
# 2022

AutoCanada

# 2022 Third Quarter Financial Results

# Condensed Interim Consolidated Financial Statements (Unaudited)

September 30, 2022

# AutoCanada Inc.

**Condensed Interim Consolidated Statements of Comprehensive Income**

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

| | Three-month period ended | | Nine-month period ended | |
|---|---|---|---|---|
| | September 30, 2022 $ | September 30, 2021 Revised (Note 2) $ | September 30, 2022 $ | September 30, 2021 Revised (Note 2) $ |
| **Revenue** (Note 5) | 1,623,949 | 1,206,754 | 4,652,413 | 3,457,633 |
| **Cost of sales** (Note 6) | (1,350,315) | (986,562) | (3,852,162) | (2,851,964) |
| **Gross profit** | 273,634 | 220,192 | 800,251 | 605,669 |
| **Operating expenses** (Note 7) | (207,266) | (159,880) | (613,621) | (442,601) |
| **Operating profit before other income** | 66,368 | 60,312 | 186,630 | 163,068 |
| Lease and other income, net | 3,486 | 3,439 | 9,489 | 8,422 |
| Loss on disposal of assets, net | (551) | (910) | (172) | (832) |
| **Operating profit** | 69,303 | 62,841 | 195,947 | 170,658 |
| Finance costs (Note 8) | (24,659) | (16,158) | (100,078) | (43,702) |
| Finance income (Note 8) | 655 | 223 | 1,341 | 628 |
| Other gains (losses) | 1,179 | 269 | 1,870 | (225) |
| **Net income for the period before taxation** | 46,478 | 47,175 | 99,080 | 127,359 |
| Income tax expense (Note 9) | 13,608 | 8,406 | 22,830 | 29,558 |
| **Net income for the period** | 32,870 | 38,769 | 76,250 | 97,801 |
| **Other comprehensive (loss) income** | | | | |
| *Items that may be reclassified to profit or loss* | | | | |
| Foreign operations currency translation | (5,108) | (470) | (7,847) | 47 |
| Change in fair value of cash flow hedge (Note 19) | 1,284 | 1,845 | 5,736 | 6,271 |
| Income tax relating to these items | (324) | (468) | (1,455) | (1,729) |
| **Other comprehensive (loss) income for the period** | (4,148) | 907 | (3,566) | 4,589 |
| **Comprehensive income for the period** | 28,722 | 39,676 | 72,684 | 102,390 |
| **Net income for the period attributable to:** | | | | |
| AutoCanada shareholders | 31,529 | 37,521 | 71,694 | 94,400 |
| Non-controlling interest | 1,341 | 1,248 | 4,556 | 3,401 |
| | 32,870 | 38,769 | 76,250 | 97,801 |
| **Comprehensive income for the period attributable to:** | | | | |
| AutoCanada shareholders | 27,381 | 38,428 | 68,128 | 98,989 |
| Non-controlling interest | 1,341 | 1,248 | 4,556 | 3,401 |
| | 28,722 | 39,676 | 72,684 | 102,390 |
| **Net income per share attributable to AutoCanada shareholders:** | | | | |
| Basic | 1.22 | 1.37 | 2.72 | 3.46 |
| Diluted | 1.16 | 1.27 | 2.56 | 3.22 |
| **Weighted average shares** | | | | |
| Basic (Note 21) | 25,876,198 | 27,483,596 | 26,368,404 | 27,248,073 |
| Diluted (Note 21) | 27,177,819 | 29,599,494 | 27,961,427 | 29,280,572 |

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

# AutoCanada Inc.

**Condensed Interim Consolidated Statements of Financial Position**
*(In thousands of Canadian dollars)*

| | September 30, 2022 (Unaudited) $ | December 31, 2021 $ |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents (Note 12) | 109,478 | 102,480 |
| Trade and other receivables (Note 13) | 216,847 | 132,913 |
| Inventories (Note 14) | 970,913 | 737,299 |
| Other current assets | 10,647 | 9,572 |
| | 1,307,885 | 982,264 |
| **Property and equipment** (Note 15) | 317,223 | 248,109 |
| **Right-of-use assets** | 378,478 | 370,998 |
| **Other long-term assets** | 17,387 | 17,211 |
| **Deferred income tax** | 40,945 | 40,881 |
| **Derivative financial instruments** (Note 19) | 5,456 | — |
| **Intangible assets** | 610,859 | 548,249 |
| **Goodwill** | 68,100 | 50,961 |
| | 2,746,333 | 2,258,673 |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Trade and other payables (Note 16) | 258,475 | 189,731 |
| Revolving floorplan facilities (Note 17) | 951,895 | 708,561 |
| Current tax payable | 17,905 | 3,119 |
| Vehicle repurchase obligations | 3,428 | 3,584 |
| Indebtedness (Note 17) | 784 | — |
| Redemption liabilities | 21,695 | 21,673 |
| Lease liabilities | 26,601 | 25,602 |
| Other liabilities (Note 18) | 3,695 | 1,167 |
| | 1,284,478 | 953,437 |
| **Long-term indebtedness** (Note 17) | 459,534 | 285,908 |
| **Long-term lease liabilities** | 438,856 | 427,215 |
| **Long-term redemption liabilities** (Note 25) | 659 | 659 |
| **Derivative financial instruments** (Note 19) | 1,715 | 8,299 |
| **Other long-term liabilities** (Note 18) | 12,143 | 9,932 |
| **Deferred income tax** | 42,043 | 53,814 |
| | 2,239,428 | 1,739,264 |
| **EQUITY** | | |
| **Attributable to AutoCanada shareholders** | 478,823 | 493,411 |
| **Attributable to Non-controlling interests** | 28,082 | 25,998 |
| | 506,905 | 519,409 |
| | 2,746,333 | 2,258,673 |

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

Commitments (Note 15)

