

AUTOMOTIVE FINCO CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED MARCH 31, 2024 AND MARCH 31, 2023

This management's discussion and analysis of financial conditions and results of operations (MD&A) is intended to assist you in understanding and evaluating changes in Automotive Finco Corp.'s (AFCC, the Company) financial condition and operations for the three-month periods ended March 31, 2024 and March 31, 2023. The MD&A should be read in conjunction with our financial statements for the year ended December 31, 2023 and three-month period ended March 31, 2024 prepared in accordance with IFRS (as defined below), together with the accompanying notes. Additional information is available on SEDAR+ at www.sedarplus.ca.

The Company's reporting currency is the Canadian dollar and all dollar amounts are in Canadian dollars. The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Our quarterly reports, annual financial statements, and related management discussion and analysis are available on SEDAR+ at www.sedarplus.ca.

This MD&A has been prepared as of May 29, 2024.

FORWARD-LOOKING STATEMENTS

This MD&A may contain "forward looking statements" or "forward looking information" within the meaning of applicable securities legislation. These statements may relate to future events or the Company's future performance, business prospects or opportunities. All statements other than statements of historical fact may contain forward looking information. Forward looking information may be provided as of the date of this MD&A and we do not intend, and do not assume any obligation, to update this forward looking information, except as required by law.

Generally, forward looking information is often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. The forward looking information contained herein may include, but is not limited to, information with respect to: strategies, expectations, planned operations or future actions; future investment strategy, methodology, targets and timing; future growth plans; proposed debt and royalty transactions; estimated market drivers and demand; business prospects and strategy; anticipated trends and challenges in the Company's business and the markets in which it operates; the Company's financial position including future and expected revenue, expenses, cash flow, cash on hand and related measures; the Company's investment approach, objectives and strategy, including its focus on the automotive retail sector; the structuring of the Company's investments and its plans to manage its investments; the Company's plans with respect to its investment portfolio, including levels of growth and uses of the revenue and profit generated therefrom; and AFCC's expectations regarding the performance of the auto retail sector and the value of the market for debt based financing solutions therein. By identifying such information and statements in this manner, the Company is alerting the reader that such information and statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such information and statements.

These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward looking information. The Company believes that the expectations reflected in its forward looking information are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward looking information included in this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A. These forward looking statements involve risks and uncertainties relating to, among other things, limited operating history, risks related to the lack of diversification of investments, risks related to the Company's reliance on an affiliate for funding opportunities, risks inherent to the auto industry, as well as those risks and uncertainties herein as further discussed in the section entitled "Risks and Uncertainties". Actual results may differ materially from those expressed or implied by such forward looking statements or forward looking information.

In connection with the forward looking information and forward looking statements contained in this MD&A, we have made certain assumptions regarding future events and operating performance as at the date of this MD&A. Key assumptions include, but are not limited to: that the Company will be able to successfully target and negotiate debt financing and other investments; that more automotive dealerships will continue to require access to alternative sources of capital; that the Company will have the ability to raise required equity and/or debt financing on acceptable terms; that the value of the Canadian dollar will remain stable relative to other currencies; and that the Company will maintain its listing of the Shares (as defined herein) on the TSXV (as defined herein). The Company has also assumed that access to the capital markets will remain relatively stable, and that the capital markets will perform with normal levels of volatility.

To the extent any forward looking statements constitute future oriented financial information or financial outlooks, as those terms are defined under applicable Canadian securities laws, such statements are being provided to describe the current anticipated potential of the Company and readers are cautioned that these statements may not be appropriate for any other purpose, including investment decisions.

Although we have attempted to identify important factors that could cause actual actions, events or results to differ materially from those contained in forward looking information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that such information will prove to be accurate, as future actions and events and actual results could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward looking information.

INCORPORATION AND BUSINESS

The Company was incorporated under the Canada Business Corporations Act on December 5, 1986. The head and registered office is located at 222 Bay Street, Suite 3000, Toronto ON, M5K 1E7, Canada.

