Axis Auto Finance Inc.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2022 AND 2021

Contents

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Axis Auto Finance Inc. (the "Company"), the notes thereto, and other financial information enclosed have been prepared by, and are the responsibility of, the Company's management. These consolidated financial statements have been prepared by management in Canadian dollars in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and include certain estimates that reflect management's best judgments.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board carries out this responsibility through its Audit Committee. The Audit Committee, which comprises three non-management Directors, meets with management as well as the external auditors, Ernst & Young LLP, to satisfy itself that management is properly discharging its financial reporting responsibilities, and to review the consolidated financial statements and the report of the auditors. The auditors have full and unrestricted access to the Audit Committee.

Todd Hudson	Richard Lloyd
Chief Executive Officer	Chief Financial Officer

Independent auditor's report

To the shareholders of
Axis Auto Finance Inc.

Opinion

We have audited the consolidated financial statements of **Axis Auto Finance Inc.** [the "Company"], which comprise the consolidated statements of financial position as at June 30, 2022 and 2021, the consolidated statements of income and comprehensive income, the consolidated statements of changes in shareholders' equity and the consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements of the Company present fairly, in all material respects, the consolidated financial position of the Company as at June 30, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ["IFRSs"].

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Allowance for credit losses

Key audit matter	As more fully described in notes 3 and 7 of the consolidated financial statements, Axis has used an expected credit loss [“ECL”] model to recognize $11 million in allowances for credit losses on its consolidated balance sheet. The ECL is an unbiased and probability-weighted estimate of credit losses expected to occur in the future, which is determined by evaluating a range of possible outcomes incorporating the time value of money and reasonable and supportable information about past events, current conditions and future economic forecasts. Auditing the allowance for credit losses was complex, involved significant auditor judgment, and required the involvement of credit risk specialists due to the inherent complexity of the models, assumptions, judgements, and the interrelationship of these variables in measuring the ECL. Significant assumptions and judgments with respect to the estimation of the allowance for loan losses include the calculation of both 12-month and lifetime expected credit losses, the determination of when a loan has experienced a significant increase in credit risk [“SICR”] since initial recognition and the determination of relevant forward looking multiple economic scenarios and the probability weighting of those scenarios. Management has applied increased judgment in the areas noted above when continuing to assess the impact of COVID-19 on the allowance for credit losses The allowance for credit losses is a significant estimate for which variations in model methodology, assumptions and judgements can have a material effect on the measurement of expected credit losses.
How our audit addressed the key audit matter	To test the allowance for credit losses, amongst other procedures, we assessed, with the assistance of our credit risk specialists, whether the methodology and assumptions used in models that estimate ECL are consistent with the requirements of IFRS. We independently recalculated the ECL using source data. With the assistance of our credit risk specialists, we evaluated the accuracy of the staging applied to the loans. We evaluated the reasonability of macroeconomic inputs used by comparing the information to third party sources and recalculated the effect of the inputs on the ECL model. We tested the completeness and accuracy of a sample of data used in the measurement of ECL by agreeing back to appropriate source systems or documents.

Other information

Management is responsible for the other information. The other information comprises Management’s Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management’s Discussion and Analysis prior to the date of this auditor’s report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Sean Musselman.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
September 14, 2022

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in Canadian Dollars)

AS AT:

	Notes	30-Jun-22	30-Jun-21
ASSETS			
Cash		1,476,555	3,448,299
Cash held in escrow		2,599,656	3,198,586
Accounts receivable and prepaid expenses	**5**	3,163,302	2,165,216
Finance receivables – net	**6,7**	149,944,160	117,083,907
Inventory		2,001,957	2,143,871
Property and equipment – net	**8**	1,625,415	1,452,919
Right-of-use assets	**9**	901,591	609,837
Intangible assets – net	**10**	824,470	831,177
Deferred tax assets	**15**	6,649,323	7,097,133
Goodwill	**4**	17,810,702	17,810,702
		186,997,131	**155,841,647**
LIABILITIES			
Accounts payable and other liabilities	**11**	7,011,487	7,917,530
Credit facilities and loans	**12**	111,476,008	93,960,487
Convertible debentures	**13**	19,093,318	17,877,994
		137,580,813	**119,756,011**
SHAREHOLDERS' EQUITY			
Common shares	**14(a)**	49,105,811	36,951,932
Warrants	**14(c)**	-	1,617,352
Contributed surplus		9,679,261	8,369,966
Conversion option on debentures		3,210,594	3,210,594
Deficit		(12,579,348)	(14,064,208)
		49,416,318	**36,085,636**
		186,997,131	**155,841,647**

APPROVED ON BEHALF OF THE BOARD

Todd Hudson, Director **Bruce Smith, Director**

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(in Canadian Dollars, except for the number of shares)

FOR THE FISCAL YEARS ENDED JUNE 30, 2022 AND 2021

	Notes	30-Jun-22	30-Jun-21
Financial revenue			
Interest revenue		34,941,571	34,084,512
Fee, servicing and other income		5,221,778	4,284,076
Total financial revenue		40,163,349	38,368,588
Financial expenses			
Interest expense		7,887,073	9,184,761
Fee and servicing expenses		306,582	207,840
Provision for credit losses	**7**	11,568,562	10,326,358
Total financial expenses		19,762,217	19,718,959
Net financial income before operating expenses		**20,401,132**	**18,649,629**
Operating expenses			
General and administrative		15,977,241	12,780,345
Depreciation	**8**	821,140	798,081
Amortization	**9,10**	735,992	695,952
Stock-based compensation	**14(b,c)**	402,663	504,833
Acquisitions and integration		94,233	150,000
Professional fees		384,930	467,234
Total operating expenses		**18,416,199**	**15,396,445**
Income before income taxes		**1,984,933**	**3,253,184**
Income tax expense	**15**	500,073	932,217
Net income and comprehensive income for the year		**1,484,860**	**2,320,967**
Net income and comprehensive income per share (basic and diluted)		**0.013**	**0.024**
Weighted-average number of shares issued and outstanding		**116,124,032**	**97,034,085**

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in Canadian Dollars, except for the number of shares)

FOR THE FISCAL YEARS ENDED JUNE 30, 2022 AND 2021

	Number of shares	Common shares	Warrants	Contributed surplus	Conversion options	Deficit	Total equity
Balance, June 30, 2020	**96,482,471**	**36,585,918**	**6,518,744**	**3,253,006**	**3,210,594**	**(16,385,175)**	**33,183,087**
Stock-based compensation	-	-	-	504,833	-	-	**504,833**
Exercise of options	612,000	262,140	-	(78,540)	-	-	**183,600**
Conversion of vested RSUs into common shares	175,952	103,874	-	(210,725)	-	-	**(106,851)**
Expired warrants	-	-	(4,901,392)	4,901,392	-	-	**-**
Net income and comprehensive income for the year	-	-	-	-	-	2,320,967	**2,320,967**
Balance, June 30, 2021	**97,270,423**	**36,951,932**	**1,617,352**	**8,369,966**	**3,210,594**	**(14,064,208)**	**36,085,636**
Balance, June 30, 2021	**97,270,423**	**36,951,932**	**1,617,352**	**8,369,966**	**3,210,594**	**(14,064,208)**	**36,085,636**
New common shares issued	30,000,000	14,931,718					**14,931,718**
Shares purchased under Normal Course Issuer Bid	(5,694,000)	(3,568,359)					**(3,568,359)**
Stock-based compensation	-	-	-	402,663	-	-	**402,663**
Conversion of vested RSUs into common shares	1,115,957	657,568	-	(683,368)	-	-	**(25,800)**
Shares issued as a result of warrant exercise	234,666	132,952	(27,352)				**105,600**
Expired warrants	-	-	(1,590,000)	1,590,000	-	-	**-**
Net income and comprehensive income for the year	-	-	-	-	-	1,484,860	**1,484,860**
Balance, June 30, 2022	**122,927,046**	**49,105,811**	**-**	**9,679,261**	**3,210,594**	**(12,579,348)**	**49,416,318**

(in Canadian Dollars)