# AutoCanada Inc.

**Condensed Interim Consolidated Statements of Changes in Equity**

*(Unaudited)*
*(in thousands of Canadian dollars)*

| | Attributable to AutoCanada shareholders | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital $ | Treasury shares $ | Contributed surplus $ | Cumulative translation adjustment $ | OCI hedge reserve $ | Retained earnings $ | Total capital $ | Non-controlling interests $ | Total equity $ |
| **Balance, January 1, 2022** | **510,819** | **(2,440)** | **(6,823)** | **(5,105)** | **(6,149)** | **3,109** | **493,411** | **25,998** | **519,409** |
| Net income | — | — | — | — | — | 71,694 | 71,694 | 4,556 | 76,250 |
| Other comprehensive (loss) income | — | — | — | (7,847) | 4,281 | — | (3,566) | — | (3,566) |
| Dividends paid by subsidiaries to non-controlling interests | — | — | — | — | — | — | — | (3,247) | (3,247) |
| Repurchase of common shares under the Normal Course Issuer Bid (Note 21) | (32,089) | — | (24,516) | — | — | — | (56,605) | — | (56,605) |
| Repurchase of common shares under the Substantial Issuer Bid (Note 21) | (21,386) | — | (11,110) | — | — | — | (32,496) | — | (32,496) |
| Reorganization of non-controlling interests (Note 11) | — | — | (21) | — | — | 740 | 719 | 775 | 1,494 |
| Forward share purchase (Note 18) | — | — | (2,890) | — | — | — | (2,890) | — | (2,890) |
| Repayment of Executive Advance (Note 25) | — | — | 209 | — | — | — | 209 | — | 209 |
| Settlement of share based awards | 10,496 | — | (4,139) | — | — | — | 6,357 | — | 6,357 |
| Shares settled from treasury (Note 21) | — | 1,394 | (1,394) | — | — | — | — | — | — |
| Share-based compensation | — | — | 3,717 | — | — | — | 3,717 | — | 3,717 |
| Deferred tax on share-based compensation | — | — | (1,727) | — | — | — | (1,727) | — | (1,727) |
| **Balance, September 30, 2022** | **467,840** | **(1,046)** | **(48,694)** | **(12,952)** | **(1,868)** | **75,543** | **478,823** | **28,082** | **506,905** |

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

# AutoCanada Inc.

**Condensed Interim Consolidated Statements of Changes in Equity**

*(Unaudited)*
*(in thousands of Canadian dollars)*

| | Attributable to AutoCanada shareholders | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Share capital $** | **Treasury shares $** | **Contributed surplus $** | **Cumulative translation adjustment $** | **OCI hedge reserve $** | **Accumulated deficit $** | **Total capital $** | **Non-controlling interests $** | **Total equity $** |
| **Balance, January 1, 2021** | **510,606** | **(2,494)** | **9,995** | **(3,036)** | **(12,637)** | **(160,560)** | **341,874** | **20,946** | **362,820** |
| Net income | — | — | — | — | — | 94,400 | 94,400 | 3,401 | 97,801 |
| Other comprehensive income | — | — | — | 47 | 4,542 | — | 4,589 | — | 4,589 |
| Dividends declared by subsidiaries to non-controlling interests | — | — | — | — | — | — | — | (79) | (79) |
| Reorganization of non-controlling interests (Note 11) | — | — | — | — | — | (538) | (538) | 2,139 | 1,601 |
| Forward share purchase (Note 21) | — | (3,631) | 3,631 | — | — | — | — | — | — |
| Settlement of share based awards | 213 | — | (16,194) | — | — | — | (15,981) | — | (15,981) |
| Issuances of employee advances | — | — | (4,570) | — | — | — | (4,570) | — | (4,570) |
| Shares settled from treasury (Note 21) | — | 3,432 | (3,432) | — | — | — | — | — | — |
| Share-based compensation | — | — | 2,373 | — | — | — | 2,373 | — | 2,373 |
| **Balance, September 30, 2021** | **510,819** | **(2,693)** | **(8,197)** | **(2,989)** | **(8,095)** | **(66,698)** | **422,147** | **26,407** | **448,554** |

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

# AutoCanada Inc.

**Condensed Interim Consolidated Statements of Cash Flows**

*(Unaudited)*

*(in thousands of Canadian dollars)*

| | Three-month period ended | | Nine-month period ended | |
|---|---|---|---|---|
| | September 30, 2022 $ | September 30, 2021 $ | September 30, 2022 $ | September 30, 2021 $ |
| **Cash provided by (used in):** | | | | |
| **Operating activities** | | | | |
| Net income for the period | 32,870 | 38,769 | 76,250 | 97,801 |
| Adjustments for: | | | | |
| Income tax expense (Note 9) | 13,608 | 8,406 | 22,830 | 29,558 |
| Depreciation of property and equipment (Note 7) | 5,371 | 4,121 | 15,188 | 12,442 |
| Depreciation of right-of-use assets (Note 7) | 7,463 | 6,464 | 22,455 | 18,955 |
| Loss on disposal of assets | 551 | 910 | 172 | 832 |
| Share-based compensation - equity-settled | 1,347 | 967 | 3,717 | 2,373 |
| Loss on extinguishment of debt (Note 8) | — | — | 9,860 | 1,128 |
| Loan forgiveness | — | — | — | (6,728) |
| Amortization of deferred financing costs | 350 | (236) | 1,013 | 1,672 |
| Amortization of note premium | — | — | (322) | — |
| Amortization of terminated hedges (Note 8) | 817 | 817 | 2,451 | 2,451 |
| Unrealized fair value changes on non-hedging instruments (Note 8, 19) | (879) | (1,221) | (9,039) | (5,436) |
| Unrealized fair value changes on foreign exchange forward contracts (Note 19) | 2,031 | (930) | 2,214 | 416 |
| Loss on extinguishment of embedded derivative (Note 8, 17) | — | — | 29,306 | — |
| Unrealized fair value changes on embedded derivative (Note 8) | — | 116 | — | (4,528) |
| Income taxes paid | (2,692) | (4,323) | (24,417) | (20,884) |
| Settlement of share based awards | (148) | (15,817) | (2,649) | (15,817) |
| Issuance of employee advances | — | (2,570) | — | (2,570) |
| Repayment (issuance) of executive advance (Note 25) | 209 | (2,000) | 209 | (2,000) |
| Net change in non-cash working capital (Note 24) | (23,236) | (19,752) | (39,362) | (6,876) |
| | 37,662 | 13,721 | 109,876 | 102,789 |
| **Investing activities** | | | | |
| Business acquisitions, net of cash acquired (Note 10) | (41,969) | (18,241) | (120,654) | (18,241) |
| Purchases of property and equipment (Note 15) | (16,719) | (1,863) | (33,083) | (12,244) |
| Settlement of prior year business acquisitions | (4) | — | (454) | — |
| Proceeds on sale of property and equipment | 103 | 1,068 | 2,613 | 2,344 |
| | (58,589) | (19,036) | (151,578) | (28,141) |
| **Financing activities** | | | | |
| Proceeds from indebtedness | 199,832 | — | 792,298 | 179,393 |
| Repayment of indebtedness | (114,905) | (1,033) | (646,808) | (121,258) |
| Repurchase of common shares (Note 21) | — | — | (56,605) | — |
| Forward share purchase (Note 21) | — | — | — | (3,631) |
| Shares settled from Treasury, net (Note 21) | 678 | 3,167 | 1,394 | 3,432 |
| Proceeds from exercise of stock options, net | — | — | 8,573 | — |
| Settlement of share based awards | — | 173 | — | 173 |
| Settlement of substantial issuer bid (Note 21) | (32,496) | — | (32,496) | — |
| Dividends paid to non-controlling interests | — | — | (3,247) | (79) |
| Repayment of loan by non-controlling interests | — | — | 2,162 | — |
| Principal portion of lease payments, net | (6,965) | (6,649) | (20,546) | (19,540) |
| | 46,144 | (4,342) | 44,725 | 38,490 |
| Effect of exchange rate changes on cash and cash equivalents | 3,270 | 411 | 3,975 | 15 |
| **Net increase (decrease) in cash and cash equivalents** | 28,487 | (9,246) | 6,998 | 113,153 |
| **Cash and cash equivalents at beginning of period** | 80,991 | 230,103 | 102,480 | 107,704 |
| **Cash and cash equivalents at end of period** (Note 12) | 109,478 | 220,857 | 109,478 | 220,857 |

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

# AutoCanada Inc.

**Notes to the Condensed Interim Consolidated Financial Statements**
**For the Period Ended September 30, 2022**
*(Unaudited)*
*(In thousands of Canadian dollars except for share and per share amounts)*

## 1 General information

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

## 2 Basis of presentation

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"). These condensed interim consolidated financial statements do not include all of the disclosures normally provided in the annual consolidated financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2021, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB.

