MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2020 AND 2019

(Expressed in Canadian Dollars)

September 30, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis ("MD&A") of Axis Auto Finance Inc. (the "Company" or "Axis" or "we" or "our"), should be read in conjunction with the Company's audited financial statements for the years ended June 30, 2020 and 2019 ("reporting period") and the accompanying notes to the financial statements. This MD&A is dated September 30, 2020.

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in accordance with International Accounting Standard ("IAS") 1 – Presentation of Financial Statements, as issued by the International Accounting Standards Board ("IASB"), and are reported in Canadian dollars.

This MD&A refers to certain financial measures that are not determined in accordance with IFRS. While these measures do not have standardized meanings and may not be comparable to similar measures presented by other companies, these measures are defined herein or can be determined by reference to the financial statements. The Company discusses these measures because it believes that they facilitate the understanding of the result of its operations and financial position.

Additional information is contained in the Company's filings with Canadian securities regulators, including the Company's Annual Information Form. These filings are available on SEDAR at www.sedar.com.

OVERVIEW

Axis is engaged in the business of financing used vehicles to consumers located in Canada who do not qualify through traditional sources. The Company is a TSX Venture listed entity (TSXV: AXIS), domiciled in Canada, with its company headquarters located in Mississauga, Ontario. With a variety of financial products and services including lease financings, loan financings, and other ancillary point of sale products, Axis positions its customers to improve and rebuild their credit, such that they are able to migrate to prime lending and achieve a better financial future. Axis assists in this process through reporting 100% of Axis loans and leases to the credit bureau and on average, 71% of Axis customers have improved their credit rating through obtaining an Axis auto loan or lease.

QUARTERLY RESULT HIGHLIGHTS (in $ except ratios)

Quarter ended:	Sep 30, 2018	Dec 31, 2018	Mar 31, 2019	Jun 30, 2019	Sep 30, 2019	Dec 31, 2019	Mar 31, 2020	Jun 30, 2020
Finance receivables	116,386,577	117,238,712	112,563,215	114,684,128	117,609,145	119,984,109	126,675,886	115,924,222
Allowance for Credit Losses (ACL)	(9,066,249) [(a)]	(9,484,862)	(8,775,799)	(9,296,631)	(9,563,393)	(10,213,257)	(11,499,925)	(9,357,698)
Net Finance Receivables	107,320,328	107,753,850	103,787,416	105,387,497	108,045,752	109,770,852	115,175,961	106,566,524
ACL as a % of Finance receivables	7.79%[(a)]	8.09%	7.80%	8.11%	8.13%	8.51%	9.08%	8.07%
Total revenue	8,416,664	8,148,573	7,480,162	7,876,975	8,968,773	9,233,367	9,994,271	9,005,607
Net Income (loss) for the period before Income Taxes	(246,117)	(1,228,942)	(2,148,473)	(1,242,743)	(643,678)	(582,532)	(878,283)	1,311,754
Net Income (loss) and comprehensive income (loss) for the period	(341,571)	(1,138,664)	(1,707,473)	(676,774)	(537,280)	(462,936)	(692,458)	1,017,820
Net Income (loss) and comprehensive income (loss) per share	(0.004)	(0.012)	(0.018)	(0.040)	(0.006)	(0.005)	(0.007)	(0.007)

(a) ACL is reflective of the adoption on IFRS 9 Financial Instruments effective July 1, 2018 where credit loss provisions are based on the expected credit loss ("ECL") impairment model. IFRS 9 requires that this model be applied to all finance receivables, inclusive of those acquired through acquisition. Upon adoption of IFRS 9, there was a one-time increase to the ACL of $6.1 million.

NON IFRS MEASURES (in $ except ratios) *

Quarter ended:	Sep 30, 2018	Dec 31, 2018	Mar 31, 2019	Jun 30, 2019	Sep 30, 2019	Dec 31, 2019	Mar 31, 2020	Jun 30, 2020
Revenue run-rate (annualized)	33,666,656	32,594,292	29,920,648	31,507,900	35,875,092	36,933,468	39,977,084	36,022,428
Average portfolio yield (YTD)	33.02%	33.30%	33.13%	33.05%	32.92%	32.61%	31.94%	31.64%
Annualized credit loss rate (YTD) [(a)]	6.59%	7.07%	9.70%	9.41%	10.46%	10.06%	10.30%	11.77%
Average interest expense (YTD)	8.67%	8.74%	8.81%	8.48%	7.33% [(b)]	7.24% [(b)]	7.53% [(b)]	7.45% [(b)]
Adjusted Earnings (for the period)	1,663,505	367,520	(2,018,169)	(489,583)	487,642	860,949	1,180,928	24,222
Adjusted Earnings (Loss) (YTD)	1,663,505	2,031,025	12,856	(476,727)	487,642	1,348,591	2,529,519	2,553,741
Financial leverage ratio	2.08: 1	2.12: 1	1.97: 1	1.95: 1	1.85: 1	1.86: 1	1.90: 1	1.81: 1
Adjusted Equity[(c)]	43,463,417	43,294,205	41,294,592	40,714,512	41,167,679	41,339,740	41,807,031	40,060,995

* These NON IFRS measures are shown based on gross finance receivables for the trailing eight quarters shown above; however, historically up to and including the period ending June 30, 2019, they had been shown based on net finance receivables. See accompanying description of these Non-IFRS Measures.

(a) Annualized credit loss rate is representative of the Axis portfolio net write-offs. Per IFRS accounting for acquisitions, the fair value of the COCF and Trend portfolios at close was quantified, factoring in future cash flows, early prepayments and credit defaults, to determine the present value of the portfolio. Therefore, credit losses on the ‘at close’ acquired portfolios have already been factored into the present value of the portfolio, and therefore, do not impact the credit loss % shown above.

(b) The reduction in the average interest expense starting in Q1 2020, is the result of the Axis senior debt facility entered into during third quarter of fiscal 2019 and the higher proportion of the portfolio being funded through this lower cost source.

(c) A tax rate of 26.5% has been applied to the Allowance for Credit Loss balance in arriving at Adjusted Equity.

DESCRIPTION OF NON-IFRS MEASURES

Throughout this MD&A, management uses the following terms and ratios not found in IFRS and which do not have a standardized meaning under IFRS and are unlikely to be comparable to similar measures presented by other issuers, and therefore require definition. These non-IFRS measures and additional information should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS.

These non-IFRS measures provide investors with additional information regarding the Company's liquidity and our ability to generate funds to conduct our business. Management reviews non-IFRS measures on an ongoing basis and in the quarter ending March 31, 2020, added the non-IFRS measure of Adjusted Equity, as defined below.

Revenue run-rate

Revenue run rate is the financial revenue in a particular period, annualized. It provides an indication of annual revenue that would be generated based on the revenue in the particular reported period.

Average portfolio yield

Average portfolio yield is financial revenue divided by average finance receivables (gross) in the period. Average portfolio yield provides an indication of the effective yield generated on the finance receivables portfolio before deductions for financial, operating, and tax expenses.

Annualized credit loss rate

The annualized loss rate is equal to net write-offs recorded year-to-date through the allowance for credit losses divided by average finance receivables (gross) for the period, presented on an annualized basis. The annualized loss rate is used by the Company to assess the percentage of the finance receivables portfolio that incurred losses, net of recoveries, during the period. In addition, the Company utilizes the annualized loss rate as an alternative measure to the provision for credit losses as it excludes the effect of provisions for (reductions in) the allowance for credit losses during the period which may not coincide with the timing of when write-offs and recoveries are actually incurred.

Average interest expense (over the portfolio)

Average interest expense is total interest paid in cash year-to-date divided by the average finance receivables (gross) balance in the period, expressed as a percentage and annualized.

