MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2023 AND 2022

(Expressed in Canadian Dollars)

September 14, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis ("MD&A") of Axis Auto Finance Inc. (the "Company" or "Axis" or "we" or "our"), should be read in conjunction with the Company's audited financial statements for the year ended June 30, 2023 and 2022 ("reporting period") and the accompanying notes to the financial statements. This MD&A is dated September 14, 2023.

The financial statements have been prepared in accordance with International Financial Reporting Standards (**"IFRS"**) issued by the International Accounting Standards Board (**"IASB"**) and in compliance with International Accounting Standards (**"IAS"**) 34, Audited Financial Reporting (**"IAS 34"**) as issued by IASB and adopted by the Chartered Professional Accountants of Canada (**"CPA"**). Further, the financial statements of the Company are presented in accordance with IAS 1 – Presentation of Financial Statements, as issued by the IASB and are reported in Canadian dollars.

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

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

OVERVIEW

Axis is a financial technology lender providing alternative used vehicle financing to consumers located in Canada who do not qualify through traditional sources. Furthermore, Axis, through its wholly owned subsidiary, Axis Equipment Finance Inc. (**"AEF"**), formerly Pivotal Capital Corp. ("**Pivotal**"), provides commercial equipment leasing and financing solutions. The Company is a TSX listed entity (TSX: AXIS), domiciled in Canada, with its company headquarters in Toronto, Ontario. With a variety of financial products and services including automotive and equipment leasing, automotive and equipment loan financings, and other ancillary point of sale products, Axis positions its customers to improve and rebuild their credit, such that they are able to migrate to prime lending and achieve a better financial future. Axis assists in this process through reporting 100% of Axis loans and leases to the credit bureau and on average, 70% of Axis customers have improved their credit rating through obtaining an Axis auto loan or lease.

QUARTERLY- RESULTS HIGHLIGHTS (in $ except ratios)

Quarter ended:	Sep 30, 2021	Dec 31, 2021	Mar 31, 2022	Jun 30, 2022	Sep 30, 2022	Dec 31, 2022	Mar 31, 2023	Jun 30, 2023
Auto	128,523,553	131,337,400	133,079,770	139,903,250	145,625,977	142,480,053	150,584,625	146,540,992
Equipment	1,767,085	6,741,852	14,181,004	21,087,441	31,247,007	44,564,517	51,039,750	58,966,102
Total Portfolio	**130,290,638**	**138,079,252**	**147,260,774**	**160,990,691**	**176,872,984**	**187,044,570**	**201,624,375**	**205,507,094**
Allowance for Credit Losses (ACL) [(a)]	(9,991,674)	(10,506,545)	(10,653,943)	(11,046,531)	(12,123,390)	(12,521,637)	(14,244,022)	(13,518,460)
Net Finance Receivables	120,298,964	127,572,707	136,606,831	149,944,160	164,749,594	174,522,933	187,380,353	191,988,634
ACL %	7.67%	7.61%	7.23%	6.86%	6.85%	6.69%	7.06%	6.58%
Managed Assets [(b)]	54,791,091	65,651,798	75,257,807	89,368,587	98,868,521	113,138,683	123,309,915	128,986,883
Total Owned and Managed Assets [(c)]	**185,081,729**	**203,731,050**	**222,518,581**	**250,359,278**	**275,741,505**	**300,183,253**	**324,934,290**	**334,493,977**
Total revenue	9,948,380	10,054,886	9,879,412	**10,280,671**	10,196,892	10,634,573	9,692,700	**10,071,042**
Net Income / (Loss)	650,734	227,366	293,388	**313,372**	(908,347)	(467,949)	(4,714,593)	**(20,091,194)**
Net Income / (Loss) per share	0.007	0.002	0.002	**0.002**	(0.007)	(0.004)	(0.039)	**(0.165)**
Net Income / (Loss) (YTD)	650,734	878,100	1,171,488	**1,484,860**	(908,347)	(1,376,296)	(6,090,886)	**(26,182,080)**
Net Income / (Loss) per share (YTD)	0.007	0.009	0.011	**0.013**	(0.007)	(0.011)	(0.050)	**(0.215)**

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

(b) Managed assets represent the portfolio of auto finance receivables originated and serviced on behalf of Westlake Financial Services ("**Westlake**") and starting the quarter ended December 31, 2022, it also includes equipment finance receivables originated and then subsequently sold on a serviced basis. Under IFRS-9, these assets do not reside on the Company's balance sheet as they have been sold to a third party and have met the de-recognition rules. While these assets do not reside on the Company's balance sheet, the values represented above are measured based on their fair value.

(c) Total Owned and Managed Assets consists of Axis' on balance sheet auto and equipment portfolio (before ACL) and the managed and serviced asset portfolios as described in footnote (b) above.

QUARTERLY - NON IFRS MEASURES (in $ except ratios) *

Quarter ended:	Sep 30, 2021	Dec 31, 2021	Mar 31, 2022	Jun 30, 2022	Sep 30, 2022	Dec 31, 2022	Mar 31, 2023	Jun 30, 2023
Revenue run-rate (annualized)	39,793,520	40,219,544	39,517,648	41,122,684	40,787,568	42,538,292	38,770,800	40,284,168
Average portfolio yield (YTD) [(a)]	29.43%	28.85%	28.15%	27.59%	25.79%	25.63%	24.78%	24.55%
Annualized realized credit loss rate (YTD) [(b)]	7.34%	7.56%	8.00%	7.89%	8.19%	8.15%	10.57%	11.13%
Average interest expense (YTD) [(c)]	5.08%	4.91%	4.73%	4.74%	5.82%	6.30%	6.59%	6.80%
Adjusted Earnings (Loss)	1,431,023	1,053,220	1,038,678	**1,130,186**	(249,673)	339,993	(3,935,563)	**(1,404,305)**
Adjusted Earnings (Loss) per share	0.015	0.009	0.008	**0.009**	(0.002)	0.003	(0.032)	**(0.011)**
Adjusted Earnings (Loss) (YTD)	1,431,023	2,484,243	3,522,921	**4,653,107**	(249,673)	90,320	(3,845,243)	**(5,249,548)**
Adjusted Earnings (Loss) (YTD) per share	0.015	0.024	0.032	**0.041**	(0.002)	0.001	(0.032)	**(0.043)**
Financial leverage ratio	1.74: 1	1.26: 1	1.38: 1	1.63: 1	2.01: 1	2.20: 1	2.54: 1	2.55: 1

* These non-IFRS measures are shown based on gross finance receivables for the trailing eight quarters shown above. See accompanying description of these Non-IFRS Measures.

(a) Average portfolio yield on the automotive lending portfolio.

(b) Annualized realized credit loss rate is representative of Axis' net write offs on its automotive lending portfolio. Per IFRS accounting for acquisitions, the fair value of the Cars on Credit Financial Inc (**"COCF"**) portfolio, the Trend Financial Corp. (**"Trend"**) portfolio and the January 30, 2023 automotive loan portfolio purchase, at close, were each quantified, factoring in future cash flows, early prepayments and credit defaults, to determine the present value of the portfolio. Therefore, credit losses on the 'at close' acquired portfolios have already been factored into the present value of the portfolio, and therefore, do not impact the credit loss % shown above. Note: Axis has not incurred any credit losses since launching its equipment finance vertical in June 2021.

(c) Average interest expense relates to the automotive lending portfolio.

DESCRIPTION OF NON-IFRS MEASURES

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

These non-IFRS measures provide investors with additional information regarding the Company's liquidity and our ability to generate funds to conduct our business. Management reviews non-IFRS measures on an ongoing basis.

Revenue run-rate

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

Average portfolio yield

Average portfolio yield is the year-to-date financial revenue divided by average finance receivables (gross), specific to the automotive lending portfolio, excluding acquired portfolios. Average portfolio yield provides an indication of the effective yield generated on the automotive finance receivables portfolio before deductions for financial, operating, and tax expenses.