These financial statements were approved by the Board of Directors on November 9, 2022.

*Revised Comparatives*

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations other than as described directly below.

**Revenue (Note 5)**

| | Three-month period ended September 30, 2021 | | | Nine-month period ended September 30, 2021 | | |
|---|---|---|---|---|---|---|
| | As originally presented $ | Adjustment $ | Revised $ | As originally presented $ | Adjustment $ | Revised $ |
| New vehicles | 489,192 | 8,950 | 498,142 | 1,465,792 | 31,004 | 1,496,796 |
| Used vehicles | 528,827 | (10,036) | 518,791 | 1,446,788 | (33,290) | 1,413,498 |
| Parts, service and collision repair | 116,724 | 229 | 116,953 | 347,169 | 670 | 347,839 |
| Finance, insurance and other | 72,011 | 857 | 72,868 | 197,884 | 1,616 | 199,500 |
| | 1,206,754 | — | 1,206,754 | 3,457,633 | — | 3,457,633 |

**Cost of sales (Note 6)**

| | Three-month period ended September 30, 2021 | | | Nine-month period ended September 30, 2021 | | |
|---|---|---|---|---|---|---|
| | As originally presented $ | Adjustment $ | Revised $ | As originally presented $ | Adjustment $ | Revised $ |
| New vehicles | 445,037 | 6,580 | 451,617 | 1,347,228 | 23,785 | 1,371,013 |
| Used vehicles | 485,565 | (6,443) | 479,122 | 1,334,940 | (24,586) | 1,310,354 |
| Parts, service and collision repair | 51,498 | 707 | 52,205 | 155,002 | 2,100 | 157,102 |
| Finance, insurance and other | 4,462 | (844) | 3,618 | 14,794 | (1,299) | 13,495 |
| | 986,562 | — | 986,562 | 2,851,964 | — | 2,851,964 |

## 3 Significant accounting policies

The significant accounting policies used in the preparation of these condensed interim consolidated financial statements are the same accounting policies and method of computation as disclosed in the consolidated annual financial statements for the year ended December 31, 2021.

The Company has adopted amendments to various standards effective January 1, 2022, which did not have a significant impact to these financial statements.

## 4 Critical accounting estimates, judgments & measurement uncertainty

Except as otherwise noted, the critical accounting estimates, judgments, and measurement uncertainty used in the preparation of these condensed interim consolidated financial statements are the same as disclosed in the consolidated annual financial statements for the year ended December 31, 2021.

## 5 Revenue

| | Three-month period ended | | Nine-month period ended | |
|---|---|---|---|---|
| | September 30, 2022 $ | September 30, 2021 Revised (Note 2) $ | September 30, 2022 $ | September 30, 2021 Revised (Note 2) $ |
| New vehicles | 557,492 | 498,142 | 1,652,557 | 1,496,796 |
| Used vehicles | 807,236 | 518,791 | 2,243,748 | 1,413,498 |
| Parts, service and collision repair | 161,805 | 116,953 | 474,121 | 347,839 |
| Finance, insurance and other | 97,416 | 72,868 | 281,987 | 199,500 |
| **Revenue** | 1,623,949 | 1,206,754 | 4,652,413 | 3,457,633 |

## 6 Cost of sales

| | Three-month period ended | | Nine-month period ended | |
|---|---|---|---|---|
| | September 30, 2022 $ | September 30, 2021 Revised (Note 2) $ | September 30, 2022 $ | September 30, 2021 Revised (Note 2) $ |
| New vehicles | 498,732 | 451,617 | 1,481,463 | 1,371,013 |
| Used vehicles | 774,609 | 479,122 | 2,140,224 | 1,310,354 |
| Parts, service and collision repair | 73,098 | 52,205 | 216,270 | 157,102 |
| Finance, insurance and other | 3,876 | 3,618 | 14,205 | 13,495 |
| **Cost of sales** | 1,350,315 | 986,562 | 3,852,162 | 2,851,964 |

## 7 Operating expenses

| | Three-month period ended | | Nine-month period ended | |
|---|---|---|---|---|
| | September 30, 2022 $ | September 30, 2021 $ | September 30, 2022 $ | September 30, 2021 $ |
| Employee costs | 132,393 | 102,397 | 397,226 | 285,049 |
| Government assistance [1, 2] | — | (317) | (264) | (11,769) |
| Administrative costs [3] | 61,082 | 47,110 | 176,408 | 137,304 |
| Facility lease costs | 957 | 105 | 2,608 | 620 |
| Depreciation of right-of-use assets | 7,463 | 6,464 | 22,455 | 18,955 |
| Depreciation of property and equipment | 5,371 | 4,121 | 15,188 | 12,442 |
| **Operating expenses** | 207,266 | 159,880 | 613,621 | 442,601 |

1 *Government assistance represents the Company's eligible claim of $264 (2021 - $653) for the Canada Emergency Rent Subsidy (CERS) and $nil (2021 - $4,388) for the Canada Emergency Wage Subsidy (CEWS) for the nine-month period ended September 30, 2022, with $nil (2021 - $506) included in Trade and other receivables (Note 13). There are no unfulfilled conditions or other contingencies attached to the subsidy recognized.*

2 *During the nine-month period ended September 30, 2022, $nil (2021 - $6,728) of the loans from the Small Business Association Paycheck Protection Program were forgiven and included above as an offset to Operating expenses. There are no unfulfilled conditions or other contingencies attached to the forgiven loans.*

