



AutoCanada

2023



2023
Second Quarter
Financial Results



Condensed Interim Consolidated Financial Statements (Unaudited)

Three-months and six-months ended June 30, 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		Six-month period ended	
	June 30, 2023 \$	June 30, 2022 \$	June 30, 2023 \$	June 30, 2022 \$
Revenue (Note 5)	1,756,262	1,686,026	3,295,588	3,028,464
Cost of sales (Note 6)	(1,437,524)	(1,406,748)	(2,721,868)	(2,501,847)
Gross profit	318,738	279,278	573,720	526,617
Operating expenses (Note 7)	(229,016)	(212,709)	(440,617)	(406,355)
Operating profit before other income	89,722	66,569	133,103	120,262
Lease and other income, net	2,345	3,290	5,588	6,003
Gain on disposal of assets, net	101	95	106	379
Operating profit	92,168	69,954	138,797	126,644
Finance costs (Note 8)	(32,760)	(21,938)	(68,587)	(75,419)
Finance income (Note 8)	808	261	1,910	686
Other (losses) gains, net	(39)	466	(132)	691
Income for the period before taxation	60,177	48,743	71,988	52,602
Income tax expense (Note 9)	14,949	9,685	18,376	9,222
Net income for the period	45,228	39,058	53,612	43,380
Other comprehensive income (loss)				
<i>Items that may be reclassified to profit or loss</i>				
Foreign operations currency translation	1,039	(3,856)	3,280	(2,739)
Change in fair value of cash flow hedge (Note 17)	651	1,575	1,090	4,452
Income tax relating to these items	(167)	(401)	(278)	(1,131)
Other comprehensive income (loss) for the period	1,523	(2,682)	4,092	582
Comprehensive income for the period	46,751	36,376	57,704	43,962
Net income for the period attributable to:				
AutoCanada shareholders	42,562	37,120	50,369	40,165
Non-controlling interest	2,666	1,938	3,243	3,215
	45,228	39,058	53,612	43,380
Comprehensive income for the period attributable to:				
AutoCanada shareholders	44,085	34,438	54,461	40,747
Non-controlling interest	2,666	1,938	3,243	3,215
	46,751	36,376	57,704	43,962
Net income per share attributable to AutoCanada shareholders:				
Basic	1.81	1.40	2.14	1.50
Diluted	1.75	1.33	2.07	1.42
Weighted average shares				
Basic (Note 19)	23,548,162	26,564,205	23,525,793	26,817,719
Diluted (Note 19)	24,252,084	27,853,688	24,385,530	28,378,602

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

AutoCanada Inc.

Condensed Interim Consolidated Statements of Financial Position

(In thousands of Canadian dollars)

	June 30, 2023 (Unaudited) \$	December 31, 2022 \$
ASSETS		
Current assets		
Cash	68,398	108,301
Trade and other receivables (Note 11)	221,729	217,790
Inventories (Note 12)	972,649	979,540
Current tax receivable	9,522	—
Other current assets (Note 14)	22,218	10,142
	1,294,516	1,315,773
Property and equipment (Note 13)	380,590	345,592
Right-of-use assets	401,058	396,369
Other long-term assets (Note 14)	14,950	17,298
Deferred income tax	39,009	40,984
Derivative financial instruments (Note 17)	5,019	4,970
Intangible assets	677,818	659,261
Goodwill	94,743	78,084
	2,907,703	2,858,331
LIABILITIES		
Current liabilities		
Trade and other payables (Note 15)	226,419	229,696
Revolving floorplan facilities (Note 16)	1,028,989	992,254
Current tax payable	—	13,952
Vehicle repurchase obligations	2,539	2,277
Indebtedness (Note 16)	778	777
Lease liabilities	29,148	27,766
Redemption liabilities	26,219	26,219
Other liabilities (Note 17)	12,175	4,338
	1,326,267	1,297,279
Long-term indebtedness (Note 16)	519,475	554,351
Long-term lease liabilities	462,078	457,111
Long-term redemption liabilities	1,050	1,050
Derivative financial instruments (Note 17)	1,866	1,939
Other long-term liabilities (Note 17)	2,001	8,894
Deferred income tax	54,091	50,910
	2,366,828	2,371,534
EQUITY		
Attributable to AutoCanada shareholders	512,564	457,899
Attributable to non-controlling interests	28,311	28,898
	540,875	486,797
	2,907,703	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						Total capital \$	Non-controlling interests \$	Total equity \$
	Share capital \$	Treasury shares \$	Contributed surplus \$	Cumulative translation adjustment \$	OCI hedge reserve \$	Retained earnings \$			
Balance, January 1, 2023	433,693	(672)	(64,743)	1,400	(1,187)	89,408	457,899	28,898	486,797
Net income	—	—	—	—	—	50,369	50,369	3,243	53,612
Other comprehensive income	—	—	—	3,280	812	—	4,092	—	4,092
Dividends paid by subsidiaries to non-controlling interests	—	—	—	—	—	—	—	(3,830)	(3,830)
Forward share purchase (Note 17)	—	—	(1,972)	—	—	—	(1,972)	—	(1,972)
Repayment of Executive Advance (Note 23)	—	—	250	—	—	—	250	—	250
Settlement of share-based awards	462	—	(1,342)	—	—	—	(880)	—	(880)
Deferred tax on share-based payments	—	—	(131)	—	—	—	(131)	—	(131)
Shares settled from treasury (Note 19)	—	352	(352)	—	—	—	—	—	—
Share-based compensation (Note 18)	—	—	2,937	—	—	—	2,937	—	2,937
Balance, June 30, 2023	434,155	(320)	(65,353)	4,680	(375)	139,777	512,564	28,311	540,875