FOR THE FISCAL YEARS ENDED JUNE 30, 2022 AND 2021

	30-Jun-22	30-Jun-21
CASH FLOWS USED IN OPERATING ACTIVITIES:		
Net income for the year	**1,484,860**	**2,320,967**
Adjustments for non-cash items:		
Provision for credit losses	11,568,562	10,326,358
Income taxes	516,788	977,349
Depreciation and amortization	1,557,132	1,494,033
Non-cash income	(290,071)	-
Interest expense	7,887,073	9,184,761
Interest paid with cash	(6,306,129)	(7,366,765)
Stock-based compensation	402,663	504,833
	16,820,878	**17,441,536**
Changes in operating assets and liabilities:		
Decrease / (increase) in accounts receivable and prepaid expenses	(879,970)	49,235
Decrease in inventory	16,336,201	13,704,202
Increase / (decrease) in accounts payable and other liabilities	(1,900,001)	935,981
Increase in origination of finance receivables	(110,798,142)	(75,168,832)
Repayment of finance receivables	50,475,040	41,730,155
Cash flows used in operating activities	**(29,945,994)**	**(1,307,723)**
CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES:		
Proceeds from credit facilities, loans and convertible debentures	47,832,881	15,544,211
Repayment of credit facilities, loans and convertible debentures	(30,634,595)	(18,872,588)
Issuance of common shares for cash (net of cash issue costs)	14,931,718	-
Repurchase of common shares	(3,568,359)	-
Cash received on exercise of options and warrants	105,600	183,600
Cash settlement of restricted share units (RSUs)	(25,800)	(106,852)
Cash flows from (used in) financing activities	**28,641,445**	**(3,251,629)**
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Settlement of escrow proceeds from acquired subsidiary	-	(750,000)
Additions to intangible assets	(272,489)	(458,369)
Purchases of property and equipment	(993,636)	(476,120)
Cash flows used in investing activities	**(1,266,125)**	**(1,684,489)**
Net decrease in cash	**(2,570,674)**	**(6,243,841)**
Cash, beginning of year	6,646,885	12,890,726
Cash, end of year	**4,076,211**	**6,646,885**

1. NATURE OF OPERATIONS

Axis Auto Finance Inc. (the "Company") is a financial technology lender, providing alternative used vehicle financing to consumers located in Canada, who do not qualify through traditional sources. Furthermore, through its wholly owned subsidiary, Pivotal Capital Corp. ("Pivotal"), the Company provides commercial equipment leasing and financing solutions.

The Company is a TSX listed entity (TSX: AXIS), domiciled in Canada. The Company's registered office is located at 165 Galaxy Blvd., Toronto, Ontario, M9W 0C8.

2. BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board ("IASB") and adopted by the Chartered Professional Accountants of Canada ("CPA"). These consolidated financial statements were approved and authorized for issue by the Board of Directors on September 14, 2022.

(b) Basis of measurement

These consolidated financial statements have been prepared using the historical cost basis, except for the revaluation of certain financial instruments that are measured at fair value.

(c) Impact of COVID-19 pandemic

The Company's business has been impacted by the COVID-19 pandemic, which has created significant social and economic disruptions. The COVID-19 pandemic has had, and will continue to have, a broad impact across industries and the economy, including effects on consumer confidence, global financial markets, regional and international travel, supply chain distribution of various products for many industries, government and private sector operations, the price of consumer goods, countrywide lockdowns in various regions of the world, and numerous other impacts on daily life and commerce.

The ever-changing and rapidly-evolving effects of COVID-19, the duration, extent and severity of which are currently unknown, on investors, businesses, the economy, society and the financial markets could, among other things, add volatility to the global stock markets, increase interest rates for consumers and businesses, and increase consumer delinquencies and defaults. The Company will continue to remain vigilant in its efforts to mitigate the impact of COVID-19 related risks to the Company, as the ongoing COVID-19 situation unfolds.

As the extent of the impact that COVID-19 will have on the Canadian economy is difficult to fully assess at this time, there is a degree of uncertainty regarding the assumptions used by management in making its judgements and estimates, particularly in relation to the measurement of the allowance for credit losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) New accounting standards and interpretations adopted

There have been no new accounting standards or interpretations adopted during the fiscal year ended June 30, 2022.

(b) Critical judgments and estimation uncertainties

The preparation of the consolidated financial statements in conformity with IFRS requires that management make subjective, complex estimates and assumptions regarding the reported amounts of assets, liabilities, revenues, expenses, and disclosures in these consolidated financial statements and accompanying notes that are inherently uncertain. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from the estimates and assumptions made by management. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Judgments made by management in the application of IFRS that have a significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment are discussed in additional detail throughout the summary of significant accounting policies. Significant estimates used in the preparation of these consolidated financial statements include the following:

i. Assessment of the allowance for credit losses, including provisions for credit losses (Note 3(e), Note 6, Note 7);
ii. Assumptions used to fair value financial instruments (Note 3(e));
iii. Valuation of inventories (Note 3(g));
iv. Useful lives of property and equipment (Note 3(h));
v. Useful lives of intangible assets (Note 3(i));
vi. Provisions for income taxes (Note 3(l));
vii. Goodwill impairment (Note 3(d)); and
viii. Measurement of the deferred tax asset (Note 15).

Management believes these estimates and judgments are reasonable and appropriate.

(c) Cash and restricted cash

Cash consists of cash on hand and bank balances and cash held in escrow.

(d) Goodwill

Goodwill is initially measured as the excess of the price paid for the acquisition of a consolidated entity over the fair value of the net identifiable tangible and intangible assets acquired. Goodwill is assessed at the cash-generating unit (“CGU”) or group of CGUs level, which is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Goodwill (continued)

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is evaluated for impairment annually or more often if events or circumstances indicate there may be impairment. Impairment is determined for goodwill by assessing whether the carrying amount of a CGU, including the allocated goodwill, exceeds its recoverable amount. The recoverable amount is determined as the greater of the estimated fair value less the costs of disposal or the value in use. Impairment losses recognized in respect of a CGU are first allocated to the carrying amount of goodwill and any excess is allocated pro rata to the carrying amount of other assets in the CGU, on the basis of the carrying amount of each asset in the unit. Goodwill impairment is recorded as non-interest expense in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed.

(e) Finance receivables

The Company recognizes and measures finance receivables in accordance with IFRS 9, *Financial Instruments* (“IFRS 9”).

Recognition and measurement

Finance receivables held by the Company under IFRS 9 are initially recognized at fair value, determined based on the following components:

a) Gross lease and loan receivables and unearned finance income

When assets are leased out under a finance lease, or when a loan is granted to finance an asset acquisition from a third party, the present value of the associated minimum payments is recognized as a lease or loan receivable. The difference between the gross receivables and the present value of the receivables is recognized as unearned finance income.

b) Unamortized fees and transaction costs

All initial direct costs that are incurred, including commissions and other costs that are incremental and directly attributable to negotiating and arranging a lease or a loan, are capitalized into the finance receivable, thus reducing the amount of net investment in a finance receivable at initial recognition. The initial direct net fees are amortized over the term on the effective interest rate implicit in each finance receivable.

c) Security deposits

Security deposits are made at the inception of the lease and are treated as a reduction of the gross lease receivables.

Subsequent to initial recognition, finance receivables are carried at amortized cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Finance receivables (continued)

Impairment

The Company assesses on an ongoing basis whether a finance receivable asset or a group of finance receivable assets is impaired in accordance with IFRS 9.

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 consolidated statement of financial position date. The Company assesses and segments its finance receivable portfolio into performing (Stage 1), underperforming (Stage 2) and non-performing (Stage 3) categories as at each date of the consolidated statement of financial position.

Stage 1 – For performing finance receivables, the Company is required to record an allowance for credit losses equal to the expected losses on this segment over the future 12 months.

Stage 2 – For underperforming finance receivables, these finance receivables have experienced a significant increase in credit risk as observed through delinquency, specific events, localized economic factors or other identifiable factors. For this segment, the Company is required to record an allowance for credit losses equal to the expected losses over their remaining life.

Stage 3 – For non-performing finance receivables, the Company has determined this to be when the receivables are greater than 90 days delinquent and there is objective evidence that the finance receivables will charge off in the future. For this segment, the Company is required to record an allowance for credit losses equal to the expected losses over their remaining life.

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

- The estimated probability of default over the given time horizon;
- The estimated loss given default in the case where a default occurs;
- The estimate exposure at default at a future default date; and
- Forward-looking indicators used to assess how future losses may differ from those previously experienced. The forward-looking indicator 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 ECLs. Within the Company's portfolio, the most highly correlated variable is unemployment rates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Leases of premises and equipment

The Company has lease contracts for its office premises and equipment. The Company classifies leases in which it entered as a lessee in accordance with IFRS 16, *Leases,* which requires lessees to recognize a right-of-use asset and a corresponding lease liability.