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

## 8 Finance costs and finance income

| | Three-month period ended | | Nine-month period ended | |
|---|---|---|---|---|
| | September 30, 2022 $ | September 30, 2021 $ | September 30, 2022 $ | September 30, 2021 $ |
| **Finance costs** | | | | |
| Interest on long-term indebtedness | 7,436 | 5,591 | 21,204 | 15,739 |
| Interest on lease liabilities | 7,227 | 5,487 | 21,545 | 16,542 |
| Loss on extinguishment of debt (Note 17) | — | — | 9,860 | 1,128 |
| Unrealized fair value changes on non-hedging instruments (Note 19) | (879) | (1,221) | (9,039) | (5,436) |
| Amortization of terminated hedges (Note 19) | 817 | 817 | 2,451 | 2,451 |
| Loss on extinguishment of embedded derivative (Note 17) | — | — | 29,306 | — |
| Unrealized fair value changes on embedded derivative | — | 116 | — | (4,528) |
| | 14,601 | 10,790 | 75,327 | 25,896 |
| Floorplan financing | 8,696 | 2,552 | 17,969 | 9,550 |
| Interest rate swap settlements (Note 19) | (211) | 1,701 | 1,659 | 5,089 |
| Other finance costs | 1,573 | 1,115 | 5,123 | 3,167 |
| | 24,659 | 16,158 | 100,078 | 43,702 |
| **Finance income** | | | | |
| Interest on net investment in lease | 16 | — | 48 | — |
| Short-term bank deposits | 639 | 223 | 1,293 | 628 |
| | 655 | 223 | 1,341 | 628 |

Cash interest paid during the nine-month period ended September 30, 2022 was $71,345 (2021 - $49,106), which includes $21,545 (2021 - $16,542) of cash interest paid related to interest on lease liabilities.

## 9 Taxation

Components of income tax were as follows:

| | Three-month period ended | | Nine-month period ended | |
|---|---|---|---|---|
| | September 30, 2022 $ | September 30, 2021 $ | September 30, 2022 $ | September 30, 2021 $ |
| Current tax | 16,190 | 864 | 39,058 | 17,967 |
| Deferred tax | (2,582) | 7,542 | (16,228) | 11,591 |
| **Total income tax expense** | 13,608 | 8,406 | 22,830 | 29,558 |
| Effective income tax rate | 29.3 % | 17.8 % | 23.0 % | 23.2 % |

Income tax expense (recovery) is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual statutory income tax rate used for the nine-month period ended September 30, 2022 was 25.5% (2021 - 25.4%).

## 10 Business acquisitions

During the nine-month period ended September 30, 2022, the Company completed six business acquisitions that were accounted for using the acquisition method.

*Audi Windsor and Porsche of London*

On May 2, 2022, the Company acquired substantially all of the assets to be used in the operations of the Audi Windsor and Porsche of London dealerships. The acquisitions supports management's strategic objectives of further establishing the Company's presence in the province of Ontario.

*Burwell Auto Body*

On June 30, 2022, the Company acquired 100% of the shares of Burwell Auto Body Limited ("Burwell Auto Body"), a luxury-brand focused collision centre in London, Ontario. 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 Ontario.

*Kelleher Ford Dealership and Collision Centre*

On August 2, 2022, the Company acquired 100% of the shares of Kelleher Ford Dealership and Collision Centre ("Kelleher Ford"), a new and used vehicle Ford dealership and collision centre in Brandon, Manitoba. The acquisition supports management's strategic objectives of expanding the Company's presence in the province of Manitoba and collision centre capacity.

*Velocity Autobody*

On August 12, 2022, the Company acquired 100% of the shares of Velocity Auto Body Inc. ("Velocity Autobody"), a luxury-brand focused collision centre in Markham, Ontario. 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 Ontario.

*Auto Gallery of Winnipeg*

On September 22, 2022, the Company acquired 100% of the shares of Auto Gallery of Winnipeg Inc. ("Auto Gallery of Winnipeg"), an independent used vehicle dealership in Winnipeg, Manitoba. The acquisition supports management's strategic objectives of expanding the Company's Used Digital Retail Division in the province of Manitoba and provides a central logistics hub.

*North Toronto Auction*

On September 28, 2022, the Company acquired 100% of the shares of Northern Auto Auctions of Canada Inc. ("North Toronto Auction"), an entity that operates the North Toronto Auction, a fee-based used vehicle auction business, serving dealers and consumers, located in Innisfil, Ontario. The acquisition forms part of management's strategic objective of expanding the Used Digital Retail Division in the Canadian pre-owned vehicle market.

*Summary of Acquisitions*

The estimated provisional purchase price allocations, which are subject to the finalization of the valuation of acquired assets and assumed liabilities, of the business acquisitions completed during the nine-month period ended September 30, 2022 are summarized as follows:

| | Dealership Acquisitions $ | Used Digital Retail Division Acquisitions $ | Collision Centre Acquisitions $ | Total Acquisitions $ |
|---|---|---|---|---|
| **Current assets** | | | | |
| Cash and cash equivalents | — | 2,596 | 820 | 3,416 |
| Trade and other receivables | 4,300 | 1,550 | 1,596 | 7,446 |
| Inventories | 11,627 | 3,869 | 555 | 16,051 |
| | 15,927 | 8,015 | 2,971 | 26,913 |
| Property and equipment | 36,698 | 2,396 | 4,544 | 43,638 |
| Right-of-use assets | — | 10,732 | 2,365 | 13,097 |
| Intangible assets | 53,589 | — | 2,489 | 56,078 |
| **Total assets** | 106,214 | 21,143 | 12,369 | 139,726 |
| **Current liabilities** | | | | |
| Trade and other payables | 3,888 | 2,961 | 1,195 | 8,044 |
| Revolving floorplan facilities | 7,600 | — | — | 7,600 |
| Lease liabilities | — | 387 | 250 | 637 |
| Other liabilities | 2,017 | — | 238 | 2,255 |
| | 13,505 | 3,348 | 1,683 | 18,536 |
| Lease liabilities | — | 10,344 | 2,116 | 12,460 |
| **Total liabilities** | 13,505 | 13,692 | 3,799 | 30,996 |
| **Net identifiable assets acquired** | 92,709 | 7,451 | 8,570 | 108,730 |
| Goodwill | 8,272 | 3,739 | 3,329 | 15,340 |
| **Total net assets acquired** | 100,981 | 11,190 | 11,899 | 124,070 |
| **Total consideration** | 100,981 | 11,190 | 11,899 | 124,070 |

The goodwill is attributable to the workforce, synergies from combining operations of the acquirees and profitability of the acquired businesses. Goodwill of $4,016 is deductible for tax purposes.

The results of the operations of the acquired entities are included in the Condensed Interim Consolidated Statements of Comprehensive Income from the date of acquisition. Such results of operations and the related assets and liabilities at the statement of financial position date are included in the Condensed Interim Consolidated Statements of Financial Position.

The results of operations of the acquired entities since the acquisition dates contributed $47,992 of revenue and $2,196 of net income to the Condensed Interim Consolidated Statements of Comprehensive Income for the period ended September 30, 2022. Had the acquisitions occurred at January 1, 2022, consolidated pro-forma revenue and net income for the period ended September 30, 2022 would have been $4,729,874 and $76,445 respectively.

Transaction costs amounting to $954 have been expensed and recorded in Operating expenses.

***Prior year business acquisitions***

During the nine-month period ended September 30, 2022, provisional amounts that were previously disclosed in the annual consolidated financial statements for the year ended December 31, 2021, were finalized without any changes for the following acquisitions:

- PG Klassic AutoBody acquired in April of 2021.
- Crystal Lake Chrysler Dodge Jeep Ram (CDJR) Inc. ("Crystal Lake") acquired in November of 2021.