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						Total capital \$	Non- controlling interests \$	Total equity \$
	Share capital \$	Treasury shares \$	Contributed surplus \$	Cumulative translation adjustment \$	OCI hedge reserve \$	Retained earnings \$			
Balance, January 1, 2022	510,819	(2,440)	(6,823)	(5,105)	(6,149)	3,109	493,411	25,998	519,409
Net income	—	—	—	—	—	40,165	40,165	3,215	43,380
Other comprehensive (loss) income	—	—	—	(2,739)	3,321	—	582	—	582
Dividends paid by subsidiaries to non- controlling interests	—	—	—	—	—	—	—	(3,247)	(3,247)
Repurchase of common shares under the Normal Course Issuer Bid (Note 19)	(32,089)	—	(24,516)	—	—	—	(56,605)	—	(56,605)
Shares to be purchased under the Substantial Issuer Bid (Note 19)	(325)	—	(100,000)	—	—	—	(100,325)	—	(100,325)
Reorganization of non- controlling interests	—	—	(21)	—	—	1,173	1,152	671	1,823
Settlement of share- based awards	10,496	—	(3,936)	—	—	—	6,560	—	6,560
Deferred tax on share- based payments	—	—	(1,602)	—	—	—	(1,602)	—	(1,602)
Shares settled from treasury (Note 19)	—	716	(716)	—	—	—	—	—	—
Share-based compensation (Note 18)	—	—	2,370	—	—	—	2,370	—	2,370
Balance, June 30, 2022	488,901	(1,724)	(135,244)	(7,844)	(2,828)	44,447	385,708	26,637	412,345

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

AutoCanada Inc.

Condensed Interim Consolidated Statements of Cash Flows

(Unaudited)

(in thousands of Canadian dollars)