The Company's common shares (the Shares) traded on the TSX Venture Exchange (TSXV) under the symbol "AFCC" until April 20, 2021. On April 19, 2021, the Company announced that it had not satisfied the Tier 2 continued listing requirements and its listing on the TSXV was transferred by the TSXV to the NEX board (NEX) effective at the opening of trading on April 21, 2021. The Shares continue to trade under the symbol AFCC but with the extension (.H). The symbol extension differentiates NEX symbols from Tier 1 or Tier 2 symbols within the TSXV. There is no change in AFCC's name and no change in its CUSIP number. Prior to March 8, 2017, the Shares were listed and posted under the trading symbol "AUV". As of June 20, 2017 the Company became a reporting issuer in all provinces and territories of Canada.

On February 23, 2017, shareholders approved a share consolidation and a change of business (the COB) to transition the Company from a "Mining Issuer" to an "Investment Issuer", with a specific focus on providing debt financing and making other investments in connection with the financing of automotive dealerships, automotive dealer groups and/or other related businesses and assets on a global basis, with an initial focus in Canada. The COB was implemented on March 6, 2017.

In connection with the COB, the Company changed its name from "Augyva Mining Resources Inc." to "Automotive Finco Corp." and consolidated its Shares on a 1:15 basis pursuant to articles of amendment filed on March 3, 2017. As of December 31, 2020, 23,123,773 Shares were issued and outstanding. The Company completed a substantial issuer bid which expired on March 18, 2021. The Company purchased 3,304,396 Shares leaving 19,819,377 Shares outstanding as of the date of the MD&A.

HIGHLIGHTS

The COB, announced on March 6, 2017 has transformed the Company's business which has generated revenue and earnings related to the auto retail sector.

In connection with the COB, the Company entered into a limited partnership agreement with Automotive Finance GP Inc., a corporation formed under the laws of Ontario, as general partner, and the Company, as initial limited partner, to create Automotive Finance Limited Partnership (the Partnership). The Company is the sole limited partner of the Partnership and makes its investments indirectly through the Partnership.

In April 2017, the Company paid its first monthly dividend of \$0.014 per Share (\$0.168 per Share annually). The Company announced in June 2017 an increase in its annual dividend to \$0.205 per Share payable monthly (\$0.0171 per month) beginning with the July 2017 payment. This represented an increase of approximately 22% above its then current dividend per Share.

On January 29, 2021, June 23, 2022 and June 27, 2023, shareholders approved reductions in the stated capital of AFCC's common shares pursuant to subsection 38(1) of the Canada Business Corporations Act in the amount of \$30 million, \$6,952,341 and \$4,668,769. AFCC believes that the reduction of stated capital has and will benefit the Company by providing more flexibility in managing the Company's capital structure.

The Company completed a "modified Dutch auction" substantial issuer bid (the "Offer") to purchase for cancellation up to \$12,375,000 of its Shares from shareholders for cash. The Offer expired on March 18, 2021. In accordance with the terms and conditions of the Offer and based on the final count by Computershare Trust Company of Canada, as depositary for the Offer, AFCC has taken up and paid for 3,304,396 Shares that were properly tendered and not withdrawn at a purchase price of \$1.65 per Share, for an aggregate purchase price of approximately \$5,452,253. The Shares purchased for cancellation under the Offer represent approximately 14.29% of the Shares issued and outstanding before giving effect to the Offer. After giving effect to the Offer, 19,819,377 Shares are issued and outstanding. The full details of the Offer are described in the issuer bid circular dated February 8, 2021, as well as the related letter of transmittal and notice of guaranteed delivery, copies of which were filed and are available on SEDAR+ at www.sedarplus.ca.

On November 18, 2022, the Company announced that it, via Automotive Finance Limited Partnership, agreed to fund an unsecured loan (the "Investment") to AA Finance Co LP (the "Investee") of \$21,000,000.

The Investment was made in accordance with the Alliance Agreement, under which a Partnership Suitable Financing was made available to Automotive Finance Limited Partnership with terms set out in the relevant ROFO notice. These terms were then modified through negotiation in the Company's favor. The Investment bears interest at 12.0% per annum, payable in cash or 'PIK', with a one year term plus an additional one year option exercised by the Investee and, under certain circumstances, can be convertible into equity of a related entity of the Investee. The proceeds of the Investment have been used by the Investee for general corporate purposes which may include acquisitions and related working capital requirements.