During the nine-month period ended September 30, 2022, new information was obtained about circumstances that existed at the acquisition date, which resulted in certain adjustments to the fair value of net identifiable assets acquired for the following acquisitions:

- Mark Wilson's Better Used Cars acquired in August of 2021.
- Autolux MB Collision acquired in September of 2021.
- Airdrie Autobody Ltd. ("Airdrie Autobody") acquired in October of 2021.

These adjustments are immaterial and have been adjusted for prospectively in the September 30, 2022 financial statements. Provisional amounts upon acquisition were previously disclosed in the annual consolidated financial statements for the year ended December 31, 2021 for the above acquisitions.

## 11 Interest in subsidiaries

*Transactions with non-controlling interests*

During the nine-month period ended September 30, 2022, the Company reorganized capital in certain subsidiaries to bring in new non-controlling parties. The change in ownership did not result in a change of control. Equity attributable to AutoCanada shareholders was increased by $740 (2021 - ($538)) as a result of the reorganization of non-controlling interests. The transactions resulted in new loans of $1,845 (2021 - $1,674) being issued to the non-controlling parties to purchase a non-controlling interest in the subsidiaries for $775 (2021 - $2,139). The loans are included in Other long-term assets on the Condensed Interim Consolidated Statements of Financial Position.

## 12 Cash and cash equivalents

| | September 30, 2022 $ | December 31, 2021 $ |
|---|---|---|
| Cash at bank and on hand | 109,478 | 102,467 |
| Short-term deposits | — | 13 |
| **Cash and cash equivalents** | 109,478 | 102,480 |

## 13 Trade and other receivables

| | September 30, 2022 $ | December 31, 2021 $ |
|---|---|---|
| Trade receivables | 173,685 | 104,759 |
| Sales tax receivable | 35,021 | 21,157 |
| Other receivables | 11,355 | 9,475 |
| | 220,061 | 135,391 |
| Less: Expected loss allowance | (3,214) | (2,478) |
| **Trade and other receivables** | 216,847 | 132,913 |

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

## 14 Inventories

| | September 30, 2022 $ | December 31, 2021 $ |
|---|---|---|
| New vehicles | 280,124 | 222,272 |
| Demonstrator vehicles | 51,208 | 34,282 |
| Used vehicles | 589,463 | 441,730 |
| Parts and accessories | 50,118 | 39,015 |
| **Inventories** | 970,913 | 737,299 |

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

| | Three-month period ended | | Nine-month period ended | |
|---|---|---|---|---|
| | September 30, 2022 $ | September 30, 2021 $ | September 30, 2022 $ | September 30, 2021 $ |
| Inventory expensed as cost of sales | 1,335,669 | 1,048,537 | 3,771,030 | 2,783,656 |
| Net writedowns on vehicles included in cost of sales | — | 1,223 | 15,846 | 8,463 |
| Demonstrator expenses included in administrative costs | 3,274 | 1,919 | 7,728 | 5,996 |

For the nine-month period ended September 30, 2022, the Company performed a comprehensive assessment on the net realizable value of inventory. Provisions recorded on inventory were based on specific criteria regarding model and year of production and reflect management's estimate of market pricing trends.

## 15 Property and equipment

During the nine-month period ended September 30, 2022, the Company purchased $35,271 (2021 - $12,244) of property and equipment including land and buildings additions of $24,316 (2021 - $7,729) and machinery and equipment of $4,505 (2021 - $2,455).

***Capital commitments***

As at September 30, 2022, the Company is committed to capital expenditure obligations in the amount of $22,396 (2021 - $2,971) related to dealership relocations, dealership re-imagings, and dealership Open Points with expected completion of these commitments in 2023.

## 16 Trade and other payables

| | September 30, 2022 $ | December 31, 2021 $ |
|---|---|---|
| Trade payables | 107,412 | 94,001 |
| Accruals and provisions | 65,381 | 40,012 |
| Sales tax payable | 34,498 | 14,360 |
| Wages and withholding taxes payable | 51,184 | 41,358 |
| **Trade and other payables** | 258,475 | 189,731 |

## 17 Indebtedness

| | September 30, 2022 $ | December 31, 2021 $ |
|---|---|---|
| **Revolving floorplan facilities** | **951,895** | **708,561** |
| | | |
| **Indebtedness** | | |
| *Senior unsecured notes* | | |
| Senior unsecured notes | 350,000 | 256,011 |
| Embedded derivative | — | (29,306) |
| Unamortized deferred financing costs | (5,723) | (4,740) |
| | 344,277 | 221,965 |
| *Revolving term facilities* | | |
| Revolving term facilities | 85,000 | 65,000 |
| Unamortized deferred financing costs | (1,385) | (1,158) |
| | 83,615 | 63,842 |
| *Non-revolving term facilities* | | |
| Non-recourse mortgages | 32,165 | — |
| | 32,165 | — |
| *Other debt* | | |
| Other long-term debt | 261 | 101 |
| **Total indebtedness** | **460,318** | **285,908** |
| Current indebtedness | 784 | — |
| Long-term indebtedness | 459,534 | 285,908 |

***Amended and extended credit facilities***

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

***Senior unsecured notes***

On February 7, 2022, the Company issued Senior Unsecured Notes (the "New Issuance Notes") of $350 million aggregate principal amount at par for a stated interest rate of 5.75% to fund a redemption of the then outstanding $250 million Senior Unsecured Notes ("the Notes"). The Company redeemed the full $250 million outstanding balance on February 10, 2022. A charge of $9.9 million was recognized in profit or loss in relation to the extinguishment of the Notes (Note 8). The New Issuance Notes have a term of seven years and mature on February 7, 2029. Interest is payable semi-annually on February 7 and August 7 of each year the New Issuance Notes are outstanding. Concurrent with the redemption of the Notes, the associated embedded derivative was extinguished, and a loss on extinguishment of $29.3 million was recorded in Finance costs (Note 8).

The New Issuance Notes agreement contain certain redemption options whereby the Company can redeem all or part of the New Issuance Notes at prices set forth in the agreement, following certain dates specified in the agreement. In addition, at any time prior to February 7, 2025, the Company may at its option redeem up to 40% of the aggregate principal amount of the New Issuance Notes with net cash proceeds from equity offerings at a specified redemption price in the agreement. The New Issuance Note holders also have the right to require the Company to redeem the New Issuance Notes or a portion thereof, at the redemption prices set forth in the agreement in the event of a change in control. These redemption features constitute embedded derivatives that are required to be separated from the New Issuance Notes and measured at fair value. The embedded derivative components of these compound financial instruments are measured at fair value at each reporting date with gains or losses in fair value recognized through profit or loss (Note 8). For the nine-month period ended September 30, 2022 the Company recognized an embedded derivative of $nil related to these redemption options. As at September 30, 2022, the fair value of the embedded derivative was $nil.