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.

(g) Inventory

The Company retains security over the vehicle associated with each finance receivable. Subject to certain conditions, the Company may repossess a vehicle provided a default under the loan or lease agreement has occurred, or upon the customer voluntarily terminating their contract. Vehicles that are repossessed are either disposed of at the wholesale or retail used vehicle market price or re-leased to new customers with the proceeds offsetting any outstanding balance. The customer is liable for any shortfall.

Inventory consists of vehicles that have been repossessed and have not been disposed of or re-leased to new customers. These assets are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price for repossessed vehicles sold in the ordinary course of business less the estimated costs to make the sale. Management uses the most reliable evidence available in determining the net realizable value of inventory. This evidence could include comparable retail sales or dealer auction prices for similar vehicles that have been sold in the last 90 days.

Actual selling prices may differ from estimates, based on market conditions at the time of sale. Any variances between the initially assigned value and the actual selling price are offset against amounts provided for under the allowance for credit losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Property and equipment

Property and equipment are stated at acquisition cost less accumulated depreciation. Depreciation is provided for based on the following annual rates and methods over the estimated useful lives of the property and equipment:

Category	Method
Furniture and fixtures	Declining balance at 20% per year
GPS and "starter interrupt" devices	Straight-line over 4 years
Computer hardware and software	Declining balance at 55% per year
Leasehold improvements	Straight-line over 2 to 5 years, based on lease duration
Auto vehicles	Declining balance at 30% per year

(i) Intangible assets

Intangible assets consist of software development costs, are recorded at cost and amortized over their estimated useful lives using 25% straight-line annual amortization. Amortization commences at the time that the intangible assets are available and ready for use.

The Company assesses, at each reporting period date, whether there is an indication that an intangible asset may be impaired. If any indication of impairment exists, the Company performs an impairment test to determine whether an impairment loss is required to be recognized. In relation to development costs for software that is not yet available for use, the Company performs an impairment test on an annual basis as well as when indications of impairment exist. Such annual impairment tests will continue until the software is available for use.

(j) Development costs

Development costs are recognized as an intangible asset when the Company can demonstrate:

• The technical feasibility of completing the intangible asset to make it available for use or sale;

• Its intention to complete and its ability to use or sell the asset;

• How the asset will generate future economic benefits;

• Sufficient financial, technical and other resources to complete the asset; and

• The ability to reliably and accurately measure the expenditure attributable to the development.

Following initial recognition, the development cost asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. Development costs are amortized over the period of the expected future benefit.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Share-based payments

The Company issues share-based awards to certain employees. The Board of Directors determines the timing, amount, and vesting conditions associated with each share-based award. The cost of equity-settled share-based transactions, comprising share options and restricted share units ("RSUs") is determined as the fair value of the award on the grant date using a fair value model. The cost of equity-settled share-based transactions is recognized as each tranche vests and is recorded in contributed surplus as a component of equity.

(l) Income taxes

Income tax expense consists of current and deferred tax expenses. Current and deferred taxes are recognized in profit or loss, except to the extent that they relate to items recognized directly in equity or other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net income and comprehensive income or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

(m) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company, and the revenue and associated costs can be measured reliably. The following specific recognition criteria must also be met before revenue is recognized:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest revenue

Interest revenue is included in the consolidated statements of net income and comprehensive income for all financial assets measured at amortized cost using the effective interest rate 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 prepayment options, fee income charged to the customer on the origination of all financial assets, and all purchase premiums or discounts, net of 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.

Once the recorded value of a financial asset, or a group of similar financial assets, has been reduced due to an impairment loss, interest revenue continues to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. This is offset by a corresponding adjustment to the loan loss provision charge to reflect the fact that this additional revenue may not be collectible.

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.

Fee, servicing and other income

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

Servicing income is recognized as services are completed 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Compound financial instruments

Compound financial instruments issued by the Company comprise non-repayable convertible debentures and non-redeemable preferred shares that can be converted to share capital at the option of the holder or can be forced into a conversion at the earlier of: a) the maturity date or b) the date of the execution of an Engagement Letter or similar document entered into in respect of a transaction, which would result in the shares of the Company being listed on a recognized stock exchange. The number of shares to be issued is fixed and does not vary with changes in their fair value. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component recognized initially is the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest rate method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

A second class of compound financial instruments is loans with attached share purchase warrants or with a conversion option. The share purchase warrants were issued together with the senior secured credit facility with an exercise price of $0.75 per share. The value assigned to the warrants is determined using a Black-Scholes model and included in equity.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest rate method and the fair value of the warrant component is revalued through profit and loss.

4. GOODWILL

Goodwill of $17,810,702 was originally recognized as part of the 2018 acquisitions of Cars on Credit Financial Inc. ("COCF") ($3,752,029) and Trend Financial Group ("Trend") ($14,058,673). At the time of the acquisition, the Company had a single Automotive CGU and therefore, all of the Company's goodwill has been allocated to it accordingly as at June 30, 2022 and 2021. For the purpose of impairment testing, the recoverable amount of CGU has been determined based on its value in use. The value in use method is based on estimated cash flows over a three-year period referenced to the most recent financial forecasts approved by management and actual historic results, discounted to present value. Beyond the initial three-year period, cash flows were estimated to grow at a perpetual annual rate of up to 5%. The discount rate the Company applied in determining the recoverable amount was 21%, which comprised a risk-free rate, equity risk premium, size premium and company specific premium. These components were based on data from external sources.

(in Canadian Dollars, unless otherwise indicated)

5. ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	30-Jun-22	30-Jun-21
Accounts receivable	548,129	219,406
Other receivables	1,806,277	1,037,764
Prepaid expenses	808,896	908,046
	3,163,302	**2,165,216**

Accounts receivable consist primarily of servicing and profit-sharing receivables billed and not yet collected. Other receivables as at June 30, 2022 and June 30, 2021 consist primarily of customer payments and miscellaneous fees receivable that have not yet cleared and proceeds to be received for pre-funded deals under profit-sharing arrangements, as well as input tax credits on commodity taxes not yet refunded by the government. Prepaid expenses consist primarily of advances related to rent and other services not yet rendered to the Company.

6. FINANCE RECEIVABLES

Finance receivables consist of individual lease or loan agreements with customers, which have terms of 12 to 84 months with fixed rates of interest. Either a passenger vehicle or commercial equipment collateralizes each individual finance agreement. The contractual payments, including principal and interest, and the Company's implicit finance rates are due in the years as follows:

Year	30-Jun-22	Yield	30-Jun-21	Yield
2022	-	-	63,466,699	26.13%
2023	67,060,690	22.99%	51,879,508	25.91%
2024	58,175,688	22.34%	40,397,223	25.39%
2025	49,850,349	21.87%	30,344,543	25.17%
2026	40,340,456	21.56%	20,839,630	24.78%
2027	27,209,288	21.66%	10,155,185	24.11%
2028	13,600,996	21.99%	-	-
2029	49,961	6.00%		
Gross finance receivables (incl. security deposits)	**256,287,428**	**22.20%**	**217,082,788**	**25.58%**
Unearned interest income	(91,790,592)		(81,229,449)	
Principal balance	164,496,836		135,853,339	
Security deposits	(5,261,238)		(10,650,150)	
Finance receivables before accrued interest	**159,235,598**		**125,203,189**	
Accrued interest	1,755,093		1,507,592	
Gross finance receivables	**160,990,691**		**126,710,781**	
Less: allowance for credit losses (Note 7)	(11,046,531)		(9,626,874)	
Net finance receivables	**149,944,160**		**117,083,907**	

(in Canadian Dollars, unless otherwise indicated)

6. FINANCE RECEIVABLES (continued)

The Company's experience has shown that the actual contractual payment stream will vary depending on a number of variables. These variables include prepayment rates, write-offs and deferrals. Accordingly, the maturities of finance receivables shown in the table above are not to be regarded as a forecast of future cash collections.