Adjusted Earnings

Adjusted Earnings is equal to the net income (loss) for the period, adjusted for the items as specified below. The following non-cash and/or non-recurring expense items are added back to net income (loss):

- Provision for credit loss expense
- Depreciation and amortization expense
- Stock based compensation expense
- Acquisitions and integration expenses
- Deferred tax expense (recovery)
- Non-cash interest expense

The following expense items are deducted from net income (loss):

- Actual credit losses incurred (see Note 7 of the Company's financial statements)
- Premises specific lease costs which under the newly adopted IFRS-16 are no longer recorded as part of general and administrative expenses but as part of amortization expense (see Note 8 of the Company's financial statements)

Axis uses Adjusted Earnings to evaluate the performance of its finance receivable portfolio in the period without the volatility associated with estimates, assumptions, and certain non-cash expense items.

Adjusted Earnings (YTD) is the cumulative Adjusted Earnings for the given fiscal period.

Financial leverage ratio and equity capitalization

The financial leverage ratio is defined as the total of credit facilities and loans divided by total equity capitalization. Equity capitalization is defined as the total of common shares, convertible debentures, convertible preferred shares, and escrowed subscription receipts provided that the escrowed proceeds are not to be used in a future period to close an acquisition activity that has a corresponding senior debt position. The financial leverage ratio provides an indication of the extent to which the Company relies on senior debt financing. The Company views convertible debentures and convertible preferred shares as a form of common equity financing.

Adjusted Equity

Adjusted equity is defined as total Shareholders' equity plus the after-tax allowance for credit losses as shown in the Quarterly Result Highlights of the MD&A. Adjusted equity provides an indication of the Company's equity after adjusting for future credit loss provisions as required under IFRS-9 Financial Instruments (since July 1, 2018) and prior to this, under IAS-39 Financial Instruments: Recognition and Measurement.

SELECTED CORPORATE & FINANCIAL INFORMATION

Business Highlights

Axis's most notable business highlights during the year ended June 30, 2020 were:

- Closing of a $2.64 million convertible debenture financing with Westlake Financial Services ("**Westlake**"), an industry leading auto finance provider in the United States, and Nowcom Corporation ("**Nowcom**"), a technology company providing technology solutions for the automotive and financial services verticals.

- Entered into a strategic relationship with Westlake and Nowcom that enables Axis to originate and service automotive loans to near-prime customers in Canada on behalf of Westlake. Furthermore, this relationship enables Axis to leverage Nowcom's leading edge technology solutions that enhance communication and improve efficiencies for auto dealers working with Axis.

- Recorded total originations of $78.7 million in fiscal 2020, consisting of $65.4 million of owned or on balance sheet receivables and $13.3 million of loan receivables originated on behalf of Westlake. Due to the COVID-19 pandemic, Axis put additional credit adjudication parameters in place to mitigate the potential adverse economic conditions caused by COVID-19.

- Effectively managed through COVID-19, ensuring eligible Axis customers were able to obtain a payment deferral plan. The subset of the total portfolio receiving a COVID-19 payment deferral, represented $19.3 million in finance receivables. As of June 30, 2020, $12.7 million of the $19.3 million in finance receivables are back making their full regular payment, with the balance of $6.6 million in finance receivables (5.7% of total portfolio) making partial payments or not having resumed regular payments.

- Axis ended fiscal 2020, despite the uncertainty caused by COVID-19, with reportable delinquency of 4.1%, down from 4.7% as at June 30 2019.

- Secured additional liquidity through the Export Development Bank (**"EDC"**) backed Business Credit Availability Program (**"BCAP"**), securing a term loan of up to $6.25 million.

- Introduced a series of system and process enhancements that were made possible through the deployment of various technology, thereby creating operational efficiency and leading to a reduction in total operating costs of 11.7% in fiscal 2020 as compared to fiscal 2019.

Financial Highlights – summarized

The following table summarizes key financial data to be read in conjunction with the audited financial statements of the Company for the years ended June 30, 2020 and 2019. Such financial statements are prepared in accordance with IFRS and are reported in Canadian dollars.

	For the year ended June 30, 2020 $	For the year ended June 30, 2019 $
Financial revenue	37,202,018	31,922,374
Net income (loss) before taxes	(792,739)	(4,866,275)
Net income (loss) after taxes	(674,854)	(3,864,482)
Net income (loss) (basic and diluted)	(0.007)	(0.04)

Balance Sheet Assets	**June 30, 2020 $**	**June 30, 2019 $**
Gross finance receivables	115,924,222	114,684,128
Allowance for credit losses	(9,357,698)	(9,296,631)
Net finance receivables	106,566,524	105,387,497
Goodwill	17,810,702	17,810,702
Cash held in escrow	6,516,356	10,615,544
Cash	6,374,370	3,882,011
Other assets	16,718,816	14,262,673
Total assets	**153,986,768**	**151,958,427**

Financial Highlights - commentary

Axis' balance sheet at June 30, 2020 had a book value of $154.0 million, an increase from $152.0 million as at June 30, 2019. The primary reason for the increase in book value from June 30, 2019 was due to the increase in finance receivables ($1.2 million), cash (2.5 million), inventory ($1.5 million), the adoption of IFRS-16 and the resultant right-of-use assets ($1.1 million), which was offset by a decline in cash held in escrow ($4.1 million).

Consolidated gross finance receivables were $115.9 million as at June 30, 2020, up slightly from $114.7 million as at June 30, 2019. Gross finance receivables were down in the fourth quarter of fiscal 2020 due to the mandated shut down of auto dealers and the lack of used vehicle sales in the market.

Financial revenues increased from $31.9 million in the year ended June 30, 2019 to $37.2 million for the year ending June 30, 2020, a 16.5% increase over the comparative period. This increase is attributable to the overall growth of the underlying portfolio, which saw annualized growth of 14% prior to the outbreak of COVID-19 at the end of March 2020, when Axis's portfolio balance had reached a record $126.7 million.

Furthermore, Axis' revenue growth was also attributable to maintaining strong yields in the newly originated finance receivable contracts and incurring less revenue drag from the portfolios underlying the 2018 acquisitions.

Net loss before taxes was ($0.8) million for the year ending June 30, 2020, as compared to net loss of ($4.9) million for the year ending June 30, 2019.

Net loss after taxes was ($0.7) million for the year ending June 30, 2020, as compared to net loss of ($3.9) million for the year ending June 30, 2019.

For the year ending June 30, 2020, net loss per share – basic and diluted – was ($0.007) as compared to net loss of ($0.04) per share for the year ended June 30, 2019.

For the year ended June 30, 2020, the annualized credit loss rate was 11.77%, an increase from 9.41% in the prior year. Contributing factors to the rise in annualized credit loss rates were i) the higher frequency of default and increased credit losses in the Alberta market due to the prolonged adverse economic conditions in the province and ii) COVID-19 pandemic which led to increased credit losses in Q4 2020, which otherwise, is typically a lower credit loss quarter. Additional discussion regarding current year credit losses is provided below in the 'Delinquency and losses' section of the MD&A.

Management estimates the annualized loss rate to come back down into the range from 5% to 10% on a normalized basis, depending on the Company's portfolio mix and underlying macroeconomic factors, most notably the impact of COVID-19 over the coming quarters. Management continues to monitor credit losses closely and made credit policy adjustments specific to the Alberta market to address the higher losses in this region. Despite the competitive environment, the intention is not to relax credit criteria in order to achieve targeted finance receivables growth rates.

The Company's financial leverage ratio as at June 30, 2020 was 1.81:1 as compared to 1.95:1 as of June 30, 2019. The primary reason for the decline in the leverage ratio was the result of the debenture issued in the first quarter of fiscal 2020 and lower senior debt levels.

OUTLOOK

The Company's focus areas over the coming year are as follows:

- Risk management and loss mitigation in light of the weakened economic environment that was precipitated by the COVID-19 pandemic. The Company continues to closely monitor the remaining COVID-19 payment deferral accounts that are making partial payments, as this represents 5.7% of the portfolio at June 30, 2020. All efforts will be made to place our customers back on their regular payment plan.