	Three-month period ended		Six-month period ended	
	June 30, 2023 \$	June 30, 2022 \$	June 30, 2023 \$	June 30, 2022 \$
Cash provided by (used in):				
Operating activities				
Net income for the period	45,228	39,058	53,612	43,380
Adjustments for:				
Income tax expense (Note 9)	14,949	9,685	18,376	9,222
Depreciation of property and equipment (Note 7)	6,166	5,077	11,789	9,817
Depreciation of right-of-use assets (Note 7)	8,355	7,561	16,459	14,992
Gain on disposal of assets, net	(101)	(95)	(106)	(379)
Share-based compensation - equity-settled (Note 18)	1,076	1,153	2,937	2,370
Loss on extinguishment of debt (Note 8)	—	—	1,382	9,860
Amortization of deferred financing costs	296	330	616	663
Amortization of note premium	—	—	—	(322)
Amortization of terminated hedges (Note 8)	817	817	1,634	1,634
Amortization of intangible assets	124	—	246	—
Unrealized fair value changes on non-hedging instruments (Note 8, 17)	(984)	(1,325)	(524)	(8,160)
Unrealized fair value changes on foreign exchange forward contracts (Note 17)	(84)	1,143	(551)	183
Loss on extinguishment of embedded derivative (Note 8)	—	—	—	29,306
Income taxes paid	(30,675)	(5,439)	(37,348)	(21,725)
Settlement of share-based awards	(109)	(1,772)	(1,011)	(2,501)
Net change in non-cash working capital (Note 22)	9,947	8,742	40,848	(16,126)
	55,005	64,935	108,359	72,214
Investing activities				
Business acquisitions, net of cash acquired (Note 10)	(29,317)	(78,685)	(46,986)	(78,685)
Purchases of property and equipment (Note 13)	(23,217)	(13,100)	(48,778)	(16,364)
Additions to intangible assets	(560)	—	(986)	—
Settlement of prior year business acquisitions	254	(238)	254	(450)
Proceeds on sale of property and equipment	139	2,480	516	2,510
	(52,701)	(89,543)	(95,980)	(92,989)
Financing activities				
Proceeds from indebtedness	182,898	178,506	312,042	592,466
Repayment of indebtedness	(223,559)	(162,302)	(348,915)	(531,903)
Repayment of Executive Advance (Note 23)	121	—	250	—
Repurchase of common shares under Normal Course Issuer Bid	—	(25,427)	—	(56,605)
Shares settled from treasury, net (Note 19)	1	507	352	716
Proceeds from exercise of stock options, net	—	8,573	—	8,573
Dividends paid to non-controlling interests	—	—	(3,830)	(3,247)
Repayment of loan by non-controlling interests	—	2,162	3,087	2,162
Principal portion of lease payments, net	(6,898)	(7,114)	(14,166)	(13,581)
	(47,437)	(5,095)	(51,180)	(1,419)
Effect of exchange rate changes on cash	(1,077)	941	(1,102)	705
Net decrease in cash	(46,210)	(28,762)	(39,903)	(21,489)
Cash at beginning of period	114,608	109,753	108,301	102,480
Cash at end of period	68,398	80,991	68,398	80,991

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 three-months and six-months ended June 30, 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, 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, 15111 123 Avenue NW, Edmonton, Alberta, Canada, T5V 0C3.

2 Basis of presentation

These condensed interim consolidated financial statements ("Interim 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 Interim 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 ("Annual 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 Interim Financial Statements were approved by the Board of Directors on August 9, 2023.

3 Significant accounting policies

The significant accounting policies used in the preparation of these Interim Financial Statements are the same accounting policies and method of computation as disclosed in the 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 Interim Financial Statements are the same as disclosed in the Annual Financial Statements for the year ended December 31, 2022.

5 Revenue

	Three-month period ended		Six-month period ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
	\$	\$	\$	\$
New vehicles	706,350	583,870	1,274,946	1,095,065
Used vehicles	739,916	840,998	1,443,415	1,436,512
Parts, service and collision repair	204,968	160,307	383,716	312,316
Finance, insurance and other	105,028	100,851	193,511	184,571
Revenue	1,756,262	1,686,026	3,295,588	3,028,464

6 Cost of sales

	Three-month period ended		Six-month period ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
	\$	\$	\$	\$
New vehicles	644,026	524,920	1,165,138	982,731
Used vehicles	692,881	806,873	1,366,068	1,365,615
Parts, service and collision repair	94,007	69,594	178,879	143,172
Finance, insurance and other	6,610	5,361	11,783	10,329
Cost of sales	1,437,524	1,406,748	2,721,868	2,501,847

7 Operating expenses

	Three-month period ended		Six-month period ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
	\$	\$	\$	\$
Employee costs	146,068	139,610	278,157	264,833
Government assistance	—	—	—	(264)
Administrative costs ¹	66,330	59,279	130,717	114,259
Expected credit losses on trade and other receivables ¹	575	492	919	1,067
Facility lease costs	1,522	690	2,576	1,651
Depreciation of right-of-use assets	8,355	7,561	16,459	14,992
Depreciation of property and equipment	6,166	5,077	11,789	9,817
Operating expenses	229,016	212,709	440,617	406,355

¹ Reclassification of comparative figures for presentation purposes (Note 26). The Company previously presented 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 comparatives have been revised by reclassifying \$492 for the three-month period and \$1,067 for the six-month period ended June 30, 2022 from administrative costs to expected credit losses on trade and other receivables.