Annualized realized credit loss rate

The annualized realized credit loss rate is equal to net write-offs (write-offs, net of recoveries) recorded year-to-date through the allowance for credit losses divided by average finance receivables (gross) for the period, presented on an annualized basis, specific to the automotive lending portfolio. The year-to-date net write-off amount is shown in Note 7 Allowance for Credit Losses of the Company's financial statements.

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

Average interest expense (over the portfolio)

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

Adjusted Earnings (Loss)

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

- Depreciation and amortization expense
- Stock based compensation expense
- Acquisitions and integration expense
- Non-cash interest expense
- Non-cash impairment charges

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

- Premises specific lease costs which under the newly adopted IFRS-16 are no longer recorded as part of general and administrative expenses but as part of amortization expense (see Note 9 of the Company's financial statements)

Axis uses Adjusted Earnings (Loss) to evaluate the performance of its finance receivable portfolio in the period without the volatility associated with certain non-cash and non-recurring expense items.

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

Adjusted Earnings (Loss) per share

Adjusted Earnings (Loss) per share is the Adjusted Earnings (Loss) for the period divided by the weighted average number of common shares for the period, as shown on the Consolidated Statement of Income (Loss).

Adjusted Earnings (Loss) per share (YTD) is the cumulative Adjusted Earnings (Loss) divided by the weighted average number of common share year-to-date.

Financial leverage ratio and equity capitalization

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

SELECTED CORPORATE & FINANCIAL INFORMATION

Business Highlights

Axis' most notable business highlights during the fourth quarter ended June 30, 2023 were:

- Axis achieved total organic origination volumes on automotive loans of $30.3 million, a decline from the $48.2 million booked in the comparable quarter ended June 30, 2022. Axis' automotive origination volumes consisted of $17.8 million of owned or on balance sheet receivables and $12.5 million of loan receivables originated on behalf of Westlake Financial Services (**"Westlake"**).

- Axis continued to ramp up its commercial equipment leasing and financing solution, originating $32.2 million in quarterly originations, an increase of 3% from $31.4 million booked in the comparable quarter of 2022. The equipment financing originations consisted of $13.3 million of owned or on balance sheet equipment financing leases and loans, while brokering or syndicating $18.9 million of commercial equipment business to its network of buyers.

- Axis reported annualized realized credit losses(1) in its automotive lending business of 12.90%(2), an increase from 7.64%(2) reported for the comparable quarter ended June 30, 2022 as inflationary pressures on the automotive loan customers drove credit loss rates. The Company incurred nil credit losses in its commercial equipment finance business line in the quarter. Management continues to focus on managing collections and delinquency levels in a challenging inflationary environment, which has contributed to the increase in credit losses and a corresponding increase in reportable delinquency to 5.17% as at June 30, 2023, up from 3.16% as of June 30, 2022.

- Axis recorded a $17.8 million goodwill impairment expense related to the Automotive cash generating unit (**"CGU"**).

- Axis recorded an Adjusted Loss(1) of ($1.4)(3) million in the quarter, as compared to Adjusted Earnings(1) of $1.1(3) million in the comparable quarter of the prior year.

- Axis recorded a Net Loss for the quarter ended June 30, 2023 of ($20.1) million, as compared to Net Income of $0.3 million in the comparable quarter ending June 30, 2022.

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(1) This represents a Non IFRS Measure. See 'Description of Non IFRS Measures' for the respective definition of these terms.
(2) Annualized realized credit loss rates is a non IFRS Measure. The %'s referenced relate to quarterly realized credit loss rates.
(3) Adjusted earnings (loss) is reported in 'Results of Operations – Adjusted Earnings (Loss) Reported' section and a reconciliation to Net Income (Loss) is provided, by quarter. See page 19.

Business Highlights

Axis' most notable business highlights during the fiscal year ended June 30, 2023 were:

- Axis negotiated a Master Purchase and Servicing Agreement (**"MPSA"**) with Mitsubishi HC Capital Canada, Inc. (**"Mitsubishi"**), securing a $50 million annual purchases facility to fund the growth of the commercial equipment finance business line. Furthermore, Mitsubishi extended a $5 million warehouse loan facility, which has since been increased to $7.5 million.

- On January 30, 2023, Axis closed the purchase on a $17.2 million automotive sub-prime loan portfolio from an Ontario-based competitor. The portfolio was purchased at a discount to the customer loan balance and approximately 15% of the purchase price was structured as a holdback, where payout is contingent on achieving certain pre-set credit loss thresholds over a 36-month period post close.

- Axis achieved total organic origination volumes on automotive loans of $142.9 million, representing a 7% decline from the $154.0 million booked in the prior year ended June 30, 2022. Axis' automotive origination volumes consisted of $74.2 million of owned or on balance sheet receivables and $68.7 million of loan receivables originated on behalf of Westlake Financial Services (**"Westlake"**).

- Axis continued to ramp up its commercial equipment leasing and financing solution, originating $110.5 million in fiscal 2023 originations, an 8% increase from $102.2 million booked in the prior year. The equipment financing originations consisted of $49.1 million of owned or on balance sheet equipment financing leases and loans, while brokering or syndicating $61.4 million of commercial equipment business to its network of buyers.

- Axis' total automotive finance and equipment finance receivables, including owned and managed automotive and equipment finance assets, and excluding allowances for credit losses, grew to a record $334.5 million, up 34% from $250.4 million at June 30, 2022.

  Axis' owned on balance sheet automotive and equipment finance assets grew to $205.5 million as of June 30, 2023, an increase of 28% from $160.9 million as at June 30, 2022.

- Axis' cost of funds on its senior secured revolving facility, which funds the majority of its automotive loan portfolio, increased significantly with a 325 basis points increase (88%) in Prime rate during the course of fiscal 2023.

- Axis reported annualized realized credit losses[1] in its automotive lending business of 11.13%[2] in fiscal 2023, an increase from 7.89%[2] reported for fiscal 2022, as inflationary pressures on the automotive loan customers drove the increase in credit loss rates. The Company incurred nil credit losses in its commercial equipment finance business line in the year.

- Axis recorded an Adjusted Loss[1] of ($5.2)[3] million in fiscal 2023, as compared to Adjusted Earnings[1] of $4.7[3] million in fiscal 2022.

- Axis recorded a Net Loss for the year ended June 30, 2023 of ($26.2) million, as compared to Net Income of $1.5 million in the prior year ended June 30, 2022.

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(1) This represents a Non IFRS Measure. See 'Description of Non IFRS Measures' for the respective definition of these terms.
(2) Annualized realized credit loss rates is a non IFRS Measure. The %'s referenced relate to the annual realized credit loss rates.
(3) Adjusted earnings (loss) is reported in 'Results of Operations – Adjusted Earnings (Loss) Reported' section and a reconciliation to Net Income (Loss) is provided, by quarter. See page 19.

Financial Highlights – summarized

The following table summarizes both (i) key financial data to be read in conjunction with the audited financial statements of the Company for the year ended June 30, 2023 and 2022, as prepared in Canadian dollars and in accordance with IFRS and (ii) non-IFRS performance measures.

	3 months ended Jun 30, 2023 $	**3 months ended Jun 30, 2022 $**	**12 months ended Jun 30, 2023 $**	**12 months ended Jun 30, 2022 $**
Financial revenue	10,071,042	10,280,671	40,595,207	40,163,349
Net income (loss) after taxes	(20,091,194)	313,372	(26,182,080)	1,484,860
Net income (loss) after taxes (basic and diluted) per share	(0.165)	0.002	(0.215)	0.013
Adjusted Earnings (Loss) **(1)**	(1,404,305)	1,130,186	(5,249,548)	4,653,107
Adjusted Earnings (Loss) (basic and diluted) per share **(1)**	(0.011)	0.009	(0.043)	0.041

(1) Adjusted Earnings (Loss) and Adjusted Earnings (Loss) per share are Non IFRS measures. See 'Description of Non IFRS Measures' for the respective definition of these terms on page 5 and 6.