***Non-recourse mortgage financing***

On June 22, 2022, the Company executed a non-recourse mortgage financing with the Bank of Nova Scotia for a previously purchased property in Maple Ridge, BC. The non-recourse mortgage arrangement will fund land value as well as construction costs associated with the development of two dealerships. The mortgage is comprised of three facilities with an aggregate $39.0 million limit, at a variable interest rate of prime + 1.50% (all-in rate of 5.20%). The mortgage has a three-year term, twenty-year amortization, and will require monthly interest-only payments until construction is complete. As at September 30, 2022, the Company has drawn $13.6 million on the facilities to fund land value only.

On June 30, 2022, the Company executed two non-recourse mortgage financings with the Bank of Nova Scotia for previously purchased properties in Windsor, ON and London, ON. The $7.1 million and $11.5 million non-recourse mortgage arrangements, respectively, will fund land value only. The mortgages have a five-year term with a fixed interest rate of 7.07%. The mortgages require quarterly installments of principal and interest based on a twenty-five-year amortization, with the outstanding mortgage balance due at the end of the term.

The underlying real estate is pledged as collateral on the non-recourse mortgage in the amount of the loan, as at September 30, 2022 the NBV of the pledged real estate is $56.1 million.

As at September 30, 2022, $744 of non-recourse mortgage loans is classified as current.

## 18 Other liabilities

| | September 30, 2022 $ | | December 31, 2021 $ | |
|---|---|---|---|---|
| | **Current** | **Long-term** | **Current** | **Long-term** |
| Equity forward | — | 9,091 | — | 6,201 |
| Restructuring charges | 1,308 | 3,052 | 710 | 3,731 |
| Derivative financial instruments (Note 19) | 2,387 | — | 457 | — |
| | 3,695 | 12,143 | 1,167 | 9,932 |

***Other long- term liabilities***

*Equity forward liability*

As at September 30, 2022, the Company has entered into equity forward agreements for a total of 250,000 (2021 - 150,000) outstanding common shares with an outstanding liability amounting to $9,091 (2021 - $6,201). The equity forward agreements settle on December 27, 2024 and August 28, 2025, for 100,000 and 150,000 common shares, respectively. The Company and the counterparty have the option to settle the equity forward agreements in advance of the contractual settlement date.

*Restructuring charges*

Restructuring charges are related to the voluntary termination of two franchises in the year ended December 31, 2019 and the operating costs of the related leased facility. This provision is being systematically recognized as an offset to operating expenses over the term of the lease.

## 19 Derivative financial instruments

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

*Foreign exchange risk*

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

*Interest rate risk*

The Company enters into interest rate swaps to hedge the variable-rates of a portion of the syndicated floorplan facility, transforming the variable rate exposure to fixed rate-obligations. Certain interest rate swaps are designated as cash flow hedges and periodically assessed for effectiveness. Where the hedging relationship is assessed as being effective, changes in fair value are recognized in other comprehensive income.

Changes in fair value on derivative instruments not designated as hedging instruments are immediately recognized in net income. These instruments have a settlement periods through to June 2025. Changes in the fair value of these instruments will be recorded in Finance costs as the Company has not elected to apply hedge accounting to these contracts.

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

| | Foreign Exchange Forward Contracts | Interest Rate Swaps | | |
|---|---|---|---|---|
| | **Non-hedges** | **Cash flow hedges** | **Non-hedges** | **Total** |
| **September 30, 2022** | | | | |
| Other liabilities - current | 2,387 | — | — | 2,387 |
| Derivative financial instruments - assets | — | 1,869 | 3,587 | 5,456 |
| Derivative financial instruments - liabilities | — | 493 | 1,222 | 1,715 |
| Notional values | 33,400 USD | 97,200 CAD | 177,800 CAD | |
| Maturity | 2022 - 2023 | 2023 - 2024 | 2025 | |
| **December 31, 2021** | | | | |
| Other liabilities - current | 173 | 284 | — | 457 |
| Derivative financial instruments - liabilities | — | 1,625 | 6,674 | 8,299 |
| Notional values | 48,200 USD | 197,200 CAD | 177,800 CAD | |
| Maturity | 2022 | 2022 - 2024 | 2025 | |

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

| | Net income | Other comprehensive income | Total |
|---|---|---|---|
| **For the three-month period ended September 30, 2022** | | | |
| Change in fair value of hedging instruments | — | 467 | 467 |
| Unrealized fair value changes on non-hedging instruments (Note 8) | 879 | — | 879 |
| Amortization of terminated hedges (Note 8) | (817) | 817 | — |
| Interest rate swap settlements (Note 8) | 211 | — | 211 |
| Unrealized fair value changes on foreign exchange forward contracts | (2,031) | — | (2,031) |
| Realized loss on foreign exchange forward contracts | (1,509) | — | (1,509) |
| | (3,267) | 1,284 | (1,983) |
| **For the nine-month period ended September 30, 2022** | | | |
| Change in fair value of hedging instruments | — | 3,285 | 3,285 |
| Unrealized fair value changes on non-hedging instruments (Note 8) | 9,039 | — | 9,039 |
| Amortization of terminated hedges (Note 8) | (2,451) | 2,451 | — |
| Interest rate swap settlements (Note 8) | (1,659) | — | (1,659) |
| Unrealized fair value changes on foreign exchange forward contracts | (2,214) | — | (2,214) |
| Realized loss on foreign exchange forward contracts | (2,796) | — | (2,796) |
| | (81) | 5,736 | 5,655 |
| **For the three-month period ended September 30, 2021** | | | |
| Change in fair value of hedging instruments | — | 1,028 | 1,028 |
| Unrealized fair value changes on non-hedging instruments (Note 8) | 1,221 | — | 1,221 |
| Amortization of terminated hedges (Note 8) | (817) | 817 | — |
| Interest rate swap settlements (Note 8) | (1,701) | — | (1,701) |
| Unrealized fair value changes on foreign exchange forward contracts | 930 | — | 930 |
| Realized loss on foreign exchange forward contracts | (1,659) | — | (1,659) |
| | (2,026) | 1,845 | (181) |
| **For the nine-month period ended September 30, 2021** | | | |
| Change in fair value of hedging instruments | — | 3,820 | 3,820 |
| Unrealized fair value changes on non-hedging instruments (Note 8) | 5,436 | — | 5,436 |
| Amortization of terminated hedges (Note 8) | (2,451) | 2,451 | — |
| Interest rate swap settlements (Note 8) | (5,089) | — | (5,089) |
| Unrealized fair value changes on foreign exchange forward contracts | (416) | — | (416) |
| Realized gain on foreign exchange forward contracts | 341 | — | 341 |
| | (2,179) | 6,271 | 4,092 |

## 20 Share-based payments

***Stock Option Plan***

During the nine-month period ended September 30, 2022, 800,000 (2021 - 33,333) options under the Stock Option Plan were exercised and settled, with a charge of $2,456 (2021 - $40) to Contributed surplus.