8 Finance costs and finance income

	Three-month period ended		Six-month period ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
	\$	\$	\$	\$
Finance costs				
Interest on long-term indebtedness	11,256	6,610	20,669	13,768
Interest on lease liabilities	8,336	6,946	16,159	14,318
Loss on extinguishment of debt (Note 16)	—	—	1,382	9,860
Unrealized fair value changes on non-hedging instruments (Note 17)	(984)	(1,325)	(524)	(8,160)
Amortization of terminated hedges (Note 17)	817	817	1,634	1,634
Loss on extinguishment of embedded derivative	—	—	—	29,306
	19,425	13,048	39,320	60,726
Floorplan financing	15,517	5,937	31,214	9,273
Interest rate swap settlements (Note 17)	(2,778)	752	(3,029)	1,870
Other finance costs	596	2,201	1,082	3,550
	32,760	21,938	68,587	75,419
Finance income				
Interest on net investment in finance lease	15	16	31	32
Short-term bank deposits	793	245	1,879	654
	808	261	1,910	686

Cash interest paid during the six-month period ended June 30, 2023 was \$66,078 (2022 - \$41,988), which includes \$16,159 (2022 - \$14,318) of cash interest paid related to interest on lease liabilities.

9 Taxation

Components of income tax were as follows:

	Three-month period ended		Six-month period ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
	\$	\$	\$	\$
Current tax	10,970	13,228	14,069	22,868
Deferred tax	3,979	(3,543)	4,307	(13,646)
Total income tax expense	14,949	9,685	18,376	9,222

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 tax rate used for the six-month period ended June 30, 2023 was 25.5% (2022 - 25.5%).

10 Business acquisitions

During the six-month period ended June 30, 2023, the Company completed three business acquisitions that were accounted for using the acquisition method.

Acquisition of 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.

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 in Windsor, Ontario. The acquisition supports management's strategic objectives of further establishing the Company's presence in the province of Ontario and expanding the Company's collision centre capacity.

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.

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 six-month period ended June 30, 2023 are summarized as follows:

	Total \$
Current assets	
Cash	1,124
Trade and other receivables	1,828
Inventories	5,388
	8,340
Long-term assets	
Property and equipment	6,752
Right-of-use assets	6,205
Intangible assets	18,940
Total assets	40,237
Current liabilities	
Trade and other payables	1,495
Revolving floorplan facilities	—
Lease liabilities	149
Other liabilities	517
	2,161
Long-term liabilities	
Lease liabilities	6,057
Deferred income tax	151
Total liabilities	8,369
Net identifiable assets acquired	31,868
Goodwill	16,242
Total net assets acquired	48,110
Total consideration	48,110

The goodwill is attributable to the workforce, synergies from combining operations of the acquirees, and profitability of the acquired businesses. Goodwill of \$97 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 \$18,773 of revenue and \$254 of net income to the Condensed Interim Consolidated Statements of Comprehensive Income for the period ended June 30, 2023. Had the acquisitions occurred at January 1, 2023, consolidated pro-forma revenue and net income for the period ended June 30, 2023 would have been \$3,340,452 and \$54,657 respectively.

Transaction costs amounting to \$204 have been expensed and recorded in Operating expenses.

Prior year business acquisitions

During the six-month period ended June 30, 2023, provisional amounts that were previously disclosed in the Annual Financial Statements for the year ended December 31, 2022, were finalized without any changes for the following acquisition:

- Burwell Auto Body acquired in June 2022.

During the six-month period ended June 30, 2023, 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 acquisition:

- Audi Windsor and Porsche of London acquired in May 2022.

These adjustments are immaterial and have been adjusted for prospectively in the June 30, 2023 Interim Financial Statements. Provisional amounts upon acquisition were previously disclosed in the Annual Financial Statements for the year ended December 31, 2022 for the above acquisition.

11 Trade and other receivables

	June 30, 2023	December 31, 2022
	\$	\$
Trade receivables	178,132	162,118
Sales tax receivable	31,354	44,256
Other receivables	14,518	13,122
	224,004	219,496
Less: Expected loss allowance	(2,275)	(1,706)
Trade and other receivables	221,729	217,790

12 Inventories

	June 30, 2023	December 31, 2022
	\$	\$
New vehicles	378,012	327,866
Demonstrator vehicles	75,004	65,994
Used vehicles	466,531	533,024
Parts and accessories	53,102	52,656
Inventories	972,649	979,540

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

	Three-month period ended		Six-month period ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
	\$	\$	\$	\$
Inventory expensed as cost of sales	1,452,303	1,378,810	2,712,734	2,435,630
Writedowns on vehicles included in cost of sales	2,978	10,018	10,047	15,846
Demonstrator expenses included in administrative costs	3,627	2,469	7,182	4,453

13 Property and equipment

During the six-month period ended June 30, 2023, the Company purchased \$36,181 (2022 - \$22,383) of property and equipment — including land and buildings additions of \$14,862 (2022 - \$16,069).