Balance Sheet Assets	**June 30, 2023 $**	**June 30, 2022 $**
Gross finance receivables	205,507,094	160,990,691
Allowance for credit losses	(13,518,460)	(11,046,531)
Net finance receivables	191,988,634	149,944,160
Goodwill	-	17,810,702
Cash held in escrow	5,812,363	2,599,656
Cash	2,676,060	1,476,555
Other assets	18,071,389	15,166,058
Total assets	**218,548,446**	**186,997,131**

Financial Highlights - commentary

Axis' balance sheet at June 30, 2023 had a book value of $218.5 million, an increase from $187.0 million as at June 30, 2022. The primary driver for the increase in book value from June 30, 2022 was the increase in net finance receivables, which increased $42.0 million, or 28% during fiscal 2023. The increase in finance receivables was partially offset by the reduction in goodwill ($17.8 million) which was determined to be impaired and thus, charged off.

Gross finance receivables were $205.5 million as at June 30, 2023, up from $161.0 million as at June 30, 2022, an increase of $44.5 million, or 28% on a spot basis. On averages, gross finance receivables were $186.5 million, an increase of 34% from an average of $139.6 million for the fiscal year ending June 30,

2022. The year-to-date $44.5 million increase in gross finance receivables consists of $37.9 million in commercial equipment receivables and $6.6 million in automotive lending receivables.

Furthermore, the Westlake managed automotive finance assets portfolio, which does not reside on the Axis balance sheet, grew to $116.1 million, up from $89.4 million as at June 2022, representing a 30% increase year over year.

Financial revenues decreased to $10.1 million, down 2.0% from $10.3 million in the comparable quarter ended June 30, 2022. This decrease was attributable to lower fee and servicing income, which declined from $1.5 million in the quarter ending June 30, 2022 to $0.7 million in the current quarter, a reduction of $0.8 million caused by a lower realization of Westlake related servicing fees and lower broker fee revenues in the commercial equipment finance business line. This year-over-year reduction in fee and servicing revenues was partially offset by the $0.6 million increase in interest revenues, the result of the growth in the commercial equipment on balance sheet finance receivables which reached over $58 million as at June 30, 2023, up from $21.0 million a year earlier.

For the quarter ended June 30, 2023, the annualized realized credit loss rate, a non-IFRS measure, on the automotive portfolio was 12.90%, up from 7.64% for the comparable quarter ended June 30, 2022, the result of higher reportable delinquency levels fueled by the ongoing inflationary environment and its adverse impact on the ability of the Company's non-prime consumers to fulfill their loan obligations.

On a year-to-date basis through June 30, 2023, annualized realized credit losses rose to 11.13%, up from 7.89% in prior year, also due to the ongoing inflationary pressures on non-discretionary consumer expenditures and essential consumer goods and services. Management continues to monitor credit losses closely and has made certain credit policy adjustments as a result of elevated delinquency and credit loss levels.

The Company's financial leverage ratio as at June 30, 2023 was 2.55:1 as compared to 1.63:1 as of June 30, 2022. The primary reason for the rise in the leverage ratio was due to the ramp up in the commercial equipment finance business segment, which grew 180% from June 30, 2022 and the associated debt that was taken on to support this growth.

Axis' goodwill of $17.8 million attributed to its Automotive CGU is subjected to an annual assessment for impairment. Due to lower projected automotive portfolio growth driven from tighter credit and adjudication standards, elevated cost of funds in the medium term, and higher anticipated automotive portfolio defaults in the near term, it was determined that Axis' goodwill was impaired and as such, a charge of $17.8 million was taken in the quarter ending June 30, 2023.

Net loss before taxes and after the goodwill impairment charge was ($20.8) million for the quarter ending June 30, 2023, as compared to net income before taxes of $0.3 million for the quarter ending June 30, 2022.

Net loss after taxes was ($20.1) million for the quarter ending June 30, 2023, as compared to net income after taxes of $0.3 million for the quarter ending June 30, 2022. For the quarter ending June 30, 2023, net loss per share – basic and diluted – was ($0.165) as compared to net income of $0.002 per share for the quarter ending June 30, 2022.

Adjusted loss, a non-IFIRS measure, was ($1.4) million for the quarter ending June 30, 2023, or ($0.011) per share, as compared to adjusted earnings of $1.1 million, or $0.009 per share, for the quarter ending June 30, 2022.

OUTLOOK

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

- Focused automotive originations in the sub-prime customer segments, that will generate higher yielding finance receivables in excess of 26.0% on fiscal 2024 volumes. As of June 2023, Axis has paused its near prime auto loan offering that was previously being sold and funded by Westlake.

- Ongoing risk management and loss mitigation, to counter act the higher reportable delinquency levels currently being experienced, to be achieved through bolstering efforts in portfolio management and through the continued refinement of credit adjudication standards in response to portfolio performance.

- Diversification of funding facilities for the automotive portfolio segment, that will enable the automotive finance segment to add a fixed rate securitization type structure, thereby fixing the funding rate at inception of the loan contract and not being subjected to further movement in variable rate funding facilities.

- Further deployment of technology specific solutions to the underwriting and servicing aspects of the business, thereby realizing ongoing efficiencies, improvements and a scalable business model that can support the Company’s future growth objectives.

RESULTS OF OPERATIONS [IFRS Reported] – 3 Years Historical

The following table summarizes financial results for each of the last three reported fiscal year ends, as reported in the audited financial statements of the Company:

	12 months ended June 30, 2023 $	**12 months ended June 30, 2022 $**	**12 months ended June 30, 2021 $**
Financial revenue:	**40,595,207**	**40,163,349**	**38,368,588**
Interest	36,518,754	34,941,571	34,084,512
Fee and servicing income	4,076,453	5,221,778	4,284,076
Financial expenses:			
Interest	13,645,459	7,887,073	9,184,761
Fee and servicing expenses	193,913	306,582	207,840
Provision for credit losses	17,901,553	11,568,562	10,326,358
Sub-total, Financial expenses	**31,740,925**	**19,762,217**	**19,718,959**
Net financial income before operating expenses	**8,854,282**	**20,401,132**	**18,649,629**
Impairment expense	17,810,702	-	-
Operating expenses (excl impairment)	19,954,698	18,416,199	15,396,445
Sub-total, Operating expenses	37,765,400	18,416,199	15,396,445
Net income / (loss) before income taxes	**(28,911,118)**	**1,984,933**	**3,253,184**
Income tax (recovery) / expense	(2,729,038)	500,073	932,217
Net income / (loss)	**(26,182,080)**	**1,484,860**	**2,320,967**
Net income / (loss) per share	**(0.215)**	**0.013**	**0.024**

The Company's revenues increased from $38.4 million to $40.6 million, representing a 6% increase, which consisted of a 7% increase in interest revenues, while fee and servicing revenues declined by 5%. The increase in interest revenues was primarily attributable to the equipment business segment, while the reduction in fee income was the result of lower equipment broker fee revenues.

Financial expenses increased $12.0 million (61%), from $19.7 million in fiscal 2021 to $31.7 million in fiscal 2023, primarily due to the increase in provision for credit losses which contributed $7.5 million of the increase due to the increase in realized credit losses, while Interest Expense contributed $4.5 million of the increase, primarily driven off the growth in the equipment portfolio and the rapid rise in Prime rate over this period.

