountable or responsible for the day-to-day operation or performance of such activities. Although the designation of a Committee member as having accounting or related financial expertise for disclosure purposes or otherwise is based on that individual's education and experience, which that individual will bring to bear in carrying out his or her duties on the Committee, such designation does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the Committee and Board in the absence of such designation. Rather, the role of a Committee member who is identified as having accounting or related financial expertise, like the role of all Committee members, is to oversee the process, not to certify or guarantee the internal or external audit of the Company's financial information or public disclosure.

COMPOSITION AND PROCEDURES

In addition to the procedures and powers set out in any resolution of the Board, the Committee will have the following composition and procedures:

1. Composition

The Committee shall consist of no fewer than three members. None of the members of the Committee shall be an officer or employee of the Company or any of its subsidiaries and each member of the Committee shall be an "independent director" (in accordance with the definition of "independent director" from time to time under the requirements or guidelines for Committee service under applicable securities laws and the rules of any stock exchange on which the Company's shares are listed for trading). A minimum of two-thirds of the members of the Committee shall constitute a quorum of the Committee.

At the time of the annual appointment of the members of the Committee, the Board shall appoint a Chair of the Committee. The Chair shall be a member of the Committee and shall preside over all Committee meetings including ensuring compliance with this Charter. The Chair may vote on any matter requiring a vote by the Committee and shall provide a second vote in the case of a tie vote.

2. Appointment and Replacement of Committee Members

Any member of the Committee may be removed or replaced at any time by ordinary resolution of the Board and shall automatically cease to be a member of the Committee upon ceasing to be a member of the Board. The Board may fill vacancies on the Committee by election from among its members. The Board shall fill any vacancy if the membership of the Committee is less than three. If and whenever a vacancy shall exist on the Committee, the remaining members may exercise all its power so long as a quorum remains in office. Subject to the foregoing, the members of the Committee shall be elected by the Board annually and each member of the Committee shall hold office as such until the next annual meeting of shareholders after his or her election or until his or her successor shall be duly elected.

3. Financial Literacy

All members of the Committee must be "financially literate" (as that term is interpreted by the Board in its reasonable judgment or as may be defined from time to time under the requirements or guidelines for Committee service under securities laws and the rules of any stock exchange on which the Company's shares are listed for trading) or must become financially literate within a reasonable period of time after his or her appointment to the Committee.

4. Separate In-Camera Meetings

The Committee will endeavour to meet at least once every quarter, and more often as warranted, with the Chief Financial Officer of the Company, the internal auditors, and the external auditors in separate in-camera sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately.

5. Professional Assistance

The Committee may retain special legal, accounting, financial or other consultants to advise the Committee at the Company's expense.

6. Reliance

Absent actual knowledge to the contrary (which will be promptly reported to the Board), each member of the Committee shall be entitled to rely on (i) the integrity of those persons or organizations within and outside the Company from which it receives information, (ii) the accuracy of the financial and other information provided to the Committee by such persons or organizations and (iii) representations made by Management of the Company and the external auditors, as to any information, technology, internal audit and other non-audit services provided by the external auditors or other assurance providers to the Company and its subsidiaries.

7. Review of Charter

The Committee will periodically review and reassess the adequacy of this Charter as it deems appropriate and recommend changes to the Board. The Committee will evaluate its performance with reference to this Charter. The Committee will approve the form of disclosure of this Charter, where required by applicable securities laws or regulatory requirements, in the annual proxy circular or annual report of the Company.

8. Delegation

The Committee may delegate from time to time to any individual Committee member any of the Committee's responsibilities, where the Committee determines it is appropriate to do so in order for necessary decisions to be made between meetings of the Committee and where such delegation is permitted by law. Any such decisions will be reported to the Committee at its next meeting.

9. Reporting to the Board

The Committee will report through the Committee Chair to the Board following meetings of the Committee on matters considered by the Committee, its activities and compliance with this Charter. The person designated as secretary shall prepare minutes of all meetings to be filed in the corporate records.