The Board views the Investment as an attractive deployment of capital given the ability to lower the contractually set term of a Partnership Suitable Financing from ten years to a max of two years, an increase in the coupon rate to 12.0% (from 10.5%) as well

as the ability to secure an option to convert the Investment into equity under certain circumstances. Assuming the loan is outstanding through maturity, the gross assets of the Company would be expected to increase, before the payment of dividends to shareholders and on a pre-tax basis, by approximately \$0.25 per share by the end of the two year term. In November 2023, pursuant to the loan agreement, the borrower elected to extend the maturity date of the loan by one year to November 18, 2024. The borrower also elected to pay PIK Interest with respect to the quarterly interest payments to date. All amounts of accrued PIK Interest have been added to the principal amount of the loan at each interest payment date and bear interest until repaid.

On March 3, 2023, the Company announced a change to the frequency of its dividend distributions from monthly to semi-annually to align with expected cash flow from its current loan investment of \$21,000,000. The monthly cash dividend of \$0.0171/common share was suspended effective March 1, 2023. Pursuant to the loan agreement, the borrower elected to pay payment in kind interest with respect to the quarterly interest payments to May 18, 2024. All amounts of accrued PIK Interest have been added to the principal amount of the loan at each interest payment date and bear interest until repaid. On June 19, 2023, the Company announced a change to the frequency of its dividend distributions from semi-annual to annual. The Company intended to pay dividends at the end of December 2023 at the same effective rate of \$0.205/annum per common share. In light of the borrower opting to extend the maturity date of the loan and to pay PIK Interest with respect to the interest payments, the Company announced in November 2023 a suspension of dividends until further notice.

The Company's strategy is centered around a focus on shareholder aligned capital allocation. Since the Change of Business transaction in 2017, the Company has returned approximately \$1.45 per share to its shareholders through a combination of dividends paid and declared and share buybacks. The Company will continue to focus on the attractive deployment of capital and shareholder returns via dividends going forward.

Additional information is available on SEDAR+ at www.sedarplus.ca.

Selected Quarterly Information

Operating results for each quarter for the last two fiscal years are presented in the table below.

	Three Months Ended March 31, 2024 \$	Three Months Ended December 31, 2023 \$	Three Months Ended September 30, 2023 \$	Three Months Ended June 30, 2023 \$	Three Months Ended March 31, 2023 \$	Three Months Ended December 31, 2022 \$	Three Months Ended September 30, 2022 \$	Three Months Ended June 30, 2022 \$
Interest revenue from Partnership's loan investment	703,320	696,937	688,493	663,491	624,891	303,781	–	–
Other operating expenses (revenue)	237,482	159,964	193,257	261,721	238,181	189,755	206,149	266,859
Net income (loss) before income taxes	465,838	536,973	495,236	401,770	386,710	114,026	(206,149)	(266,859)
Net income (loss)	465,838	536,973	495,236	401,770	386,710	114,026	(206,149)	(266,859)
Basic income (loss) per share	0.02	0.03	0.02	0.02	0.02	0.01	(0.01)	(0.01)
Diluted income (loss) per share	0.02	0.03	0.02	0.02	0.02	0.01	(0.01)	(0.01)
Total assets	24,743,452	24,232,649	23,738,374	23,344,254	22,885,649	23,131,011	24,066,523	25,392,879
Shareholders' equity	24,681,982	24,216,144	23,679,171	23,183,935	22,782,165	22,734,366	23,637,074	24,859,957

The following table summarizes selected key financial data.

	March 31, 2024 \$	December 31, 2023 \$	December 31, 2022 \$
Cash	55,690	237,936	1,770,770
Interest receivable	3,680,913	2,977,593	303,781
Partnership's loan investment	21,000,000	21,000,000	21,000,000
Exploration and evaluation assets	1	1	1
Total assets	24,743,452	24,232,649	23,131,011
Capital stock	15,172,562	15,172,562	19,841,331

The Company's financial position, financial performance and cash flows do not appear to be affected by seasonality.

Results for the three-month periods ended March 31, 2024 and March 31, 2023

During the three-months ended March 31, 2024, the Company recorded \$703,320 interest revenue. During the three-months ended March 31, 2023, the Company recorded \$624,891 interest revenue. The Partnership expenses were \$99,925 during the current and prior period. Partnership expenses include compensation of the Chief Executive Officer (the CEO), Chief Financial Officer (the CFO) and other general & administrative expenses.

