AutoCanada

2023

2023 First Quarter Financial Results

Condensed Interim Consolidated Financial Statements (Unaudited)

March 31, 2023

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	
	March 31, 2023	**March 31, 2022**
	$	**$**
Revenue (Note 5)	1,539,326	1,342,438
Cost of sales (Note 6)	(1,284,344)	(1,095,099)
Gross profit	254,982	247,339
Operating expenses (Note 7)	(211,601)	(193,646)
Operating profit before other income	43,381	53,693
Lease and other income, net	3,243	2,713
Gain on disposal of assets, net	5	284
Operating profit	46,629	56,690
Finance costs (Note 8)	(35,827)	(53,481)
Finance income (Note 8)	1,102	425
Other (losses) gains, net	(93)	225
Net income for the period before taxation	11,811	3,859
Income tax expense (recovery) (Note 9)	3,427	(463)
Net income for the period	8,384	4,322
Other comprehensive income		
Items that may be reclassified to profit or loss		
Foreign operations currency translation	2,241	1,117
Change in fair value of cash flow hedge (Note 16)	439	2,877
Income tax relating to these items	(111)	(730)
Other comprehensive income for the period	2,569	3,264
Comprehensive income for the period	10,953	7,586
Net income for the period attributable to:		
AutoCanada shareholders	7,807	3,045
Non-controlling interest	577	1,277
	8,384	4,322
Comprehensive income for the period attributable to:		
AutoCanada shareholders	10,376	6,309
Non-controlling interest	577	1,277
	10,953	7,586
Net income per share attributable to AutoCanada shareholders:		
Basic	0.33	0.11
Diluted	0.32	0.10
Weighted average shares		
Basic (Note 17)	23,503,176	27,074,050
Diluted (Note 17)	24,625,669	29,059,639

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)

	March 31, 2023 (Unaudited) $	December 31, 2022 $
ASSETS		
Current assets		
Cash	114,608	108,301
Trade and other receivables (Note 11)	219,422	217,790
Inventories (Note 12)	984,536	979,540
Other current assets	16,222	10,142
	1,334,788	1,315,773
Property and equipment (Note 13)	361,671	345,592
Right-of-use assets	398,899	396,369
Other long-term assets	14,545	17,298
Deferred income tax	39,904	40,984
Derivative financial instruments (Note 16)	3,276	4,970
Intangible assets	659,525	659,261
Goodwill	92,279	78,084
	2,904,887	2,858,331
LIABILITIES		
Current liabilities		
Trade and other payables (Note 14)	230,517	229,696
Revolving floorplan facilities (Note 15)	1,026,564	992,254
Current tax payable	10,202	13,952
Vehicle repurchase obligations	2,268	2,277
Indebtedness (Note 15)	778	777
Redemption liabilities	26,219	26,219
Lease liabilities	28,504	27,766
Other liabilities	10,263	4,338
	1,335,315	1,297,279
Long-term indebtedness (Note 15)	559,840	554,351
Long-term lease liabilities	459,822	457,111
Long-term redemption liabilities	1,050	1,050
Derivative financial instruments (Note 16)	1,107	1,939
Other long-term liabilities	2,368	8,894
Deferred income tax	50,626	50,910
	2,410,128	2,371,534
EQUITY		
Attributable to AutoCanada shareholders	469,114	457,899
Attributable to non-controlling interests	25,645	28,898
	494,759	486,797
	2,904,887	2,858,331

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

Commitments (Note 13)

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, 2023	**433,693**	**(672)**	**(64,743)**	**1,400**	**(1,187)**	**89,408**	**457,899**	**28,898**	**486,797**
Net income	—	—	—	—	—	7,807	7,807	577	8,384
Other comprehensive income	—	—	—	2,241	328	—	2,569	—	2,569
Dividends paid by subsidiaries to non-controlling interests	—	—	—	—	—	—	—	(3,830)	(3,830)
Repayment of Executive Advance (Note 21)	—	—	125	—	—	—	125	—	125
Settlement of share based awards	—	—	(902)	—	—	—	(902)	—	(902)
Deferred tax on share-based payments	—	—	(245)	—	—	—	(245)	—	(245)
Shares settled from treasury (Note 17)	—	351	(351)	—	—	—	—	—	—
Share-based compensation	—	—	1,861	—	—	—	1,861	—	1,861
Balance, March 31, 2023	**433,693**	**(321)**	**(64,255)**	**3,641**	**(859)**	**97,215**	**469,114**	**25,645**	**494,759**