SPECIFIC MANDATES OF THE COMMITTEE

The Committee will:

I. In Respect of the Company's Internal Auditors

(a) review and approve the internal audit charter at least annually. The internal audit charter should be reviewed to ensure that it accurately reflects the internal audit activity's purpose, authority, and responsibility, consistent with the mandatory guidance of the IIA's *International Professional Practices Framework* and the scope and nature of assurance and consulting services, as well as changes in the financial, risk management, and governance processes of the Company and reflects developments in the professional practice of internal auditing;

(b) advise the Board about increases and decreases to the requested resources to achieve the internal audit plan. Evaluate whether any additional resources are needed permanently or should be provided through outsourcing;

(c) perform the following in regards to the director of internal audit:

   (i) advise the Board regarding the qualifications and recruitment, appointment, and removal of the director of internal audit;

   (ii) provide input to Management related to evaluating the performance of the director of internal audit;

   (iii) review and approve Management's recommendation for the appropriate compensation of the director of internal audit;

(d) review and provide input on the internal audit activity's strategic plan, objectives, performance measures, and outcomes. Review and approve proposed risk-based internal audit plan and make recommendations concerning internal audit projects;

(e) review and approve the internal audit plan and engagement work program, including reviewing internal audit resources necessary to achieve the plan and review the internal audit activity's performance relative to its audit plan;

(f) review internal audit reports and other communications to Management and review and track Management's action plans to address the results of internal audit engagements;

(g) review the assistance internal audit provides Management in the creation of a testing plan over Internal Controls over Financial Reporting (ICFR) for the Company to obtain assurance over ICFR activities;

(h) review and advise Management on the results of any special investigations;

(i) inquire of the director of internal audit whether any internal audit engagements or non-audit engagements have been completed but not reported to the Committee; if so, inquire whether any matters of significance arose from such work;

(j) inquire of the director of internal audit whether any evidence of fraud has been identified during internal audit engagements and evaluate what additional actions, if any, should be taken;

(k) inquire of the director of internal audit about steps taken to ensure that the internal audit activity conforms with the IIA's *International Standards for the Professional Practice of Internal Auditing* (Standards); and

(l) ensure that the internal audit activity has a quality assurance and improvement program and the following steps are taken:

   (i) ensure the results of these periodic assessments are presented to the Committee;

   (ii) ensure that the internal audit activity has an external quality assurance review every five years;

   (iii) review the results of the independent external quality assurance review and monitor the implementation of the internal audit activity's action plans to address any recommendations; and

   (iv) advise the Board about any recommendations for the continuous improvement of the internal audit activity.

II. In Respect of the Company's External Auditors

The Committee will:

(a) review the performance of the external auditors (including the lead partner of the independent audit team) of the Company who are accountable to the Committee and the Board. Make recommendations to the Board as to the reappointment or appointment of the external auditors of the Company to be nominated in the Company's proxy circular for shareholder approval and shall have authority to terminate the external auditors;

(b) review the reasons for any proposed change in the external auditors of the Company which is not initiated by the Committee or Board and any other significant issues related to the change, including the response of the incumbent auditors, and enquire as to the qualifications of the proposed replacement auditors before making its recommendation to the Board;

(c) recommend to the Board the terms of engagement and the compensation to be paid by the Company to the Company's external auditors;

(d) review the independence of the Company's external auditors, including a written report from the external auditors respecting their independence and consideration of applicable auditor independence standards;

(e) approve in advance all permitted non-audit services to be provided to the Company or any of its affiliates by the external auditors or any of their affiliates, subject to any *de minimus* exception allowed by applicable law; the Committee may delegate to one or more designated members of the Committee the authority to grant pre-approvals required by this subsection, subject to any matters being presented to the Committee at its first scheduled meeting following such pre-approval;

(f) review the disclosure with respect to its pre-approval of audit and non-audit services provided by the Company's external auditors;

(g) approve any hiring by the Company or its subsidiaries of partners or employees or former partners or employees of the Company's present or former external auditors;

(h) review a written or oral report describing:

  (i) critical accounting policies and practices to be used in the Company's financial statements,

  (ii) alternative treatments of financial information within IFRS that have been discussed with Management and that are significant to the Company's consolidated financial statements, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditors, and

  (iii) other material written communication between the Company's external auditors or Management, such as any management letter or schedule of unadjusted differences;

(i) review with the external auditors and Management the general audit approach and scope of proposed audits of the consolidated financial statements of the Company, the objectives, staffing, locations, co-ordination and reliance upon Management in the audit, the overall audit plans, the audit procedures to be used and the timing and estimated budgets of the audits;

(j) if a review engagement report is requested of the external auditors, review such report before the release of the Company's interim consolidated financial statements;

(k) discuss with the external auditors any difficulties or disputes that arose with Management during the course of the audit, any restrictions on the scope of activities or access to requested information and the adequacy of Management's responses in correcting audit-related deficiencies; and

(l) review and resolve disagreements between Management and the Company's external auditors regarding financial reporting or the application of any accounting principles or practices.