***Share Appreciation Rights (SARs)***

During the nine-month period ended September 30, 2022, 952,000 (2021 - 143,000) SARs were granted under the Phantom Option Plan. The assessed weighted average fair value at grant date was $14.75 per award. The fair value at grant date has been determined using the Black-Scholes Model. For certain SARs with market vesting conditions, the fair value at grant date has been determined using an adjusted form of the Black-Scholes Model that takes into account probabilities using the Monte Carlo simulation.

## 21 Share capital

***Common shares***

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

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

| | September 30, 2022 | | September 30, 2021 | |
|---|---|---|---|---|
| | Number of common shares | $ | Number of common shares | $ |
| Issued, beginning of the period | 27,493,016 | 510,819 | 27,459,683 | 510,606 |
| Exercised stock options (Note 20) | 800,000 | 10,496 | 33,333 | 213 |
| Shares repurchased and cancelled under SIB | (1,159,707) | (21,386) | — | — |
| Shares repurchased and cancelled under NCIB | (1,730,321) | (32,089) | — | — |
| Issued, end of the period | 25,402,988 | 467,840 | 27,493,016 | 510,819 |

*Normal Course Issuer Bid*

During the nine-month period ended September 30, 2022, the Company repurchased and cancelled 1,730,321 common shares (2021 - nil) under its Normal Course Issuer Bid ("NCIB") for $56,588 net of transaction costs of $17.

*Substantial Issuer Bid*

On August 15, 2022, the Company completed a Substantial Issuer Bid (“SIB”), by way of a modified Dutch auction, to purchase, for cancellation, the common shares of the Company (the “Shares”, or, the “Offer”). The Company purchased and cancelled 1,159,707 Shares (2021 - nil) at a purchase price of $28.00 per share under the Offer, representing an aggregate purchase price of $32,472 which represents 4.37% of the total issued and outstanding Shares of the Company before giving effect to the Offer. For the nine-month period ended September 30, 2022, the Company incurred transaction costs related to the Offer of $24 which have been recorded within share capital.

***Treasury shares***

Shares are held in trust to mitigate the risk of future share price increases from the time equity-settled awards are granted to when they are fully vested and can be exercised. Under the Trust Agreement, the third party trustee will administer the distribution of shares to the beneficiaries upon vesting, as directed by the Company.

The shares held in trust are accounted for as treasury shares and are recognized on a first-in-first-out basis upon issuance.

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

| | September 30, 2022 | | September 30, 2021 | |
|---|---|---|---|---|
| | Number of treasury shares | $ | Number of treasury shares | $ |
| Outstanding, beginning of the period | (243,306) | (2,440) | (232,980) | (2,494) |
| Forward share purchase (Note 18) | — | — | (329,000) | (3,631) |
| Treasury shares settled | 154,755 | 1,394 | 295,982 | 3,432 |
| Outstanding, end of the period | (88,551) | (1,046) | (265,998) | (2,693) |

***Earnings per share***

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

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Net income for the period attributable to AutoCanada shareholders | 71,694 | 94,400 |

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

| | Three-month period ended | | Nine-month period ended | |
|---|---|---|---|---|
| | September 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| Basic | 25,876,198 | 27,483,596 | 26,368,404 | 27,248,073 |
| Effect of dilution from equity forward | 86,385 | — | 55,499 | — |
| Effect of dilution from RSUs | 89,611 | 70,234 | 91,849 | 67,022 |
| Effect of dilution from SARs | 337,278 | 145,979 | 351,561 | 143,226 |
| Effect of dilution from stock options | 788,347 | 1,899,685 | 1,094,114 | 1,822,251 |
| Diluted | 27,177,819 | 29,599,494 | 27,961,427 | 29,280,572 |

## 22 Capital disclosures

The Company's objective when managing its capital is to safeguard the Company's assets and its ability to continue as a going concern while at the same time maximizing the growth of the business, returns to shareholders, and benefits for other stakeholders. The Company views its capital as the combination of long-term indebtedness and equity.

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

| | September 30, 2022<br>$ | December 31, 2021<br>$ |
|---|---|---|
| Long-term indebtedness (Note 17) | 459,534 | 285,908 |
| Equity | 506,905 | 519,409 |
| | 966,439 | 805,317 |

The Company manages its capital structure in accordance with changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may assume additional debt, refinance existing debt with different characteristics, sell assets to reduce debt, issue new shares or adjust the amount of dividends paid to its shareholders. The Company was in compliance with its debt covenants as at September 30, 2022.

***Net indebtedness***

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

| | September 30, 2022<br>$ | December 31, 2021<br>$ |
|---|---|---|
| Total indebtedness | 460,318 | 285,908 |
| Embedded derivative asset | — | 29,306 |
| **Total indebtedness** | **460,318** | **315,214** |
| Cash and cash equivalents | 109,478 | 102,480 |
| **Net indebtedness** | **350,840** | **212,734** |

## 23 Financial instruments

***Fair value of financial instruments***

The Company's financial instruments at September 30, 2022 are represented by cash and cash equivalents, trade and other receivables, trade and other payables, other liabilities, revolving and non-revolving floorplan facilities, vehicle repurchase obligations, indebtedness, an embedded derivative, redemption liabilities and derivative financial instruments.

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

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

The embedded derivative (Level 2) included within indebtedness (Note 17) is carried at fair value using the Hull-White pricing model.

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

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

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

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

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

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

## 24 Net change in non-cash working capital

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

| | **Three-month period ended** | | **Nine-month period ended** | |
|---|---|---|---|---|
| | **September 30, 2022 $** | **September 30, 2021 $** | **September 30, 2022 $** | **September 30, 2021 $** |
| Trade and other receivables | (7,330) | (12,145) | (74,923) | (25,776) |
| Inventories | 77,606 | 148,538 | (216,194) | 183,428 |
| Other current assets | 3,918 | 1,908 | (829) | (654) |
| Trade and other payables | 1,141 | (10,086) | 23,096 | 36,902 |
| Revolving floorplan facilities | (101,443) | (146,969) | 229,043 | (200,715) |
| Other liabilities | 2,872 | (998) | 445 | (61) |
| **Net change in non-cash working capital** | (23,236) | (19,752) | (39,362) | (6,876) |

## 25 Related party transactions

***Transactions with companies controlled by Directors***

During the three- and nine-month periods ended September 30, 2022, there were transactions with companies whose partners or senior officers are Directors of the Company or related to Directors of the Company. These counter parties are:

- A business associate of the Executive Chairman who provides consulting services;
- A vehicle wholesale and export business, controlled by the Executive Chairman, that supplies and purchases used vehicle inventory from the Company;
- A firm, whose controlling partner is the Executive Chairman, that provides administrative, limited transportation, and other support services;
- A company that is controlled by a family member of the former President, which provides the sourcing of customer leads.