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 $	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	—	—	—	—	—	3,045	3,045	1,277	4,322
Other comprehensive income	—	—	—	1,117	2,147	—	3,264	—	3,264
Dividends declared by subsidiaries to non-controlling interests	—	—	—	—	—	—	—	(3,247)	(3,247)
Repurchase of common shares under the Normal Course Issuer Bid (Note 17)	(16,677)	—	(14,501)	—	—	—	(31,178)	—	(31,178)
Settlement of share-based awards	—	—	(786)	—	—	—	(786)	—	(786)
Deferred tax on share-based payments	—	—	(721)	—	—	—	(721)	—	(721)
Shares settled from treasury (Note 17)	—	209	(209)	—	—	—	—	—	—
Share-based compensation	—	—	1,217	—	—	—	1,217	—	1,217
Balance, March 31, 2022	**494,142**	**(2,231)**	**(21,823)**	**(3,988)**	**(4,002)**	**6,154**	**468,252**	**24,028**	**492,280**

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	
	March 31, 2023 $	March 31, 2022 $
Cash provided by (used in):		
Operating activities		
Net income for the period	8,384	4,322
Adjustments for:		
Income tax expense (recovery) (Note 9)	3,427	(463)
Depreciation of property and equipment (Note 7)	5,623	4,740
Depreciation of right-of-use assets (Note 7)	8,104	7,431
Gain on disposal of assets, net	(5)	(284)
Share-based compensation - equity-settled	1,861	1,217
Loss on extinguishment of debt (Note 8)	1,382	9,860
Amortization of deferred financing costs	320	333
Amortization of note premium	—	(322)
Amortization of terminated hedges (Note 8)	817	817
Amortization of intangible assets	122	—
Unrealized fair value changes on non-hedging instruments (Note 8, 16)	460	(6,835)
Unrealized fair value changes on foreign exchange forward contracts (Note 16)	(467)	(960)
Loss on extinguishment of embedded derivative (Note 8)	—	29,306
Income taxes paid	(6,673)	(16,286)
Settlement of share-based awards	(902)	(729)
Net change in non-cash working capital (Note 20)	30,901	(24,868)
	53,354	7,279
Investing activities		
Business acquisition, net of cash acquired (Note 10)	(17,669)	—
Purchases of property and equipment (Note 13)	(25,561)	(3,264)
Additions to intangible assets	(426)	—
Settlement of prior year business acquisitions	—	(212)
Proceeds on sale of property and equipment	377	30
	(43,279)	(3,446)
Financing activities		
Proceeds from indebtedness	129,144	413,960
Repayment of indebtedness	(125,356)	(369,601)
Repayment of Executive Advance (Note 21)	129	—
Repurchase of common shares under Normal Course Issuer Bid	—	(31,178)
Shares settled from treasury, net (Note 17)	351	209
Dividends paid to non-controlling interests	(3,830)	(3,247)
Repayment of loans by non-controlling interests	3,087	—
Principal portion of lease payments, net	(7,268)	(6,467)
	(3,743)	3,676
Effect of exchange rate changes on cash	(25)	(236)
Net increase in cash	6,307	7,273
Cash at beginning of period	108,301	102,480
Cash at end of period	114,608	109,753

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 March 31, 2023
(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 vehicle purchases by its customers through third party finance and insurance sources. The address of its registered office is 200, 15511 123 Avenue NW, Edmonton, Alberta, Canada, T5V 0C3.

2 Basis of presentation

These 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, 2022, 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 May 3, 2023.

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, 2022.

The Company has adopted amendments to various standards effective January 1, 2023, 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, 2022.