- As all provinces have now re-opened their respective economies since the shutdown in March and April 2020, automotive loan applications have rebounded back to pre-COVID-19 levels. Axis will continue to focus on ensuring auto dealers are aware of the Company's current credit parameters, which in turn, will assist our dealer partners in maximizing used vehicle sales.

- Incremental penetration of sub-prime auto finance products and volumes in the B.C. and Quebec markets through expanding dealer relationships and broadening the dealer base.

RESULTS OF OPERATIONS

The following table summarizes financial results for each of the reported periods:

	For the year ended June 30, 2020 $	For the year ended June 30, 2019 $
Financial revenue	**37,202,018**	**31,922,374**
Interest	32,952,764	27,523,033
Fee and servicing income	4,249,254	4,399,341
Financial expenses:		
Interest	10,267,034	11,041,319
Fee and servicing expenses	160,588	730,391
Provision for credit losses	11,290,201	6,576,653
Sub-total, Financial expenses	**21,717,823**	**18,348,363**
Net financial income (loss) before operating expenses	**15,484,195**	**13,574,011**
Operating expenses	16,276,934	18,440,286
Net income (loss) before taxes	**(792,739)**	**(4,866,275)**

Financial Revenue

Axis originates loans, through a network of independent and franchised used vehicle dealers, to consumers that are typically unable to obtain financing from traditional sources. The Company generates interest and fee income on these finance receivables.

For the year ended June 30, 2020, the financial revenues increased by $5.3 million (or 16.5%) to $37.2 million, as compared to the year ended June 30, 2019.

Revenues are anticipated to grow in conjunction with the growth in the finance receivables portfolio with the portfolio generating interest revenue and collection activity generating additional fee income.

Interest revenue is included in the statement of income (loss) and comprehensive income (loss) for all financial assets measured at amortized cost using the effective interest method. The effective interest rate is the rate that discounts estimated future cash flows through the expected life of the financial instrument back to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument, including fee income charged to the customer on the origination of all financial assets, all purchase premiums or discounts, any transaction costs that are directly attributable to the financial instrument, but not future credit losses. The application of the method has the effect of recognizing revenue on the financial instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

For the year ended June 30, 2020, interest revenue increased by $5.4 million (or 19.7%) as compared to the year ended June 30, 2019. The increase was related to the growth in the average finance receivable balances, lower revenue drag experienced from one of the acquisitions completed in 2018, and continued strong margin on new originations.

Fee and servicing income is earned from fees charged to the customer subsequent to the origination of the finance receivables. These fees relate to the administration and subsequent servicing of the financial asset.

During the year ended June 30, 2020, fee and servicing income decreased by $0.2 million (or 3.4%) as compared to the year ended June 30, 2019. Fee revenues are expected to fluctuate based upon customer collection rates and delinquencies.

Financial Expenses

The following table summarizes the Company's financial expenses:

	For the year ended June 30, 2020 $	**For the year ended June 30, 2019 $**
Interest expense	10,267,034	11,041,319
Fee and servicing expense	160,588	730,391
Provision for credit losses	11,290,201	6,576,653
Total financial expense	**21,717,823**	**18,348,363**

Provision for credit losses

For the year ended June 30, 2020, the provision for credit losses (PCL) was $11.3 million as compared to $6.6 million for the year ended June 30, 2019. The increase of $4.7 million in the provision is attributable to the increase in actual credit losses in fiscal 2020. For the year ending June 30, 2020, the annualized credit loss rate was 11.77%, up from 9.41% for the year ending June 30, 2019. The contributing factors to the rise in actual losses is described in greater detail below in the section titled 'Delinquency and losses'.

The Company uses annualized loss rates, which factor in the actual credit loss experience, as the most indicative measure of portfolio loss performance. This measure is calculated as the actual write-offs, net of recoveries, during the period (as recognized through the allowance for credit losses), divided by the average finance receivables (gross) over the same period.

Management anticipates the annualized loss rate to be within the range from 5% to 10% on a normalized basis, depending on portfolio mix and underlying macroeconomic factors. Management utilizes the annualized loss rate as an alternative measure to the provision for credit losses in examining loan losses as it excludes the effect of provisions for (reductions in) the allowance for credit losses during the period, which may not coincide with the timing of when write-offs and recoveries are actually incurred. The Company continues to closely monitor contractual delinquencies and make modifications to credit policies as appropriate.

Finance receivables are normally written-off when there is no realistic prospect of recovery of the amounts outstanding. If through the examination of contractual delinquency and an individual borrower's financial condition, it is determined that there is no realistic prospect of recovery of a debtor's obligation, the finance receivable is written off.

Please refer to the sections entitled "Allowance for credit losses" and "Delinquency and losses" contained within this MD&A for additional information on the change in the allowance for credit losses during the reporting period and contractual delinquency as at each reporting date.

Interest expense

The following table summarizes the interest expense:

	For the year ended June 30, 2020 $	For the year ended June 30, 2019 $
Securitization interest	4,445,357	5,681,929
Coupon interest	4,559,681	4,016,278
Accretion expense	1,258,123	1,338,799
Other	3,873	4,313
Total Interest expense	**10,267,034**	**11,041,319**

Interest expense for the year ended June 30, 2020 was $10.3 million, a decrease of $0.8 million (or 7.0%) from $11.0 million for the year ended June 30, 2019. The decrease is a combination of the following components:

- Securitization interest decreased by $1.2 million (22%), primarily the result of the decline in the debt related to the securitized portfolios that were part of the fiscal 2018 acquisitions (which reduced 45% from $60.3 million to $33.1 million), which was partially offset by a one-time interest charge related to certain make whole provisions on a funding facility of one of the 2018 acquisitions.

- Coupon interest, consisting of interest on senior debt and debentures, increased by $0.5 million (14%) to $4.6 million. The increase is the result of the growth in the Axis senior debt facility which grew from $38.0 million as at June 30, 2019 to $63.3 million as at June 30, 2020 (67% increase). While there was a substantial increase in the quantum of the Axis senior debt, this was largely offset by the far lower cost of funds (prime + 2.25%) under the new facility which became effective on March 31, 2019, as compared to the former facility (prime + 7.5%) which was in place for three of the four fiscal quarters of 2019.

- Accretion expense of $1.3 million, which decreased slightly from fiscal 2019, primarily the result of less accretion specific to the existing senior debt facility as compared to the accretion related to the former senior debt facility that existed through March 31, 2019.

The following interest amounts were paid in cash:

	For the year ended June 30, 2020 $	For the year ended June 30, 2019 $
Securitization interest	4,445,357	5,681,929
Coupon interest	4,559,681	4,016,278
Other	3,873	4,313
Total Interest expense	**9,008,911**	**9,702,520**

Operating expenses

The following table summarizes operating expenses:

	For the year ended June 30, 2020 $	For the year ended June 30, 2019 $
General and administrative	13,272,655	14,669,047
Depreciation	847,075	557,117
Amortization	649,424	12,890
Stock based compensation	910,806	1,939,079
M&A transaction and integration	159,514	361,907
Professional fees	437,460	900,246
Total operating expenses	**16,276,934**	**18,440,286**

Significant components of the Company's general and administrative expenses include salaries and benefits, administration costs that are not directly attributable to the acquisition of a finance receivable, and office and general expenses.

For the year ended June 30, 2020, total operating expenses decreased from $18.4 million to $16.3 million, a decrease of $2.2 million (11.7%) from the year ended June 30, 2019. The decline in operating expenses was the result of lower general and administrative costs, stock-based compensation, and professional fees.

Depreciation expense for the year ended June 30, 2020 increased $0.3 million to $0.8 million, the increase attributable to the expense attributable to new GPS units and the leasehold improvements incurred on the remarketing center.