An analysis of the aging of gross finance receivables in each of the years presented is as follows:

Age	**30-Jun-22**		**30-Jun-21**	
Current	155,893,812	96.84%	123,420,380	97.40%
Contractually past due:				
31-60 days	2,690,851	1.67%	1,672,647	1.32%
Over 60 days	2,406,028	1.49%	1,617,754	1.28%
	160,990,691	**100.00%**	**126,710,781**	**100.00%**

The Company is required to provision for credit losses on an ECL model basis. This model requires that the Company segment its finance receivables into three stages – Stage 1 "performing", Stage 2 "underperforming" and Stage 3 "non-performing". An analysis of the changes in the classification of finance receivables for the fiscal years ended June 30, 2022 and 2021 is as follows:

	Finance receivables (before accrued interest)			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance, June 30, 2021	**122,094,738**	**2,344,318**	**764,133**	**125,203,189**
Originated	111,477,767	-	-	111,477,767
Less payments and other adjustments	(55,772,099)	(179,653)	(51,648)	(56,003,400)
Transfers to (from):				-
Stage 1 performing	(4,677,900)	3,640,065	1,037,835	-
Stage 2 underperforming	245,685	(291,836)	46,151	-
Stage 3 non-performing	11,575	1,953	(13,528)	-
Less charge-offs	(18,956,525)	(1,825,130)	(660,303)	(21,441,958)
Balance, June 30, 2022	**154,423,241**	**3,689,717**	**1,122,640**	**159,235,598**

(in Canadian Dollars, unless otherwise indicated)

6. FINANCE RECEIVABLES (continued)

	Finance receivables (before accrued interest)			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance, June 30, 2020	**110,033,437**	**3,554,311**	**968,405**	**114,556,153**
Originated	75,268,886	-	-	75,268,886
Less payments and other adjustments	(47,608,302)	(590,329)	(367,676)	(48,566,307)
Transfers to (from):	-	-	-	-
Stage 1 performing	(2,801,430)	2,270,093	531,337	-
Stage 2 underperforming	538,978	(598,772)	59,794	-
Stage 3 non-performing	52,543	-	(52,543)	-
Less charge-offs	(13,389,374)	(2,290,985)	(375,184)	(16,055,543)
Balance, June 30, 2021	**122,094,738**	**2,344,318**	**764,133**	**125,203,189**

There is credit risk inherent in finance receivables of the Company. Financial assets that exhibit evidence of non-payment or other objective evidence of deterioration are considered to be impaired. As payments have been received on a timely basis, management considers the credit quality of loans and receivables that are neither past due nor impaired to be satisfactory.

Past due but not impaired balances relate to financial assets that are contractually overdue but are not deemed impaired unless the customer is contractually overdue by greater than 120 days, at which point in time, the expected future cash flows from the financial assets are expected to deteriorate significantly. Coinciding with this is the Company's charge-off policy of 120 days delinquent, at which point the financial asset is considered impaired and the underlying receivable is charged off or reserved as part of the specific allowance. A receivable may also be considered impaired earlier than 120 days delinquent should the debtor experience a deteriorating financial condition, such as entering bankruptcy or the Company being in the process of legal or collateral repossession proceedings.

The Company rarely modifies the terms of loans provided to customers via payment deferrals or contract extensions, but if deemed necessary, will do so with a view toward maximizing the recovery of principal on the loan. Modification practices are governed based on internal portfolio management policies, consultation with the Company's senior lenders and are based on criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review, and any material changes require the Company's senior lender's consent.

(in Canadian Dollars, unless otherwise indicated)

6. FINANCE RECEIVABLES (continued)

The COVID-19 pandemic required a meaningful variation from normal loan modification volumes. Based on a set of qualifying criteria, management has authorized the use of a COVID-19 payment deferral plan for its customers with an automotive lease or loan, designed to help a borrower transition from employment income to government assistance and back to employment income by providing temporary partial and full deferral of payments for up to 60 days. Management believes these payment deferral plans will provide the best financial outcome for both the borrower and the Company.

Consistent with guidance issued by the IASB, such payment deferral plans provided to qualifying customers of the Company have not automatically resulted in a significant increase in credit risk that would trigger migration to Stage 2 by reason only that a deferral under the program was granted. However, the inclusion of a loan in a payment deferral plan did not preclude its migration to Stage 2 if it was determined that there was a significant increase in credit risk.

These COVID-19 payment deferral plans were available to qualifying customers starting in March 2020, experienced peak deferral volumes in April 2020 and thereafter gradually reducing back down through the end of June 2020. As at June 30, 2020, the Company had granted COVID-19 payment deferrals on customer accounts that totalled $19.3 million of finance receivables, equal to 16.6% of the portfolio at that date. Through principal payments, early payouts and charge-offs, the balance of previously issued COVID-19 deferrals has reduced to $3.6 million (2.5% of auto-specific finance receivables), as of June 30, 2022, of which $2.7 million were back making their regularly scheduled loan payment. The remaining balance of $0.9 million (0.6% of auto-specific finance receivables) were making partial payments.

7. ALLOWANCE FOR CREDIT LOSSES

The change in the allowance for credit losses during the periods presented is as follows:

Allowance, June 30, 2020	**9,357,698**
Provision for credit losses	10,326,358
Write-offs, net of recoveries	(10,057,182)
Allowance, June 30, 2021	**9,626,874**
Allowance, June 30, 2021	**9,626,874**
Provision for credit losses	11,568,562
Write-offs, net of recoveries	(10,148,905)
Allowance, June 30, 2022	**11,046,531**

(in Canadian Dollars, unless otherwise indicated)

7. ALLOWANCE FOR CREDIT LOSSES (continued)

IFRS 9 requires that forward-looking indicators be considered when determining the allowance for credit losses. The analysis performed by the Company determined that a forecasted change in the rate of unemployment has historically tended to impact the charge-offs experienced by the Company. For purposes of determining its allowance for loan losses as at each consolidated statement of financial position date, the Company has utilized the forecasted unemployment rates of a compilation of large Canadian banks.

The following table provides the 12-month forward forecasted variable used in models to estimate ECL:

	12 months
National unemployment rate (as reported)	5.73%
National unemployment rate (as pessimistic)	5.90%
National unemployment rate (as optimistic)	5.50%

The impact on the allowance for credit losses as at June 30, 2022 if only the most pessimistic and optimistic forecasts were used would be as follows:

	30-Jun-22
ECL as reported	11,046,531
ECL using only the most pessimistic forecast	11,068,962
ECL using only the most optimistic forecast	11,005,188

A summary of the changes in the allowance for credit losses, by stage, is as follows:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Allowance, June 30, 2021	**7,954,316**	**1,118,118**	**554,440**	**9,626,874**
Allowance on new originations	6,245,862	-	-	6,245,862
Changes in allowance during the year	(5,823,902)	672,508	325,189	(4,826,205)
Allowance, June 30, 2022	**8,376,276**	**1,790,626**	**879,629**	**11,046,531**

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Allowance, June 30, 2020	**7,041,816**	**1,881,221**	**434,661**	**9,357,698**
Allowance on new originations	5,570,190	-	-	5,570,190
Changes in allowance during the year	(4,657,690)	(763,103)	119,779	(5,301,014)
Allowance, June 30, 2021	**7,954,316**	**1,118,118**	**554,440**	**9,626,874**

(in Canadian Dollars, unless otherwise indicated)

7. ALLOWANCE FOR CREDIT LOSSES (continued)

The uncertainties inherent in the COVID-19 pandemic, the current inflationary environment, rising interest rates, the elevated used vehicle market values and a prospect of a potential recession have increased the level of judgment applied in respect of the key inputs in the modelling of ECL allowance. The forecasting of forward-looking information considering the aforementioned factors requires a heightened application of judgment as the economic impact is inherently uncertain. For these reasons, the actual credit losses could differ from those reflected in our estimates.