5 Revenue

	Three-month period ended	
	March 31, 2023 $	**March 31, 2022 $**
New vehicles	568,596	511,195
Used vehicles	703,499	595,514
Parts, service and collision repair	178,748	152,009
Finance, insurance and other	88,483	83,720
Revenue	1,539,326	1,342,438

6 Cost of sales

	Three-month period ended	
	March 31, 2023 $	March 31, 2022 $
New vehicles	521,112	457,811
Used vehicles	673,187	558,742
Parts, service and collision repair	84,872	73,578
Finance, insurance and other	5,173	4,968
Cost of sales	1,284,344	1,095,099

7 Operating expenses

	Three-month period ended	
	March 31, 2023 $	March 31, 2022 Revised (Note 24) $
Employee costs	132,089	125,223
Government assistance	—	(264)
Administrative costs [1]	64,387	54,980
Expected credit losses on trade and other receivables [1]	344	575
Facility lease costs	1,054	961
Depreciation of right-of-use assets	8,104	7,431
Depreciation of property and equipment	5,623	4,740
Operating expenses	211,601	193,646

1 *Reclassification of comparative figures for presentation purposes (Note 24). The Company previously presented its expected credit losses on trade and other receivables as part of administrative costs. However, management considers it to be more relevant if expected credit losses on trade and other receivables are presented on a separate line. Prior year comparative as at March 31, 2022 have been revised by reclassifying $575 from administrative costs to expected credit losses on trade and other receivables.*

8 Finance costs and finance income

	Three-month period ended	
	March 31, 2023 $	March 31, 2022 $
Finance costs		
Interest on long-term indebtedness	9,413	7,158
Interest on lease liabilities	7,823	7,372
Loss on extinguishment of debt (Note 15)	1,382	9,860
Unrealized fair value changes on non-hedging instruments (Note 16)	460	(6,835)
Amortization of terminated hedges (Note 16)	817	817
Loss on extinguishment of embedded derivative	—	29,306
	19,895	47,678
Floorplan financing	15,697	3,336
Interest rate swap settlements (Note 16)	(251)	1,118
Other finance costs	486	1,349
	35,827	53,481
Finance income		
Interest on net investment in lease	16	16
Short-term bank deposits	1,086	409
	1,102	425

Cash interest paid during the three-month period ended March 31, 2023 was $38,563 (2022 - $25,673), which includes $7,823 (2022 - $7,372) of cash interest paid related to interest on lease liabilities.

9 Taxation

Components of income tax were as follows:

	Three-month period ended	
	March 31, 2023 $	March 31, 2022 $
Current tax	3,099	9,640
Deferred tax	328	(10,103)
Total income tax expense (recovery)	3,427	(463)

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual statutory rate used for the three-month period ended March 31, 2023 was 25.5% (2022 - 25.5%).

10 Business acquisitions

During the three-month period ended March 31, 2023, the Company completed the following business acquisition that has been accounted for using the acquisition method.

DCCHail

On February 23, 2023, the Company acquired 100% of the shares of 5121175 Manitoba Ltd. ("DCCHail"), a paintless dent repair service provider operating throughout western Canada. The acquisition supports management's strategic objectives of expanding the Company's collision centre capacity.

Summary of acquisition

The estimated provisional purchase price allocation, which is subject to the finalization of the valuation of the acquired assets and assumed liabilities, is summarized as follows:

	Total **$**
Current assets	
Cash	1,124
Trade and other receivables	1,720
Inventories	107
	2,951
Long-term assets	
Property and equipment	2,583
Right-of-use assets	540
Total assets	6,074
Current liabilities	
Trade and other payables	784
Lease liabilities	131
	915
Long-term liabilities	
Lease liabilities	409
Deferred income tax	155
Total liabilities	1,479
Net identifiable assets acquired	4,595
Goodwill	14,198
Total net assets acquired	18,793
Total consideration	18,793

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

The results of the operations of the acquired entity 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 entity since the acquisition dates contributed $398 of revenue and ($109) of net loss to the Condensed Interim Consolidated Statements of Comprehensive Income for the period ended March 31, 2023. Had the acquisition occurred at January 1, 2023, consolidated pro-forma revenue and net income for the period ended March 31, 2023 would have been $1,540,091 and $8,282 respectively.

Transaction costs amounting to $57 have been expensed and recorded in Operating expenses.