Amortization expense increased to $0.6 million for the year ended June 30, 2020, the result of the adoption of IFRS 16 on July 1, 2019, of which $0.5 million relates to the operating lease amortization charge taken under this new pronouncement.

During the year ended June 30, 2020, the Company incurred $0.9 million in stock-based compensation, down notably from $1.9 million in fiscal 2019, the result of lower issuances of stock options and restricted share units in 2020.

Professional fees decreased to $0.5 million, from $0.9 million, primarily the result of decreased legal related expenditures.

FINANCIAL POSITION

The following table summarizes the Company's financial position:

As at	June 30, 2020 $	Jun 30, 2019 $
Finance receivables – net	106,566,524	105,387,497
Goodwill	17,810,702	17,810,702
Cash held in escrow	6,516,356	10,615,544
Cash	6,374,370	3,882,011
Non-portfolio assets	16,718,816	14,262,673
Total assets	**153,986,768**	**151,958,427**
Credit facilities and loans	96,577,496	98,316,077
Convertible debentures	16,828,251	13,976,440
Acquisition consideration payable	750,000	750,000
Other liabilities	6,647,934	5,034,422
Total liabilities	**120,803,681**	**118,076,939**
Equity	**33,183,087**	**33,881,488**

Assets

Total assets increased by $2.0 million, to $154.0 million as at June 30, 2020 from $152.0 million as at June 30, 2019. The change in total assets during the year was the result of the increase in finance receivables ($1.2 million), cash ($2.5 million), inventory ($1.5 million), the adoption of IFRS-16 and the resultant Right-of-use assets ($1.1 million), which was offset by a decline in cash held in escrow ($4.1 million).

As at June 30, 2020, non-portfolio assets represented 10.9% (June 30, 2019 – 9.4%) of total assets. The $ increase in non-portfolio assets (from June 30, 2019) relates primarily to the increase in inventory and the adoption of IFRS 16 and the Right-of-use asset.

Finance Receivables - net

As at	June 30, 2020 $	June 30, 2019 $
Finance receivables before accrued interest	114,556,153	113,350,263
Accrued interest	1,368,069	1,333,865
Finance receivables before allowance	**115,924,222**	**114,684,128**
Allowance for credit losses	(9,357,698)	(9,296,631)
Finance receivables – net	**106,566,524**	**105,387,497**

In total, finance receivables before allowance grew in the year ended June 30, 2020 to $115.9 million, from $114.7 million as at June 30, 2019, a 1.1% increase. Through the end of the third fiscal quarter, prior to the effect of COVID-19, Axis had grown the portfolio to a peak of $126.7 million; however, due to a 75% reduction in fourth quarter originations (vs third quarter), Axis' portfolio reduced to $115.9 million.

All finance receivables are secured, under the applicable provincial personal property registry, by motor vehicle collateral. The Company's strategy is to be an alternative lender to major financial institutions in the higher risk used vehicle finance market.

Allowance for credit losses

In the year ended June 30, 2020, the Company's ending allowance for credit losses was $9.4 million, an increase from $9.3 million as at June 30, 2019, driven off the growth in gross finance receivables and an increase in provisioning levels required as a result of the rise in forecasted future unemployment rate.

However, despite the rise in forecasted future unemployment rates in Canada, this was partially offset by lower reportable delinquency on the portfolio as at June 30, 2020 and lower portfolio weighting in Alberta, both of which had a neutralizing effect on the rise in forecasted future unemployment rates. As a result, when expressed as a percentage of gross finance receivables, the allowance for credit losses was 8.07% as at June 30, 2020, consistent with prior year.

To manage credit risk related to customer defaults, the Company performs detailed assessments on the value of the underlying security, the customer's financial condition and ability to meet ongoing obligations both at inception and throughout the term of the contract, in addition to maintaining prudent underwriting methods. As the Company works to achieve growth in the finance receivables portfolio, increases in the allowance for credit losses will likely be necessary to absorb credit losses arising on new volume, for any increases in the Company's annualized loss rates, and for changes in portfolio mix.

Management continues to remain cautious on expectations of credit losses and will adjust the Company's allowance for credit losses based on the requirements under IFRS 9. The Company continually evaluates the estimates and assumptions it uses in measuring the allowance for credit losses. Although the Company believes the underlying estimates and assumptions used are appropriate, these estimates and assumptions can be subjective, complex, and involve management judgement. Furthermore, changes in these estimates, assumptions and forward-looking information under IFRS 9 could materially impact the financial statements by requiring additional provisions for, or reductions in, the allowance for credit losses.

Please refer to the sections entitled "Provision for credit losses" and "Delinquency and losses" contained within this MD&A and Note 6 – "Finance receivables" in the Company's audited financial statements for additional information.

Delinquency and losses

Credit losses, delinquency and provisions for the respective periods, were as follows:

For periods (in $)	For the year ended June 30, 2020	For the year ended June 30, 2019
Allowance for credit losses, beginning of period	9,296,631	2,475,035
Transition Adjustment, IFRS 9 adoption	**-**	**6,134,405**
Provisions for credit losses	11,290,201	6,576,653
Write-offs, net of recoveries	(11,229,134)	(5,889,462)
Allowance for credit losses, end of period	**9,357,698**	**9,296,631**

Write-off's, net of recoveries increased from $5.9 million for the year ending June 30, 2019, to $11.2 million for the year ending June 30, 2020, the result of the following:

a) portfolio growth in gross finance receivables, excluding the acquired portfolios from the fiscal 2018 acquisitions (which were accounted for under purchase accounting) increasing by 52% year over year on average gross finance receivables;

b) poor portfolio performance in the Alberta market which led a higher frequency of default, as influenced by the general economic conditions in the province; and

c) the COVID-19 pandemic, as those customers unable to qualify for a payment deferral plan were in later stage delinquency, leading to the fast forwarding of charge offs, and elevated Q4 2020 credit losses.

The contractual delinquency at the end of each period is as follows:

Age	30-Jun-2020		30-Jun-2019	
Current	111,173,461	95.90%	109,292,431	95.30%
Reportable delinquency:				
31-60 Days	2,558,993	2.21%	2,973,996	2.59%
Over 60 days	2,191,768	1.89%	2,417,701	2.11%
	115,924,222	**100.00%**	**114,684,128**	**100.00%**

As at June 30, 2020, the current to 30 days past due accounts totaled 95.90% of the Company's finance receivables (at June 30, 2019 – 95.30%). The reportable delinquencies (accounts 31+ days overdue) were 4.10% as at June 30, 2020. Comparison of delinquency levels are most meaningful when evaluated against the same point of time, when the same seasonal factors are at play. In comparison to the June 30, 2019 reportable delinquency of 4.70%, Axis's reportable delinquency as at June 30, 2020 has decreased to 4.10%, largely the result of certain credit underwriting changes introduced in Q1 2020 that have started to take effect, along with the ongoing portfolio re-weighting intended to limit Alberta based loan exposures.

Goodwill

The $17.8 million in goodwill on the balance sheet is unchanged in fiscal 2020 and the result of the 2018 acquisitions of Cars on Credit Financial Inc. ("**COCF**") ($3.7 million) and Trend Financial Corp. ("**Trend**") ($14.1 million). The goodwill was subject to an annual impairment review where based on the fair value of the underlying Automotive Cash Generating Unit ("**CGU**"), it was determined that the carrying value of goodwill was not impaired.

Cash Held in Escrow

As part of the 2018 acquisitions, Axis acquired cash reserves and restricted cash balances that are part of the program and funding agreements held with the respective funding partners. Furthermore, there were certain cash balances held in escrow pertaining to the consideration that is releasable to the vendors once certain conditions are met.