Capital commitments

As at June 30, 2023, the Company is committed to capital expenditure obligations in the amount of \$9,948 (December 31, 2022 - \$12,134) related to dealership relocations, re-imaginings, and dealership Open Points with expected completion of these commitments in 2024.

14 Other assets

	June 30, 2023		December 31, 2022	
	Current	Long-term	Current	Long-term
Prepaid expenses	20,428	949	8,913	539
Derivative financial instruments (Note 17)	1,673	—	1,071	—
Other assets ¹	—	13,110	44	15,839
Net investment in lease	117	891	114	920
Other assets	22,218	14,950	10,142	17,298

¹ \$13,110 (2022 - \$15,839) relates to long-term loans receivable from the respective non-controlling interests.

15 Trade and other payables

	June 30, 2023	December 31, 2022
	\$	\$
Trade payables	65,050	89,765
Accruals and provisions	71,433	60,717
Sales tax payable	38,900	31,948
Wages and withholding taxes payable	51,036	47,266
Trade and other payables	226,419	229,696

16 Revolving floorplan facilities and indebtedness

	June 30, 2023 \$	December 31, 2022 \$
Revolving floorplan facilities	1,028,989	992,254
Indebtedness		
<i>Revolving term facilities</i>		
Revolving term facility	144,500	180,000
Unamortized deferred financing costs	(821)	(1,412)
	143,679	178,588
<i>Non-revolving term facilities</i>		
Non-recourse mortgages	31,421	31,979
Unamortized deferred financing costs	(77)	(77)
	31,344	31,902
<i>Senior unsecured notes</i>		
Senior unsecured notes	350,000	350,000
Embedded derivative	—	—
Unamortized deferred financing costs	(5,048)	(5,498)
	344,952	344,502
<i>Other debt</i>		
Other long-term debt	278	136
Total indebtedness	520,253	555,128
Current indebtedness	778	777
Long-term indebtedness	519,475	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 increased the revolving facility from \$275 million to \$375 million, increased the wholesale floorplan financing facility from \$1,060 million to \$1,220 million and maintained 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 June 30, 2023.

17 Derivative financial instruments and other liabilities

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

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

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

	Foreign exchange forward contracts		Interest rate swaps	
	Non-hedges \$	Cash flow hedges \$	Non-hedges \$	Total \$
June 30, 2023				
Other current assets (Note 14)	396	1,277	—	1,673
Other liabilities - current	—	348	—	348
Derivative financial instruments - assets	—	—	5,019	5,019
Derivative financial instruments - liabilities	—	—	1,866	1,866
Notional values	26,500 USD	97,200 CAD	177,800 CAD	
Maturity (Year)	2023	2023 - 2024	2025	
December 31, 2022				
Other current assets (Note 14)	—	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 and (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 June 30, 2023			
Change in fair value of hedging instruments	—	(166)	(166)
Unrealized fair value changes on non-hedging instruments (Note 8)	984	—	984
Amortization of terminated hedges (Note 8)	(817)	817	—
Interest rate swap settlements (Note 8)	2,778	—	2,778
Unrealized fair value changes on foreign exchange forward contracts	84	—	84
Realized gain on foreign exchange forward contracts	679	—	679
	3,708	651	4,359
For the six-month period ended June 30, 2023			
Change in fair value of hedging instruments	—	(544)	(544)
Unrealized fair value changes on non-hedging instruments (Note 8)	524	—	524
Amortization of terminated hedges (Note 8)	(1,634)	1,634	—
Interest rate swap settlements (Note 8)	3,029	—	3,029
Unrealized fair value changes on foreign exchange forward contracts	551	—	551
Realized gain on foreign exchange forward contracts	195	—	195
	2,665	1,090	3,755
For the three-month period ended June 30, 2022			
Change in fair value of hedging instruments	—	758	758
Unrealized fair value changes on non-hedging instruments (Note 8)	1,325	—	1,325
Amortization of terminated hedges (Note 8)	(817)	817	—
Interest rate swap settlements (Note 8)	(752)	—	(752)
Unrealized fair value changes on foreign exchange forward contracts	(1,143)	—	(1,143)
Realized loss on foreign exchange forward contracts	(877)	—	(877)
	(2,264)	1,575	(689)
For the six-month period ended June 30, 2022			
Change in fair value of hedging instruments	—	2,818	2,818
Unrealized fair value changes on non-hedging instruments (Note 8)	8,160	—	8,160
Amortization of terminated hedges (Note 8)	(1,634)	1,634	—
Interest rate swap settlements (Note 8)	(1,870)	—	(1,870)
Unrealized fair value changes on foreign exchange forward contracts	(183)	—	(183)
Realized loss on foreign exchange forward contracts	(1,287)	—	(1,287)
	3,186	4,452	7,638