As described in the Goodwill section of the MD&A, in fiscal 2023, Axis incurred a $17.8 million impairment expense related to its goodwill. Furthermore, operating expenses, excluding impairment, rose from $15.4 million to $19.9 million in fiscal 2023 (30%), the result of the build out of the equipment portfolio, increases in variable costs associated with the origination of automotive loan originations and increased servicing costs associated with the on-balance sheet and managed automotive loan portfolio, which increased from $171.5 million as at June 30, 2021 to $262.6 million as at June 30, 2023, representing a 53% increase.

RESULTS OF OPERATIONS [IFRS Reported] – Q/Q & Y/Y

The following table summarizes financial results for each of the reported periods, as reported in the audited financial statements of the Company:

	3 months ended June 30, 2023 $	**3 months ended June 30, 2022 $**	**12 months ended June 30, 2023 $**	**12 months ended June 30, 2022 $**
Financial revenue:	**10,071,042**	**10,280,671**	**40,595,207**	**40,163,349**
Interest	9,328,712	8,774,980	36,518,754	34,941,571
Fee and servicing income	742,330	1,505,691	4,076,453	5,221,778
Financial expenses:				
Interest	4,091,157	1,994,701	13,645,459	7,887,073
Fee and servicing expenses	68,589	73,611	193,913	306,582
Provision for credit losses	3,605,049	2,963,896	17,901,553	11,568,562
Sub-total, Financial expenses	**7,764,795**	**5,032,208**	**31,740,925**	**19,762,217**
Net financial income before operating expenses	**2,306,247**	**5,248,463**	**8,854,282**	**20,401,132**
Impairment expense	17,810,702	-	17,810,702	-
Operating expenses (excl impairment)	5,319,435	4,913,531	19,954,698	18,416,199
Sub-total, Operating expenses	23,130,137	4,913,531	37,765,400	18,416,199
Net income / (loss) before income taxes	**(20,823,890)**	**334,932**	**(28,911,118)**	**1,984,933**
Income tax (recovery) / expense	(732,696)	21,560	(2,729,038)	500,073
Net income / (loss)	**(20,091,194)**	**313,372**	**(26,182,080)**	**1,484,860**
Net income / (loss) per share	**(0.165)**	**0.002**	**(0.215)**	**0.013**

Financial Revenue

Through its automotive lending vertical, Axis originates loans through a network of independent and franchised used vehicle dealers, to consumers that are typically unable to obtain financing from traditional sources. Additionally, through its equipment financing vertical, the Company originates equipment leases and loans for commercial customers. The Company generates interest and fee income on the finance receivables generated through each of its consumer automotive and commercial equipment financing verticals.

For the quarter ended June 30, 2023, the financial revenues decreased by $0.2 million (2.0%) to $10.1 million, as compared to the quarter ended June 30, 2022.

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

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

For the quarter ended June 30, 2023, interest revenue increased by $0.6 million (6.3%) as compared to the quarter ended June 30, 2022. The increase was due to the growth in average finance receivables in the commercial equipment finance business segment.

Fee and servicing income is earned from the following sources:

(i) Automotive lease and loan contracts and the related fees charged to the customer subsequent to the origination of the finance receivables. These fees relate to the administration and subsequent servicing of the financial asset.

(ii) Fee and servicing income earned on the adjudication and servicing of finance receivables held by Westlake, which do not reside on the Axis balance sheet; and

(iii) Broker fees charged on its commercial equipment originations that are originated to third parties.

During the quarter ended June 30, 2023, fee and servicing income was $0.7 million, a decline of $0.8 million from the $1.5 million in fee and servicing income earned during the quarter ended June 30, 2022. The decline in year-over-year fee and servicing income was due to the reduction in Westlake related servicing fees and lower broker fee revenues related to the commercial equipment finance business line.

Financial Expenses

The following table summarizes the Company's financial expenses:

	3 months ended Jun 30, 2023 $	3 months ended Jun 30, 2022 $	12 months ended Jun 30, 2023 $	12 months ended Jun 30, 2022 $
Interest expense	4,091,157	1,994,701	13,645,459	7,887,073
Fee and servicing expense	68,589	73,611	193,913	306,582
Provision for credit losses	3,605,049	2,963,896	17,901,553	11,568,562
Total financial expense	**7,764,795**	**5,032,208**	**31,740,925**	**19,762,217**

Provision for credit losses

For the quarter ended June 30, 2023, the provision for credit losses (PCL) was $3.6 million, an increase of $0.6 million (21.6%), from $3.0 million of PCL charge incurred for the quarter ended June 30, 2022. The increase in PCL was primarily related to increased automotive related realized credit losses which rose by $1.8 million year over year to $4.3 million in the fourth quarter of fiscal 2023, as evidenced by the increase in credit loss frequency. The increase in realized credit losses was partially offset by the reduction in provision for automotive's allowance for credit losses, as the automotive portfolio balance of $146.5M represented a 3% decline from the prior quarter ending March 31, 2023.

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

Management utilizes the annualized realized credit loss rate as an alternative measure to the provision for credit losses in examining loan losses as it excludes the effect of provisions for (reductions in) the allowance for credit losses during the period, which may not coincide with the timing of when write-offs and recoveries are actually incurred. The Company continues to closely monitor contractual delinquencies and make modifications to credit policies as appropriate.

Finance receivables are normally written-off when there is no realistic prospect of recovery of the amounts outstanding. If through the examination of contractual delinquency and an individual borrower's financial condition, it is determined that there is no realistic prospect of recovery of a debtor's obligation, the finance receivable is written off. Please refer to the sections entitled "Allowance for credit losses" and "Delinquency and losses" contained within this MD&A for additional information on the change in the allowance for credit losses during the reporting period and contractual delinquency as at each reporting date.

Interest expense

The following table summarizes the interest expense:

	3 months ended Jun 30, 2023 $	**3 months ended Jun 30, 2022 $**	**12 months ended Jun 30, 2023 $**	**12 months ended Jun 30, 2022 $**
Securitization interest	1,095,819	15,450	2,482,068	519,565
Coupon interest	2,707,095	1,584,125	9,944,754	5,786,564
Accretion expense	288,243	395,126	1,218,637	1,580,944
Total Interest expense	**4,091,157**	**1,994,701**	**13,645,459**	**7,887,073**

Interest expense for the quarter ended June 30, 2023 was $4.1 million, an increase of $2.1 million (or 105%) from $2.0 million for the quarter ended June 30, 2022. The year over year increase during the fourth quarter was a combination of the following components:

- Coupon interest, consisting of interest on senior debt and debentures, increased by $1.1 million, or 71% to $2.7 million, the result of (i) the rise the rise in cost of funds associated with the automotive funding facility, as precipitated by the increase in Prime rate from 3.70% in June 2022 to 6.95% as at June 2023, representing a 88% year over year increase and (ii) a combined 14% increase in senior debt that was deployed to support the growth of the automotive and commercial equipment portfolios

- Securitization interest expense increased $1.1 million, the result of the growth in the commercial equipment finance business segment, which uses securitization as its source of funding. The automotive portfolio purchase during the quarter ended March 31, 2023 was also financed using securitization facilities and thus, also contributed to the increase year-over-year.

- Accretion expense of $0.3 million, down marginally from $0.4 million in the prior year.