In fiscal 2020, these cash reserves and restricted cash balances reduced in size commensurate with the reduction in the underlying securitized debt, which reduced from $60.3 million in fiscal 2019 to $33.1 million in fiscal 2020. A summary of these balances as at June 30, 2020 and June 30, 2019 is shown below:

Cash Held in Escrow	30-Jun-2020	30-Jun-2019
Cash held in escrow	750,000	750,000
Cash reserves held with funder	4,640,858	7,715,363
Cash restricted (owed to funder)	1,125,498	2,150,181
Cash Held in Escrow	**6,516,356**	**10,615,544**

Liabilities

Total liabilities as at June 30, 2020 were $120.8 million, as compared to $118.1 million as at June 30, 2019. The increase in liabilities during the year related primarily to the increase in convertible debentures triggered by the new issuance to Westlake, and the adoption of IFRS-16, which led to the set-up of a lease liability captured as part of accounts payable and other liabilities.

Of the $120.8 million in total liabilities, Axis' primary funding sources, including both senior and subordinated debentures, comprised $113.4 million as at June 30, 2020, consisting of:

- Axis' senior secured credit facility which is used to fund the finance receivables portfolio growth. As at June 30, 2020, there was a total principal balance of $59.9 million as compared to a prior year balance of $38.0 million. The interest rate on this credit facility is prime rate plus 2.25% and an agency fee of 0.25% per annum. Please refer to Note 12 – "Credit facilities and loans" in the Company's financial statements for additional information.

- Axis' new EDC backed BCAP term loan, secured in May 2020, from which the Company had drawn $3.5 million of the available $6.25 million, as at June 30, 2020. Please refer to Note 12 – "Credit facilities and loans" in the Company's financial statements for additional information.

- COCF's and Trend's securitized bulk loan facilities had total outstanding balance of $33.1 million as at June 30, 2020, down from $60.3 million at June 30, 2019. These bulk loan facilities have cumulative authorized purchase limits of $40 million with varying annual renewal dates, and subject to certain eligibility criteria, these facilities bear interest between 6.48% and 10.25%.

- Axis issued convertible subordinated debentures in the fourth quarter of fiscal 2018 ($17.55 million) and most recently in the first quarter of fiscal 2020 ($2.64 million). Cumulatively, Axis has issued debentures with a face value of $20.19 million, carrying a coupon of 7.5%, payable semi-annually.

  As this debt instrument also has a conversion feature, the tax effected equity component of $3.2 million was carved out and recorded in equity, while the remaining debt component was reported as a liability. As at June 30, 2020, the balance of the debenture, reported as debt was $16.8 million.

Shareholders' Equity

Common shares, Warrants and Contributed Surplus

Common shares increased to $36.6 million at June 30, 2020, a $0.3 million increase from June 30, 2019, as a result of RSU's that vested and were converted into common shares.

Contributed surplus increased by $0.4 million over the year ending June 30, 2020, the result of stock- based compensation charges during the period.

Outstanding share data

The Company had 96,482,471 common shares issued and outstanding at June 30, 2020 and 97,514,884 common shares as of June 30, 2019. Please refer to Note 14 – "Shareholders' Equity" in the Company's audited financial statements for additional information.

LIQUIDITY AND CAPITAL RESOURCES

The Company's objectives when managing capital are to ensure sufficient liquidity to support its financial objectives and strategic plans, to ensure its financial covenants are met, and to maximize and protect shareholder value. The capital structure of the Company consists of debt and equity attributable to common shareholders, and other credit facilities and loans.

The Company has been dependent on external financing to fund its activities. In order to carry out its business plan, the Company will raise additional amounts as needed. To fund the acquisition of receivables and grow the portfolio, the Company utilizes its credit facilities and when additional capital is required, it is raised through share issuances. The Company carries a level of cash on hand, generally in an amount determined for short-term changes in working capital balances and to fund near term finance receivables acquisitions.

The Company is subject to externally imposed capital requirements pursuant to the covenants of the senior secured credit facility secured by the Company on March 26, 2019 that supports the Axis leasing and loan portfolio. Furthermore, through its acquisitions of COCF and Trend, the Company is also subject to covenants imposed through the securitized bulk loan facilities used to fund the acquired finance receivables.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The table below represents the financial leverage ratio and equity capitalization for the periods ended June 30, 2020 and June 30, 2019:

	June 30, 2020	**June 30, 2019**
	$	**$**
Senior credit facilities and other non-convertible loans	96,577,496	98,316,077
Total credit facilities and other loans	96,577,496	98,316,077
Common shares	36,585,918	36,327,843
Convertible debentures	16,828,251	13,976,440
Equity capitalization	53,414,169	50,304,283
Financial leverage ratio	1.81:1	1.95:1

Cash flows and Liquidity

Cash flows used in operating activities for the year ended June 30, 2020 were $0.8 million, compared to cash flow used from operations of $4.9 million for the year ended June 30, 2019, a decrease in cash flow needed as a result of lower levels of finance receivables repayments.

Cash flows used in financing activities for the year ended June 30, 2020 were ($0.5) million, the result of the debenture issuance during the first quarter and ongoing draws against the credit facilities. This compares to cash flow used by financing activities in the year ending June 30, 2019 of $3.0 million, which was used to repay debt on the securitization facilities.

Cash flows used in investing activities for the year ended June 30, 2020 were $1.4 million as compared to $1.1 million for the same period in 2019, the result of expenditures on fixed asset and intangibles.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's discussion and analysis of financial condition and results of operations are made with reference to the Company's audited financial statements for the year ended June 30, 2020. A summary of the Company's significant accounting policies are presented in the notes to those financial statements. Some of the Company's accounting policies, as required by International Financial Reporting Standards, require management to make subjective, complex judgments and estimates to matters that are inherently uncertain. The Company believes the policies below are the most critical accounting estimates that affect its operating results, and that would have the most material effect on the financial statements should these policies change or be applied in a different manner.

IFRS 16 Leases

Effective July 1, 2019, the Company adopted IFRS 16, Leases ("IFRS 16"), which specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

Under IFRS 16, unlike under its predecessor standard, IAS 17, Leases ("IAS 17"), lessees will no longer distinguish between finance lease contracts and operating lease contracts and are, instead, required to recognize a right-of-use asset and a corresponding lease liability in most, if not all, lease contracts. The effect of this approach is an increase in the amount of recognized financial liabilities and assets for entities that have entered into lease contracts previously classified as operating leases under IAS 17. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained. The lease liability is initially recognized at the commencement day and measured at an amount equal to the present value of the lease payments during the lease term that are not yet paid, discounted using the incremental borrowing rate on leases at the date of initial application.

The right of use asset is initially recognized at the commencement day and measured at cost, consisting of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee.

The lease liability is measured in subsequent periods using the effective interest rate method. The right-of-use asset is depreciated in accordance with the requirements of IAS 16, "Property, Plant and Equipment", using a straight-line basis. The Company also applies the requirements of IAS 36, "Impairment of assets" to the right-of-use asset.

The Company has lease contracts for its office premises and equipment. Before the adoption of IFRS 16, the Company classified each of these leases (as lessee) at the inception date as an operating lease under IAS 17. As such, the leased property was not capitalized, and the lease payments were recognized as rent expense in the consolidated statements of income (loss) and comprehensive income (loss) over the lease term.

In implementing IFRS 16, the Company elected the "modified retrospective approach", which does not restate comparative information and, instead, recognizes the initial value of the right-of-use asset at the commencement day in the amount equal to the lease liability. Certain lease contracts on office premises had remaining terms of less than 12 months upon adoption of IFRS 16 and, therefore, were excluded from scope. During the year ended June 30, 2020, the Company recognized $398,685 in operating expenses in relation to those excluded contracts.

The incremental borrowing rate used to calculate discounted present value of lease liabilities at initial recognition was 6.45%.