Other liabilities

Equity forward liability

On January 25, 2023, the Company amended its existing 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.

On June 24, 2023, the Company entered into a new equity forward agreement for a total of 100,000 outstanding common shares with an outstanding liability amounting to \$1,972. The equity forward agreement settles on June 24, 2026, for 100,000 common shares. The Company and the counterparty have the option to settle the equity forward agreement in advance of the contractual settlement date.

As at June 30, 2023, the Company has equity forward agreements on 350,000 (December 31, 2022 - 250,000) outstanding common shares with an outstanding liability amounting to \$11,063 (December 31, 2022 - \$9,091). The outstanding liability is classified as a current liability.

18 Share-based payments

Share-based compensation expense

Total expenses net of recoveries arising from share-based payment transactions recognized during the three-month and six-month periods ended June 30, 2023 included in employee costs are as follows:

	Three-month period ended		Six-month period ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
	\$	\$	\$	\$
Stock options	(333)	452	153	904
Restricted share units	110	184	213	554
Deferred share units	288	264	550	527
Share appreciation rights	1,011	253	2,021	385
Share-based compensation expense	1,076	1,153	2,937	2,370

19 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 six-month periods ended:

	June 30, 2023		June 30, 2022	
	Number of common shares	\$	Number of common shares	\$
Issued, beginning of the period	23,551,137	433,693	27,493,016	510,819
Exercised stock options	20,038	462	800,000	10,496
Shares to be purchased under the Substantial Issuer Bid	—	—	—	(325)
Shares repurchased and cancelled under Normal Course Issuer Bid	—	—	(1,730,321)	(32,089)
Issued, end of the period	23,571,175	434,155	26,562,695	488,901

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 six-month periods ended:

	June 30, 2023		June 30, 2022	
	Number of treasury shares	\$	Number of treasury shares	\$
Outstanding, beginning of the period	(48,667)	(672)	(243,306)	(2,440)
Treasury shares settled	36,202	352	96,213	716
Outstanding, end of the period	(12,465)	(320)	(147,093)	(1,724)

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	50,369	40,165

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

	Three-month period ended		Six-month period ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Basic	23,548,162	26,564,205	23,525,793	26,817,719
Effect of dilution from equity forward	242,272	150,000	171,792	150,000
Effect of dilution from RSUs	65,016	96,059	72,433	100,831
Effect of dilution from SARs	—	66,041	—	67,592
Effect of dilution from stock options	396,634	977,383	615,512	1,242,460
Diluted	24,252,084	27,853,688	24,385,530	28,378,602

20 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:

	June 30, 2023	December 31, 2022
	\$	\$
Long-term indebtedness (Note 16)	519,475	554,351
Equity	540,875	486,797
	1,060,350	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 or repurchase shares, or adjust the amount of dividends paid to its shareholders.

Gross lease adjusted indebtedness

Gross lease adjusted indebtedness is one 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:

	June 30, 2023	December 31, 2022
	\$	\$
Total indebtedness (Note 16)	520,253	555,128
Embedded derivative (Note 16)	—	—
Lease liabilities	491,226	484,877
Gross lease adjusted indebtedness	1,011,479	1,040,005

21 Financial instruments

Fair value of financial instruments

The Company's financial instruments as at June 30, 2023 are represented by cash, trade and other receivables, trade and other payables, other liabilities, 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 floorplan facilities approximate their carrying values due to their short-term nature.