The following interest amounts were paid in cash:

	3 months ended Jun 30, 2023 $	3 months ended Jun 30, 2022 $	12 months ended Jun 30, 2023 $	12 months ended Jun 30, 2022 $
Securitization interest	1,095,819	15,450	2,482,069	519,565
Coupon interest	2,707,095	1,584,125	9,944,753	5,786,564
Total Cash Interest expense	**3,802,914**	**1,599,575**	**12,426,822**	**6,306,129**

Operating expenses

The following table summarizes operating expenses:

	3 months ended Jun 30, 2023 $	3 months ended Jun 30, 2022 $	12 months ended Jun 30, 2023 $	12 months ended Jun 30, 2022 $
General and administrative	4,487,347	4,249,762	17,174,918	15,977,241
Impairment of goodwill	17,810,702	-	17,810,702	-
Depreciation	241,965	202,104	817,500	821,140
Amortization	171,978	161,484	695,304	735,992
Stock based compensation	214,987	119,536	652,108	402,663
Acquisitions and integrations	34,239	20,000	65,936	94,233
Professional fees	168,919	160,645	548,932	384,930
Total operating expenses	**23,130,137**	**4,913,531**	**37,765,400**	**18,416,199**

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

For the quarter ended June 30, 2023, total operating expenses increased from $4.9 million in the fourth quarter of fiscal 2022, to $23.1 million in the current quarter ending June 30, 2023. The largest contributor to the $18.2 million increase in total operating expenses was the $17.8 million goodwill impairment expense that was taken on the Automotive CGU. The combination of lower forecasted automotive portfolio growth, driven from tighter credit adjudication standards, along with elevated cost of funds in the medium term and higher anticipated automotive portfolio defaults in the near term, led to the impairment of goodwill.

Furthermore, general and administrative expenses increased from $4.3 million to $4.5 million, an increase of $0.2 million (6%) from the quarter ended June 30, 2022, mainly the result of a one-time restructuring charge of $0.2 million. This restructuring expense was specific to severance expenditures resulting from staffing reductions related to the originations' functions supporting the automotive business line, as curtailments to sub-prime originations and near prime Westlake originations programs were implemented.

Depreciation and amortization expense for the quarter ended June 30, 2023 was $0.4 million, consistent with the comparable period of prior year. Stock based compensation increased to $0.2 million, from $0.1 million in the comparable quarter of fiscal 2022, the result of additional stock-based compensation grants that were issued in relation to management personnel in the commercial equipment finance business vertical. Professional fees in the fourth quarter of fiscal 2023 were on par with the comparable quarter of the prior year.

RESULTS OF OPERATIONS [Adjusted Earnings (Loss) Reported] – Q/Q and & Y/Y

Adjusted Earnings (Loss) is a non-IFRS measure, as defined on pages 5 and 6 of the MD&A, which the Company uses to measure the performance of the operation and the underlying finance receivables portfolio. Axis management believes that it facilitates an enhanced understanding of the results of the operation.

Reconciliation of Reported Net Income / (Loss) to Adjusted Earnings (Loss)

The reconciliation between reported Net Income / (Loss) and Adjusted Earnings (Loss) is shown below:

	3 months ended Jun 30, 2023 $	3 months ended Jun 30, 2022 $	12 months ended Jun 30, 2023 $	12 months ended Jun 30, 2022 $
Net income / (loss), as reported	**(20,091,194)**	**313,372**	**(26,182,080)**	**1,484,860**
Adjustments:				
Non-cash interest (1)	288,243	401,809	1,218,637	1,580,944
Depreciation (2)	241,965	202,104	817,500	821,141
Amortization (2)	171,978	161,484	695,304	735,991
Acquisitions and integration (2)	34,239	20,000	65,936	94,233
Stock based compensation (2)	214,987	119,536	652,108	402,663
IFRS-16 lease expense (3)	(75,225)	(88,119)	(327,655)	(466,725)
Goodwill impairment (4)	17,810,702	-	17,810,702	-
Adjusted Earnings (Loss)	**(1,404,305)**	**1,130,186**	**(5,249,548)**	**4,653,107**

(1) See Consolidated Statement of Cash Flows which outlines the non-cash interest expense
(2) See Consolidated Statements of Income / (Loss) and Comprehensive Income / (Loss)
(3) See Note 9 to the Consolidated Financial Statements outlining the actual office lease charge as accounted for under IFRS-16
(4) See Note 4 to the Consolidated Financial Statements outlining the impairment of goodwill

The reconciling items between Net Income / (Loss) and Adjusted Earnings (Loss) consist of the following:

- **Non-cash interest expense** – due to the nature of the convertible debentures, this instrument was bifurcated into its debt and equity components upon issuance. The debt component is accreted up to its face value over the life of the instrument and results in an interest expense to the Consolidated Statement of Income / (Loss), despite it being a non-cash charge. As it does not represent a servicing cost that is settled in cash, this item is adjusted for in the quantification of Adjusted Earnings (Loss).

- **Non-Core & Non-Cash Expenses** – operating expenditures in the form of depreciation and amortization are considered non-core, while acquisitions and integration expenditures are considered non-recurring. Stock based compensation and goodwill impairment are non-cash charges which are also adjusted accordingly. As such, these are adjusting items in the quantification of Adjusted Earnings (Loss).
- **IFRS-16 Office Lease Expenses** – as per IFRS-16, office lease expenses are accounted for as an amortization expense for reporting purposes, and since the full amount of amortization expense is added back, this adjustment deducts the office lease portion as it represents an operating expense of the business.

Adjusted Earnings (Loss) Performance

The company reported an Adjusted Loss of ($1.4) million in the quarter ending June 30, 2023, down from the reported Adjusted Earnings of $1.1 million for the comparable quarter in the prior year. A year over year comparison of Adjusted Earnings (Loss) is shown below:

	3 months ended Jun 30, 2023 $	3 months ended Jun 30, 2022 $	12 months ended Jun 30, 2023 $	12 months ended Jun 30, 2022 $
Financial revenue:	**10,071,042**	**10,280,671**	**40,595,207**	**40,163,349**
Interest	9,328,712	8,774,980	36,518,754	34,941,571
Fee and servicing income	742,330	1,505,691	4,076,453	5,221,778
Financial expenses:				
Interest expense (cash only) (1)	3,802,914	1,592,892	12,426,822	6,306,129
Fee and servicing expenses	68,589	73,611	193,913	306,582
Provision for credit losses	3,605,049	2,963,896	17,901,553	11,568,562
Sub-total, Adjusted financial expenses	**7,476,552**	**4,630,399**	**30,522,288**	**18,181,273**
Net adjusted financial income before operating expenses and income tax	**2,594,490**	**5,650,272**	**10,072,919**	**21,982,076**
Adjusted operating expenses (2)	4,731,491	4,498,527	18,051,505	16,828,896
Income tax expense / (recovery)	(732,696)	21,559	(2,729,038)	500,073
Adjusted Earnings (Loss)	**(1,404,305)**	**1,130,186**	**(5,249,548)**	**4,653,107**
Adjusted Earnings (Loss) per share	**($0.011)**	**$0.009**	**($0.043)**	**$0.041**

(1) See Consolidated Statement of Cash Flows which outlines the cash portion of interest expense
(2) Adjusted operating expenses is equal to total operating expenses less depreciation, amortization, acquisitions and integration, stock-based compensation and goodwill impairment, plus the office lease expense portion of amortization as shown in the Reconciliation of Reported Net Income / (Loss) to Adjusted Earnings (Loss).

Axis revenues declined by 2.0% ($0.2 million) during the quarter ended June 30, 2023, to $10.1 million, for the reasons outlined above in the section "Results of Operation (IFRS Reported)". There are no differences between reported Net Income / (Loss) and Adjusted Earnings (Loss) as it pertains to financial revenues.

Meanwhile, Adjusted financial expenses, increased 61% to $7.5 million, up $2.8 million from $4.6 million in the quarter ended June 30, 2022. This increase is the result of increased interest costs and higher provision for credit losses. Interest expenses increased $2.2 million over the same quarter of prior year, of which $0.8 million relates to the ongoing growth in the commercial equipment finance business and $1.4 million relates to the year-over-year increase in the prime rate, which increased from 3.7% as at June 30, 2022 to 7.2% as of June 30, 2023, representing a 95% rise. The rapid increase in the prime rate had a direct impact on Axis' cash interest expense as the borrowing facilities for both the automotive segment and the warehouse facilities that support the equipment segment, are based on prime rate.