Operating expenses during the current period were \$237,482 and \$238,181 during the prior period and are further discussed below.

Professional fees during the current period were \$39,533 and \$38,053 during the prior period. Professional fees generally relate to preparation of our annual audit and tax returns and were higher in the current period due to a rate increase related to tax return preparation.

Director fees remained consistent, being \$78,974 during the current period and prior period.

General and administrative expenses during the current period were \$18,969 and \$20,308 during the prior period. General and administrative expenses primarily include transfer agent and shareholder relations expense, insurance expense and office expense. The lower general and administrative expenses during the current period primarily reflect a reduction of transfer agent and shareholder relations costs resulting from the suspension of dividends effective March 1, 2023.

Cash flows from operating activities during the three months ended March 31, 2024 utilized cash of \$182,246, consisting of the operating income adjusted for changes in working capital. Changes in working capital utilized cash of \$648,084, resulting from increases in interest receivable and accounts payable and accrued liabilities and a decrease in prepaid expenses.

Cash flows from operating activities during the three months ended March 31, 2023 utilized cash of \$142,160, consisting of the operating income adjusted for changes in working capital. Changes in working capital utilized cash of \$528,870, resulting primarily from an increase in interest receivable and a decrease in accounts payable and accrued liabilities.

Cash flows from financing activities during the current period were \$Nil. Cash flows from financing during the prior period utilized cash of \$677,822 related to the payment of dividends. The monthly cash dividend of \$0.0171/common share was suspended effective March 1, 2023.

Cash flows from investing activities during the current and prior period were \$Nil.

FUTURE PROSPECTS

On November 18, 2022, the Company announced that it, via Automotive Finance Limited Partnership, has agreed to fund a new unsecured loan (the "Investment") to AA Finance Co LP (the "Investee") of \$21,000,000, as more fully discussed above in the Highlights.

The Investment bears interest at 12.0% per annum, payable in cash or 'PIK', with a one year term plus an additional one year option by the Investee and, under certain circumstances, can be convertible into equity of a related entity of the Investee. The Company's strategy is centered around a focus on shareholder aligned capital allocation. In November 2023, pursuant to the loan agreement, the borrower elected to extend the maturity date of the loan by one year to November 18, 2024. The borrower also elected to pay PIK Interest with respect to the quarterly interest payments to May 18, 2024. All amounts of accrued PIK Interest have been added to the principal amount of the loan at each interest payment date and bear interest until repaid.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2024, the Company had cash on hand of \$55,690. Working capital at March 31, 2024 was \$24,681,981. Management believes that working capital on hand will be sufficient to fund the Company's activities for the next twelve months.

The Company's capital requirements relate to growth. Capital requirements have historically been funded by the issuance of shares and debt.

Financing activity, options and warrants

The Company maintains stock option plans whereby the Board of Directors may grant to directors, officers and consultants, options to acquire common shares.

The plan provides that the maximum number of common shares which may be reserved for issuance under the plan may not exceed 10% of the common shares outstanding at the time of grant. These stock options have a maximum life period of 5 years after the grant date.

The number of shares reserved for issuance to any beneficiary may not exceed 5% of the then outstanding shares. The number of shares reserved for any one consultant in any twelve-month period may not exceed 2% of the outstanding shares of the Company. The option exercise price is established by the Board of Directors and may not be lower than the market price of the common shares at the time of grant.

As at March 31, 2024 there were no outstanding stock options.

Capital stock

The Company's capital stock consists of an unlimited number of Shares. At March 31, 2024, 19,819,377 Shares were issued and outstanding, of which 2,000 Shares are held in escrow.

The capital stock is as follows:

	Number of Shares
Balance, December 31, 2023 and March 31, 2024	<u>19,819,377</u>

OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Duncan Lake Iron Property (as described herein) is subject to certain agreements and royalties. See Note 7 of our financial statements for the year ended February 28, 2017.