8. PROPERTY AND EQUIPMENT

	Furniture & fixtures	GPS and "starter interrupt" devices	Computer hardware & software	Auto vehicles	Leasehold improvements	Total
Cost:						
Balance, June 30, 2021	208,893	2,060,318	1,006,877	231,772	682,459	4,190,319
Additions	38,665	339,409	126,554	135,018	353,990	993,636
Disposals	-	-	-	-	-	-
Balance, June 30, 2022	247,558	2,399,727	1,133,431	366,790	1,036,449	5,183,955
Accumulated depreciation:						
Balance, June 30, 2021	74,412	1,265,935	816,990	137,191	442,872	2,737,400
Depreciation	29,835	400,757	154,054	60,399	176,095	821,140
Disposals	-	-	-	-	-	-
Balance, June 30, 2022	104,247	1,666,692	971,044	197,590	618,967	3,558,540
Net book value, June 30, 2022	**143,311**	**733,035**	**162,387**	**169,200**	**417,482**	**1,625,415**

(in Canadian Dollars, unless otherwise indicated)

8. PROPERTY AND EQUIPMENT (continued)

	Furniture & fixtures	GPS and "starter interrupt" devices	Computer hardware & software	Auto vehicles	Leasehold improvements	Total
Cost:						
Balance, June 30, 2020	172,690	1,767,783	874,306	231,772	667,648	3,714,199
Additions	36,203	292,535	132,571	-	14,811	476,120
Disposals	-	-	-	-	-	-
Balance, June 30, 2021	208,893	2,060,318	1,006,877	231,772	682,459	4,190,319
Accumulated depreciation:						
Balance, June 30, 2020	51,954	891,329	640,131	95,122	260,783	1,939,319
Depreciation	22,458	374,606	176,859	42,069	182,089	798,081
Disposals	-	-	-	-	-	-
Balance, June 30, 2021	74,412	1,265,935	816,990	137,191	442,872	2,737,400
Net book value, June 30, 2021	**134,481**	**794,383**	**189,887**	**94,581**	**239,587**	**1,452,919**

9. RIGHT-OF-USE ASSET

The change in the right-of-use asset is shown below:

	Total premises
Balance at June 30, 2021	609,837
Recognition of additional right-of-use asset	758,479
Amortization charge for the ended June 30, 2022	(466,725)
Balance at June 30, 2022	**901,591**

	Total premises
Balance at June 30, 2020	1,135,837
Amortization charge for the ended June 30, 2021	(526,000)
Balance at June 30, 2021	**609,837**

During the fiscal year ended June 30, 2022, the Company entered into a new lease contract for the premises to be used as its head office. As a result, it recognized an additional right-of-use asset in the amount of $758,479 and a corresponding lease liability of $729,813.

(in Canadian Dollars, unless otherwise indicated)

10. INTANGIBLE ASSETS

	30-Jun-22	30-Jun-21
Cost:		
Opening balance	1,176,087	717,718
Additions	272,489	458,369
Disposals	(16,461)	-
Closing balance	1,432,115	1,176,087
Accumulated amortization:		
Opening balance	344,910	174,958
Amortization	269,267	169,952
Disposals	(6,532)	-
Closing balance	607,645	344,910
Net book value	**824,470**	**831,177**

11. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities are made up of the following balances:

	30-Jun-22	30-Jun-21
Lease liability	917,234	645,174
Dealer and agent payments not yet cleared	2,680,153	2,278,155
Accrued interest payable	440,670	137,367
Vendor accounts payable and other liabilities	2,973,430	4,856,834
	7,011,487	**7,917,530**

As of June 30, 2022, vendor accounts payable and other liabilities consist primarily of accrued and unpaid payroll and commodity tax liabilities and amounts payable to vendors for services provided and goods purchased. Dealer and agent payments not yet cleared represent differences between the time a contract is originated and the time the associated dealer payable is settled. Most of these liabilities are short term in nature and settle within a period of 90 to 120 days.

(in Canadian Dollars, unless otherwise indicated)

11. ACCOUNTS PAYABLE AND OTHER LIABILITIES (continued)

As of June 30, 2022, the maturity analysis of the remaining contractual undiscounted cash flows and lease liabilities included in the consolidated statement of financial position were as follows:

	30-Jun-22
Less than one year	358,982
One to five years	635,376
Total undiscounted cash flows	**994,358**
Lease liabilities included in the consolidated statement of financial position (discounted)	**917,234**
Current	318,358
Non-current	598,876

During the fiscal year ended June 30, 2022, the Company recognized $48,386 of interest expense on lease liabilities (fiscal year ended June 30, 2021: $61,107).

12. CREDIT FACILITIES AND LOANS

(a) Credit facilities

Balance, June 30, 2020 (i)	**63,429,178**
Fair value of liability at date of draw (i)	15,750,000
Transaction costs	(205,788)
Repaid principal	(90,000)
Accretion included in interest expense (ii)	265,127
Balance, June 30, 2021 (ii)	**79,148,517**

Balance, June 30, 2021	**79,148,517**
Fair value of liability at date of draw (i)	27,196,107
Transaction costs	(107,898)
Repaid principal	(19,000,000)
Accretion included in interest expense (ii)	309,642
Balance, June 30, 2022	**87,546,368**

12. CREDIT FACILITIES AND LOANS (continued)

(i) In March 2019, the Company obtained funding in the form of a new senior secured revolving credit facility, originally authorized for up to $80,000,000. Following several subsequent renewals and amendments, the authorized commitment under this facility stands at $120,000,000 as at June 30, 2022. This credit facility currently carries a coupon of prime plus 1.90% per annum, an agency fee of 0.25% per annum and a standby fee of 0.50% per annum on any unused commitment. The facility matures two years following the end of the revolving period, which is currently set to October 31, 2022 and can be further extended if mutually agreed upon between the Company and the lender.

Additionally, in May 2020, the Company closed on a term loan ("Term Loan") of up to $6.25 million with a Canadian Schedule 1 bank ("Bank"). The Term Loan was backed by the Canadian Government under the Business Credit Availability Program, specifically 80% of the principal of the Term Loan is guaranteed by Export Development Canada ("EDC"). The Term Loan had an interest rate of 4.00% per annum above the Bank's Prime Lending Rate and had an annual EDC guarantee fee of 1.8% of the loan amount. The Term Loan had an initial term of 12 months, with an option to extend it for additional 12 months. On May 6, 2021, the Company repaid $2.0 million of the Term Loan and extended the maturity date for the remaining principal of $4.0 million by 12 months, in line with original terms and conditions. The Company was charged an annual EDC guarantee fee of 1.8% for this extension of maturity. During the fiscal year ended June 30, 2022, the Company made a full early repayment of all outstanding amounts under the Term Loan.

During the fiscal year ended June 30, 2022, total coupon interest of $4,272,314 was paid on amounts drawn on both facilities (fiscal year ended June 30, 2021: $3,846,024).

(ii) During the fiscal year ended June 30, 2022, total accretion expense of $309,642 was recorded on both facilities (fiscal year ended June 30, 2021: $265,127).

The interest expense and the accretion expense were all included as part of the interest expense on the consolidated statement of income and comprehensive income.

Transaction costs

Total transaction costs of $542,457 and $119,250 were incurred originally in closing the senior secured revolving credit facility and the Term Loan, respectively.

Security

Under the terms of the senior secured credit facility, the Company has granted an assignment of all present and future Company's property.

(in Canadian Dollars, unless otherwise indicated)

12. CREDIT FACILITIES AND LOANS (continued)

Prepayment option

The Company can repay the senior secured revolving credit facility at any time prior to maturity, subject to a prepayment fee of 0.5% of the repaid principal amount. It was determined by the Company that the exercise price of the prepayment option approximates the amortized cost, so it is considered to be closely related to the host contract and, therefore, the prepayment option does not have to be separated from the host contract.

Covenants

The senior secured credit facility is subject to a number of covenants, where the Company is required to meet certain financial ratios. As of June 30, 2022, the Company was in compliance with all covenants. The Company has not withdrawn funds in excess of the amounts permitted in accordance with the loan availability calculations.

(b) Bulk loan facilities

Balance, June 30, 2020	**33,148,318**
Repayment of principal	(18,782,589)
Accretion included in interest expense (ii)	446,241
Balance, June 30, 2021	**14,811,970**

Balance, June 30, 2021	**14,811,970**
Fair value of new debt at draw (i)	20,849,593
Deferred financing costs	(121,450)
Repayment of principal	(11,634,595)
Accretion included in interest expense (ii)	24,122
Balance, June 30, 2022	**23,929,640**

(i) Bulk loan facilities are subject to eligibility criteria and certain conditions, and bear interest between 3.95% and 8.38% per annum. Funds are drawn against the bulk loan facilities in weekly and bi-weekly tranches, with the last tranche maturing in March 2029. The facilities are repayable in blended semi-monthly instalments of principal and interest in accordance with the amortization schedule of the respective tranches. The facilities are secured by assignment of the vehicle loans or equipment lease receivables, a first registered security interest on equipment, a first position general security interest in the Company or affiliates, and the first charge over any segregated funds.

(in Canadian Dollars, unless otherwise indicated)

12. CREDIT FACILITIES AND LOANS (continued)

Total coupon expense on bulk loan facilities during the fiscal year ended June 30, 2022 amounted to $519,565 (fiscal year ended June 30, 2021: $2,002,268).

(ii) Total accretion expense recognized in the consolidated statement of income and comprehensive income during the fiscal year ended June 30, 2022 amounted to $24,122 (fiscal year ended June 30, 2021: $446,241).