The following table summarizes the transition adjustment required to adopt IFRS 16 as at July 1, 2019:

	01-Jul-19
Right-of-use asset	1,661,838
Prepaid expenses	(50,465)
Lease liabilities	(1,753,372)
Other liabilities	141,999
	-

The effect of adopting IFRS 16 on the consolidated statements of income (loss) and comprehensive income (loss) is a decrease in general and administrative expenses, an increase in amortization expense and an increase in interest expense included in financial expenses with an insignificant impact on net income. The adoption of IFRS 16 increases the assets and liabilities of the Company, by extension increasing the leverage of the Company. The adoption of IFRS 16 has no impact on the cash flows of the Company.

Interest revenue

Interest revenue is included into the statement of income (loss) and comprehensive income (loss) for all financial assets measured at amortized cost using the effective interest method. The effective interest rate is the rate that discounts estimated future cash flows through the expected life of the financial instrument back to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument, including fee income charged to the customer on the origination of all financial assets, all purchase premiums or discounts, and any transaction costs that are directly attributable to the financial instrument, but not future credit losses. The application of the method has the effect of recognizing revenue on the financial instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

Fee and servicing income

Fee income that is integral to the effective yield of a financial asset is recognized as an adjustment to the effective interest rate calculation and is included in interest revenue.

Fees charged to the customer for providing subsequent servicing of a financial asset are recognized as services are provided.

Servicing income is recognized as services are provided to the customer and when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue can be measured reliably.

IFRS 9 Financial Instruments - Allowance for credit losses

Effective July 1, 2018, the Company adopted IFRS 9 Financial Instruments. IFRS 9 introduced a new expected loss impairment model which replaces the existing incurred loss model under IAS 39, Financial Instruments: Recognition and Measurement. The adoption of IFRS 9 does not require the restatement of comparative period financial statements except in limited circumstances related to aspects of hedge accounting. The Company made the decision not to restate comparative period financial information and has recognized any measurement differences between the previous carrying amounts and the new carrying amounts on July 1, 2018, through an adjustment to opening retained earnings.

Under IFRS 9, the Company is required to apply an expected credit loss (ECL) model, where a provision for credit losses is recorded for losses that are expected to transpire in future years even if no loss event has occurred as at the balance sheet date. The Company is required to assess and segment its finance receivable portfolio into performing (Stage 1), underperforming (Stage 2) and non-performing (Stage 3) categories as at each date of the statement of financial position.

The key inputs in the modeling of ECL allowance are as follows:

- The estimated probability of default (PD) over the given time horizon;
- The estimated loss given default (LGD) in the case where a default occurs;
- The estimate exposure at default (EAD) at a future default date; and
- Forward looking indicator (FLI) used to assess how future losses may differ from those previously experienced. The FLI used is the forward-looking Unemployment rates in each of the provinces in which the Company operates.

The ECL is calculated based on the probability weighted expected cash collected shortfall against the carrying value of the finance receivable and considers reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions that may impact the credit profile of the finance receivables. Forward-looking information is considered when determining significant increase in credit risk and measuring expected credit losses. Within the Company's portfolio, the most highly correlated variable is provincial unemployment rates.

Renegotiations

In isolated cases, the Company renegotiates terms with customers to avoid a finance receivable becoming past due or impaired. The present value of an individual finance receivable is then re-measured utilizing amended terms and the difference is written-off against the allowance account.

Finance leases

Following the guidelines of IAS 17, *Leases*, all leases are classified as finance leases based on the substance of transaction at inception of the lease. Under a finance lease substantially all the risks and rewards incidental to legal ownership are transferred by the lessor at the lease origination. All leases without exception are structured as lease-to-own.

Furthermore, to the leases classification at inception, all finance leases are classified as *direct financing leases*.

Recognition at inception

Lease receivable is recognised at inception as asset in the amount equal to the net investment in the lease. Components of lease receivable at inception include the following:

a) *Gross lease receivable and unearned finance income*
When assets are leased out under a finance lease, the present value of the minimum lease payments is recognised as a Lease receivable. The difference between the gross lease receivable and the present value of the lease receivable is recognised as unearned finance income.

b) *Unamortized fees and transaction costs*
For direct financing leases, all initial direct costs that are incurred by lessors, including commissions and other costs that are incremental and directly attributable to negotiating and arranging a lease, are netted against the corresponding amounts of initial incremental direct fees. The resultant net fees amounts are included in the initial measurement of the lease receivable and, thus, reduce the amount of net investment in a lease at initial recognition. The initial direct net fees are amortized over the lease term by utilizing the effective interest rate implicit in each lease.

c) *Security deposits*
Security deposits are amounts received by the Company at lease inception and they represent the very last payment towards each lease. At initial recognition, security deposits are netted off the gross lease receivables.

d) *Subsequent measurement*

Lease payments are allocated between finance income and repayment of principal in each accounting period in such a way that finance income will emerge as a constant rate of return on the lessor's net investment in the lease.

Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

RELATED PARTY TRANSACTIONS

The Company's related party transactions are set out in Note 16 to the audited financial statements for the year ended June 30, 2020 and 2019. The transactions with related parties occurred in the normal course of operations.

Related party transactions include transactions with parties that have control or joint control over the reporting entity, have significant influence over the entity, are members of key management personnel of the Company including the Directors and Officers of the Company, or are close family members of those individuals.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to an entity, derivative instrument obligations or any other obligations which will have or are reasonably likely to have a current or future effect on the financial condition, changes in financial conditions, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors, other than operating leases.

RISK MANAGEMENT

The operations of the Company are affected by trends and factors that the Company may not be able to control and have the potential of affecting its financial condition, results of operations, and cash flow. These trends and factors may include changes in the vehicle financing market sector, and the state of the domestic and global economy, which most recently, is experiencing significant headwinds as a result of the outbreak of COVID-19 internationally and domestically within Canada.

In light of the current COVID-19 pandemic that is being experienced across Canada, this virus may have a material adverse impact on the Canadian economy in which Axis does business. This may lead to increased volatility and disruption to the business, which could in turn affect interest rates, credit risk, inflation, financial conditions, results of operations, and other risk factors impacting the Company.

It is difficult for management to accurately predict the impact of changes in the operating environment, nor to predict their effect on the Company's financial condition and results of operations, which has been accentuated as a result of the COVID-19 outbreak.

The Company is exposed to a number of financial risks in the normal course of its business operations, including market risks resulting from fluctuations in interest rates, as well as credit and liquidity risks. The following summarizes the types of market price risks that the Company is exposed, and the policies and procedures for measuring and managing risk.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. For the Company, credit risk arises principally through the Company's finance receivables that are a result of transactions within the consumer finance industry and, as such, contain an element of credit risk in the event that the counterparties are unable to meet the terms of their agreements. Credit risk primarily arises from events and circumstances that are outside the Company's control relating to customer under-performance from factors such as loss of employment, divorce, illness, business failure, adverse economic conditions or fraud. The Company originates transactions in a relatively high-risk segment of the consumer finance industry and, therefore, write-offs are anticipated.

To manage credit risk, the Company performs detailed assessments of the customer's financial condition and ability to service the debt both at lease inception and throughout the term of the lease, in addition to maintaining prudent underwriting methods.

Credit risk associated with the Company's cash holdings is managed by holding its funds with reputable financial institutions.

All of the Company's finance receivables cater to a high-risk segment of the consumer finance market, focusing on individuals unable to obtain financing from traditional lending sources due to limited, poor, or no credit history. The Company's finance receivable portfolio is composed of a large number of homogeneous consumer loans, and as such, no individual customer constitutes a significant portion of the finance lease receivables portfolio. The Company manages its credit risk by adhering to stringent underwriting guidelines and by limiting the value of each customer's lease principal amount.