11 Trade and other receivables

	March 31, 2023 $	December 31, 2022 $
Trade receivables	173,475	162,118
Sales tax receivable	32,099	44,256
Other receivables	15,675	13,122
	221,249	219,496
Less: Expected loss allowance	(1,827)	(1,706)
Trade and other receivables	219,422	217,790

12 Inventories

	March 31, 2023 $	December 31, 2022 $
New vehicles	400,580	327,866
Demonstrator vehicles	67,996	65,994
Used vehicles	466,774	533,024
Parts and accessories	49,186	52,656
Inventories	984,536	979,540

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

	Three-month period ended	
	March 31, 2023 $	**March 31, 2022 $**
Inventory expensed as cost of sales	1,260,431	1,056,550
Writedowns on vehicles included in cost of sales	7,069	5,828
Demonstrator expenses included in administrative costs	3,555	1,984

For the three-month period ended March 31, 2023, 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 best estimate of market pricing trends.

13 Property and equipment

During the three-month period ended March 31, 2023, the Company purchased $15,528 (2022 - $6,920) of property and equipment — including land and buildings additions of $7,202 (2022 - $3,647).

Capital commitments

As at March 31, 2023, the Company is committed to capital expenditure obligations in the amount of $16,086 (2022 - $25,557) related to dealership relocations, re-imagings, and Open Points with expected completion in 2024.

14 Trade and other payables

	March 31, 2023 $	December 31, 2022 $
Trade payables	80,966	89,765
Accruals and provisions	68,121	60,717
Sales tax payable	37,599	31,948
Wages and withholding taxes payable	43,831	47,266
Trade and other payables	230,517	229,696

15 Revolving floorplan facilities and indebtedness

	March 31, 2023 $	December 31, 2022 $
Revolving floorplan facilities	1,026,564	992,254
Indebtedness		
Senior unsecured notes		
Senior unsecured notes	350,000	350,000
Embedded derivative	—	—
Unamortized deferred financing costs	(5,273)	(5,498)
	344,727	344,502
Revolving term facilities		
Revolving term facility	185,000	180,000
Unamortized deferred financing costs	(791)	(1,412)
	184,209	178,588
Non-revolving term facilities		
Non-recourse mortgages	31,607	31,979
Unamortized deferred financing costs	(77)	(77)
	31,530	31,902
Other debt		
Other long-term debt	152	136
Total indebtedness	**560,618**	**555,128**
Current indebtedness	778	777
Long-term indebtedness	559,840	554,351

Amended and Extended Credit Facilities

On February 3, 2023, the Company amended the $1,300 million syndicated credit agreement with the Bank of Nova Scotia (“Scotiabank”), the Canadian Imperial Bank of Commerce (“CIBC”), the Royal Bank of Canada (“RBC”), HSBC Bank Canada ("HSBC"), ATB Financial (“ATB”), the Bank of Montreal (“BMO”), and The Toronto-Dominion Bank ("TD"). The amended facility increases the revolving facility from $275 million to $375 million, increases the wholesale floorplan financing facility from $1,060 million to $1,220 million and maintains a $15 million wholesale leasing facility, for total aggregate bank facilities of $1,610 million. The amendment included the creation of a goodwill tranche concept for the revolving facility and applicable changes to the interest rate structure. The Credit Facility term was also extended to April 14, 2026.

Transaction costs of $1,382 (2022 - $9,860) related to the extinguishment of the credit facility were recognized in finance costs (Note 8).

The Company was in compliance with its debt covenants as at March 31, 2023.