As at June 30, 2022, the Company was in compliance with all covenants.

13. CONVERTIBLE DEBENTURES

Balance, June 30, 2020 (i)	**16,828,251**
Accretion included in interest expense (ii)	1,049,743
Balance, June 30, 2021 (i)	**17,877,994**

Balance, June 30, 2021	**17,877,994**
Accretion included in interest expense (ii)	1,215,324
Balance, June 30, 2022	**19,093,318**

(i) Convertible debentures issued by the Company in 2018 with a total face value of $17,550,000 mature on March 31, 2023. These debentures have a coupon rate of 7.5% and an effective rate of 14.65%.

At issuance, the Company recognized the fair value of the debentures as $13,486,000 and the residual value of the conversion option as $2,986,984 (net of tax effect). Directly attributable transaction costs, all of which were paid in cash, in the total amount of $448,832 were proportionately attributed to debt and equity components of the debentures, resulting in $344,897 being attributed to the debt component and $103,935 to the equity component.

During the year ended June 30, 2020, the Company issued convertible debentures with the face value of $2,640,000. The debentures are maturing on June 30, 2023, have a coupon rate of 7.5% and an effective rate of 17.45%. The fair value of the debentures at issuance was $2,155,307. The residual value of an embedded conversion option and a separate embedded call option were $266,261 (net of tax effect) and $89,989 (net of tax effect), respectively. As at June 30, 2022, both the conversion option and the call option have been recognized in equity. The Company incurred a total of $212,691 in directly attributable transaction costs, of which $27,352 represented the fair value of broker warrants issued in lieu of finders' fees and the rest were paid or are payable in cash. Transaction costs were proportionately attributed to debt and equity components of the debentures, resulting in $183,987 being attributed to the debt component and $28,704 to the equity component.

(in Canadian Dollars, unless otherwise indicated)

13. CONVERTIBLE DEBENTURES (continued)

For the fiscal year ended June 30, 2022, total coupon interest paid to debenture holders was $1,514,250 (fiscal year ended June 30, 2021: $1,514,250).

(ii) For the fiscal year ended June 30, 2022, total net accretion expense was $1,215,324 (fiscal year ended June 30, 2021: $1,049,743). Both were included in interest expense in the consolidated statements of net income and comprehensive income.

14. SHAREHOLDERS' EQUITY

(a) Common shares, NCIB and restricted share units

As of June 30, 2022 and 2021, an unlimited number of common shares and an unlimited number of preferred shares were authorized.

	Common shares	Amount
	#	$
Balance, June 30, 2020	**96,482,471**	**36,585,918**
Shares issued on the conversion of RSUs	175,952	103,874
Exercise of stock options	612,000	262,140
Balance, June 30, 2021	**97,270,423**	**36,951,932**
Balance, June 30, 2021	**97,270,423**	**36,951,932**
Additional share capital issued	30,000,000	14,931,718
Shares repurchased and cancelled under NCIB	(5,694,000)	(3,568,359)
Shares issued on the conversion of warrants	234,666	132,952
Shares issued on the conversion of RSUs	1,115,957	657,568
Balance, June 30, 2022	**122,927,046**	**49,105,811**

On November 24, 2021, the TSX approved the Company's notice of intention to commence a Normal Course Issuer Bid ("NCIB"). The NCIB allows the Company to repurchase on the open market (or as otherwise permitted), at its discretion during the period commencing on November 26, 2021 and ending on the earlier of November 25, 2022 or the completion of purchases under the NCIB, up to 6,907,562 common shares of the Company, being 10% of the public float of the Company at the time.

For the year ended June 30, 2022, 5,694,000 common shares have been repurchased for cancellation for $3,568,359, including commission, at a volume weighted average price of $0.63 per common share. The Company applies settlement date accounting in determining the date on which the share repurchase is reflected in the consolidated financial statements. The settlement date is the date on which the Company settles with the third party responsible for conducting NCIB purchases.

14. SHAREHOLDERS' EQUITY (continued)

During the fiscal year ended June 30, 2022, 1,115,957 RSUs vested and were converted into common shares (fiscal year ended June 30, 2021: 175,952 RSUs), and 60,000 RSUs vested and were paid out in cash (fiscal year ended June 30, 2021: 286,427 RSUs). RSUs were converted into common shares at an average price between $0.29 and $0.71 per share (fiscal year ended June 30, 2021: between $0.29 and $0.42 per share). The total fair value of RSUs converted during the fiscal year ended June 30, 2022 came to $657,568 (fiscal year ended June 30, 2021: $103,874). The total value of RSUs paid out in cash during the fiscal year ended June 30, 2022 came to $25,800 (fiscal year ended June 30, 2021: $106,851).

As at June 30, 2022, 1,164,706 RSUs remain unvested and outstanding (June 30, 2021: 1,241,833 RSUs). These outstanding RSUs will vest gradually over the period of 2.8 years.

During the fiscal year ended June 30, 2022, the Company recognized $318,132 of expenses related to RSUs (fiscal year ended June 30, 2021: $339,598).

This expense is part of the total share-based compensation expense and is included in the consolidated statements of income and comprehensive income.

The amortized fair value of vested RSUs included in the consolidated statement of changes in shareholders' equity as at June 30, 2022 was $762,418 (June 30, 2021: $1,127,656).

(b) Share options

The Company has a share option plan (the "Plan") for the purchase of common shares for its directors, officers, employees, consultants and other service providers. The aggregate number of common shares reserved for issuance under the Plan, together with the RSU plan, shall not exceed 10% of the issued and outstanding common shares on a non-diluted basis at the time of shareholder approval.

(in Canadian Dollars, unless otherwise indicated)

14. SHAREHOLDERS' EQUITY (continued)

A summary of changes in share options is as follows:

	Number of options	**Weighted average exercise price $**
Balance, June 30, 2020	**9,047,167**	**0.58**
Options granted	510,000	0.37
Options expired	(612,000)	0.30
Options forfeited	(1,644,499)	0.61
Balance, June 30, 2021	**7,300,668**	**0.56**
Balance, June 30, 2021	**7,300,668**	**0.56**
Options granted	450,000	0.61
Options expired	(314,667)	0.35
Balance, June 30, 2022	**7,436,001**	**0.58**

(in Canadian Dollars, unless otherwise indicated)

14. SHAREHOLDERS' EQUITY (continued)

(b) Share options (continued)

As of June 30, 2022, the Company had the following granted and outstanding share purchase options:

Expiry date	Options granted and outstanding	Options exercisable	Exercise price, $
01-Sep-22	120,000	120,000	0.40
25-Jul-23	252,000	252,000	0.60
07-Sep-23	588,000	588,000	0.70
16-May-24	75,000	75,000	0.79
01-Jul-24	1,008,000	1,008,000	0.30
01-Jan-25	30,000	30,000	0.30
01-Mar-25	120,000	120,000	0.30
15-May-25	204,000	204,000	0.30
01-Jun-25	294,000	294,000	0.30
08-Jun-25	3,380,000	3,380,000	0.70
05-Mar-26	405,000	405,000	0.54
27-May-26	100,000	100,000	0.50
08-Oct-27	200,000	200,000	0.45
26-May-28	150,000	50,000	0.32
03-Jun-28	60,000	20,000	0.32
27-Aug-28	10,001	-	0.53
27-Jul-22	40,000	40,000	0.53
19-Apr-29	200,000	-	0.72
07-Apr-29	200,000	-	0.66
Balance, June 30, 2022	**7,436,001**	**6,886,000**	**0.58**

The weighted average exercise price of options exercisable as of June 30, 2022 was $0.58 (June 30, 2021: $0.56).

The weighted average contractual life of options outstanding as of June 30, 2022 was 2.67 years (June 30, 2021: 3.40 years).

During the fiscal year ended June 30, 2022, the Company recognized $84,531 of the share-based compensation related to stock options (fiscal year ended June 30, 2021: $165,235). This expense is part of the total stock-based compensation expense and is included in the consolidated statements of income and comprehensive income.

The fair values of stock options granted were determined using the Black-Scholes option pricing model with the following assumptions:

(in Canadian Dollars, unless otherwise indicated)

14. SHAREHOLDERS' EQUITY (continued)

	30-Jun-22	**30-Jun-21**
Risk-free interest rate (% per annum)	Between 0.99% and 2.70%	Between 0.41% and 1.21%
Expected hold period to exercise	Based on actual expiry date	Based on actual expiry date
Volatility in the price of the Company shares	Between 67.52% and 76.25%	Between 85.65% and 90.20%
Dividend yield	0.00%	0.00%

Risk-free interest rate used in the model is assumed to equal the Government of Canada benchmark 7-year bond yield. Volatility in the price of the Company shares is estimated by evaluating several factors including historical volatility of the share price over multi-year periods.