Furthermore, the provision for credit losses increased $0.6 million over the same quarter of fiscal 2022, for the same reasons outlined above in the section "Results of Operation (IFRS Reported)".

Adjusted operating expenses increased 5% to $4.7 million in the quarter ended June 30, 2023, up from $4.5 million in the quarter ended June 30, 2022, which was attributable to the $0.2 million in restructuring expenses incurred in the quarter.

In the quarter ended June 30, 2023, the Company reported an Adjusted Loss of ($1.4) million, equal to ($0.011) per share, down from Adjusted Earnings of $1.1 million in the quarter ended June 30, 2022, or $0.009 per share.

RECONCILIATION of NET INCOME (LOSS) to ADJUSTED EARNINGS (LOSS)

The reconciliation between reported Net Income (Loss) and Adjusted Earnings (Loss), for each of the trailing eight quarters (as referenced on page 4 of the MD&A) is shown below:

	3 months ended Sep 30, 2021 $	3 months ended Dec 31, 2021 $	3 months ended Mar 31, 2022 $	3 months ended Jun 30, 2022 $
Net income / (loss), as reported	**650,734**	**227,366**	**293,388**	**313,372**
Adjustments:				
Non-cash interest (1)	366,247	424,952	387,936	401,809
Depreciation (2)	201,762	220,652	196,622	202,104
Amortization (2)	193,714	226,890	153,904	161,484
Acquisitions and integration (2)	21,185	25,788	27,260	20,000
Stock based compensation (2)	129,962	86,445	66,720	119,536
IFRS-16 lease expense (3)	(132,581)	(158,873)	(87,152)	(88,119)
Adjusted Earnings (Loss)	**1,431,023**	**1,053,220**	**1,038,678**	**1,130,186**

	3 months ended Sep 30, 2022 $	3 months ended Dec 31, 2022 $	3 months ended Mar 31, 2023 $	3 months ended Jun 30, 2023 $
Net income / (loss), as reported	**(908,347)**	**(467,949)**	**(4,714,593)**	**(20,091,194)**
Adjustments:				
Non-cash interest (1)	256,489	332,860	341,046	288,243
Depreciation (2)	199,855	200,479	175,201	241,965
Amortization (2)	177,660	178,666	167,001	171,978
Acquisitions and integration (2)	22,874	0	8,823	34,239
Stock based compensation (2)	90,884	184,883	161,354	214,987
IFRS-16 lease expense (3)	(89,088)	(88,946)	(74,395)	(75,225)
Goodwill impairment (4)	-	-	-	17,810,702
Adjusted Earnings (Loss)	**(249,673)**	**339,993**	**(3,935,563)**	**(1,404,305)**

(1) See Consolidated Statement of Cash Flows which outlines the non-cash interest expense
(2) See Consolidated Statements of Income / (Loss) and Comprehensive Income / (Loss)
(3) See Note 9 to the Consolidated Financial Statements outlining the actual office lease charge as accounted for under IFRS-16
(4) See Note 4 to the Consolidated Financial Statements outlining the goodwill impairment

FINANCIAL POSITION

The following table summarizes the Company's financial position:

As at	Jun 30, 2023 $	Jun 30, 2022 $
Finance receivables – net	191,988,634	149,944,160
Goodwill	-	17,810,702
Cash held in escrow	5,812,363	2,599,656
Cash	2,676,060	1,476,555
Non-portfolio assets	18,071,389	15,166,058
Total assets	**218,548,446**	**186,997,131**
Credit facilities and loans	167,421,746	111,476,008
Convertible debentures	17,599,672	19,093,318
Other liabilities	9,313,087	7,011,487
Total liabilities	**194,334,505**	**137,580,813**
Equity	**24,213,941**	**49,416,318**

Assets

Total assets increased by $31.5 million, to $218.5 million as at June 30, 2023 from $187.0 million as at June 30, 2022. The increase in total assets was primarily due to the increase in net finance receivables ($42.0 million), which was offset by the reduction in goodwill, which was written down $17.8 million to a balance of nil as at June 30, 2023.

As at June 30, 2023, non-portfolio assets represented $18.0 million (8.3%), as compared to $15.2 million (8.1%) of total assets. The increase in non-portfolio assets of $2.9 million was primarily the result of the increase in inventory levels and deferred tax assets.

Finance Receivables - net

As at	Jun 30, 2023 $	Jun 30, 2022 $
Finance receivables before accrued interest	203,714,090	159,235,598
Accrued interest	1,793,004	1,755,093
Finance receivables before allowance	**205,507,094**	**160,990,691**
Allowance for credit losses	(13,518,460)	(11,046,531)
Finance receivables – net	**191,988,634**	**149,944,160**

In total, finance receivables before allowance grew during fiscal 2023 to $205.5 million, from $161.0 million as at June 30, 2022, a 28% increase. Portfolio growth of $44.5 million in fiscal 2023 was the result of the increase in commercial equipment finance receivables ($37.9 million) and the automotive on balance sheet receivables ($6.6 million).

All finance receivables are secured, under the applicable provincial personal property registry, by either motor vehicles or equipment collateral. The Company's strategy is to be an alternative lender to major financial institutions in the non-prime used vehicle finance market and commercial equipment finance market.

As at June 30, 2023, the Company's finance receivable portfolio is composed of $146.5 million in automotive loans and $59.0 million in commercial equipment loans and leasing contracts, while as at June 30, 2022, the $160.9 million total portfolio consisted of $139.9 million of automotive loans and $21.0 million of commercial equipment loans and leasing contracts. A further composition of the portfolio is shown below in more detail.

Automotive Portfolio Composition (1)

		At June 30, 2023	At June 30, 2022
$ Size of Contract	< $10,000	12%	26%
	>$10,000 & < $15,000	21%	38%
	>$15,000	67%	36%
Borrower Credit Score	No score	10%	8%
	Credit score < 500	20%	16%
	Credit score 500 - 600	47%	41%
	Credit score > 600	23%	35%

Axis's automotive portfolio consisted of higher valued assets when compared on a year over year basis, with the average finance receivables exceeding $15,000, increasing from 36% as at June 30, 2022 to 67% as at June 30, 2023. This increase is reflective of the rise in used vehicle prices that has occurred since COVID, and for Axis was more pronounced in fiscal 2023 as earlier vintages were replaced with new vintages with higher average contract values.

Equipment Portfolio Composition (1)

		At June 30, 2023	At June 30, 2022
$ Size of Contract	< $100,000	38%	22%
	>$100,000 & < $250,000	51%	70%
	>$250,000	11%	8%
Borrower Risk Rating	BRR Score		
	< 4.67	0%	0%
	> 4.67 & < 6.0	88%	84%
	> 6.0	12%	16%

Axis' equipment finance portfolio consisted mainly of customer contract receivables that are below $250,000 in value, with ~ 89% of all equipment receivables valued below this threshold as of June 30, 2023. From a Borrower risk rating (**"BRR"**) standpoint, approximately 88% of contracts range between 4.67 and 6.0, as at June 30, 2023.

(1) The portfolio composition breakdown is reflective of the on-balance sheet assets and does not include any managed assets of Westlake for automotive nor the equipment specific contracts that were syndicated.

Allowance for credit losses

During fiscal 2023, the Company's ending allowance for credit losses was $13.5 million, an increase from $11.0 million as at June 30, 2022, reflective of the 28% on balance sheet portfolio growth during the year, while also reflecting the increase in reportable delinquent levels to 5.17% as at June 30, 2023, up from 3.16% as at June 30, 2022. The increase in reportable delinquent levels during the year ending June 30, 2023 is mainly due to the increase in consumer automotive delinquencies as inflationary pressures and affordability have impacted the timely repayment of their automotive loans.