16 Derivative financial instruments and other liabilities

Derivative financial instruments

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

Foreign exchange risk

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

Interest rate risk

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

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

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

	Foreign exchange forward contracts	Interest rate swaps		
	Non-hedges $	Cash flow hedges $	Non-hedges $	Total $
March 31, 2023				
Other current assets	312	1,475	—	1,787
Other liabilities - current	—	380	—	380
Derivative financial instruments - assets	—	—	3,276	3,276
Derivative financial instruments - liabilities	—	—	1,107	1,107
Notional values	42,600 USD	97,200 CAD	177,800 CAD	
Maturity (Year)	2023	2023 - 2024	2025	
December 31, 2022				
Other current assets	—	1,071	—	1,071
Other liabilities - current	155	—	—	155
Derivative financial instruments - assets	—	913	4,057	4,970
Derivative financial instruments - liabilities	—	511	1,428	1,939
Notional values	45,100 USD	97,200 CAD	177,800 CAD	
Maturity (Year)	2023	2023 - 2024	2025	

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

	Net income $	Other comprehensive income $	Total $
For the three-month period ended March 31, 2023			
Change in fair value of hedging instruments	—	(378)	(378)
Unrealized fair value changes on non-hedging instruments (Note 8)	(460)	—	(460)
Amortization of terminated hedges (Note 8)	(817)	817	—
Interest rate swap settlements (Note 8)	251	—	251
Unrealized fair value changes on foreign exchange forward contracts	467	—	467
Realized loss on foreign exchange forward contracts	(484)	—	(484)
	(1,043)	439	(604)
For the three-month period ended March 31, 2022			
Change in fair value of hedging instruments	—	2,060	2,060
Unrealized fair value changes on non-hedging instruments (Note 8)	6,835	—	6,835
Amortization of terminated hedges (Note 8)	(817)	817	—
Interest rate swap settlements (Note 8)	(1,118)	—	(1,118)
Unrealized fair value changes on foreign exchange forward contracts	960	—	960
Realized loss on foreign exchange forward contracts	(410)	—	(410)
	5,450	2,877	8,327

Other liabilities

Equity forward liability

On January 25, 2023, the Company amended its equity forward agreement for 150,000 common shares giving the Company and the counterparty the option to settle all of the common shares under the equity forward agreement in advance of the contractual settlement date.

As at March 31, 2023, the Company has an equity forward on 250,000 (2022 - 150,000) outstanding common shares with an outstanding liability amounting to $9,091 (2022 - $6,201). The outstanding liability is classified as current.

17 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 three-month periods ended:

	March 31, 2023		March 31, 2022	
	Number of common shares	$	Number of common shares	$
Issued, beginning of the period	23,551,137	433,693	27,493,016	510,819
Shares repurchased and cancelled under NCIB	—	—	(897,575)	(16,677)
Issued, end of the period	23,551,137	433,693	26,595,441	494,142

Treasury shares

Shares are held in trust to mitigate the risk of future share price increases from the time the 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 and presented separately in the Condensed Interim Consolidated Statements of Changes in Equity.

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

	March 31, 2023		March 31, 2022	
	Number of shares	$	Number of shares	$
Outstanding, beginning of the period	(48,667)	(672)	(243,306)	(2,440)
Treasury shares settled	36,104	351	18,710	209
Outstanding, end of the period	(12,563)	(321)	(224,596)	(2,231)

Earnings per share

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

	2023 $	2022 $
Net income for the period attributable to AutoCanada shareholders	7,807	3,045

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

	Three-month period ended	
	March 31, 2023	March 31, 2022
Basic	23,503,176	27,074,050
Effect of dilution from equity forward	122,161	150,000
Effect of dilution from RSUs	57,004	167,928
Effect of dilution from stock options	700,200	1,588,508
Effect of dilution from SARs	243,128	79,153
Diluted	24,625,669	29,059,639

18 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:

	March 31, 2023 $	**December 31, 2022 $**
Long-term indebtedness (Note 15)	559,840	554,351
Equity	494,759	486,797
	1,054,599	1,041,148

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.

Gross lease adjusted indebtedness

Gross lease adjusted indebtedness is a measure used by management to evaluate the leverage of the Company. Gross lease adjusted indebtedness is calculated as total indebtedness, adjusted for embedded derivative, plus lease liabilities, as follows:

	March 31, 2023 $	**December 31, 2022 $**
Total indebtedness (Note 15)	560,618	555,128
Embedded derivative (Note 15)	—	—
Lease liabilities	488,326	484,877
Gross lease adjusted indebtedness	**1,048,944**	**1,040,005**

19 Financial instruments

Fair value of financial instruments

The Company's financial instruments at March 31, 2023 are represented by cash, 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, trade and other receivables, trade and other payables, other liabilities, and revolving 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 15) 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. Both 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.