(c) Warrants

	Value $	**Number of warrants** #	**Weighted average exercise price** $
Balance, June 30, 2020	**6,518,744**	**24,584,008**	**0.87**
Cancellation of contingently exercisable warrants	(4,901,392)	(21,349,342)	0.89
Balance, June 30, 2021	**1,617,352**	**3,234,666**	**0.73**
Balance, June 30, 2021	**1,617,352**	**3,234,666**	**0.87**
Exercise of warrants (i)	(27,352)	(234,666)	(0.45)
Cancellation of expired warrants (ii)	(1,590,000)	(3,000,000)	0.45
Balance, June 30, 2022	**-**	**-**	**-**

(i) On September 13, 2019, 234,666 warrants were issued in lieu of the finders' fee pertaining to securing new convertible debentures, as described in Note 13. Each full warrant was exercisable to acquire one common share of the Company at a price of $0.45 per share until September 13, 2021. The estimated grant date fair value of these warrants amounted to $0.12 per whole warrant or to a total value of $27,352. These warrants were exercised in full during the fiscal year ended June 30, 2022.

(ii) On March 27, 2017, the Company issued 3,000,000 share purchase warrants in lieu of finder's fees pertaining to securing a $40 million credit facility. Each full warrant was exercisable to acquire one common share of the Company at a price of $0.75 per common share until March 27, 2022. The estimated grant date fair value of these warrants amounted to $0.53 per warrant or a total value of $1,590,000. These warrants expired without being exercised during the fiscal year ended June 30, 2022.

(in Canadian Dollars, unless otherwise indicated)

15. INCOME TAXES

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2021: 26.5%) to the effective tax rate is as follows:

	30-Jun-22	30-Jun-21
Net Income / (Loss) before income taxes	**1,984,933**	**3,253,184**
Income taxes at statutory combined federal and provincial income tax rates	528,558	852,159
Non-deductible stock-based compensation	23,790	42,647
Other permanent differences	(52,275)	37,411
Income tax expense	**500,073**	**932,217**

The Company's tax expense / (recovery) is allocated as follows:

	30-Jun-22	30-Jun-21
Current tax expense / (recovery)	52,263	(15,973)
Deferred tax expense / (recovery)	447,810	948,190
	500,073	**932,217**

The Company's recognition of the deferred tax asset is supported by forecasted taxable profits which are projected to generate sufficient taxable income to realize the deferred tax asset

The following table summarizes the components of deferred tax:

	30-Jun-22	30-Jun-21
Deferred tax assets		
Lease and loan receivables	3,032,475	1,793,277
Share and debt issuance costs	11,753	297,696
Non-capital losses carried forward	5,927,719	5,236,417
Property and Equipment and intangible assets	315,962	410,880
Deferred tax liabilities		
Lease and loan receivables	(2,514,794)	-
Property and Equipment and intangible assets	9,953	
Convertible debentures	(133,745)	(641,137)
Net deferred tax asset	**6,649,323**	**7,097,133**

(in Canadian Dollars, unless otherwise indicated)

15. INCOME TAXES (continued)

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intention to offset.

Non-capital losses carried forward will expire between 2037 and 2042 if unused.

Reconciliation of deferred tax assets, net:

	30-Jun-22	**30-Jun-21**
Balance at the beginning of the year	7,097,133	8,045,323
Tax recovery during the year recognized in profit or loss	(447,810)	(948,190)
Tax recovery (expense) during the year recognized in shareholders' equity	-	-
Balance at the end of the year	**6,649,323**	**7,097,133**

The Company is subject to income tax laws in various jurisdictions where it operates, and the complex tax laws are potentially subject to different interpretations by the Company and the relevant taxation authorities. The determination of the Company’s tax provision includes its best estimate of tax positions that are under audit or appeal by relevant taxation authorities. The Company incorporates its best assessment based on information available, but additional liability and income tax expense could result based on decisions made by the relevant tax authorities.

16. RELATED PARTY TRANSACTIONS

In accordance with IAS 24, *Related Party Disclosures*, 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 (executive and non-executive), members of the Advisory board, Senior Executives of the Company, and close family members of those individuals. The Senior Executive team includes the Chief Executive Officer, President, Chief Financial Officer, and Managing Director.

(in Canadian Dollars, unless otherwise indicated)

16. RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel

The remuneration of directors and other members of key management personnel was as follows:

	30-Jun-22	30-Jun-21
Wages and salaries	1,271,000	1,252,250
Employee benefit expenses	124,352	131,568
Stock-based compensation*	63,229	278,998
Total	**1,458,581**	**1,662,816**

**Includes vested options and vested RSUs expensed in the year.*

Compensation of significant shareholder

The Company has also identified a significant shareholder with a business relationship to the Company as a related party for reporting purposes as this shareholder exerted significant influence over the Company. The Company charged this shareholder fees for services provided in the amount of $2,883,968 (year ended June 30, 2021: $1,789,051).

17. COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, the Company and its subsidiaries are involved in various legal actions. The Company establishes legal provisions when it becomes probable that the Company will incur a loss and the amount can be reliably estimated. In management's opinion, based on its current knowledge and after consultation with counsel, the ultimate disposition of these actions, individually or in the aggregate, will not have a material adverse effect on the consolidated financial position of the Company. However, as there are uncertainties inherent in litigation advice, there is a possibility that the ultimate resolution of these actions may be material to the Company's consolidated results of operations for any particular reporting period.

The Company is also committed to operating lease payments for its various premises. As of December 31, 2021, the breakdown of the Company's undiscounted potential future lease payments for its premises by fiscal year in which the payments are expected to occur was as follows:

Fiscal year	Amount
2023	210,165
2024	122,779
Total	**332,944**

Current lease agreements on the Company's premises and the associated payment commitments expire at various dates between December 30, 2022 and March 31, 2024.

(in Canadian Dollars, unless otherwise indicated)

18. FINANCIAL INSTRUMENTS

Hierarchy of fair value measurements

IFRS 13, *Fair Value Measurement*, requires disclosure of a three-level hierarchy for fair value measurements based upon transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1: Fair value is based on quoted market prices in active markets for identical assets or liabilities.

Level 2: Fair value is based on observable inputs other than Level 1 prices, such as quoted market prices for similar, but not identical, assets or liabilities in active markets, quoted market prices for identical assets or liabilities in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Fair value is based on non-observable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Financial instruments classified within Level 3 of the fair value hierarchy are initially fair valued at their transaction price, which is considered the best estimate of fair value. After initial measurement, the fair value of Level 3 assets and liabilities is determined using valuation models, discounted cash flow methodologies, or similar techniques.

During the fiscal year ended June 30, 2022, the Company held various forms of financial instruments that are classified as follows:

Financial instruments	**Fair value level**	**30-Jun-22 Carrying value**	**30-Jun-21 Carrying value**
Assets			
Cash	(1)	1,476,555	3,448,299
Cash held in escrow	(1)	2,599,656	3,198,586
Finance receivables – net	(3)	149,944,160	117,083,907
Accounts receivable	(3)	548,129	219,406
Liabilities			
Accounts payable and other liabilities	(3)	7,011,487	7,917,530
Credit facilities and loans	(3)	111,476,008	93,960,487
Convertible debentures	(3)	19,093,318	17,877,994

18. FINANCIAL INSTRUMENTS (continued)

The fair value of the financial instruments listed above approximates their carrying value. For certain of these instruments, such as finance receivables, credit facilities and loans and convertible debentures, this assertion requires the use of estimates and significant judgement. For example, the finance receivables securing the borrowings were credit scored based on an internal model that is not used in market transactions. They comprise a large number of transactions and are secured by liens on assets being financed. The fair value of any receivable would be affected by a potential buyer's assessment of the transaction's credit quality, collateral value, guarantees, payment history, yield, term, documents and other legal matters, and other subjective considerations. Value received in a fair market sale transaction would be based on the terms of the sale, the buyer's views of the economic and industry conditions, the Company's and the buyer's tax considerations and other factors.

There were no transfers between the three levels in any of the years.

19. CAPITAL MANAGEMENT

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

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 finance receivables portfolio, the Company utilizes its non-securitized credit facilities, securitized debt facilities, and when additional capital is required, it is raised through debenture or 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 receivable acquisitions.