Expressed as a percentage of the consolidated gross finance receivables, the allowance for credit losses was 6.58% as at June 30, 2023, slightly lower than the allowance of 6.86% as at June 30, 2022, the result of the disproportionate growth in the equipment finance receivables, which are provisioned at far lower levels. In splitting out the respective segments, as shown in Note 7 of the financial statements, Auto's allowance for credit losses was set at 9.12% as at June 30, 2023, an increase from 7.86% as at June 30, 2023, while Equipment's allowance for credit losses was set at 0.27% as at June 30, 2023, a slight increase from 0.25% a year prior.

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

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

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

Delinquency and losses

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

For periods (in $)	**For 12 months ended Jun-30-2023**	**For 12 months ended Jun-30-2022**
Allowance for credit losses, beginning of period	11,046,531	9,626,874
Provisions for credit losses	17,901,553	11,568,562
Write-offs, net of recoveries	(15,429,624)	(10,148,905)
Allowance for credit losses, end of period	**13,518,460**	**11,046,531**

Write-off's, net of recoveries increased from $10.1 million for the year ended June 30, 2022, to $15.4 million for the year ended June 30, 2023, a $5.3 million (52%) increase. All credit losses incurred during fiscal 2023 relate to the Company's automotive finance business line. The increase in year-over-year automotive lending credit losses in fiscal 2023 was primarily the result of a sharp rise in credit losses in the 2nd half of the year, leading to an annual loss rate of 11.13% in fiscal 2023, up from 7.89% in fiscal 2022.

The primary factor leading to increased credit loss rates in fiscal 2023 is the macroeconomic inflationary environment that has adversely impacted Axis' customers.

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

Age	30-Jun-2023		30-Jun-2022	
Current	194,893,601	94.83%	155,893,812	96.84%
Reportable delinquency:				
31-60 Days	4,311,094	2.10%	2,690,851	1.67%
Over 60 days	6,302,399	3.07%	2,406,028	1.49%
	205,507,094	**100.00%**	**160,990,691**	**100.00%**

As at June 30, 2023, the current to 30 days past due accounts totaled 94.83% of the Company's finance receivables (at June 30, 2022 – 96.84%). The reportable delinquencies (accounts 31+ days overdue) were 5.17% as at June 30, 2023. Comparison of delinquency levels are most meaningful when evaluated against the same point of time, when the same seasonal factors exist. In comparison to the historically low reportable delinquency of 3.16% as at June 30, 2022, the Company has experienced an expected increase in delinquency to 5.17% as of June 30, 2023, as its auto finance customers face challenges in the current inflationary environment.

As compared against the historically low reportable delinquent levels in fiscal 2022, management expected to experience elevated delinquency levels in fiscal 2023 as consumers faced escalating inflationary pressures and felt the effects of the Bank of Canada's monetary policy.

Goodwill

The $17.8 million in goodwill related to the Automotive CGU, was determined to be impaired and written off during the quarter ending June 30, 2023. The goodwill impairment was the result of projected slowing in automotive portfolio growth, elevated near term credit defaults and an overall higher cost of funding expected in the medium-term outlook.

Cash Held in Escrow

As part of the 2018 acquisitions, Axis acquired cash reserves and restricted cash balances that are part of the program and funding agreements held with the respective funding partners. Furthermore, over the course of the last 18 months, the Company has established certain securitization arrangements needed to fund the commercial equipment finance business line, for which the Company is required to set aside associated cash reserves commensurate with the growth of the underlying portfolio. Lastly, during the quarter ended March 31, 2023, Axis financed the January 2023 automotive portfolio purchase via a securitization funding facility, for which the Company needed to set aside certain cash reserves.

During fiscal 2023, the cash reserves and restricted cash balances increased in size commensurate with the growth in the underlying securitized debt associated with the commercial equipment finance business line and the January 2023 automotive loan portfolio purchase. Of the two automotive related acquisitions made in 2018, only COCF holds outstanding securitized debt, as the Company repaid the balance of the Trend securitized debt in fiscal 2022, free of penalty.

A summary of these balances as at June 30, 2023 and June 30, 2022 are shown below:

Cash Held in Escrow	30-Jun-2023	30-Jun-2022
Cash reserves held with funder	5,605,483	2,399,449
Cash restricted (owed to funder)	206,880	200,207
Cash Held in Escrow	**5,812,363**	**2,599,656**

Liabilities

Total liabilities as at June 30, 2023 were $194.3 million, as compared to $137.6 million as at June 30, 2022. The increase in liabilities during the year was primarily due to the increase in credit facilities and loans ($55.9 million) and recognizing contingent consideration payable ($1.9 million) on the automotive portfolio purchase made in January 2023.

Of the $194.3 million in total liabilities, Axis' primary funding sources, including both senior and subordinated debentures, comprised $185.0 million as at June 30, 2023, consisting of:

- Axis' senior secured revolving credit facility, used to fund automotive finance receivables, and the warehouse loan facilities which are used to fund equipment finance receivables prior to securitization. As at June 30, 2023, there was a principal balance of $91.5 million (June 30, 2022 - $85.0 million) outstanding on the senior secured revolving credit facility. The amount outstanding under this facility increased by a net amount of $6.5 million since June 30, 2022, in support of the growth of the Company's auto loan portfolio.

  The interest rate on the revolving credit facility is prime rate plus 1.90%, an agency fee of 0.25% per annum, and a standby fee of 0.50% applied against any unused commitment. Please refer to Note 12 – "Credit facilities and loans" in the Company's financial statements for additional information.

  Additionally, there was $8.3 million in commercial equipment warehouse facility debt as at June 30, 2023, up from $2.5 million as at June 30, 2022.

- Total securitized bulk loan facilities had total outstanding balances of $67.6 million as at June 30, 2023 (June 30, 2022 - $23.9 million). These bulk loan facilities are subject to certain eligibility criteria and bear interest between 3.95% and 8.38% per annum and are used to fund both the commercial equipment business vertical, the legacy COCF automotive portfolio, and the assets that were part of the January 2023 automotive loan portfolio purchase.

- Axis issued convertible subordinated debentures in the fourth quarter of fiscal 2018 ($17.55 million) and in the second quarter of fiscal 2020 ($2.64 million). Cumulatively, Axis has issued debentures with a face value of $20.19 million, carrying a coupon of 7.5%, payable semi-annually. During fiscal 2023, the $17.55 million debenture originated in 2018 (with an original term ending March 31, 2023) was extended to December 31, 2025 at the same coupon of 7.5% and a conversion price of $0.80, down from $0.95. The remaining $2.64 million in debentures matured on June 30, 2023 and as of September 11, 2023 has been repaid in full, as described in Note 23 'Subsequent Events' of the June 30, 2023 audited financial statements.

  As this debt instrument also has a conversion feature, the tax effected equity component of $5.0 million was carved out and recorded in equity, while the remaining debt component was reported as a liability. As at June 30, 2023, the balance of the debenture, reported as debt was $17.6 million.

During the year ending June 30, 2023, Axis recognized contingent consideration payable of $1.9 million, related to the purchase of an automotive loan portfolio in January 2023. The contingent consideration is contingent upon achieving certain credit loss thresholds, and if achieved, is payable over a 36-month period post close. The future expected payments, in turn, were present valued in arriving at its current book value.

Shareholders' Equity

Common shares, Warrants and Contributed Surplus

Common shares decreased to $48.1 million at June 30, 2023, a $1.0 million decrease from June 30, 2022, the result of $1.5 million in share buy backs completed by the Company, pursuant to the Normal Course Issuer Bid ("**NCIB**") that Axis initially commenced on November 26, 2021, and subsequently renewed in November 2022, extending through November 25, 2023. During the fiscal 2023, the Company bought back 3,087,000 shares at an average price of $0.47 per share.