20 Net change in non-cash working capital

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

	Three-month period ended	
	March 31, 2023 $	**March 31, 2022 $**
Trade and other receivables	(111)	(51,344)
Inventories	(8,978)	(322,143)
Other current assets	(5,231)	(5,790)
Trade and other payables	11,321	9,512
Revolving floorplan facilities	34,400	344,897
Other liabilities	(500)	—
Net change in non-cash working capital	30,901	(24,868)

21 Related party transactions

Transactions with companies controlled by Directors

During the three-month period ended March 31, 2023, there were transactions with companies whose partners or senior officers are Directors of the Company or related to Directors of the Company. These counterparties are:

- Business 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 vehicles to and from the Company; and
- A firm, whose controlling partner is the Executive Chairman, that provides administrative, limited transportation, and other support services.

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	
	March 31, 2023 **$**	**March 31, 2022** **$**
Consulting services, administrative and other support and sourcing fees	445	700
Used vehicle sales to related party	(391)	—

Executive Advance

As at March 31, 2023, $1,499 (2022 - $1,624) of the Executive Advance issued to the former President remains outstanding.

Used Digital Division

The firm controlled by the Executive Chairman holds a 15% common interest in AutoCanada UD LP, a partnership formed as part of the used digital strategy, which vested at the time of grant. Changes in the fair value of the 15% interest are recorded in Operating expenses. The interest of $1,050 (2022 - $1,050) is presented in Long-term redemption liabilities on the Condensed Interim Consolidated Statements of Financial Position.

22 Segmented reporting

During the three-month period ended March 31, 2023, 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 March 31, 2023			Three-month period ended March 31, 2022		
	Canada [1] $	**U.S. $**	**Total $**	**Canada [1] $**	**U.S. $**	**Total $**
Revenues						
External revenues	1,340,255	199,071	1,539,326	1,131,038	211,400	1,342,438
Total revenues	1,340,255	199,071	1,539,326	1,131,038	211,400	1,342,438

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

	Three-month period ended March 31, 2023			Three-month period ended March 31, 2022		
	Canada [1] $	**U.S. $**	**Total $**	**Canada [1] $**	**U.S. $**	**Total $**
Operating profit before other income	42,977	404	43,381	45,841	7,852	53,693
Lease and other income, net	2,930	313	3,243	2,232	481	2,713
Gain on disposal assets, net	5	—	5	284	—	284
Operating profit	45,912	717	46,629	48,357	8,333	56,690
Finance costs (Note 8)			(35,827)			(53,481)
Finance income (Note 8)			1,102			425
Other (losses) gains, net			(93)			225
Net income for the period before taxation			11,811			3,859

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

	As at March 31, 2023			As at December 31, 2022		
	Canada [1] $	**U.S. $**	**Total $**	**Canada [1] $**	**U.S. $**	**Total $**
Segment assets	2,588,434	316,453	2,904,887	2,521,158	337,173	2,858,331
Capital expenditures and acquisition of real estate	13,066	2,462	15,528	51,395	11,802	63,197
Segment liabilities	1,932,881	477,247	2,410,128	1,876,726	494,808	2,371,534

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

23 Seasonal nature of the business

The Company’s results from operations for the three-month period ended March 31, 2023 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. The timing of acquisitions and divestitures may also cause substantial fluctuations in operating results from quarter to quarter.

24 Reclassification of comparative figures

Certain comparative figures have been reclassified to conform to the current year presentation (Note 7).

25 Subsequent events

Acquisition of Premier Chevrolet Cadillac Buick GMC Dealership and Collision Centre

On April 17, 2023, the Company acquired substantially all of the assets of Premier Chevrolet Cadillac Buick GMC Dealership and Collision Centre. The acquisitions support management's strategic objectives of further establishing the Company's presence in the province of Ontario. At the time the financial statements were authorized for issue, the Company had not yet completed the accounting for the acquisition.

Acquisition of London Auto Collision Limited

On May 1, 2023, the Company acquired 100% of the shares of London Auto Collision Limited, a collision centre located in London, 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.

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