Exposure for credit risk

The Company's maximum exposure to credit risk is represented by the carrying amount for finance receivables and cash. The Company secures each individual finance receivable with the registration of a security interest/lien against tangible assets. The Company is exposed to the risk that the security upon which its advances are made may reduce in value, so that the Company may not recover some or all of its advances in the event of a customer default. When a vehicle is liquidated, the Company typically has a credit loss. The wholesale or retail value of the collateral held may vary as vehicles are depreciating assets, and there is no guarantee of the liquidation price that will be received for the asset on sale. This may result in a greater shortfall between the value of the lease receivables remaining and the value of the collateral held as security than anticipated.

An analysis of the aging of financial assets is outlined in Note 6 – "Finance Receivables" to the Company's audited financial statements.

Liquidity risk

Liquidity risk is the risk that the Company may not generate sufficient cash or cash equivalents in a timely and cost-effective manner to satisfy financial liabilities as they come due. The Company manages liquidity risk through management of its capital structure and financial leverage as outlined in Note 19, Capital Management, in the Company's audited financial statements. The Company also manages liquidity risk by continuously monitoring actual and projected cash flows to ensure that there is sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, to continue as a going concern.

During the year ended June 30, 2020 and 2019, the Company primarily relied on funds raised through private placements of convertible financial instruments (debentures and preferred shares), private loans, and common shares.

On June 17, 2015, the Company secured its first senior secured credit facility with initial draw of $3,600,000. On March 27, 2017, the Company replaced its first senior secured facility with a 2 year $40 million credit facility. On March 26, 2019, the Company replaced its $40 million facility with a new $100 million senior secured revolving credit facility, of which $80 million is currently committed. Furthermore, during the year ended June 30, 2020, Axis issued a convertible debenture with a face value of $2.64 million.

Furthermore, the Company also has access to securitized bulk loan facilities which have cumulative authorized purchase limits of $40 million.

The Company has been successful in renewing and expanding these credit facilities in the past, however, if the Company was unable to renew these facilities, or unable to renew these facilities on acceptable terms, there could be a material adverse effect on the Company's financial position, results of operations and liquidity.

Management believes that internally generated cash flows from operating activities, supplemented by additional senior debt borrowings and the issuance of subordinated debt and/or share capital, if necessary, will be sufficient to cover the Company's normal operating and capital expenditures.

Foreign currency risk

As at June 30, 2020, the Company is not subject to foreign exchange risk and, therefore, is not subject to gains and losses due to fluctuations in the US dollar relative to the Canadian dollar.

Interest rate risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates. In order to mitigate interest rate risk, the Company structures its secured borrowing arrangements to maintain a significant interest rate spread between the interest paid on the term facility and the interest received on the underlying lease receivables.

Profitability

There is no assurance that the Company will earn profits in the future, or that profitability will be sustained. There is no assurance that future revenues will be sufficient to generate the funds required to continue the Company's business development and marketing activities. If the Company does not have sufficient capital to fund its operations, it may be required to reduce its sales and marketing efforts or forego certain business opportunities.

Dependence on Management and Key Personnel

The Company will depend on the business and technical expertise of its management team and there is little possibility that this dependence will decrease in the near term. The Company's success will depend in large measure on certain key personnel. The loss of the services of such key personnel may have a material adverse effect on the Company's business, financial condition, results of operations and prospects. The contributions of the existing management team or any new additions to the management team to the immediate and near term operations of the Company are likely to be of central importance. In addition, the competition for qualified personnel in the Company's industry is significant and there can be no assurance that the Company will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of the Company.

Advertising, Marketing and Promotion

Axis' results depend on the impact of its pricing, promotional and marketing plans and its ability to adjust these plans to respond quickly to economic and competitive conditions while remaining compliant with relevant legislation and regulations. Its existing or future pricing strategies and the value proposition they represent will continue to be important components of its overall plan but may not be successful and could negatively impact sales and margins. The promotion of its offerings may yield results below desired levels. If Axis' pricing, promotional and marketing plans are not successful, or are not as successful as those of its competitors, its sales, market share, and financial results could be adversely affected. Some of Axis' competitors are much larger than Axis, and expend more for their programs than Axis does, or use different approaches than Axis does, which may provide them with a competitive advantage. Axis' marketing, advertising and promotional programs may not be effective or could require increased expenditures, which could have a material adverse effect on its revenue, profitability, and results of operations. Axis may need to adjust its marketing, advertising and promotional programs effectively and more quickly as Internet-based and other digital or mobile communication channels and other social media rapidly evolve, and it may not successfully do so. In addition, Axis must comply with regulatory restrictions on advertising and marketing. Non-Compliance could result in penalties to the Company and/or increased costs.

Finance Receivables Consist Mainly of Leases and Loan Agreements with "Non-Prime" Borrowers

Axis' receivables consist primarily of "non-prime" automobile lease and loan receivables originated under lending programs Axis has designed to serve consumers who have limited access to traditional financing. There is a high degree of risk associated with non-prime borrowers. Non-prime borrowers are characterized by higher-than-average delinquency and default rates. The typical non-prime borrower may have had previous financial difficulties or may not yet have sufficient credit history. Because Axis serves consumers who are unable to meet the credit standards imposed by most traditional financing sources, it charges interest at higher rates than those charged by many traditional financing sources. Non-prime loan receivables therefore entail relatively higher risk and are expected to experience higher levels of delinquencies and credit losses than receivables originated by traditional prime financing sources.

Axis cannot guarantee delinquency and loss levels of the receivables will correspond to the historical levels Axis has experienced in its portfolio. Axis reviews static pool origination, historical industry ratios of write-offs, current write-offs and recovery experience, estimates of the underlying collateral value and the economic conditions and trends to make the necessary judgments as to the appropriateness of the allowance for loan losses. There is a risk that delinquencies and losses could increase significantly for various reasons including, without limitation, fluctuations of the underlying collateral value; changes in the local, regional or national economies; and changes in federal income tax laws.

Debt Levels

Axis currently has and will continue to have a significant amount of indebtedness. Its ability to make payments of principal and interest on the debt or to refinance its indebtedness will depend on Axis' future operating performance and its ability to enter into additional debt and equity financings, which to a certain extent is subject to economic, financial, competitive and other factors beyond its control.

If Axis is unable to generate sufficient cash flow in the future to service its debt, it may be required to refinance all or a portion of its existing debt or obtain additional financing. There can be no assurance that any such refinancing would be possible or that any additional financing could be obtained on terms acceptable to Axis. The inability to obtain additional financing could have a material adverse effect on Axis. Any additional equity financing would result in the dilution of shareholders.

Axis' substantial indebtedness could have important consequences to shareholders including, but not limited to, Axis being unable to satisfy its obligations under its credit facilities and being vulnerable to adverse general economic and industry conditions. Axis may find it more difficult to fund future working capital, capital expenditures, general corporate purposes or other purposes; and it would have to dedicate a substantial portion of its cash resources to the payment on its indebtedness, thereby reducing the funds available for operations and for distribution to shareholders.

General Economic Conditions

The automobile finance business has historically been subject to cyclical variations in the general economy and to uncertainty regarding future economic prospects. Delinquencies, defaults, repossessions and losses increase during periods of economic recession. These periods also are accompanied by decreased consumer demand for automobiles and declining values of automobiles securing outstanding loans, which weakens collateral coverage and increases the amount of a loss in the event of default. Significant increases in the inventory of used automobiles during periods of economic recession will depress the prices at which repossessed automobiles may be sold or delay the time of these sales.

Axis's financial results are sensitive to fluctuations in general interest rates, gross domestic product growth, the level of consumer confidence, and the level of unemployment, among other factors. As Axis focuses on non-prime borrowers, the actual rates of delinquencies, defaults, repossessions and losses on these loans are higher than those experienced in the general automobile finance industry and are more dramatically affected by a general economic downturn. In addition, during an economic slowdown or recession, Axis' servicing costs are expected to increase without a corresponding increase in Axis' servicing fee income.