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

| | **Three-month period ended** | | **Nine-month period ended** | |
|---|---|---|---|---|
| | **September 30, 2022 $** | **September 30, 2021 $** | **September 30, 2022 $** | **September 30, 2021 $** |
| Consulting services, administrative and other support and sourcing fees | 393 | 487 | 1,801 | 1,458 |
| Used vehicle inventory (sales to) purchases from related parties | (266) | — | 199 | 5,997 |
| Total | 127 | 487 | 2,000 | 7,455 |

***Executive Advance***

As at September 30, 2022, $1,791 (2021 - $2,000) of the Executive Advance issued to the former President remains outstanding.

***Used Digital Retail Division***

The firm controlled by the Executive Chairman hold a 15% common interest in AutoCanada UD LP, a partnership formed as part of the used digital retail strategy. The interest of $659 is presented in Long-term redemption liabilities on the Condensed Interim Consolidated Statements of Financial Position.

## 26 Segmented reporting

During the nine-month period ended September 30, 2022, the Executive Chairman served as the function of the Chief Operating Decision Maker (CODM). The Executive Chairman is responsible for allocating resources and assessing the performance of the following segments: Canadian Operations and U.S. Operations.

Each reportable operating segment is comprised of retail automobile dealerships and related businesses.

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

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

| | Three-month period ended September 30, 2022 | | | Three-month period ended September 30, 2021 | | |
|---|---|---|---|---|---|---|
| | **Canada [1]** $ | **U.S.** $ | **Total** $ | **Canada [1]** $ | **U.S.** $ | **Total** $ |
| **Revenues** | | | | | | |
| External revenues | 1,388,011 | 235,938 | 1,623,949 | 1,018,444 | 188,310 | 1,206,754 |
| Inter-segment revenue | — | — | — | — | — | — |
| **Total revenues** | 1,388,011 | 235,938 | 1,623,949 | 1,018,444 | 188,310 | 1,206,754 |

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

| | Nine-month period ended September 30, 2022 | | | Nine-month period ended September 30, 2021 | | |
|---|---|---|---|---|---|---|
| | **Canada [1]** $ | **U.S.** $ | **Total** $ | **Canada [1]** $ | **U.S.** $ | **Total** $ |
| **Revenues** | | | | | | |
| External revenues | 3,956,946 | 695,467 | 4,652,413 | 2,971,691 | 485,942 | 3,457,633 |
| Inter-segment revenue | — | — | — | — | — | — |
| **Total revenues** | 3,956,946 | 695,467 | 4,652,413 | 2,971,691 | 485,942 | 3,457,633 |

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

| | Three-month period ended September 30, 2022 | | | Three-month period ended September 30, 2021 | | |
|---|---|---|---|---|---|---|
| | **Canada [1]** $ | **U.S.** $ | **Total** $ | **Canada [1]** $ | **U.S.** $ | **Total** $ |
| **Operating profit before other income** | 58,556 | 7,812 | 66,368 | 53,717 | 6,595 | 60,312 |
| Lease and other income, net | 2,410 | 1,076 | 3,486 | 3,091 | 348 | 3,439 |
| Loss on disposal of assets, net | (551) | — | (551) | (910) | — | (910) |
| **Operating profit** | 60,415 | 8,888 | 69,303 | 55,898 | 6,943 | 62,841 |
| Finance costs (Note 8) | | | (24,659) | | | (16,158) |
| Finance income (Note 8) | | | 655 | | | 223 |
| Other gains | | | 1,179 | | | 269 |
| **Net income for the period before taxation** | | | 46,478 | | | 47,175 |

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

| | Nine-month period ended September 30, 2022 | | | Nine-month period ended September 30, 2021 | | |
|---|---|---|---|---|---|---|
| | Canada [1] $ | U.S. $ | Total $ | Canada [1] $ | U.S. $ | Total $ |
| **Operating profit before other income** | 161,755 | 24,875 | 186,630 | 144,398 | 18,670 | 163,068 |
| Lease and other income, net | 7,494 | 1,995 | 9,489 | 7,591 | 831 | 8,422 |
| Loss on disposal of assets, net | (172) | — | (172) | (832) | — | (832) |
| **Operating profit** | 169,077 | 26,870 | 195,947 | 151,157 | 19,501 | 170,658 |
| Finance costs (Note 8) | | | (100,078) | | | (43,702) |
| Finance income (Note 8) | | | 1,341 | | | 628 |
| Other gains (losses) | | | 1,870 | | | (225) |
| **Net income for the period before taxation** | | | 99,080 | | | 127,359 |

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

| | As at September 30, 2022 | | | As at December 31, 2021 | | |
|---|---|---|---|---|---|---|
| | Canada [1] $ | U.S. $ | Total $ | Canada [1] $ | U.S. $ | Total $ |
| Segment assets | 2,395,183 | 351,150 | 2,746,333 | 1,969,692 | 288,981 | 2,258,673 |
| Capital expenditures and acquisition of real estate | 33,463 | 1,808 | 35,271 | 28,763 | 6,408 | 35,171 |
| Segment liabilities | 1,717,846 | 521,582 | 2,239,428 | 1,276,430 | 462,834 | 1,739,264 |

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

## 27 Seasonal nature of the business

The Company’s results from operations for the nine-month period ended September 30, 2022 are not necessarily indicative of the results that may be expected for the full fiscal year due to seasonal variations in sales levels. The results from operations of the Company have historically been lower in the first and fourth quarters of each year, largely due to consumer purchasing patterns during the holiday season, inclement weather and the number of business days during the period. The Company’s financial performance is generally not as strong during the first and fourth quarters than during the other quarters of each fiscal year, although the COVID-19 pandemic has caused disruption to the seasonal nature of the Company's operations. The extent to which COVID-19 will or may impact the seasonal nature of the Company's operations is uncertain. The timing of acquisitions and divestitures may also cause substantial fluctuations in operating results from quarter to quarter.

## 28 Subsequent events

***Acquisition of Kavia Autobody Inc.***

On October 27, 2022, the Company acquired 100% of the shares of Kavia Auto Body Inc. ("Kavia"), a collision centre located in Saskatoon, Saskatchewan. The acquisition supports management's strategic objectives of expanding the Company's collision centre capacity. At the time the financial statements were authorized for issue, the Company had not yet completed the accounting for the acquisition of Kavia.

***Acquisition of Excellence Auto Collision Limited***

On November 7, 2022, the Company acquired 100% of the shares of Excellence Auto Collision Limited ("Excellence"), two collision centres located in Scarborough, Ontario and Toronto, Ontario. The acquisition supports management's strategic objectives of expanding the Company's collision centre capacity. At the time the financial statements were authorized for issue, the Company had not yet completed the accounting for the acquisition of Excellence.

***Substantial Issuer Bid***

On November 9, 2022, the Company announced its intention to commence a substantial issuer bid to purchase up to $50 million of its common shares from its shareholders for a minimum price of $25.00 per share and a maximum price of $28.00 per share. The substantial issuer bid will expire on December 16, 2022.

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