RELATED PARTY TRANSACTIONS

The Company's related parties include key management and other related parties, as described below. Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

12.1 Transactions with key personnel

The Company considers key personnel to be those having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key personnel are the members of the Board of Directors, the CEO and the CFO. Remuneration of key personnel includes the following expenses:

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Partnership expenses	\$ 87,500	\$ 87,500
Directors' fees	78,974	78,974
Total remuneration	<u>\$ 166,474</u>	<u>\$ 166,474</u>

As at March 31, 2024, the Company had accounts payable of \$61,470 (\$16,505 as at December 31, 2023) of which \$13,500 (\$13,500 as at December 31, 2023) was to key personnel as share-based remuneration.

12.2 Transactions with related companies

As at March 31, 2024, the Company had interest receivable in the amount of \$3,680,913 (\$2,977,593 - as at December 31, 2023) related to the Partnership's loan investment (see Note 6).

During the period, the partnership incurred partnership expenses of \$99,925 (\$99,925 - three months ended March 31, 2023) with an entity controlled by a shareholder exercising significant influence.

MINING PROPERTIES

In addition to our investments in the automotive retail sector, we hold a 32% registered interest (35% at December 31, 2023) in the Duncan Lake Iron Property which is located at the western portion of the La Grande Greenstone Belt and contains iron ore deposits of the Algoma type, hosted by a volcano-sedimentary sequence. Additional information can be found in Note 7 of our financial statements for the year ended February 28, 2017.

RECENT ACCOUNTING PRONOUNCEMENTS

Certain new standards, amendments and interpretations to existing standards have been published but are not yet effective and have not been adopted early by the Company.

Management anticipates that all applicable pronouncements will be adopted by the Company in the first period beginning after the effective date of each pronouncement.

New standards and interpretations have been issued but are not expected to have a material impact on the Company's consolidated financial statements and therefore, are not discussed further.

FINANCIAL INSTRUMENTS

The Company is exposed to various risks relating to financial instruments. The main types of risks are credit risk and liquidity risk.

The Company does not actively engage in the trading of financial assets for speculative purposes. No changes were made in the objectives, policies and processes related to financial instruments risk management during the reporting periods.

Credit risk

Credit risk is the risk that another party to a financial instrument fails to discharge an obligation and thus, leads the Company to incur a financial loss.

The Company's maximum exposure to credit risk is limited to the carrying amount of financial assets at March 31, 2024, as summarized below:

	March 31, 2024	December 31, 2023
Cash	\$ 55,690	\$ 237,936
Interest receivable	3,680,913	2,977,593
Partnership's loan investment	21,000,000	21,000,000
Carrying amounts	<u>\$ 24,736,603</u>	<u>\$ 24,215,529</u>

The Company continuously monitors defaults of counterparties. Management considers that all the above financial assets that are not impaired or past due for each of the reporting periods under review are of good credit quality. Therefore, the credit risk is considered negligible, since the counterparties are reputable banks and partners with good financial situations.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty meeting obligations associated with financial liabilities that are settled by cash or another financial asset. Liquidity risk management serves to maintain a sufficient amount of cash and to ensure that the Company has financing sources such as private and public investments for a sufficient amount.

The following table presents contractual maturities of the Company's liabilities:

	March 31, 2024	December 31, 2023
<u>Less than 12 months</u>		
Accounts payable and accruals	<u>\$ 8,285</u>	<u>\$ 3,009</u>

RISKS AND UNCERTAINTIES

Below are a number of important risks which management believes could affect our business:

- risks related to the lack of diversification of investments;
- profitability risks;
- automotive industry regulatory risks;
- dependence upon the Partnership and its Investments;
- risks relating to the unsecured nature of loans to borrowers, where applicable, and the ability of borrowers to repay the loans and to cover interest payments when due;
- risks relating to the ability of the Company to continue to pay dividends;
- risks relating to the Company's reliance on AA Finance Co LP for funding opportunities and that third parties may not be able to provide funding opportunities;
- risks relating to the Company's reliance on the Partnership to act as its administrator;
- credit risks;
- collection risks;
- no guaranteed return or dividends for shareholders;
- risks of competition;
- risk of fluctuations in the value of the Company and the Shares;
- sensitivity to macro-economic conditions including those affecting the automotive industry;
- risks relating to additional funding requirements;

- risk of dilution from possible future offerings; and
- the dependence on key management and directors.

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was prepared as of May 29, 2024. The Company regularly discloses additional information through the filing of press releases, material change reports, financial statements and other reports on SEDAR+ at www.sedarplus.ca.

This report was approved on May 29, 2024.