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

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

Derivative instruments are made up of interest rate swap agreements 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. Fair value of these redemption liabilities are calculated based on an applicable multiple applied to projected earnings before interest, taxes, depreciation, and amortization.

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.

22 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 and six-month periods ended:

	Three-month period ended		Six-month period ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
	\$	\$	\$	\$
Trade and other receivables	(2,776)	(16,249)	(2,887)	(67,593)
Inventories	13,780	28,343	4,802	(293,800)
Other current assets	(6,323)	1,043	(11,554)	(4,747)
Trade and other payables	965	12,443	12,286	21,955
Revolving floorplan facilities	4,818	(14,411)	39,218	330,486
Other liabilities	(517)	(2,427)	(1,017)	(2,427)
Net change in non-cash working capital	9,947	8,742	40,848	(16,126)

23 Related party transactions

Transactions with companies controlled by Directors

During the three-month and six-month periods ended June 30, 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 related parties were reviewed by the Company's Board of Directors and are based on normal commercial terms and conditions. A summary of the transactions are as follows:

	Three-month period ended		Six-month period ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
	\$	\$	\$	\$
Consulting services, administrative and other support and sourcing fees	328	837	773	1,407
Used vehicle (sales to) purchases from related party	(101)	461	(491)	461

Executive Advance

As at June 30, 2023, \$1,374 (December 31, 2022 - \$1,624) of the Executive Advance issued to the former President remains outstanding.

Used Digital Retail 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.

24 Segmented reporting

During the six-month period ended June 30, 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 June 30, 2023			Three-month period ended June 30, 2022		
	Canada ¹ \$	U.S. \$	Total \$	Canada ¹ \$	U.S. \$	Total \$
Revenues						
External revenues	1,548,615	207,647	1,756,262	1,437,897	248,129	1,686,026
Total revenues	1,548,615	207,647	1,756,262	1,437,897	248,129	1,686,026

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

	Six-month period ended June 30, 2023			Six-month period ended June 30, 2022		
	Canada ¹ \$	U.S. \$	Total \$	Canada ¹ \$	U.S. \$	Total \$
Revenues						
External revenues	2,888,870	406,718	3,295,588	2,568,935	459,529	3,028,464
Total revenues	2,888,870	406,718	3,295,588	2,568,935	459,529	3,028,464

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

	Three-month period ended June 30, 2023			Three-month period ended June 30, 2022		
	Canada ¹ \$	U.S. \$	Total \$	Canada ¹ \$	U.S. \$	Total \$
Operating profit before other income	84,846	4,876	89,722	57,358	9,211	66,569
Lease and other income, net	1,925	420	2,345	2,852	438	3,290
Gain on disposal of assets, net	101	—	101	95	—	95
Operating profit	86,872	5,296	92,168	60,305	9,649	69,954
Finance costs (Note 8)			(32,760)			(21,938)
Finance income (Note 8)			808			261
Other (losses) gains, net			(39)			466
Income for the period before taxation			60,177			48,743

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

	Six-month period ended June 30, 2023			Six-month period ended June 30, 2022		
	Canada ¹ \$	U.S. \$	Total \$	Canada ¹ \$	U.S. \$	Total \$
Operating profit before other income	127,823	5,280	133,103	103,199	17,063	120,262
Lease and other income, net	4,855	733	5,588	5,084	919	6,003
Gain on disposal of assets, net	106	—	106	379	—	379
Operating profit	132,784	6,013	138,797	108,662	17,982	126,644
Finance costs (Note 8)			(68,587)			(75,419)
Finance income (Note 8)			1,910			686
Other (losses) gains, net			(132)			691
Income for the period before taxation			71,988			52,602

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

	As at June 30, 2023			As at December 31, 2022		
	Canada ¹ \$	U.S. \$	Total \$	Canada ¹ \$	U.S. \$	Total \$
Segment assets	2,580,234	327,469	2,907,703	2,521,158	337,173	2,858,331
Capital expenditures and acquisition of real estate	28,776	7,405	36,181	51,395	11,802	63,197
Segment liabilities	1,877,891	488,937	2,366,828	1,876,726	494,808	2,371,534

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

25 Seasonal nature of the business

The Company's results from operations for the three-month and six-month periods ended June 30, 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.

26 Reclassification of comparative figures

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



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