III. In Respect of the Company's Financial Disclosure

The Committee will:

(a) review with the external auditors and Management:

  (i) the Company's audited consolidated financial statements and the notes and Managements' Discussion and Analysis relating to such consolidated financial statements, the recommendations for approval of each of the foregoing from each of the Chief Executive Officer or Executive Chairman, and Chief Financial Officer, and based on such recommendations provide, where applicable, its own recommendations to the Board for their approval and release of each of the foregoing to the public;

  (ii) the Company's interim consolidated financial statements and the notes and Managements' Discussion and Analysis relating to such consolidated financial statements, the recommendations for approval of each of the foregoing from each of the Chief Executive Officer or Executive Chairman, and Chief Financial Officer, and based on such recommendations provide, where applicable, its own recommendations to the Board for their approval and release of each of the foregoing to the public;

  (iii) the quality, appropriateness and acceptability of the Company's accounting principles and practices used in its financial reporting, changes in the Company's accounting principles or practices and the application of particular accounting principles and disclosure practices by Management to new transactions or events;

  (iv) all significant financial reporting issues and judgments made in connection with the preparation of the Company's consolidated financial statements, including the effects of alternative methods in respect of any matter considered significant by the external auditor within IFRS on the consolidated financial statements and any "second opinions" sought by Management from an independent or other audit firm or advisor with respect to the accounting treatment of a particular item;

(v) the effect of regulatory and accounting initiatives on the Company's consolidated financial statements and other financial disclosures;

(vi) any reserves, accruals, provisions or estimates that may have a significant effect upon the consolidated financial statements of the Company;

(vii) the use of special purpose entities and the business purpose and economic effect of off balance sheet transactions, arrangements, obligations, guarantees and other relationships of the Company and their impact on the reported financial results of the Company;

(viii) any legal matter, claim or contingency that could have a significant impact on the consolidated financial statements, the Company's compliance policies and any material reports, inquiries or other correspondence received from regulators or governmental agencies and the manner in which any such legal matter, claim or contingency has been disclosed in the Company's consolidated financial statements;

(ix) review the treatment for financial reporting purposes of any significant transactions that are not a normal part of the Company's operations; and

(x) the use of any "pro forma" or "adjusted" information not in accordance with IFRS.

(b) review, or establish procedures for the review of, all public disclosure documents containing audited, unaudited or forward-looking financial information before release by the Company, including any prospectus, management information circulars, offering memoranda, annual reports, management certifications, management's discussion and analysis, annual information forms and press releases;

(c) review earnings press releases, as well as financial information and earnings guidance provided to analysts and ratings agencies, it being understood that such discussions may, in the discretion of the Committee, be done generally (i.e., by discussing the types of information to be disclosed and the type of presentation to be made) and that the Committee need not discuss in advance each earnings release or each instance in which the Company gives earning guidance;

(d) establish and monitor procedures for the receipt and treatment of complaints received by the Company regarding accounting, internal accounting controls or audit matters and the anonymous submission by employees of concerns regarding questionable accounting or auditing matters and review periodically with the Management these procedures and any significant complaints received;

(e) receive from the Chief Executive Officer and Chief Financial Officer, a certificate certifying in respect of each annual and interim report the matters such officers are required to certify in connection with the filing of such reports under applicable securities laws;

(f) review and discuss the Company's major financial risk exposures and the steps taken to monitor and control such exposures, including the use of any financial derivatives and hedging activities; and

(g) review annually insurance programs relating to the Company and its investments.

IV. In Respect of Internal Controls

The Committee will:

(a) review the adequacy and effectiveness of the Company's internal accounting and financial controls based on recommendations from Management, the internal auditors, and the external auditors for the improvement of accounting practices and internal controls;

(b) review Management's assessment of the effectiveness of internal control over financial reporting as of the end of each fiscal year; and

(c) oversee compliance with internal controls.

V. In Respect of Other Items

The Committee will:

(a) on an annual basis review and assess Committee member attendance and performance and report thereon to the Board and review this Charter and, if required implement amendments to this Charter;

(b) on an annual basis review the dividend reinvestment plan and normal course issuer bid if any;

(c) on a quarterly basis review compliance with the Disclosure Policy of the Company; and

(d) review and carry out the activities set forth on the attached Appendix "A" as well as other actions which may be necessary for the Committee to carry out the spirit and intent of this Charter. The schedule shall be reviewed from time to time by the Committee.

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