As a result of the outbreak of COIVD-19, Axis's results may be adversely impacted by a general slowdown in economic activity and the overall financial condition of the Canadian economy,

While Axis believes that the underwriting criteria and collection methods it employs enables it to manage the higher risks inherent in loans made to non-prime borrowers, there can be no assurance that these criteria or methods will afford adequate protection against these risks. Any sustained period of increased delinquencies, defaults, repossessions, losses or increased servicing costs would adversely affects its business, financial condition, liquidity and results of operations or future prospects.

Competition

Some of Axis' competitors have longer operating histories, greater name recognition, larger customer bases, greater financial resources and a lower cost of funds than Axis. These resources may allow them to respond more quickly than Axis can to new or emerging technologies and to changes in customer requirements. It may also allow them to devote greater resources than Axis can to the development, promotion and sale of their products. The market for Axis' products is highly competitive and it is very fragmented. Axis expects competition to continue to increase because the industry poses no substantial barriers to entry. To the extent one of Axis' competitors undertakes a consolidation program, Axis' competition would increase further.

Providers of automobile financing have traditionally competed on the basis of the interest rate charged, the quality of credit accepted, the flexibility of loan terms offered and the quality of service provided to dealers and customers. In seeking to establish itself as one of the principal financing sources of the dealers it serves, Axis competes predominately on the basis of its high level of service and strong dealer relationships. There can be no assurance that Axis will be able to compete successfully in this market or against current or future competitors or that such competition will not have a material adverse effect on Axis' business, financial condition, liquidity and results of operations or future prospects.

Failure of Computer and Data Processing Systems

Axis is dependent upon the successful and uninterrupted functioning of its and the dealers' computer and data processing systems. The failure of these systems could interrupt operations or materially impact Axis' ability to originate and service customer accounts. If sustained or repeated, a system failure could negatively affect Axis' business, financial condition, liquidity and results of operations or future prospects.
Axis maintains confidential information regarding customers in its computer systems and cloud based third party lease management software. This infrastructure may be subject to physical break-ins, computer viruses, programming errors, attacks by third parties or similar disruptive problems. A security breach of a relevant computer system could disrupt operations, damage Axis' reputation or result in liability.
Experienced personnel are committed to the security, maintenance and continual development of these systems. Axis has an extensive disaster recovery plan, which includes:

- routinely backing up key software applications;
- routinely backing up data; and
- subjecting databases and hardware to strict security controls.

Dependence on Management Information Systems

Axis depends on its management information systems in each stage of its operations. These management information systems also form the basis of its financial reporting. Irreparable damage to its information systems and databases, or loss of the information contained therein, could have a material adverse effect on Axis' business, financial condition, liquidity and results of operations or future prospects.

Consumer Protection Legislation and Related Considerations

Numerous consumer protection laws and related regulations impose substantial requirements upon lenders involved in consumer finance. Also, federal and provincial laws impose restrictions on consumer transactions and require contract disclosures relating to the cost of borrowing and other matters. These requirements impose specific statutory liabilities upon creditors who fail to comply with their provisions. Courts have applied general equitable principles to secured parties pursuing repossession or litigation involving deficiency balances. These equitable principles may have the effect of relieving an obligor from some or all of the legal consequences of default.

Axis currently operates in an unregulated environment with regards to capital requirements. Furthermore, the Criminal Code of Canada imposes a restriction on the cost of borrowing in any lending transaction to the bank rate plus 60% per year. The application of capital requirements or a reduction in the limitation of the cost of borrowing could impact Axis' ability to operate profitably.

As a result of Axis' operations, it may be involved from time to time in administrative and judicial proceedings and inquiries relating to consumer protection legislation. Future proceedings or inquiries could have a material adverse effect on Axis' business, financial condition, liquidity and results of operations or future prospects.

Changes to existing consumer protection legislation and to the enforcement thereof or the adoption of new legislation in the future might, individually or in the aggregate, have a material adverse effect on Axis' financial condition or operating results. As well, laws may impose new costs on Axis, which could be material.

More Stringent Government Regulations

Axis is subject to various federal, provincial and municipal laws and regulations. Such laws, regulations and related rules and policies are administered by various federal, provincial and municipal agencies and other governmental authorities. New laws governing Axis' business could be enacted and changes to any existing laws could have a significant impact on the business of Axis. Failure by Axis to comply with applicable laws and regulations may subject it to civil or regulatory proceedings which may have a material adverse effect on Axis' business, financial condition, liquidity and results of operations or future prospects.

Collateral Security

Registration of a financing statement in respect of a financed or leased vehicle associated with an automobile finance contract is contemplated in the Personal Property Security Acts or equivalent of each of the provinces and territories of Canada (the "**PPSAs**"). It has been the practice of Axis to ensure the registration of a security interest in each vehicle in such a manner as will result in the priority of the claim in the related financed or leased vehicle being Axis, over any claim by the general creditors or trustee in bankruptcy of the related debtor.

Any failure to perfect the security interest in Canada may result in a loss of priority position and restrict Axis' ability to realize on the collateral, which may impact Axis' financial position.

Insufficient Insurance Coverage

Axis maintains property, key man, contingent liability, general liability and business interruption insurance and directors' and officers' liability insurance on such terms as it deems appropriate. This may result in insurance coverage that, in the event of a substantial loss, would not be sufficient to pay the full current market value or current replacement cost of Axis' lost investment or could delay the resumption of normal operations. Not all risks faced by Axis are insured.

INTERNAL CONTROLS OVER DISCLOSURE AND FINANCIAL REPORTING

The Chief Executive Officer ("**CEO**") and the Chief Financial Officer ("**CFO**") are responsible for designing disclosure controls and procedures to ensure that material information is being recorded, processed, summarized, and reported to senior management, including the certifying officers and members of the Company's Audit Committee on a timely basis, so that appropriate decisions can be made regarding public disclosure. In addition, the CEO, and CFO are responsible to design, or cause to be designed under their supervision, internal controls over financial reporting ("**ICFR**"), to a standard that provides reasonable assurance of the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Disclosure controls and procedures

Disclosure controls and procedures, as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, means controls and other procedures of an issuer that are designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by an issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the issuer's management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure.

An evaluation of the effectiveness of the Company's disclosure controls and procedures was conducted as of June 30, 2020, by and under the supervision of the Company's management, including the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that the disclosure controls and procedures were effective.

Internal controls over financial reporting

The Company's management, including the CEO, and CFO, has evaluated the design of the Company's ICFR using the control framework and criteria established by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has concluded that the Company's ICFR as at June 30, 2020 were designed and operating effectively and provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Limitations on the effectiveness of disclosure controls and internal controls over financial reporting

It should be noted that while the Company's CEO and CFO believe that the Company's internal controls system and disclosure controls and procedures provides a reasonable level of assurance that the objectives of the control systems are met, they do not expect that the Company's control system will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurances that any design will succeed in achieving its stated goals under all potential conditions.

The Company will continue to periodically review our disclosure controls and procedures and internal control over financial reporting and may make modifications from time to time as considered necessary or desirable.

Cautionary Statement

This analysis has been prepared taking into consideration information available to September 30, 2020. Certain statements contained in this report constitute "forward-looking statements." When used in this report, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect", and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events and are subject to inherent risks, uncertainties and numerous assumptions, including, without limitation, general economic conditions, reliance on debt financing, dependence on non-prime borrowers, inability to sustain receivables, competition, interest rates, foreign exchange rates, regulation, insurance, failure of key systems, debt service, future capital needs and such other risks or factors described from time to time in reports of Axis that are filed with securities regulatory authorities.

By their nature, forward-looking statements involve numerous assumptions, known and unknown, risks and uncertainties, both general and specific, which contribute to the possibility that predictions, forecasts, projections and other forms of forward-looking information may not be achieved. Many factors could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements and readers are cautioned that the list of factors in the foregoing paragraph is not exhaustive. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated, believed, estimated or expected. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements or interpret or regard forward-looking statements as guarantees of future outcomes.