The Company is subject to externally imposed capital requirements pursuant to the covenants of the senior secured credit facility secured by the Company (Note 12(a)) and to the covenants of the securitized debt facilities (Note 12(b)).

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the fiscal year ended June 30, 2022.

(in Canadian Dollars, unless otherwise indicated)

19. CAPITAL MANAGEMENT (continued)

The calculation of the Company's capitalization as of June 30, 2022 and June 30, 2021 is as follows:

	30-Jun-22	**30-Jun-21**
Senior credit facility and other non-convertible loans (Note 12(a))	87,546,368	79,148,517
Securitized debt (Note 12(b))	23,929,640	14,811,970
Convertible debentures (Note 13)	19,093,318	17,877,994
Shareholders' equity	49,416,318	36,085,636
Total capitalization	**179,985,644**	**147,924,117**

The Company's indebtedness pursuant to the senior secured credit facility (Note 12(a)) is subject to a number of covenants and restrictions including the requirement to meet certain financial ratios and financial condition tests at an operational level. The Company also holds bulk loan facilities (Note 12(b)) and is subject to certain covenants pertaining to these facilities.

20. FINANCIAL RISK MANAGEMENT

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 to which the Company is exposed and the policies and procedures for measuring and managing risk.

(i) 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 contract inception and throughout the term of the contract, 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.

20. FINANCIAL RISK MANAGEMENT (continued)

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 receivables portfolio. The Company manages its credit risk by adhering to stringent underwriting guidelines and by limiting the value of each customer's principal amount.

Exposure for credit risk

The Company's maximum exposure to credit risk is represented by the carrying amount for finance receivables, miscellaneous customer and other 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 value of the collateral held may vary from contract to contract 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 finance receivable remaining and the value of the collateral held as security than anticipated.

An analysis of the age and credit quality of financial assets is outlined in Note 6 – Finance receivables.

(ii) 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. The Company also manages liquidity risk by continuously monitoring actual and projected cash flows to ensure that there is enough liquidity to meet its liabilities when due, under both normal and stressed conditions, to continue as a going concern.

The Company has been successful in securing, renewing and expanding the 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 consolidated 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.

(in Canadian Dollars, unless otherwise indicated)

20. FINANCIAL RISK MANAGEMENT (continued)

As of June 30, 2022, the Company's financial obligations were due as follows:

	< 1 year	**1-2 years**	**> 2 years**	**Total**
Credit facilities	2,696,107	80,000	85,007,869	**87,783,976**
Debentures	-	20,190,000	-	**20,190,000**
Bulk loan facilities/securitized debt	7,322,746	5,592,064	11,095,629	**24,010,439**
Accounts payable and other liabilities	7,011,487	-	-	**7,011,487**
	17,030,340	**25,862,064**	**96,103,498**	**138,995,902**

(iii) 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. Finance receivables and unsecured loans bear interest at a fixed rate and are not subject to interest rate risk, as a result of changes in market interest rates.

Credit facilities bear interest at a floating rate (refer to Note 12(a)). The floating rate debt is subject to interest rate cash flow risk as the required cash flows to service the debt will fluctuate as a result of changes in market rates. Fluctuation in interest rates by +/-25 basis points will impact the annual net income by -/+ $219,460, based on gross amounts drawn of $87,783,976 as of June 30, 2022.

21. OPERATING SEGMENTS

Operating segments

The Company operates and reports in two separate segments: (a) automotive lending and (b) equipment financing. These segments represent separate strategic business units offering different services. They are managed separately because each segment involves different marketing strategies and technology and carries different underlying credit risks.

The automotive lending segment reflects the Company's activities in originating and servicing loans and leases granted to the Company's customers to help them finance the purchase of motor vehicles. The equipment financing segment reflects the Company's activities in originating and servicing leases, which are granted to its customers to finance the purchase of various industrial and manufacturing machinery, commercial heavy vehicles and other business equipment.

The segments are evaluated on reported measures, such as financial revenue, net financial income before expenses and operating expenses. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

The following tables show limited financial information for each segment with reconciliation to the Company's overall financial information.

(in Canadian Dollars, unless otherwise indicated)

21. OPERATING SEGMENTS (continued)

Segmented financial position

	As at June 30, 2022			As at June 30, 2021		
	Automotive lending	**Equipment financing**	**Total**	**Automotive lending**	**Equipment financing**	**Total**
Reportable segment assets						
Cash and cash equivalents	2,653,333	1,422,878	4,076,211	5,743,329	903,556	6,646,885
Net finance receivables	128,909,619	21,034,541	149,944,160	116,825,723	258,184	117,083,907
Intangible assets	667,298	157,172	824,470	655,927	175,250	831,177
Goodwill	17,810,702	-	17,810,702	17,810,702	-	17,810,702
Other assets	14,794,555	1,115,512	15,910,067	14,598,723	184,375	14,783,098
Total segment assets	**164,835,507**	**23,730,103**	**188,565,610**	**155,634,404**	**1,521,365**	**157,155,769**
Elimination of intersegmental assets	(1,568,479)	-	(1,568,479)	(1,314,122)	-	(1,314,122)
Total company assets	**163,267,028**	**23,730,103**	**186,997,131**	**154,320,282**	**1,521,365**	**155,841,647**
Reportable segment liabilities						
Credit facilities and loans	89,288,513	22,187,495	111,476,008	93,920,487	40,000	93,960,487
Convertible debentures	19,093,318	-	19,093,318	17,877,994	-	17,877,994
Other liabilities	6,638,418	1,941,548	8,579,966	7,621,975	1,609,677	9,231,652
Total segment liabilities	**115,020,249**	**24,129,043**	**139,149,292**	**119,420,456**	**1,649,677**	**121,070,133**
Elimination of intersegmental liabilities	-	(1,568,479)	(1,568,479)	-	(1,314,122)	(1,314,122)
Total company liabilities	**115,020,249**	**22,560,564**	**137,580,813**	**119,420,456**	**335,555**	**119,756,011**

(in Canadian Dollars, unless otherwise indicated)

21. OPERATING SEGMENTS (continued)

Segmented operating results

	Year ended June 30, 2022			Year ended June 30, 2021		
	Automotive lending	**Equipment financing**	**Total**	**Automotive lending**	**Equipment financing**	**Total**
Financial revenue						
Interest revenue	34,361,566	580,005	34,941,571	34,084,437	75	34,084,512
Fee, servicing and other income	3,543,439	1,678,339	5,221,778	3,164,722	1,119,354	4,284,076
Total Financial revenue	**37,905,005**	**2,258,344**	**40,163,349**	**37,249,159**	**1,119,429**	**38,368,588**
Financial expenses						
Interest expense	7,473,797	413,276	7,887,073	9,184,761	-	9,184,761
Fee and servicing expenses	76,188	230,394	306,582	75,931	131,909	207,840
Provision for credit losses	11,515,662	52,900	11,568,562	10,326,358	-	10,326,358
Total financial expenses	**19,065,647**	**696,570**	**19,762,217**	**19,587,050**	**131,909**	**19,718,959**
Net financial income before expenses	**18,839,358**	**1,561,774**	**20,401,132**	**17,662,109**	**987,520**	**18,649,629**
Segment operating expenses	16,042,911	1,876,392	17,919,303	13,591,841	1,149,771	14,741,612
Net segment income/(loss) (before tax)	**2,796,447**	**(314,618)**	**2,481,829**	**4,070,268**	**(162,251)**	**3,908,017**
Stock-based compensation			402,663			504,833
Acquisitions and integration			94,233			150,000
Income tax expense			500,073			932,217
Net income for the year			**1,484,860**			**2,320,967**

22. SUBSEQUENT EVENTS

On July 6, 2022, the Company announced that its wholly owned equipment finance subsidiary, Pivotal, secured an additional funding facility with Mitsubishi HC Capital Canada, Inc. ("MHCCA"), adding to Pivotal's existing funding relationships. This new agreement with MHCCA adds a purchase facility, with capacity of up to $50 million in annual purchases, and a warehouse facility, with a limit of $5 million, to be used to finance and purchase the payment receivables generated from commercial finance contracts.

The Company also extended the maturity of the $17,550,000 convertible debentures carrying interest rate of 7.5% and issued in April 2018 (Note 13(i)) to December 31, 2025 from the previous maturity date of March 31, 2023. As a condition of this maturity extension, the conversion price decreased from $0.95 to $0.80 per common share.