Contributed surplus remained relatively flat at $9.9 million for the twelve months ending June 30, 2023.

Outstanding share data

The Company had 120,840,977 common shares issued and outstanding at June 30, 2023 and 122,927,046 common shares as of June 30, 2022. The decrease in outstanding common shares during fiscal 2023 was the result of the Axis common shares that were purchased back and cancelled, pursuant to the Company's NCIB, which was partially offset by certain restricted share units (**"RSU's"**) that vested and were converted into common shares of the Company.

Please refer to Note 14 – "Shareholders' Equity" in the Company's financial statements for additional information.

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The table below represents the financial leverage ratio and equity capitalization for the periods ended June 30, 2023 and June 30, 2022:

	June 30, 2023	**June 30, 2022**
	$	**$**
Senior credit facilities and other non-convertible loans	167,421,746	111,476,008
Total credit facilities and other loans	167,421,746	111,476,008
Common shares	48,076,502	49,105,811
Convertible debentures	17,599,672	19,093,318
Equity capitalization	65,676,174	68,199,129
Financial leverage ratio	2.55:1	1.63:1

Cash flows and Liquidity

Cash flows used in operating activities for the year ended June 30, 2023 were ($48.8) million, compared to cash flows used in operations of ($29.4) million for the twelve months ended June 30, 2022, the result of higher originations ($158.5 million which included the portfolio purchase) during fiscal 2023, that was partially offset by higher repayment of receivables ($74.4 million).

Cash flows from financing activities for the year ended June 30, 2023 were $53.9 million, primarily the result of increased securitizations to support the growth of the commercial equipment finance business line, increased securitization draw to fund the January 2023 automotive portfolio purchase and additional senior secured debt used to fund the automotive loan portfolio. This compares to cash flow from financing activities in the twelve months ended June 30, 2022 of $28.1 million.

Cash flows used in investing activities for the year ended June 30, 2023 were ($0.7) million as compared to ($1.3) million for the comparable period in the prior year, the difference being the leasehold improvements incurred in fiscal 2022 upon moving to the current head office.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's discussion and analysis of financial condition and results of operations are made with reference to the Company's audited financial statements for the year ended June 30, 2023. A summary of the Company's significant accounting policies are presented in the notes to those financial statements. Some of the Company's accounting policies, as required by International Financial Reporting Standards, require management to make subjective, complex judgments and estimates to matters that are inherently uncertain. The Company believes the policies below are the most critical accounting estimates that affect its operating results, and that would have the most material effect on the financial statements should these policies change or be applied in a different manner.

IFRS 16 Leases

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

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

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

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

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

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

Interest revenue

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

Fee and servicing income

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

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

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

IFRS 9 Financial Instruments - Allowance for credit losses

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

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

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

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

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

Renegotiations

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

Finance leases

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

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

Recognition at inception

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

a) *Gross lease receivable and unearned finance income*

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

b) *Unamortized fees and transaction costs*

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

c) *Security deposits*

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

d) *Subsequent measurement*

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

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

RELATED PARTY TRANSACTIONS

The Company’s related party transactions are set out in Note 16 to the audited financial statements for the year ended June 30, 2023 and 2022. The transactions with related parties occurred in the normal course of operations.

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

OFF-BALANCE SHEET ARRANGEMENTS

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

RISK MANAGEMENT

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

In light of the ongoing inflationary environment, and the resultant response from central bankers to raise interest rates, this may have a material adverse impact on the growth, or lack thereof, of the Canadian economy in which Axis does business. This may lead to increased volatility and disruption to the business, which could in turn affect credit risk, financial conditions, results of operations, and other risk factors impacting the Company.

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

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

Credit risk

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

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

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

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

Exposure for credit risk

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

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

Liquidity risk

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

During the years ended June 30, 2023 and 2022, the Company primarily relied on funds raised through private placements of convertible financial instruments (debentures and preferred shares), term loans, and common shares.

On June 17, 2015, the Company secured its first senior secured credit facility with initial draw of $3,600,000. On March 27, 2017, the Company replaced its first senior secured facility with a 2-year $40 million credit facility. On March 26, 2019, the Company replaced its $40 million facility with a $80 million senior secured revolving credit facility, which was later upsized to $120 million as at October 2021. During the year ended June 30, 2020, Axis issued a convertible debenture with a face value of $2.64 million, while in the subsequent year ending June 30, 2022, the Company raised, through private placement, gross proceeds of $15 million through an issuance of common shares.

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

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

Foreign currency risk

As at June 30, 2023, the Company is not subject to foreign exchange risk and, therefore, is not subject to any material gains and losses due to fluctuations in the US dollar relative to the Canadian dollar.

Interest rate risk

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

Profitability

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

Dependence on Management and Key Personnel

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

Advertising, Marketing and Promotion

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

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

Approximately 70% of Axis' finance receivables consist of "non-prime" automobile lease and loan receivables originated under lending programs Axis has designed to serve consumers who have limited access to traditional financing. There is a high degree of risk associated with non-prime borrowers. Non-prime borrowers are characterized by higher-than-average delinquency and default rates. The typical non-prime borrower may have had previous financial difficulties or may not yet have sufficient credit history. Because Axis serves consumers who are unable to meet the credit standards imposed by most traditional financing sources, it charges interest at higher rates than those charged by many traditional financing sources. Non-prime loan receivables therefore entail relatively higher risk and are expected to experience higher levels of delinquencies and credit losses than receivables originated by traditional prime financing sources.

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

Debt Levels

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

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

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

General Economic Conditions

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

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

As a result of the ongoing effects of the Bank of Canada's monetary policy, Axis results may be adversely impacted by a general slowdown in economic activity and the overall financial condition of the Canadian economy.

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

Competition

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

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

Failure of Computer and Data Processing Systems

Axis is dependent upon the successful and uninterrupted functioning of its and the dealers' computer and data processing systems. The failure of these systems could interrupt operations or materially impact Axis' ability to originate and service customer accounts. If sustained or repeated, a system failure could negatively affect Axis' business, financial condition, liquidity and results of operations or future prospects.

Axis maintains confidential information regarding customers in its computer systems and cloud based third party lease management software. This infrastructure may be subject to physical break-ins, computer viruses, programming errors, attacks by third parties or similar disruptive problems. A security breach of a relevant computer system could disrupt operations, damage Axis' reputation or result in liability. Experienced personnel are committed to the security, maintenance and continual development of these systems. Axis has an extensive disaster recovery plan, which includes:

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

Dependence on Management Information Systems

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

Consumer Protection Legislation and Related Considerations

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

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

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

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

More Stringent Government Regulations

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

Collateral Security

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

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

Insufficient Insurance Coverage

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

INTERNAL CONTROLS OVER DISCLOSURE AND FINANCIAL REPORTING

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

Disclosure controls and procedures

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

An evaluation of the effectiveness of the Company's disclosure controls and procedures was conducted as of June 30, 2023, by and under the supervision of the Company's management, including the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that the disclosure controls and procedures were effective.

Internal controls over financial reporting

The Company's management, including the CEO, and CFO, has evaluated the design of the Company's ICFR using the control framework and criteria established by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has concluded that the Company's

ICFR as at June 30, 2023 were designed and operating effectively and provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

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

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

Cautionary Statement

This analysis has been prepared taking into consideration information available to September 14, 2023. Certain statements contained in this report constitute "forward-looking statements." When used in this report, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect", and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events and are subject to inherent risks, uncertainties and numerous assumptions, including, without limitation, general economic conditions, reliance on debt financing, dependence on non-prime borrowers, inability to sustain receivables, competition, interest rates, foreign exchange rates, regulation, insurance, failure of key systems, debt service, future capital needs and such other risks or factors described from time to time in reports of Axis that are filed with securities regulatory authorities.

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